LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Tipperary County Council

for the

Year Ended 31 December 2018

Department of Housing, Planning and Local Government

housing.gov.ie
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AUDITOR’S REPORT TO THE MEMBERS OF TIPPERARY COUNTY COUNCIL

1 Introduction

I have audited the Annual Financial Statement (AFS) of Tipperary 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 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 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 €5k after net transfers to reserves of €5.7m, giving an accumulated surplus on the revenue account of €5.5m in 2018. Note 16 of the AFS sets out the variances between the actual outturn and the adopted budget. The over/under expenditure for 2018 as detailed in note 16 of the AFS was presented to and approved by the members at the monthly meeting held in May 2019.

The fixed assets figure per the draft AFS approved by the members at their May 2019 meeting have since been amended by €1.7m to take account of depreciation for the year.

Significant movements on the finances of the Council for the year include:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in fixed assets</td>
<td>11.0m</td>
</tr>
<tr>
<td>Decrease in long term debtors</td>
<td>-2.0m</td>
</tr>
<tr>
<td>Increase in bank and cash balances</td>
<td>10.6m</td>
</tr>
<tr>
<td>Increase in creditors and accruals</td>
<td>-7.0m</td>
</tr>
</tbody>
</table>
Decrease in loans payable  3.9m
Increase in other balances  -3.9m

Transfers to the revenue account included €0.5m (2017 & 2016: €1.05m) from capital reserves to mitigate the cost of pension lump sums incurred during the year.

Net expenditure in excess of budget in respect of Environmental Services amounted to €0.85m (note 16 in the AFS refers). This relates to support and operations costs for the Fire Services including fire service gratuities.

Chief Executive's Response

The Management Team continues to monitor income and expenditure on an ongoing basis throughout the year in order to stay within budgets and adjust expenditure accordingly to adhere to budgets.

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 at its September 2017 meeting to adjust the Local Property Tax base rate for 2018 upwards by 10%.

3 Income Collection

3.1 A summary of the revenue collections are as follows

<table>
<thead>
<tr>
<th></th>
<th>Debtor 2018 €m</th>
<th>Debtor 2017 €m</th>
<th>Yield 2018 %</th>
<th>Yield 2017 %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rates</td>
<td>7.83</td>
<td>7.97</td>
<td>82</td>
<td>82</td>
</tr>
<tr>
<td>Rents and Annuities</td>
<td>1.05</td>
<td>0.18</td>
<td>93</td>
<td>99</td>
</tr>
<tr>
<td>Housing Loans</td>
<td>0.25</td>
<td>0.28</td>
<td>85</td>
<td>84</td>
</tr>
</tbody>
</table>

Chief Executive's Response

The Income Task Force which I established and chair sets target percentage collections for major income headings and assesses the achievement of those targets. Whilst we are working in a difficult environment every effort is being made to achieve those targets.

3.2 Rates

As commercial rates are a main source of income for the Council it should be noted that the Council is heavily reliant on certain clients with 20% of 2018 rates income relating to just 8 ratepayers.

The collection performance remained at 82% in 2018 and is calculated after taking account of specific doubtful arrears of €2.23m (2017: €2.2m). Debtors were €7.83m at 31 December 2018 (2017: €7.97m) which was net of credit balances of €257k.
Write offs/ vacant property adjustments amounted to €4.95m which is 2% lower than the 2017 figure.

The bad debts provision appears adequate.

**Chief Executive's Response**

The Council is actively engaging with customers and continues to put in place payment plans where possible. The Rates Revaluation instigated by the Valuation Office is nearing completion in Tipperary and the experience from other local authorities in terms of implications for collections will be monitored and kept under review for the remainder of 2019 and in 2020.

### 3.3 Housing Loan Arrears

The collection yield in respect of housing loans was 85% in 2018 which is a slight improvement on the 2017 figure. This reflects the efforts being made by the Council to monitor and recover arrears and includes adjustments relating to the engagement with MARP (Mortgage Arrears Resolution Process).

