LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Limerick City & County Council

for the

Year Ended 31 December 2015

An Roinn Tithíochta, Pleanála, Pobail agus Rialtais Áitiúil
Department of Housing, Planning, Community and Local Government

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AUDITOR'S REPORT TO THE MEMBERS OF LIMERICK CITY & COUNTY COUNCIL

1. Introduction

1.1 I have audited the Annual Financial Statement (AFS) of Limerick City & County Council for the year ended 31 December 2015, which comprise the Statement of Accounting Policies, Statement of Comprehensive Income, Statement of Financial Position, Funds Flow Statement and notes to and forming part of the accounts. The financial reporting framework that has been applied in its preparation is the Code of Practice and Accounting Regulations for Local Authorities, as prescribed by the Minister for the Environment, Community and Local Government.

My main statutory responsibility, following the completion of the audit work, is to express my independent audit opinion on the AFS of the Council, as to whether it presents fairly the financial position at 31 December 2015 and its income and expenditure. My audit opinion, which is unmodified, is stated on page 6 of the AFS.

The Council is by law, responsible for the maintenance of all accounting records including the preparation of the AFS. It is my responsibility, based on my audit, to form an independent opinion on the statement and to report my opinion. I conducted my audit in accordance with the Code of Audit Practice. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the AFS. It also includes an assessment of the significant estimates and judgements made by the Council's management in the preparation of the AFS, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations, which I considered necessary to provide sufficient evidence to give reasonable assurance that the financial statement is free from material misstatement, whether caused by fraud or error.

1.2 This report is prepared in accordance with Section 120(1)(c) of the Local Government Act, 2001 and should be read in conjunction with the audited AFS.

2. Financial Standing

2.1. Statement of Comprehensive (Income and Expenditure Account)

The surplus for the year amounted to €160k after net transfers to reserves of €12.3m, thereby increasing the general revenue balance to €760k at the year end. The draft AFS, the transfers to and from reserves, and the over expenditure by division, were considered and approved by the Council at their meeting held in May 2016.

2.2. The Council continues to show a satisfactory Statement of Financial Position (Balance Sheet) at 31 December 2015, however strict budgetary control and proactive financial management is required to maintain this position.

2.3. Significant movements in the finances for the year include

- Increase in fixed assets €5.4m
- Decrease in bank and cash €1.4m
- Decrease in loans payable €12.8m
- Decrease in debtors €7.1m
- Decrease in creditors (excluding loans) €7.9m

3. Income Collection

The arrears and the collection percentages for the Council's main revenue collection accounts as disclosed in Appendix 7 to the AFS were as follows:

	Arrears		Collection Yield	
	2015	**2014**	**2015**	**2014**
Commercial Rates	€21.5m	€25.0m	75%	65%
Rents and Annuities	€2.3m	€2.1m	89%	87%
Housing Loans	€0.4m	€0.34m	78%	77%

3.1. Commercial Rates

The collection percentage for commercial rates increased to 75% in 2015, using the new calculation methodology issued by the Department of Housing, Planning, Community and Local Government (the Department). The 2015 collection percentage under the old calculation method was 70%, compared to 65% for the previous year. I welcome the significant improvement in collection performance, as reflected in the reduction in arrears and the €5.3m increase in cash collected.

A bad debt provision of €19.2m was made in the AFS, which represents 85% of the gross arrears (excluding almost €1m of credit balances). Although the bad debt provision at the time of AFS production is reasonable, an audit review of customer balances up to 30 November 2016 identified arrears repayments totalling €0.5m made in a number of cases that have been fully provided for.

Chief Executive's Response

I welcome the auditor's comments on the increase in the rates performance in 2015. I acknowledge the requirement to maintain and build on this improvement and to address the outstanding arrears. The bad debt provision will be kept under review for the 2016 AFS.

3.2. Rents and Annuities

Under the government's Housing Assistance Programme (HAP) statutory pilot, the Council is providing a transactional shared services centre (SSC) for all local authorities operating during the pilot phase. The year-on-year increase of €14.3m to €19.5m in accrued rents and annuities is primarily due to the inclusion of rents collectable from HAP tenants in participating local authorities.

At the last audit, I drew attention to the fact that a global rent review had not been conducted for a number of years and as a result it was not possible to accurately quantify the financial consequence of this inaction. At the time of this audit, this matter remains to be addressed. Based on a review of debtors at the end of 2015, I deemed the bad debt provision of €1.2m to be adequate.

Chief Executive's Response

A rent review is planned in 2017. We will also continue to work to improve the collection performance.

