



Rialtas na hÉireann
Government of Ireland

LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Offaly County Council

for the

Year Ended 31 December 2018

Department of Housing, Planning and Local Government

housing.gov.ie

CONTENTS

AUDITOR'S REPORT TO THE MEMBERS OF OFFALY COUNTY COUNCIL	1
1 Introduction	1
2 Financial Standing	1
2.1 Statement of Comprehensive Income	1
2.2 Local Property Tax.....	2
3 Income Collection	2
3.1 Income Collection	2
3.2 Rates.....	2
3.3 Housing Loan Arrears.....	3
3.4 Rent and Annuities.....	3
3.5 Fire Service Income	4
4 Transfer of Water and Sewerage functions to Irish Water.....	4
5 Capital Account	4
5.1 Unfunded Capital balances	4
5.2 Capital Expenditure.....	5
6 Fixed Assets.....	5
6.1 Fixed Assets.....	5
6.2 Work in Progress	6
7 Loans Payable.....	6
7.1 Loans Payable.....	6
7.2 Bridging Finance - Affordable Housing.....	6
7.3 Variable Loan Land Acquisition - Land Aggregation Scheme (LAGS)	6
7.4 Interest Only Loans - Land Acquisition.....	7
8 Development Contributions	7
8.1 Development Contributions.....	7
9 Local Authority Companies	7
9.1 Local Authority Companies	7
9.2 Tullamore Leisure Limited.....	7
9.3 Tullamore Community Arts Centre Limited	8
9.4 Offaly Tourism Marketing CLG	9
9.5 Offaly Innovation and Design Centre CLG.....	9
10 Procurement	9
11 Governance and Propriety	9
11.1 Governance	9

11.2	Internal Audit	10
11.3	Risk Management in Local Authority	10
	Acknowledgement	10

AUDITOR'S REPORT TO THE MEMBERS OF OFFALY COUNTY COUNCIL

1 Introduction

I have audited the Annual Financial Statement (AFS) of Offaly County Council for the year ended 31 December 2018, which comprises 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 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 2018 and its income and expenditure. My audit opinion, which is unmodified, is stated on page 5 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 judgments 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.

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 generated a surplus for the year of €561k after net transfers to reserves of €3.4m. This surplus is in line with budget and has reduced the accumulated deficit on the revenue account to €2.5m. Note 16 to the AFS sets out the variances between the actual outturn and adopted budget. Excellent progress has been made since 2014 in the reduction of the accumulated deficit through budgeted annual contributions. It is imperative that the elimination of the accumulated deficit continues to be given priority.

The draft AFS approved by the members at their April 2019 meeting have since been amended to take account of the following adjustments:

	€m
Decrease in Fixed Assets	- 11.2
Decrease in Capitalisation account	11.2
Decrease in Long term debtors	- 0.5
Increase in Trade debtors and prepayments	+ 0.8
Increase in Creditors and accruals	- 0.2
Decrease in Other balances	- 0.1

Significant movements in the finances for the year include:

	€m
Decrease in fixed assets	- 9.7
Decrease in trade debtors and prepayments	- 1.1
Increase in bank and cash balances	9.9
Increase in creditors and accruals	- 3.9
Decrease in loans payable	1.6
Decrease in other balances	- 4.5

Chief Executive's Response

We have reduced our accumulated deficit from €5.7m to €2.5m in the 6 years between 2013 and 2018. The elected members have retained this provision again in the 2019 local authority budget.

2.2 Local Property Tax

The Finance (Local Property Tax) Act 2012 (as amended), makes specific provision that elected members of a local authority may pass a formal resolution to vary the basic rate of the Local Property Tax for their administrative area by a percentage known as the local adjustment factor. The Council members voted not to adjust the Local Property Tax base rate for 2018 or 2019.

3 Income Collection

3.1 Income Collection

A summary of the revenue collections are as follows:

Income Source	Yield %		Debtors €m	
	2018	2017	2018	2017
Rates	89%	87%	2.21	2.24
Rents & Annuities	87%	85%	0.92	1.03
Housing Loans	56%	55%	0.39	0.37

3.2 Rates

The revaluation of the Council's rate base by the Valuation Office came into effect in 2018. As part of the process, there were a number of outstanding appeals at year end. Revisions determined to date have resulted in a reduction of income and accordingly, the Council has provided for outstanding appeals in the AFS based on their best estimate of the outcome.

Rates debtors amounted to €2.21m at 31 December 2018 (2017: 2.24m) and are net of credit balances of €367k (2016: €368k). Write offs, waivers and vacant property adjustments amounted to €2.3m compared to €3.56m in 2017. It is important that the Council monitor all accounts in order to maintain and improve collection levels. Bad debts in this area appear to be adequately provided.