Housing loan debtors at 31 December 2018 were €249k (net of credit balances of €121k). 89% of total arrears were outstanding for more than 3 months, with €206k being owed by 17 clients.

The bad debts provision appears adequate.

**Chief Executive's Response**

The Council is actively engaging with customers and continues to use the MARP process where appropriate. This can be a lengthy process and we will continue to restructure loans into long term sustainable mortgages and process others through Mortgage to Rent (MTR) where appropriate.

### 3.4 Rents and Annuities

The Council introduced a standard differential rent scheme for the County in 2018 to replace the existing 9 schemes. The intention was to regularise the scheme throughout the County and to provide equity for all tenants of the Council. The effect of the implementation of the new scheme resulted in an increase in rental income in the AFS.

The 2018 collection yield per Appendix 7 of the AFS was calculated at 93% which represents a fall of 6% on the previous year. This is a 'snapshot' of the debtors’ ledger at 31 December 2018. Increased arrears as a result of the introduction of the standard differential rent scheme and a decrease in the level of credit balances have affected the 2018 yield figure.

<table>
<thead>
<tr>
<th></th>
<th>Debit balances</th>
<th>Credit balances</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>€m</td>
<td>€m</td>
</tr>
<tr>
<td>2018</td>
<td>1.049</td>
<td>1.354</td>
</tr>
<tr>
<td>2017</td>
<td>0.178</td>
<td>0.783</td>
</tr>
</tbody>
</table>
The above table reflects the impact of the credit balances on the closing arrears, giving a net arrears figure of €1.049m at year end.

€888k or 66% of the total debit balance is outstanding for greater than three months of which €83k was owed by 12 clients.

The bad debts provision appears to be adequate.

Chief Executive's Response

The standardisation of the rent scheme and a reduction in the credits impacted on the percentage collection in 2018. During 2019 the percentage collected is expected to increase.

4 Fixed Assets

The net value of fixed assets in the balance sheet at 31 December 2018 was €3,754m, of which €777m related to land, housing and buildings.

Fixed asset additions of €16.6m included €15m for the purchase of 105 local authority houses. Disposals at book value amounted to €4.3m and included 28 Council houses and 2 demountables.

5 Work in Progress

Accumulated expenditure on work in progress and preliminary expenses amounted to €6.6m at 31 December 2018 (2017: €5m).

The year-end balance included the following accumulated expenditure:

<table>
<thead>
<tr>
<th>Cumulative Spend at 31 December 2018</th>
<th>€m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traveller accommodation Cabragh Thurles</td>
<td>2.4</td>
</tr>
<tr>
<td>Construction of car park at Strame Re First Data</td>
<td>0.9</td>
</tr>
<tr>
<td>Development Suir Island Car parking Clonmel</td>
<td>0.6</td>
</tr>
<tr>
<td>Templemore Fire Station Extension</td>
<td>0.6</td>
</tr>
<tr>
<td>St Patricks Burial Ground Clonmel extension</td>
<td>0.3</td>
</tr>
</tbody>
</table>

All of the above schemes apart from the carpark at Strame are currently fully funded.
6  Irish Water

6.1  Balancing Statement with Irish Water (IW)

€2.5m of the balancing statement agreed between the Council and IW in July 2016 is being retained by the Council in respect of actual and contingent liabilities, until responsibility for these liabilities is determined between the Council, IW and the Department of Housing, Planning, and Local Government (the Department).

Chief Executive's Response

To date no determination has been made in respect of the responsibilities for these liabilities

6.2  Water Related Loans

Recoupable IW related loans of €0.98m remain at 31 December 2018. Repayments on these loans are fully serviced by the Department.

