



LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Wexford County Council

for the

Year Ended 31 December 2016



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

CONTENTS

	Paragraph
Introduction	1
Financial Standing	2
Summary of the Major Revenue Collections	3
Irish Water	4
Wexford Main Drainage Scheme Legal Proceedings	5
Development Contribution Debtors	6
Lands at Killeens, Ballynagee	7
Council Property Management	8
Unfunded Capital Balances	9
Local Authority Companies	10
Governance	11
Acknowledgement	12

AUDITOR'S REPORT TO THE MEMBERS OF WEXFORD COUNTY COUNCIL

1 Introduction

1.1 I have audited the Annual Financial Statement (AFS) of Wexford County Council (the Council) for the year ended 31 December 2016, 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 Housing, Planning 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 2016 and its income and expenditure. My audit opinion, which is unmodified, is stated on page 3 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

The Council recorded a surplus of €3.857m. The surplus consisted of the following:

- An operational surplus of €801k
- An exceptional surplus arising from the elimination of the specific revenue reserve of €3.056m (see paragraph 2.2)

The operational surplus for the year of €801k continues the positive trend that has prevailed since 2014. Strict budgetary controls contributed to the Council recording continued surpluses since 2014.

Year	2016 €	2015 €	2014 €
Surplus	801k*	713k	394k

*The surplus of €801k excludes the elimination of the specific revenue reserve.

The surplus for the year, after the elimination of the specific revenue reserve, reduced the accumulated deficit to €5.3m at 31 December 2016. I note that the Council's wholly owned subsidiary recorded a further accumulated deficit of €1.1m at 31 December 2015, the most recent accounts to hand (see paragraph 10). Reducing this significant deficit must remain a priority matter for the Council.

The 2016 draft AFS was submitted to the members at the Council meeting held on 8 May 2017 and the additional expenditure incurred in the year was approved in accordance with section 104 of the Local Government Act, 2001.

2.2 Specific Revenue Reserve

The specific revenue reserve was a mechanism put in place to facilitate the changeover in accounting treatment when Local Authorities (LA's) moved from accounting on a cash basis to the accruals basis. In accordance with Circular Fin 11/2016 issued by the Department of Housing, Planning, and Local Government (the Department) on 16 December 2016, LA's are permitted to eliminate their specific revenue reserve in one of the following manners:

1. Write down of general revenue reserve deficits
2. Write down of unfunded capital project balances.

The Council decided to eliminate its specific revenue reserve by writing down the general revenue reserve deficit by €3.056m.

Chief Executive's Response

The ongoing improvement in the Revenue deficit is welcome and has been achieved by concentrated effort to stabilise the financial position of the Council. The application of the specific revenue reserve was achieved through representations from the sector to recognise this reserve within the Revenue balance in order that a true/net financial position could be established and reported.

2.3 Fixed Assets

The net value of the Council's fixed assets at 31 December 2016, after accounting for depreciation was €2,688m, an increase of €12m from 2015. The main additions during the year were land €3.0m, houses €5.8m and estates taken in charge €5.4m.

The Council maintains a fixed asset register, together with a number of other databases to record and manage fixed assets. These databases are not fully reconciled to the fixed asset register or to the amounts disclosed in the 2016 AFS. The property management section was established in 2014 to manage all acquisitions, disposals and leases (excluding single dwellings for housing purposes) on behalf of the Council. The section is also responsible for the creation and management of a property register which I note remains a work in progress and which should be completed in a timely manner.

The transfer of the water assets from the Council to Irish Water (IW) also highlighted a number of shortcomings in the Council's asset management. It is imperative that the Council establishes and maintains adequate procedures and controls in order to ensure the safeguard of all of its assets.

Chief Executive's Response

The fixed asset register maintained within the Financial Management System is compiled in line with the current Accounting Code of Practice (ACOP) for local authorities and contains records of assets with values as required in this code of practice. We are satisfied that the reconciliation of assets has been completed with relevant databases i.e. housing property register, insurance

register. Work is continuing on a programme of reconciliation with the records of the newly established property section. The reconciliation process will continue to be strengthened as the records of the property management section are developed further.