3.3. Housing Loans

The collection percentage for housing loans increased marginally to 78% in the year. The net debtors figure shown in Appendix 7 is inclusive of €221k of accounts with credit balances, bringing the gross arrears to €699k. As highlighted at previous audits, shared ownership loans continue to be of concern. Based on a review of these debtors, I deemed the bad debt provision of €481k to be reasonable.

Chief Executive's Response

The collection rate is a reflection of a modest economic upturn in the last 12 months. Shared ownership loans have underperformed nationally. The Department have introduced Circular Letter 14 of 2016, dated 24th March, which enables local authorities, in partnership with the borrowers, to review their existing shared ownership balances. The purpose of the review is to enable borrowers to re-structure the loan, where appropriate, into an annuity loan.

4. Transfer of Water and Sewerage Functions to Irish Water (IW)

As recorded in the previous year's audit report, the Council removed fixed assets with a net book value of €1,059m from its 2014 AFS in accordance with Circular Fin 02/2015. The formal transfer of these assets to IW is still ongoing at the time of this audit.

At the end of 2014, there were twelve water related loans with a value of €20.6m remaining in the Council's AFS. During 2015, three of these loans were redeemed, leaving nine loans valued at €11.1m outstanding at 31 December 2015. The Department continued to fund the repayment of both interest and principal on these loans during 2015.

As part of the due diligence process carried out by Irish Water, a balancing statement as at 31 December 2013 was completed and signed off in September 2015. This statement resulted in a net debtor due from IW of €7.94m and is included in Note 5 of the AFS. In July 2016 €7.44m was received by the Council, with the balance offset against development contributions collected on behalf of IW.

Chief Executive's Response

The Council's position is as outlined above. We will continue to work with Irish Water to resolve all outstanding issues.

5. Development Contributions

At 31 December 2015, arrears amounted to €30.2m (€28.8m was classified as short term, with a corresponding bad debt provision of €28.2m), with the top ten accounts comprising half of the total. I also note that €18.5m of the bad debt provision relates to developments that management have identified as having commenced but units remain to be built and a phased payment plan is not in place with the developers concerned.

In my previous audit reports, I identified the poor collection performance and management of development contributions. Although performance was poor again in 2015, I acknowledge that during 2016 responsibility for managing this debt was transferred to a dedicated unit in the finance directorate.

Chief Executive's Response

The Council will review all amounts outstanding for development contributions. The debt management unit which has responsibility for the collection of development contributions is working with all customers to agree the setting up of payment plans. Where necessary, the Council will pursue customers through the legal process in the event of non-payment of amounts owing.

6. Fixed Assets

6.1. There was a year-on-year increase of €5.4m in the net book value of fixed assets. The following are the main additions during the year:

Former Cleeves site	€3.1m
Former Fullflex factory	€1.6m
Cappamore library extension	€1.3m
Mungret burial ground extension	€1.1m
Completed roads	€1.1m

6.2. In the course of this audit, a number of errors and omissions from the fixed asset register were identified. Although previous audit reports have highlighted shortcomings in this area, progress in addressing this issue remains slow.

Chief Executive's Response

The Local Government Auditor's comments are noted, and every attempt is made to ensure the completeness of the fixed asset register for movements within the accounting year. Work on a proposed property interest register has commenced in 2016.

7. Loans Payable

7.1. Total loans payable as disclosed in Note 7 to the AFS amounted to €72.4m (2014 - €86.1m), made up as following:

	2015	2014	
Council Offices & Buildings	€17.5m	€19.1m	(paragraph 7.2)
Mortgages & Rented Equity	€16.9m	€18.1m	(paragraph 7.3)
Voluntary Housing	€15.5m	€16.2m	(paragraph 7.4)
Water Related Loans	€11.1m	€20.6m	(paragraph 4)
Strategic Development Loan	€9.8m	€10.0m	(paragraph 7.5)
Others	€1.6m	€ 2.1m	
	€72.4m	€86.1m	

7.2. Council's Offices & Buildings

The Council's borrowings include €17.5m in respect of the County Hall, Lissanalta House, Killmallock Area Office, and the Newcastle West Machinery Yard. The cost of servicing these loans in 2015 was €2.0m and this was funded from the Council's own resources.

7.3. Mortgages and Rented Equity

The mortgage funding gap, which comprises the differences between Council's borrowings and the lending to customers for house purchases increased from €2.2m in 2014 to €2.5m (Note 12 to the AFS). The Council should review this movement.

