



**Rialtas na hÉireann**  
Government of Ireland

## **LOCAL GOVERNMENT AUDIT SERVICE**

**Statutory Audit Report**

**to the**

**Members of Tipperary County Council**

**for the**

**Year Ended 31 December 2017**

Department of Housing, Planning and Local Government

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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 (the Council) for the year ended 31 December 2017, 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 2017 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.

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 / Financial position

The Council generated a surplus for the year of €3k after net transfers to reserves of €5.5m, giving an accumulated surplus on the revenue account of €5.5m in 2017. Note 16 of the AFS sets out the variances between the actual outturn and the adopted budget. The over/under expenditure for 2017 as detailed in note 16 of the AFS was presented to and approved by the members at the monthly meeting held in June 2018.

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

	€m
Increase in fixed assets	10.4
Increase in work in progress	1.8
Decrease in long term debtors	-3.4
Decrease in trade debtors and prepayments	-1.5
Decrease in bank and cash balances	- 3.7
Decrease in creditors and accruals	1.5
Decrease in loans payable	5.9

Transfers to the revenue account included €0.4m (2016: €0.65m) from capital reserves to mitigate the cost of pension lump sums incurred during the year.

### Chief Executive's Response

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

## 3 Income Collection

### 3.1 A summary of the revenue collections are as follows:

	2017 €m	2016 €m	2017 %	2016 %
Rates	7.97	7.69	82	81
Rents & Annuities	0.18	0.36	99	97
Housing Loans	0.28	0.41	84	79

Collection yields in all of the above areas have steadily increased since the merger in 2013.

### Chief Executive's Response

As outlined in previous responses to the Annual Financial Statement 2015 and 2016, 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 we have made incremental improvement in 2017 over 2016 levels.

### 3.2 Rates

The collection performance of 82% in 2017 is calculated after taking account of specific doubtful arrears of €2.22m (2016: €1.41m). Debtors were €7.97m at 31 December 2017 (2016: €7.69m) which was net of credit balances of €261k.

Write offs/ vacant property adjustments amounted to €5.07m which is 2% higher than the 2016 figure.

The bad debts provision is adequate.

## Chief Executive's Response

The Council is actively engaging with customers and continues to put in place payment plans where possible. The Valuation Office has commenced the revaluation process in Tipperary and experience from other local authority in terms of implications for collections will be monitored and kept under review in 2019.

### 3.3 Housing Loan Arrears

The collection yield in respect of housing loans increased to 84% in 2017 which is a 5% improvement on the 2016 figure. This reflects the efforts being made by the Council to monitor and recover arrears and includes adjustments relating to repossession and the engagement with MARP (Mortgage Arrears Resolution Process).

Housing loan debtors at 31 December 2017 were €280k (net of credit balances of €134k). 89% of total arrears were outstanding for more than 3 months, with €171k being owed by 12 clients.

The bad debts provision is adequate.

## Chief Executive's Response

The Council is actively engaging with customers and continues to use the MARP process where appropriate. 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 2017 collection yield per Appendix 7 of the AFS was calculated at 99%. This can be influenced by changes in the level of credit balances existing at year end.

	<b>Debtors per appendix 7 €m</b>	<b>Debit balances €m</b>	<b>Credit balances €m</b>
2017	0.178	0.783	0.606
2016	0.363	0.920	0.557
2015	0.639	1.092	0.453

The above table reflects the impact of the high credit balances of €606k on the closing arrears of €783k in 2017, giving a net arrears figure of €178k at year end. The reduction in arrears of €185k between 2016 and 2017 is represented by a reduction in the debit balances €136k and an increase in credit balances of €49k.

€512k or 65% of the total debit balance is outstanding for greater than three months of which €83k was owed by 13 clients.

Bad debts are provided at 28% of outstanding debtors and are considered sufficient.

### **Chief Executive's Response**

The Council is actively working on all of the large credits and would expect to see a substantial reduction in the opening credit of €606k by the end of 2018.

## **3.5 Maintenance and Aftercare of Landfill Sites**

Aftercare costs charged to revenue in respect of landfill sites at Ballaghveny and Donohill amounted to €1m in 2017.