2.4 Long Term Loans

The balances on loans payable (Note 7 to the AFS) reduced year on year by €2m to €135m at 31 December 2016. During 2016 the Council borrowed an additional €4.6m. These funds were used for the provision of new housing loans as well as the facilitation of economic development through asset acquisition.

Included in the loans payable amount at 31 December 2016, were amounts totalling €71m that related to borrowings by the Council in respect of the acquisition of assets as follows:

Council Properties	€47m
Landfill and Environmental sites	€12m
Land	€ 9m
Other	<u>€ 3m</u>
	€71m

The cost of servicing these loans in 2016 was €7.2m which was funded from the Council's own resources.

Chief Executive's Response

The Council's annual budget includes provision for the repayment of these loans. The Council will continue to use long terms loans to fund programmes for the economic development of the county and expect to be increasing the level of long term borrowing over the next few years to facilitate the delivery of the Economic Development Investment programme for the county recently agreed with the Council.

3. Summary of the Major Revenue Collections

Details of percentage yields from the main revenue collection accounts are as follows:

	2016	2015
	Yield	Yield
	%	%
Rates	79	75
Housing Rents	90	92
Housing Loans	86	80

3.1 Rates

The collection yield continued to improve in 2016, a 4% increase on the previous year resulting in the 2016 year-end debtors decreasing by €1.2m to €8.4m. Write-offs and vacant property adjustments in 2016 amounted to €2.6m (2015 €4.9m), which was a significant decrease on the previous year. The Council continues to engage with customers in an effort to further reduce these arrears. The bad debt provision is 46% of year end debtors.

3.2 Housing Rents

The collection yield for this income category recorded a small decrease in 2016 of 2% which contributed to the year-end debtors increasing to €1.6m. The Council should continue to engage with the relevant customers to reverse this upward trend in arrears. The bad debt provision is 40% of year end debtors.

3.3 Housing Loans

The collection yield for housing loans recorded a further increase in 2016 of 6% resulting in year-end arrears decreasing by €362k to €589k at the end of 2016. This is a significant improvement in the performance of this debt book. The Council continues to pursue arrears and engage with the relevant mortgagees in an effort to reduce the level of arrears arising. The bad debt provision is 46% of year end debtors.

Chief Executive's Response

The Council are pleased with the improvement in the collection levels reported and continue to work on improving collection levels further and efforts in this regard are continuing to produce positive results. Housing rents are reporting a small reduction which has prompted additional focus on this particular debt area in 2017.

4. Irish Water

4.1 Transfer of title of properties

Issues with regard to the transfer of title of properties transferred to IW including the subdivision of folios, right of way issues and sites not registered were highlighted in a previous audit report. While I note that the issues arising are not yet resolved, management continues to work with IW with a view to expediting the process.

Chief Executive's Response

This is a complex and involved process and like all local authorities in the country the process has proven slower than possibly expected when water services were transferred to IW. The process will continue until the entire portfolio is finalised. It is worthy of note that Wexford is reported as the county with the second highest number of completed assets transfers to Irish Water.

4.2 Balancing Statement

The balancing statement signed by both IW and the Council on 11 November 2016 confirmed a payment of €6.2m was due to the Council. However, I note that the full amount is still outstanding, but discussions are ongoing. As the amount outstanding to the Council is significant, this matter should be resolved without further delay.

Chief Executive's Response

All issues, queries and clarifications were resolved in relation to the balancing statement between IW and the Council early in 2017 but despite several reminders the Council is still awaiting an agreed date for the fund transfer. This will continue to be followed up by the Council.