6.3  Transfer of Assets

The statutory transfer of the assets, which is given effect by Ministerial Orders, is being advanced by the Department in consultation with the local authorities and IW. Since January 2015, a number of Ministerial Orders have been made providing for the transfer of different categories of assets to IW. Considerable work is involved in the transfer of over ground assets, in order to ensure that the Orders reflect the precise nature and boundary of the asset to be transferred.

Tipperary County Council transferred 7 assets to IW in 2018, bringing the total number of legally transferred over ground properties to 133. Underground assets were transferred under SI 13 of 2015. Progress will be reviewed again at the next audit.

Chief Executive's Response

The Council continues to advance progress in the transfer of water and waste water infrastructure as required by legislation with regular engagement with IW taking place to review the asset transfer programme. Priority is given to those assets in the registered ownership of the Council, where title is uncomplicated and so may be transferred efficiently. However, the transfer process may be delayed where complications arise, such as the necessity to divide a folio or establish a new folio number. Currently the Council awaits guidance from IW in relation to the transfer of those assets where Council ownership has not been registered or documented, i.e. where the asset is unregistered or registered in the name of a third party.
7 Capital Account

7.1 Capital Account

The capital account had a net credit balance of €75.7m at 31 December 2018. Expenditure in 2018 including transfers to revenue amounted to €49m (2017: €35m). The increase in expenditure refers mainly to the provision of housing and roads projects.

The balance on project and non-project balances classified as unfunded amounted to €22.2m. The main unfunded balances were:

<table>
<thead>
<tr>
<th>Description</th>
<th>€</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land/Sites purchased for housing</td>
<td>14.4 m</td>
</tr>
<tr>
<td>Land for industrial use</td>
<td>2.5 m</td>
</tr>
<tr>
<td>Design and Engineering costs Glenconnor</td>
<td>0.8 m</td>
</tr>
<tr>
<td>Liberty Square Thurles</td>
<td>1.3 m</td>
</tr>
<tr>
<td>Kickham Barracks and Davis Road site</td>
<td>1.5 m</td>
</tr>
<tr>
<td>Other</td>
<td>1.7 m</td>
</tr>
</tbody>
</table>

The Council should consider options to address the remaining unfunded balances.

Chief Executive’s Response

Unfunded balances on land and sites will be recouped through social housing investment programme or the sale of private sites. Costs associated with land for industrial / commercial use will be recouped by onward sale of these sites or via rental of sites for industrial use.

7.2 Suir Blueway Tipperary

The Blueway between Cahir, Clonmel to Carrick on Suir was officially opened by Mr John Tracey, CEO Sport Ireland on 17th May 2019.

Previous audit reports highlighted difficulties with the main contract on the new Blueway amenity. Significant delays were encountered and the contractor submitted claims in excess of the tender price. Following the appointment of a Conciliator, agreement was reached between both parties.

The total payments inclusive of VAT made to the contractor amounted to €2.46m which represents a 92% increase on the original contract price of €1.28m.

Additional costs were incurred due to the need to employ claims advisor consultants to assist in the resolution of the conciliation process. The total expenditure on the project amounted to €3.68m and represents an increase of 84% on the original budgeted cost of €2m.

Grant funding of €1.9m has been received to date and the council has provided a further €100k from its own resources. An unfunded balance of €1.68m remains in the capital account in respect of this project as of September 2019. It is crucial that the Council continue to explore funding options in respect of this debit balance.
A second project to carry out enhancement works on the Suir Blueway is currently underway. This project is fully funded by the Department of Tourism and Transport and to date is on target. This will be reviewed as part of the 2019 audit.

Chief Executive's Response

Increased construction costs were incurred due to the requirement to increase the scope of the works. Many sections were widened to create a better and safer user experience and the surface of the track was improved at other locations, to give a more consistent finish and better ride quality.

There were substantial damages and delays resulting from a significant river flooding event in 2015. The repair of the river bank resulted in necessary stabilisation works and associated costs. The claims advisor costs represented excellent value for money and resulted in a significant reduction between the claimed and settled amounts. Tipperary County Council will continue to seek capital funding from Central Government for the improvements to the Blueway.