Chief Executive's Response

The rates collection environment continued to be challenging throughout 2018 as following the full revaluation of all properties by the Valuation Office, ratepayers were adjusting to the new valuations. I am satisfied that we have prudently provided for bad debts.

Following the revaluation, rate payers were allowed to appeal their property valuations to The Valuation Tribunal, after Offaly County Council had finalised the ARV for the 2018 budget. A number of rate payers have successfully appealed, resulting in reduced valuations. This means the income collectable for 2018 was less than the levels included in the 2018 budget.

We had been advised that the revaluation process would result in neither increase nor decrease in rates income. Due to the prolonged nature of the process, this is not the case.

This is a serious cause of concern in relation to 2019 outturn and 2020 budget. The revaluation process needs to be reviewed and amended to correct this anomaly.

3.3 Housing Loan Arrears

The collection yield in respect of housing loans was 56% in 2018, with arrears at 31 December amounting to €392k (net of credit balances of €65k). 96% of arrears were outstanding in excess of three months. This included €71k in respect of surrendered houses on which debt recovery procedures are currently under way.

In addition, there are a further 10 customers, each with arrears in excess of 10k amounting to €264k at the year end. Caravan loans records show that no payments have been received for a number of years.

The bad debt provision in respect of the above is sufficient, however it is essential that the Council dedicate resources to recover outstanding amounts.

Chief Executive's Response

We have a small number of accounts with significant balances that are long outstanding. Finance are actively managing these to a conclusion. I am satisfied that we have prudently provided for any potential bad debts.

3.4 Rent and Annuities

The collection yield for housing rents and annuities (including income from Rental Accommodation Scheme and Long Term Leasing) improved slightly to 87% in 2018. Rent arrears at 31 December amounted to €0.92m (net of credit balances of €83k).

Rents and annuities in arrears for three months or more, was €0.8m at year end (2017: €0.9m).

As was noted in previous reports, the level of long term arrears is partly attributable to substantial arrears added to individual customer accounts on foot of a rent review undertaken in 2015.

Bad debts appear to be adequately provided for at the year end.

Chief Executive's Response

Finance has an increased focus on dealing with arrears and bringing matters to finalisation. This has led to a reduction in the amounts due over three months. An increased number of enforcement actions have been taken but effective resolution through the courts service is difficult in the present housing climate. I am satisfied that the bad debts provision is prudent.

3.5 Fire Service Income

Last year I highlighted a break down in the interface between the accounting system at the fire station and the main accounting system. This resulted in delays in posting invoices which continued in 2018 and into 2019.

While invoices are issued by the fire service, the administration and debt collection of these has not been assigned. As this represents a loss of income to the Council this is a serious matter which should be dealt with promptly.

Chief Executive's Response

The difficulties in posting of invoices has been largely resolved. The collection process will be examined to ensure an increased recovery of debt.

4 Transfer of Water and Sewerage functions to Irish Water

The responsibility for water and sewerage functions was transferred to Irish Water (IW) in 2014, the Council continues to deliver services on behalf of the company under a service level agreement.

The Council continues to liaise with IW's National Special Projects Office (NSPO) in relation to the transfer of the remaining assets. To date the Council has completed the legal transfer of 33 properties. A further 12 have been prepared for registration prior to transfer but have not been progressed due to internal staff transfers. It is essential that the process be resumed and completed without delay.

Chief Executive's Response

This function is currently undergoing a change of staffing, which has slowed progress. The legal transfers will resume on the appointment of appropriate staff.

5 Capital Account

5.1 Unfunded Capital balances

The closing credit balance on the capital account is €12.2m including unfunded debit balances in respect of:

	€m
Historic unfunded housing debit balances	4.2
Historic unfunded industrial debit balances	1.6
Historic unfunded other debit balances	0.5

The housing unfunded balance includes a realised loss of €620k in 2018. This relates to the sale of a site originally purchased for housing at Bracknagh.

The Council should consider options for the prompt clearance of all unfunded balances.

Chief Executive's Response

We are examining our housing debit balances in the context of recovering balances on future housing projects and other options. Our Economic Development section and Local Enterprise Office are focused on promoting, utilising and disposing of industrial lands for future projects and needs. The strategic value of non-core assets is being assessed with a view to realising funds which could be used to cover realised losses on housing lands.

5.2 Capital Expenditure

Capital expenditure amounted to €12m in 2018. This included €7m for housing and building and €0.75m for Phase 1 Slieve Bloom Mountain Bike Trail (joint project between the Council, Laois County Council and Coillte).