4.3 Development Contributions

As part of the transfer arrangements with IW, the Council has also retained water and wastewater development contributions collected both prior to and post the official transfer date, details of which were as follows:

	€
Allocated to Wexford Main Drainage Scheme (see paragraph 4.4)	2.8m
Allocated to New Ross Main Drainage Scheme compensation costs	0.3m
Allocated to legal costs in respect of Wexford Main Drainage case (see paragraph 5)	<u>1.0m</u>
	4.1m
Development contributions collected from 2014 to 2016	<u>1.9m</u>
	6.0m

The development contributions collected prior to the official transfer date have been allocated to costs incurred and other provisions in respect of water and wastewater schemes and are recorded in the capital account in the AFS. The development contributions collected from 2014 to 2016 are recorded as creditors in the AFS.

Chief Executive's Response

The Council will be transferring the €1.9m in respect of levies collected in 2014 to 2016 to IW at the same time as the balancing statement payment is being made by IW (for cash flow reasons) and have been corresponding with the IW and continue to await their response in this regard.

The potential liabilities associated with Wexford Main Drainage, in particular, have yet to be definitively confirmed as being transferred to Irish Water and as such the Council has retained planning levies to fund this liability until such time as it is either paid or definitively confirmed to the Council that they no longer have any liability or potential liability in this case.

4.4 Amounts due in respect of Wexford Main Drainage

Included in creditors at 31 December 2016 was an amount due by the Council of €2.8m in respect of the Wexford Main Drainage scheme. However, I note that the letter of representation (LOR) signed in November 2016 by both the Council and IW did not include any obligation on the Council to fund future liabilities arising on this scheme.

Management has advised me that discussions are still ongoing in respect of this matter and as the amount involved is significant these should be resolved without further delay.

No amounts should be included in the 2017 year end creditors unless the Council's obligations to pay the debt arising has been confirmed.

The Council has funded the provision for the above mentioned amount due with €2.8m from water and wastewater development contributions as stated in paragraph 4.3.

Chief Executive's Response

The Council need certainty beyond any doubt that the liability here now legally falls to IW. During the discussions on the LOR it became clear that IW were not accepting liability for legacy legal cases despite their inclusion in the LOR and concerns emerged in relation to the accrued legacy costs associated with Wexford Main Drainage. It was therefore decided it

would be prudent for the Council to retain the funding source for these creditors until greater certainty was secured. This certainty is still awaited.

5. Wexford Main Drainage Scheme Legal Proceedings

The issues relating to legal costs in respect of the Wexford Main Drainage scheme have been reported in my previous audit reports. As I have noted previously, the former Wexford Borough Council was successful in its defence of a case brought against it in respect of the construction of the Wexford wastewater treatment plant. Furthermore the former Borough Council was awarded its costs in both the High Court and the Supreme Court (2012). The costs incurred to date amounted to €1.6m and significant delays were incurred in the pursuit of these costs. In 2017 agreement was reached in respect of the quantum of the recoverable costs, in which it was confirmed that the Council would be entitled to recover €0.9m in respect of costs incurred. The Council's final exposure in this matter therefore amounted to €0.7m and I have requested the Council to review this matter in order to determine how this exposure arose.

The Council has part funded the legal costs incurred to date, in the amount of €1m, from the receipt of water and wastewater development contributions referred to at paragraph 4.3 above. The Council has confirmed that any surplus funds on this project, after the recovery of costs, will be forwarded to IW.

Chief Executive's Response

This matter is coming to a conclusion at the moment. Additional legal and consultants fees remain to be paid in respect of the case taken. Once all transactions are finalised a position will be established on any surplus/deficit remaining to be either funded or transferred to IW as part of the planning contribution annual fund transfer.

6. Development Contribution Debtors

Development Contribution debtors at 31 December 2016 amounted to €10.7m all of which are recorded in the AFS as short term debtors (note 5 to the AFS). The Council continues to review these debtors. I have again requested management to expedite the completion of this process to ensure that the amounts currently recorded as outstanding are both accurate and complete, and to follow-up the collection of these outstanding accounts, some of which are significant. Furthermore management should adopt a policy position in relation to the collection process to ensure that receipts are maximised. The bad debts provision, has been calculated at of €5.3m (49% of the 2016 year-end debt book) at 31 December 2016. I do not consider this to be adequate based on the aged debt analysis of the debt book and consequently should be increased.