7.4. Voluntary Housing

Included in the Council's long term borrowings were loans of €15.5m, in respect of recoupable loans for the purposes of voluntary housing. These loans are fully recoupable from the Department upon occupation of the properties. Total interest paid on these loans amounted to €301k in 2015. The Local Government Audit Service issued VFM Report No. 29 "The oversight role of local authorities in the provision of social housing by Approved Housing Bodies". The Council should ensure that the recommendations made in this report are fully addressed.

7.5. Strategic Development Loan

In September 2014, members granted approval for borrowings of €32m, primarily to fund the acquisition and development of strategic sites identified under "Limerick 2030". In December 2014, the first €10m of this loan was drawn down. Repayments on this loan from the Councils own resources amounted to €436k in 2015. Failure to adhere to the business plan and generate income from this investment will place significant pressures on the Council's finances going forward.

Chief Executive's Response

The Council has included in the Budget 2016 both principal and interest repayments for the proposed strategic development loan draw downs. The loan agreements with the Limerick Twenty Thirty Strategic Development DAC will reflect a return on these investments.

8. Capital Account

8.1. Favourable Capital Balances

There is an overall favourable balance of €64m in the capital account, within this there are a number of significant favourable balances that are ring fenced for specific projects as follows:

Gortadromma Landfill Aftercare & Local Development Fund	€6.8m
Arthurs Quay Car Park	€6.5m
Insurance	€6.0m
Strategic Development Loan	€4.7m
RAS	€3.6m
HAP Advance Payment	€2.3m

At the last audit, I highlighted the large number of codes in the capital account, many of which were inactive. Although the process of reviewing these codes has commenced, there remained 274 inactive codes with an overall net favourable balance of €9.7m at 31 December 2015. I have requested management to expedite this review and set out a timeline to utilise available funds.

8.2. Unfavourable Capital Balances

	No of Codes	2015 Balance	Funding Secured & Guaranteed	Receipted by 30 November 2016
Housing & Building	128	€3.5m	€1.6m	€0.7m
Development Management	56	€2.2m	€1.6m	-
Miscellaneous Services	16	€1.7m	€1.7m	-
Environmental Services	17	€1.4m	€1.4m	-
Road Transportation & Safety	52	€0.8m	€0.2m	€0.1m
Recreation & Amenity	7	€0.4m	€0.2m	-
Water Services	8	€0.1m	€0.0m	-
Total	**284**	**€10.1m**	**€6.7m**	**€0.8m**

At the end of 2015, there were 284 codes with unfavourable deficit balances totalling €10.1m, of which management identified €6.7m as having funding secured and guaranteed, however examination of activity on these projects showed that only €0.8m was receipted by 30 November 2016. In addition to addressing the €3.4m unfunded portion, management should identify cases where funding is no longer secure and ensure that all available finance is drawn down in a timely manner for those that are guaranteed.

Chief Executive's Response

The Local Government Auditor's comments above are noted and the review of the capital account including unfavourable balances will continue in 2017.

8.3. Arthurs Quay Car Park

At the last audit, I set out the background to the Council's involvement as the primary leaseholder, underwriter of a bank loan of €4.97m on the property, together with the Council's option to purchase this multi-storey car park, all of which dated back to the agreements originally entered into in the 1980s. I also set out the sub-letting agreement for the operation of the car park, whereby the rent received from the car park operator is firstly used by the Council to pay interest on the loan facility, with the balance remaining of the rental income used to build up a sinking fund that is ultimately to be used by the Council to acquire the car park.

Although the loan is not included on the Council's balance sheet, as it is in the name of the car park owners, the Council continues to make the loan repayments on an interest-only basis. At year-end the balance due on this loan was €5.76m (2014 - €4.97m) and funds recorded on the Council's balance sheet to acquire the car park and service the debt has increased to €6.5m (2014 - €6.0m). I also note that the sub-lease expired in 2012 and to date, the new lease has not yet been formally executed.

Chief Executive's Response

The Council is now in possession of a signed lease which will be formally executed before the end of 2016.

8.4. Insurance

I acknowledge that insurance reserves have increased by €3.5m to €6m in the 2015 AFS to cover liabilities arising under the IPBMI max/min model and residual historic claims that are self-funded. Notwithstanding, I was advised that additional funds may be required to cover historic self-funded claims. I have requested management to review the claims estimates and reserve balances for the 2016 AFS.

Chief Executive's Response

The financial provisions for insurance cover including legacy claims will be reviewed again for the 2016 AFS.