6 Fixed Assets

6.1 Fixed Assets

The net value of fixed assets in the balance sheet at 31 December 2018 was €1,455m, of which €307m related to land, housing and buildings.

Fixed asset additions of €4.3m included €3.7m for the purchase of 27 local authority houses. Disposals at book value amounted to €2.6m and included 17 Council houses. The year on year reduction in the depreciation charge of €3.5m was due to the landfill asset being fully depreciated at the end of 2017. The historical cost adjustment of €11m refers to a correction of accounting treatment to remove the Leisure Centre building from the AFS as it is also accounted for in the assets of Tullamore Sports and Leisure Centre Limited.

As mentioned previously the Council's fixed asset register, which is part of the Council's financial management system (Agresso) has not been properly maintained. Significant progress has been made in the compilation of a detailed database of all land and buildings owned by the Council which will form the basis of a complete 'Property Asset Register'. To date the Council has not been in a position to reconcile the Property Asset Register to the financial management system. This task needs to be completed urgently.

Chief Executive's Response

The fixed asset register in Agresso management system has been adequately maintained and all material assets movements have been recorded in 2018. We have dedicated staff members assigned to Fixed Asset Register and Corporate Estate Management who compile the 'Property Asset Register'. These staff continue to collaborate to ensure all material assets are capitalised in Agresso.

6.2 Work in Progress

Work in Progress of €6.3m refers to expenditure to December 2018 on the Council's current housing projects:

	€m
8 units Houses at Kylebeg Banagher (complete and allocated)	3.7
33 Houses at Blundell Wood Edenderry	2.1
18 Units at Chancery Lane Tullamore	0.5

The final account was agreed and paid on the Kylebeg Banagher houses in early 2019. Blundell Wood and Chancery Lane have scheduled completion dates in late 2019.

7 Loans Payable

7.1 Loans Payable

Loans payable were reduced by 1.6m in 2018 (€2.5m in 2017). The reduction is detailed in note 7(b) to the AFS and refers mainly to reductions in the amounts owed in respect of Assets/Grants and Recoupables.

7.2 Bridging Finance - Affordable Housing

Long term borrowings include an interest only bridging loan of €0.98m, in respect of six housing units originally acquired for resale under the affordable housing program. These houses were allocated to a voluntary housing body under the Social Leasing Scheme to address current housing needs in 2009. In December 2018 a lease agreement was signed for a further five years and one month.

Interest paid in 2018 on this loan amounted to €13k.

Chief Executive's Response

We have continued to apply to the Department for funding for acquisition. In the context of no approval we have extended the leasing agreement.

7.3 Variable Loan Land Acquisition - Land Aggregation Scheme (LAGS)

Variable loans in respect of lands transferred to the Housing and Sustainable Communities Limited (HSC) under LAGS remain in the AFS and amount to €4.5m.

The Council recoups the full cost of the capital and interest annuity payments on these loans from the Department.

7.4 Interest Only Loans - Land Acquisition

Long term borrowings also include €2.4m in respect of land acquired for housing which has yet to be developed, and is being paid on an interest only basis. Interest paid on these loans in 2018 amounted to €33k.

Chief Executive's Response

We are endeavoring to utilise housing lands in future suitable housing and other projects. Income from such disposals and usage will be used to reduce borrowing. In the meantime, as we have reached the limit on interest that can be charged to future housing projects on these borrowings, we have budgeted to absorb these interest costs in our revenue budget.

8 Development Contributions

8.1 Development Contributions

Development Contributions are included in note 5 to the AFS at €2.2m (2017 €2.3m). The bad debts provision appears to be adequate.

Section 48(12)b of the 2000 Planning and Development Act requires the repayment of special contributions to the planning applicant, together with any interest arising, where the specific infrastructure works were either not commenced within five years or not completed within seven years of the date that the payment was made to the local authority. It is recommended that a review of the status of special contributions should be carried out so as to obtain clarity in respect of whether repayments, as provided for under the 2000 Act, are required.

Chief Executive's Response

Development Levy income levels have remained static in recent years and collection of these levies can be a challenge. The level of special contributions currently held represents less than 3% of all development levy balances. These are monitored and applied as works progress.

9 Local Authority Companies

9.1 Local Authority Companies

The Council's interest in six companies is recorded in Appendix 8 to the AFS. It is important that the Council's appointees to these companies are aware of their corporate governance responsibilities.

9.2 Tullamore Leisure Limited

Note 3 of the unaudited accounts of Tullamore Leisure Limited states, that assurances have been provided by the Council that grants would not be repayable, so long as the terms of the

lease entered into between the company and the Council were met. Confirmation was given by the Council that they would provide the financial support necessary to enable the company to continue its operations for the foreseeable future.