Chief Executive's Response

The Council will review the level of bad debt provision here but it is relevant to note that the development contributions will remain a charge on the property and fully collectable, where a development has taken place. This has been an informing factor in the establishment of the current provision. During 2017 the Council established a specific development contribution debtor unit with the primary focus on the validation and collection of outstanding development contributions together with a brief to strengthen processes for the early collection on new development contributions arising.

7. Lands at Killeens, Ballynagee

7.1 Development Contribution credits

In 2016, the Council entered into an agreement with a developer to issue development contribution credits up to the value of €950k in respect developments on land at Killeens, Ballynagee, together with a payment of €300k in return for the provision of infrastructural works at Killeens. I note that the relevant amounts referred to above had not been paid and / or set off as at 31 December 2016.

Following a review during the current audit, I have noted that the liability arising for these amounts were not recorded in the 2016 AFS as actual liabilities or in the notes to the AFS as a contingent liability in line with the ACOP.

I have requested the Council to address this in the 2017 AFS.

Chief Executive's Response

The Council does not feel there is a need to record this transaction within the accounts. The potential liability here will be coupled with what is effectively a deferred income source in that once development commences on the associated land planning contributions associated with this development will fund the Council's contribution for the infrastructure provided. The Council will consult with the Department on the matter and confirm the position for the 2017 Accounts.

7.2 Part V

In 2016, the Council also entered into a written agreement to accept a payment of €300k in respect of a Part V obligation, but I note that no such payment has been received to date. I note that the agreement is in respect of a planning permission which was due to expire in November 2017 and a subsequent planning permission which has not yet been lodged, but according to the formal legal agreement must be lodged by July 2019.

No development has taken place on the relevant site to date. The element of the agreement in respect of the subsequent planning permission does not appear to be compliant with the Planning and Development Act 2000 as amended by the Urban Regeneration and Housing Act 2015, which no longer permits local authorities to accept cash payments in respect of Part V obligations.

I have requested the Council to obtain legal advice in respect of this matter in order to ensure that the Council remains fully compliant with relevant legislation.

Chief Executive's Response

The Council believe that the agreement here for the payment of this Part V contribution predated the 2015 legislation but we will seek legal advice as requested to verify our position on this. With regard to the €300k cash transfer this will be regularised in 2017.

8. Council Property Management

8.1 Gorey Courthouse

The Council had a lease on the old Courthouse in Gorey at an annual rent of €25,000 per annum. The Courthouse had been allowed to fall into disrepair by the Council. In 2016 the Council decided to buy out the lease and due to conditions contained therein, were also required to pay compensation for the state of disrepair of the building. I note that the total cost of the buyout was €790k. The Council needs to ensure that the management and maintenance of its corporate

buildings are of a standard sufficient to prevent a recurrence of this serious matter.

Accordingly, the recommendations contained in the Local Government Audit Service VFM report on Corporate Estate Management and Maintenance in Local Authorities should be implemented immediately by the Council.

Chief Executive's Response

The Council's position in this case was complicated by the historic nature of the lease and the conditions associated with same together with the ownership changes that occurred over the years since the Council took occupation.

The conclusion here was not arrived at easily but came at the end of a very protracted legal process which the Council undertook to try and minimise the Council's exposure here. The Council has succeeded in recouping €100k of these costs from the Courts Service of Ireland. The lessons learnt in this process are informing the processes of the new property unit established by the Council

8.2 Leases

The Council is currently leasing a number of properties. I have identified a number of procedural and operational deficiencies in respect of some of the lease arrangements. These include instances where there are no formal leases in place, leases have not yet been finalised and an historical lease which contains terms that management consider to be unfavourable to the Council. The Council should seek to address these deficiencies as soon as possible. As outlined above, the recommendations contained in the Local Government Audit Service VFM report on Corporate Estate Management and Maintenance in Local Authorities should be implemented as soon as possible by the Council as far as they relate to leased properties.