8.5. Voluntary Housing Project Abbeyfeale

Previous audit reports have referred to delays in this twelve house project where the Council received approval for a €2.4m loan in 2008, drew down €1.7m and then advanced €1.3m to Clúid Housing Association (Clúid) in December 2009 on foot of the recommendation from

Clúid's quantity surveyor for work completed. By the end of 2015, the Council has made loan repayments of €558k on the original €1.7m loan. Work on this project recommenced in 2015 and further funding was advanced by the Council during 2016. I have been advised that all of the units have been completed and occupied since June 2016 and although the final account remains to be agreed, the overall project is expected to cost approximately €3.1m (€259k per house).

Chief Executive's Response

At Cois na Feile the cost per unit reflects unforeseen issues related to the performance of the building contract including an extended construction period which impacted on the costs associated with loan charges. The scheme was originally conceived as a 24-unit development. The site infrastructure associated with the overall development is now constructed, e.g., roads, footpaths, lighting, main utilities, etc. therefore the cost associated with this element of the works is spread over 12 rather than 24 units which impacts on unit cost. Overall there is a high level of resident satisfaction with the scheme and the development is a success.

9. Interest in Companies

9.1. The Council has recorded its interest in 23 companies in Appendix 8 to the AFS. The Council has valued its interest in 9 of these companies in notes 3 and 10 to the AFS at €1,305,619, based on the net asset value and the Council's proportionate shareholding in each company. In cases where there is a deficit in the net assets, the amount included is limited to the Council's share capital or guarantee amount in the company.

The annual accounts of a number of these companies have year ends that are not contemporaneous with the Council's year-end and the 2015 audited accounts were not available in many instances.

At the last audit, I highlighted the need to improve the Council's oversight and review of these companies to ensure that proper corporate governance arrangements are in place. A subsequent internal audit report issued in 2016 identified specific weaknesses and a number of areas for improvement that remain to be fully addressed.

Chief Executive's Response

The Internal Audit report prepared in 2016 set out a number of recommendations for ensuring that proper corporate governance arrangements were in place. These recommendations have been taken on board by the Council and a monitoring system is in place.

9.2. Limerick Local Sports Partnership Limited

The principal activities of this company include the implementation of the Limerick Local Sports Partnership programme, which is funded by The Irish Sports Council, together with the employment of a number of sports development officers throughout the city and county which are funded by various agencies including this Council.

The audited accounts for 2015 record a profit of €50k, with net assets of €49k at year-end. Although this company is 100% Council owned, it has been omitted from the AFS.

Chief Executive's Response

This company will be included in AFS 2016.

9.3. **Askeaton Pool and Leisure Centre Limited**

The Council owns 51% of the shares of this company, with Askeaton Swimming Club owning the balance. The audited accounts for the year ended 31 December 2015 recorded a deficit for the year, increasing the accumulated losses to €172k. The company's directors reported that the future of the company to operate as a going concern is dependent on the continued support of the Council in the form of grants (€110k advanced by the Council in 2015).

Chief Executive's Response

The Council has provided, as part of the statutory budgetary process, an annual operational subsidy towards the day to day running of the leisure centre. It is disappointing that the company for 2015 recorded a deficit, however increased membership and reduction in non-payroll costs in 2016 particularly in the area of energy should help to reduce the deficit in the current year.

9.4. **Grove Island Leisure Centre Limited**

The Council became the sole owner of Grove Island Leisure Centre in 2012. The share capital of the company (100 shares valued at €1 each) has been incorporated under the "associated companies" heading in Note 3 of the AFS. The total expenditure on the leisure centre in 2015 was €480k, including repayments of €350k on the company's loan. At the end of 2015, the balance on this loan had reduced to €2.4m. At the close of this audit, the 2015 audited accounts were not yet available.

The audited accounts for the year ended 31 December 2014 recorded a deficit of €118k for the year (2013 - €306k), increasing the accumulated losses to €7.4m (2013 - €7.3m). Emphasis of matter paragraphs were included by the company's auditors in the 2014 report, in relation to the ability of the company to continue as a going concern without the financial support of the Council and the inherent uncertainty of the €3.7m valuation for the leisure centre.

Chief Executive's Response

Provision has been made in budget 2017 to only cover the financing of the loan referred to above.

9.5. **Loans to Connected Companies**

At the start of 2015, the Council recorded €350k due from Hospital Food Units Limited t/a Innovate Limerick (€190k) and Bruree Foods Ltd (€160k). During 2015, a further €200k was advanced to Innovate Limerick towards the chemical decommissioning and clean-up of the former Andersen site. Although these amounts are categorised as long term debtors on the Council's balance sheet, no repayments have been made to the Council from either of these companies.