8 Loans Payable

8.1 Loans Payable

The Council had loans payable of €95.8m at 31 December 2018 (2017: €99.7m) of which €51.7m are fully recoupable. In 2018 new borrowings from the HFA of €1.9m were drawn down to fund mortgage advances to clients in respect of Tenant Purchase and Rebuilding Ireland Home Loans.

8.2 Bridging Finance - Affordable Housing

Long term borrowings include an interest only bridging loan of €3.25m, rolled over on an annual basis, in respect of 23 housing units originally acquired for resale under the affordable housing program.

These houses have been leased to an Approved Housing Body (AHB) under the Social Leasing Scheme. The lease on these houses plus one other property was agreed in 2017, is for a six-year period and provides for an annual rebate to the Council based on the rents payable net of the AHB’s management fee.

Total interest paid and recouped from the Department on these loans amounted to €42k in 2018.

9 Development Contributions

9.1 Development Contributions

Development contribution debtors per note 5 of the AFS were €4.6m at the end of 2018 (2017: €5.1m)
The bad debts provision was reviewed at the end of 2018 and is 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 was recommended to management at last years’ audit that a review of the status of special contributions should be carried out. This review is ongoing and its purpose is to obtain clarity in respect of whether repayments, as provided for under the 2000 Act, are required.

This item will be reviewed in the 2019 audit.

10 Local Authority Companies

10.1 Local Authority Companies

The Councils’ interest in eight companies is recorded in Appendix 8 to the AFS.

10.2 Financial Statements

These companies are heavily dependent on funding from the Council. It is important that the Council stress the requirement to have accounts submitted by 31 March annually as the Council may need to make provisions in its own AFS based on the information provided by these accounts.

10.3 Roscrea Swimming Pool Limited

The 2018 accounts for the Roscrea Swimming Pool Limited were not available at the time of audit.

10.4 Nenagh Arts Centre Limited

Nenagh Arts Centre generated a profit of €78k in 2018 bringing the retained earnings to €3.3k and eliminating the accumulated deficit. The Council provided contributions of €82k in 2018 to the company.

10.5 South East Regional Craft Centre Limited

The accounts the year ended 31 December 2018 contained an emphasis of matter paragraph
from the auditor which indicated the existence of a material uncertainty which may cast significant doubt about the company’s ability to continue as a going concern in 2019.

Management have informed me that this centre has been closed since June 2019 and has been placed in voluntary liquidation. This process is ongoing and will be reviewed as part of the 2019 audit.

Chief Executive's Response

The completion of accounts in a timely manner for Local Authority Companies as set out in Appendix 8 as well as the need to address any accumulated deficits has been communicated to all Boards of Directors. The South East Regional Craft Centre Limited in currently in voluntary liquidation and it is expected that this process will be finalised shortly.

11 Governance and Propriety

11.1 Internal Audit

The Council’s internal audit function was reduced to one whole time equivalent person in 2018 as one member of staff was not replaced while on leave. The units’ full staff complement of two was restored from November 2018. The head of the Internal Audit Unit, who is a qualified accountant, reports directly to the Chief Executive and the Audit Committee and they have approved the annual work plan. The unit produced a number of reports during the year which were reviewed by the audit committee. Internal audit formally tracks the implementation of its recommendations.

I have taken account of the work of internal audit in carrying out my audit.

11.2 Audit Committee

The Audit Committee met on 6 occasions in 2018. The 2018 annual report of the Audit Committee was presented and approved by the Council at its March 2019 meeting. I commend the work undertaken by the audit committee which contributes to the independent oversight of corporate governance within the Council.

11.3 Risk Management

An effective risk management framework provides the executive management and the Council members with assurances that major organisational risks are identified and appropriately managed.
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
Local Government Auditor
29 October 2019