Chief Executive's Response

A particular objective of the Council in establishing a dedicated property unit was to address shortfalls in such arrangements which in the main have their basis in a long history across five separate local authorities, processes and practices within the county. The new centralised unit which has limited resources is addressing legacy issues while also implementing new improved processes for new arrangements. The legal nature of the review and changes required means this will be a slow process but work will continue until all matters have been addressed.

9. Unfunded Capital Balances

Unfunded balances on capital projects at 31 December 2016, including those funded from the Councils own resources, are as follows:

	€
Council Properties	€10.5m
Land Costs	€ 4.0m
Landfill and Civic Amenity	€ 3.9m
Roads and Car Parks	€ 1.5m
Quays and Harbours	€ 0.8m
Other	<u>€ 1.3m</u>
Total	€22.0m

Funding arrangements need to be put in place to clear all these balances as soon as resources permit.

Chief Executive's Response

The Council's financial position has resulted in reducing funding capacity to provide funding sources for these balances over the last number of years and particularly when the matter of an increased revenue deficit needed to be addressed following the amalgamation of the town authorities in 2014. It is hoped that over the coming years the Council will be in a position to re-establish provisions within the revenue account for addressing any and all unfunded balances but it will not be a quick solution and may take some time.

10. Local Authority Companies

The Council has recorded its interest in 9 companies in Appendix 8 of its AFS.

One of these companies, New Ross Sports and Leisure Limited (NRSL), operates the swimming pool in New Ross. The latest accounts to hand were those in respect of the year ended 31 December 2015. As reported previously the company recorded an accumulated deficit of €1.1m at the end of 2015, of which €311k was incurred in 2015. In line with national protocols these results have not been consolidated into the AFS. It is recommended that the Council advises the company to ensure that the financial accounts are prepared in line with the timeframe for the Council's own accounts.

Part of the deficit arose in 2014 and 2015 due to significant storm damage in February 2014 and the resultant closure of the facility until April 2015. I have been advised that an ongoing insurance claim in respect of this matter is still not resolved. The company also has a loan of €3m from the Council on which it is making regular repayments.

Chief Executive's Response

The Council continues to be supportive of this much needed community facility and will be working to try and bring the insurance claim to a positive conclusion for the facility. The Council has already been in discussion with management at the facility to emphasise the need to have their accounts prepared in sufficient time to inform the inclusion of this subsidiary company in the Council's AFS

11. Governance

11.1 Corporate Plan

A corporate plan for 2015 to 2019 has been adopted by the Council. The objectives outlined in the Plan include the following: encourage and support business; enterprise and job creation; promote social inclusion & participation; reduce operational deficit in the Council's finances; provide quality service delivery; promote sustainable & integrated development; preserve and enhance the environment; staff development; and enhancing democracy.

11.2 Risk Register

The maintenance of an up to date risk register is an integral part of risk management and good governance. I note that the finalisation of the risk register was delayed by a change in management objectives. While the risks associated with a number of these objectives have been identified and agreed, the risks in respect of a number of others have yet to be finalised. This needs to be completed as a priority without further delays, as this matter has been ongoing for a number of years. Thereafter the risk register should be continually updated in response to the Council's changing objectives.

Chief Executive's Response

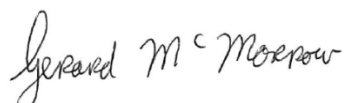
Work is progressing on the risk register. The register is largely in place with risks identified and the current process is about ensuring risk management practices in place are properly recorded and/or improved as part of the discussion. The process also involves discussion of any new or changed risk which has resulted in a number of additions and amendments. The risk register is a regular item for discussion on the management team agenda.

11.3 Internal Audit Function

In 2016 the Council's internal audit function consisted of four people. The annual work plan was approved by the audit committee and the Chief Executive. The head of internal audit reports directly to the audit committee, the Head of Finance and also has direct access to the Chief Executive in carrying out the work of the unit. The unit produced 7 reports during the year, which I have taken account of in carrying out my audit.

12. Acknowledgement

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



Gerard McMorrow
Local Government Auditor
31 October 2017