During 2015, the Council spent €6.2m in acquiring the former Dell plant. The building was then transferred to Limerick Twenty Thirty Strategic Development D.A.C. (Limerick 2030), a company 100% owned by the Council, who converted the building to film studios at an additional cost of €1.5m. In November 2015, Limerick 2030 signed a twenty year rental agreement with Seefill Ltd. for the film studios. Although the Council has included €6.2m in long term debtors to reflect recoupment of the initial investment from Limerick 2030, a formal repayment agreement is not in place between both parties at the time of this audit.

Chief Executive's Response

A loan agreement will be put in place between Limerick City and County Council and the Limerick Twenty Thirty Strategic Development DAC to reflect the investments made by the Council and the repayment schedule.

10. Housing Assistance Payments (HAP)

During 2015, this Council continued to provide a shared service centre (SSC) to the eighteen local authorities participating in the pilot phase of HAP. At the end of 2015 there were 5,853 active HAP tenancies, for which the Council were responsible for the collection of rent from tenants (€5m) , recoupment of subsidies from the Department (€10m) and processing of rent payments to landlords amounting to €15m during the year. With the continued roll-out of this scheme nationally, it is expected that rent payments will increase to €74m by the end of 2016 and €220m in 2017 (almost 60% of the total revenue budget of the Council). Given the rapid increase in the volume and value of transactions, management should ensure that the systems, controls and processes are sufficient to deal with the growth predicted.

Presently, the SSC is dependent on the constituent local authorities to proactively identify changes in household income and calculate any adjustments to the differential rent payable by tenants. Notwithstanding this reliance, there is no central process to proactively identify and examine tenancies that are a high risk of under-declaring household income and not paying their appropriate rent.

Chief Executive's Response

A full IT system review is planned for early 2017 including a full analysis of current system architecture. With tenancy numbers increasing stress testing of the current HAP database and financial management system is planned for Q1 2017. A risk register for the HAP SSC is in place and is reviewed on a regular basis. Business process reviews are ongoing in the HAP SSC and this will continue throughout 2017.

HAP tenancy rent reviews are an issue for the housing authorities and the approach varies between local authorities. High risk tenancies should be identified when rents are being set by the local authority. The SSC does not carry out such reviews. Data however is available from the HAP system for local authorities to assist them to self-identify such tenancies.

As we expand in 2017 we plan to increase our attention on reporting and the reports you refer to will be considered, in consultation with the DHPCLG and HAP practitioners.

11. Governance

11.1. Internal Audit

The Unit produced four reports in the year and provided quality assurance in relation to the completion of the Public Spending Code Report (PSC) in respect of the year 2014. These were reviewed by the Audit Committee and have been considered in the planning of this audit.

In addition to the sole staff member dedicated to checking cash receipting across the organisation, an external audit firm was appointed in March 2015 to provide 80 days of internal audit service annually over a three year period. However, given the size and scope of the organisation, the resources allocated are not sufficient.

Chief Executive's Response

Deloitte were contracted to carry out five audits in each year of their three year contract which commenced in March 2015 with each contract year extending from April to March the following year and audits delivered within that timeframe. Should the need arise to examine areas outside the agreed audit plan extra resources are allocated to Deloitte, in addition to the 80 contracted days per annum.

11.2. Audit Committee

The Audit Committee met on six occasions during 2015 and I attended their December 2015 meeting to discuss my 2014 audit report. Following this discussion, the Committee submitted a report to the January 2016 Council meeting as required under S60 of the Local Government Reform Act 2014.

11.3. Ethics Returns

S171 of the Local Government Act, 2001 requires those to whom S167 (1) of the Act applies, to submit an annual declaration to the nominated ethics registrar. SI No. 582 / 2002 set the last day of February as the return date for these forms. A review of the 2015 Council returns, which were due by the end of February 2016, found that three Council members' returns were submitted after the cut-off date. In addition, ninety three staff returns, 25% of those required, were received after the cut-off date. Procedures should be put in place to ensure these delays are reported to senior management.

Chief Executive's Response

A formal procedure will be introduced in 2017 to ensure all delays are brought to the attention of senior management.

12. Acknowledgement

I wish to record my appreciation for the courtesy and co-operation extended to audit by the management and staff of the Council.

John Collins

John Collins
Local Government Auditor
21 December 2016