The contract for the capping of Donohill landfill site had previously been delayed as a result of an EPA audit carried out in 2017. The issues raised have now been resolved and a contractor has been appointed and is on site. Capping work has commenced and is due for completion at the end of 2018. The estimated cost of this project is €1m.

Last years' report referred to trials being undertaken to find the source of contamination of groundwater at Ballaghveny, which led to higher than expected volumes of leachate being tankered off the closed landfill site. The Council has agreed a groundwater management plan which will stop the contamination of the groundwater. This plan will also reduce the volume of leachate that has to be removed from the landfill.

The annual cost of maintenance under this plan is not expected to change significantly

### **Chief Executive's Response**

Your comments on landfill maintenance and aftercare are noted. The works required and the magnitude of costs involved is common to licensed landfill sites owned and previously operated by local authorities across the country. Closure costs will continue for a number of years under the capital funding programme. Subsequently, aftercare costs will arise for the foreseeable future until all potentially polluting material has degraded to near inert conditions. Aftercare is required by the conditions of the operating licence issued by the Environmental Protection Agency and will be funded from the revenue budget.

## **4. Transfer of Water and Sewerage Functions to Irish Water**

### **4.1 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). The year on year reduction of 0.5m reflects payments in respect of one of the above mentioned liabilities.

### **Chief Executive's Response**

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

## 4.2 Water Related Loans

Recoupable IW related loans of €1.08m remain at 31 December 2017. Repayments on these loans are fully serviced by the Department.

### **Chief Executive's Response**

The Council continues to recoup the costs in accordance with Circular L3/14 which facilitates the recoupment to Local Authorities of principal and interest charges incurred in respect of loans taken out by local authorities to fund their contribution to the capital costs of the provision of water assets.

## 4.3 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 36 assets to IW in 2017, bringing the total number of legally transferred over ground properties to 126. Underground assets were transferred under SI 13 of 2015. A further 16 assets are currently in the process of transfer and the remaining assets will take some time due to on-going title issues. 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.

## 4.4 Irish Water Service Level Agreement (SLA)

Tipperary County Council has entered into a SLA with IW with effect from 1 January 2014. This agreement includes the reimbursement of expenditure incurred by the Council in the performance of its functions pursuant to the agreement.

An annual service plan detailing the estimated revenue expenditure is submitted to IW in line with this agreement. It is essential that the Council recover all costs incurred on behalf of IW under this agreement.

The amount invoiced to IW in 2017 was €11.9m of which €128k is outstanding in respect of disputed amounts. The level of this debtor increased in 2018.

It is essential that this matter be resolved as this has an impact on the budgetary process

and out-turn of the Council.

### **Chief Executive's Response**

The outstanding amount of €128k relating to 2017 has recently been resolved and further amounts relating to 2018 are currently the subject of on-going discussions with Irish Water.

## **5. Capital Account**

The Specific Revenue Reserve was a mechanism put in place to facilitate the changeover in accounting treatment when Local Authorities moved from accounting on a cash basis to an accrual basis. The Specific Revenue Reserve of €810k was utilised in 2017 against unfunded Capital Project Balances in line with Circular Fin 11/2016.

The capital account had a net credit balance of €73.1m at 31 December 2017. The balance on project and non-project balances classified as unfunded amounted to €21.2m. The main unfunded balances were:

	€
Land/Sites purchased for housing	14.4m
Land for industrial use	2.9m
Design and Engineering costs Glenconnor	0.9m

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. The unfunded balance on the Design and Engineering costs for Glenconnor has been reduced by €800k in 2017

### **5.1 Suir Blueway Tipperary (Clonmel Greenway)**

Previous audit reports highlighted difficulties with the main contract on the new Blueway/ Greenway. Significant delays were encountered and the contractor has submitted claims in excess of the tender price. Following a meeting in May 2018, the Conciliator agreed to give additional time to the contractor to make further submissions before making recommendations. If this process is unsuccessful this matter will go to arbitration.

This matter and the funding mechanism for the final balance will be reviewed at the next audit.