The company incurred a net loss of €27k during the year ended 31 December 2018 and, at that date; the company's liabilities exceeded its assets by €227k. This liability is not reflected in the AFS of the Council in accordance with the Accounting Code of Practice. As this company is a 100% subsidiary of the Council, consideration should be given to this matter in light of the assurances given.

In August 2017, the licence agreement between the Company and the operator of the Leisure Centre was renewed. The operator has not paid the licence fee since February 2018 as a serious tiling issue has arisen at the pool.

A further debt owed to the Council amounting to 45k in respect of water charges paid by the Council on behalf of the Company is included in note 5 to the AFS.

Chief Executive's Response

The provision and operation of leisure facilities is a key recreational service and requires significant funding to be in place. The current licencing arrangement has operated successfully in this regard for a number of years. There are occasional issues arising regarding the relative responsibilities of lessor and operator and the resolution and funding of these issues are currently being addressed.

As regards, the 2018 AFS, there are currently no methodologies prescribed to allow for the consolidation of subsidiaries results in the preparation of the AFS.

9.3 Tullamore Community Arts Centre Limited

Tullamore Community Arts Centre Limited is a company limited by guarantee. The principal activity of the company is the promotion of the construction of an Arts Centre in Tullamore. The company had no income and incurred a loss of €3.5k in 2018.

Offaly County Council have contributed €726k towards the provision of an Arts Centre for Tullamore to the end of May 2019. This includes the purchase of premises in 2016 with a view to developing it into an Arts Centre. This property is in the ownership of Offaly County Council and is included as an unfunded balance in the capital account. It is unclear how this balance is to be funded.

In January 2018 the Council received confirmation from the Department of Culture, Heritage and the Gaeltacht of an extension to the drawdown period of a previously approved grant until December 2020. This grant is for €2m under the ACCESS 11 scheme.

Chief Executive's Response

The funding and governance structure required to deliver the arts centre are currently being agreed.

9.4 Offaly Tourism Marketing CLG

Offaly Tourism Marketing CLG was incorporated on 18 February 2017. It is a company limited by guarantee and not having a share capital. Offaly Tourism Marketing via the consumer brand 'Offaly- Irelands Hidden Gem' is working to enhance the tourism appeal of the County through the development and promotion of a range of new and immersive experiences.

Chief Executive's Response

This detail of this companies accounts for 2017 have been disclosed in Appendix 8 of the AFS.

9.5 Offaly Innovation and Design Centre CLG

Note 5 to the AFS includes a bridging loan to Offaly Innovation and Design Centre Limited advanced in 2014. The amount of the loan per the accounts of the company does not agree with the Councils AFS.

It is important that transactions between the Council and its related companies are correctly reflected in the AFS and are in agreement with the financial statements of the company.

Chief Executive's Response

This company manages an enterprise development unit. The loan repayment transactions, which are not material in the context of the AFS, will be fully accounted for in the 2019 AFS.

10 Procurement

The Councils Procurement Unit had two full time staff in 2018. Weaknesses in the Councils procurement system have been identified and have been highlighted to management by the Unit.

As mentioned in previous audits legal services have not been tendered.

Chief Executive's Response

The procurement unit monitors procurement throughout the organisation and ensures correct procedures have been adhered to. Any weaknesses identified are quickly addressed by the Management team and senior staff.

The legal services tender process has proven complex and is proving difficult to complete, nationally.

11 Governance and Propriety

11.1 Governance

Corporate governance comprises the systems and procedures by which enterprises are directed and controlled. It is the responsibility of the Chief Executive and the elected members to ensure that sound systems of financial management and internal control are in place.

Chief Executive's Response

Management Team members, Senior Management Group members and line managers have access to daily financial information and expenditure against budget. In addition, as part of the quarterly financial returns to the Department, the Management Team discuss outturn and review progress. Monthly financial reports are submitted to the Corporate Policy Group and full Council in the Chief Executives report. We also report on a quarterly basis to our Audit Committee on financial performance against budget and other relevant issues.

11.2 Internal Audit

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 and the Head of Corporate when carrying out the work of the unit. I have taken consideration of the work performed by Internal Audit in planning my audit.

11.3 Risk Management in Local Authority

The Council's risk register was reviewed and agreed by management in 2018

Chief Executive's Response

We have reviewed updated our risk register in 2018 and was presented to our Audit Committee in October 2018.

Acknowledgement

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



Fiona Clancy

26 July 2019

housing.gov.ie

Department of Housing, Planning and Local Government



Riailtas na hÉireann
Government of Ireland