The Blueway presents particular ongoing maintenance issues for the Council due to its proximity to the river and the associated flooding of specific areas, the erosion of the river banks and consequent undermining of the track itself. The annual cost of routine maintenance tasks such as grass and verge mowing, hedge/ tree trimming, etc. are estimated to be €100k and will need to be provided for in future budgets. Further supplementary funding may be needed in the event of serious flooding.

### **Chief Executive's Response**

In relation to the main contract, the outcome of the conciliation process will inform Tipperary County Council as to the next step in this on-going process. This can be determined on receipt of the Conciliator's report.

It will be necessary to provide a high standard of maintenance to the Blueway, given its value as an amenity area.

Tipperary County Council will continue to seek capital funding from Central Government for improvements to the Blueway as required.

## **6. Loans Payable**

The Council had loans payable of €99.7m at 31 December 2017 (2016:€105.6m) of which €54.3m are fully recoupable.

### **6.1 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 were allocated to an Approved Housing Body (AHB) under the Social Leasing Scheme in 2011. The lease on these houses in addition to one other property was renewed on 12 June 2017 for a further six year period. This agreement 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 €49k in 2017.

### **Chief Executive's Response**

The Council expects to continue to recoup the interest costs from the Department.

### **6.2 Loans in respect of Land Acquisition**

Long term borrowings also include €9.9m in respect of land acquisition, €6.7m refers to lands at Ballingarrane while the balance relates to land purchased for housing.

### **Chief Executive's Response**

Loans in respect of land for housing or industrial / commercial use will be repaid from proceed of sale of these sites / lands.

## 7. Development Contributions

Development contribution debtors per note 5 of the AFS were €5.1m at the end of 2017(2016: €7.4m)

The net reduction of €2.3m reflects bad debts written off of €259k and adjustments made in respect of developments that did not go ahead of €1.48m. The bad debts provision was reviewed at the end of 2017 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 2018 audit.

### Chief Executive's Response

This review is on-going and is expected to be completed by the end of 2018.

## 8. Local Authority Companies

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

### 8.1 Financial Statements

One of these companies had not provided accounts for 2017 on time for inclusion in the final AFS. It is evident that some of these companies are heavily dependent on funding being provided on an annual basis from the Council. As the Council may need to make provisions in its own AFS in respect of these companies, it is important that the Council stress the requirement to have accounts submitted by 31 March each year.

### 8.2 Thurles Swimming Pool Limited & Roscrea Swimming Pool Limited.

The accumulated losses as at 31 December 2017 in the balance sheets of these two companies were €554,391.

### 8.3 Nenagh Arts Centre Limited

Nenagh Arts Centre incurred an operating loss of €24k in 2017 bringing the accumulated deficit at 31 December 2017 to €75k. The Council provided contributions of €42.5k in 2017 to the company.

### 8.4 South East Regional Craft Centre Limited

Accounts to 31 December 2017 were not available prior to signing this report. The 2016 accounts contained an emphasis of matter paragraph regarding the company's ability to

continue as a going concern. Assurances have been received from the Department of Employment Affairs and Social Protection that funding for employees will be provided under the Community Employment Scheme up to August 2019. Given the continuing fall in retail sales the Council may need to consider the viability of this company.

The Council should insist on up to date accounts without delay.

### **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 Council will further consider the position in respect of the South East Craft Centre Limited in 2019 once clarity over the Community Employment scheme Funding post August 2019 is determined.

## **9 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.

### **9.1 Internal Audit**

The Council's internal audit function reduced to 2.1 whole time equivalent personnel in 2017 due to the retirement of a staff member. This position was filled at the end of the year having being vacant for 6 months.

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.

### **9.2 Audit Committee**

The Audit Committee met on 6 occasions in 2017. The annual report of the Audit Committee was presented and approved by the Council at its June 2018 meeting. I commend the work undertaken by the audit committee which contributes to the independent oversight of corporate governance within the Council.

### **9.3 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. I acknowledge that the register was reviewed in 2017.

## **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.



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**Fiona Clancy**  
**Local Government Auditor**

**25 October 2018**

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