



LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of South Dublin County Council

for the

Year Ended 31 December 2013



Comhshaol, Pobal agus Rialtas Áitiúil
Environment, Community and Local Government

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AUDITOR'S REPORT TO THE MEMBERS OF SOUTH DUBLIN COUNTY COUNCIL

1. Introduction

- 1.1** I have audited the annual financial statement of South Dublin County Council for the year ended 31 December 2013, which comprise the Statement of Accounting Policies, Income and Expenditure Account, Balance Sheet, Funds Flow Statement and related notes. The financial reporting framework that has been applied in their preparation is the Accounting Code of Practice for Local Authorities, as prescribed by the Minister for the Environment, Community and Local Government.

My main statutory responsibility, following the completion of the audit work, is to express an opinion on the annual financial statement (AFS) of the Council as presented for audit, in accordance with the Code of Audit Practice. My audit opinion on the Annual Financial Statement (AFS) of the Council, which is unqualified, is stated on page 7 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 opinion on the statement and to report my opinion to you. I conducted my audit in accordance with the principles and practice of Local Government Audit. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the annual financial statement. It also includes an assessment of the significant estimates and judgements made by the Council's management in the preparation of the financial statement, 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 statements are free from material misstatement, whether caused by fraud or other irregularity or error.

- 1.2** This report is issued in accordance with Section 120 of the Local Government Act, 2001 and should be read in conjunction with the audited AFS.

2. Financial Standing

2.1 Income and Expenditure Account

The Council's gross revenue expenditure including transfers to reserves in 2013 was €230.8m and a small deficit for the year of €1.4m was recorded. This resulted in a decrease in the General Reserve at the year end to €10.7m. This represents 4.6% of gross revenue expenditure including transfers to reserves.

Revenue expenditure and income including transfers to/from reserves for 2013 were €0.2m and €1.2m respectively below the approved budget. Expenditure in excess of the budget on various divisions was approved by the Council.

Chief Executive's Response

A deficit was incurred in 2013 after providing for the repayment of €3.5 million in commercial rates charged to the Westlink Toll Bridge account during the period 2005 to 2013. This was an exceptional and unexpected cost which materialised late in the year following the revision of the toll bridge valuation by the Commissioner of Valuation. The revision arose from an October 2013 Supreme Court decision and was applied retrospectively from 2005 to 2013. Provision was made in the 2014 budget to recover the 2013 deficit and return the general reserve to January 2013 levels.

2.2 Fixed Assets

The net book value of fixed assets after accounting for depreciation was €3,599m and this showed a net increase for the year of €6m which was mainly due to additions to the housing stock. Fixed assets include the water and sewerage network of €635m which will form part of the transfer of assets and liabilities to Irish Water in the near future (see paragraph 6).

2.3 Work in Progress and Preliminary Expenses

The net expenditure on work in progress and preliminary expenses at 31 December, 2013 was €30m and this mainly included the Council's investment of €15.8m on the proposed Dublin Waste to Energy (DWtE) facility at Poolbeg. Dublin City Council, acting on behalf of the four Dublin local authorities, has been pursuing the provision of the DWtE facility following the adoption of the Dublin Region Waste Strategy.

Chief Executive's Response

In accordance with Section 106 of the Local Government Act 2001 (as amended), approval has recently been agreed by the members and Minister for the Environment, Community and Local Government to borrow €20.8m for this project. It is intended that this loan will be drawn in September 2014 and the borrowings will fund the costs associated with the Council's contractual obligations to this project.

2.4 Loans Payable

The Council's loans payable at 31 December, 2013 totalled €244.8m and this was €8.2m lower than the previous year. Loans payable include bridging finance loans of €34.5m (2012 €34.5m) used to finance the Council's investment in affordable housing.

3. Capital Account

3.1 Capital Account

The closing balance on the capital account at 31 December, 2013 was €41.2m and this represented an increase of €5.4m on the previous year.

3.2 Old Capital Balances

The capital account includes a significant number of old capital debit balances of approximately €16m that have shown little movement in recent years and are being carried forward. These are included in other balances in the balance sheet under the categories of unfunded and funded balances. These relate mainly to housing and roads jobs which must be financed.

Chief Executive's Response

Capital balances are monitored through the year to ensure grant claims and recoups are prepared and submitted as early as possible. Capital account balances and capital debtors are also reviewed at regular intervals through the year to identify new sources of funding and to follow up any delayed payments.

The housing directorate is progressing an exercise to offset credit balances for completed projects below the €12,700 threshold, against unfunded debit balances. Discussions are also ongoing with the Department of the Environment, Community and Local Government (the Department) about the application of some existing funds and reserves to reduce the balance on completed but partially unfunded projects.

The Council has engaged with the Department, the National Roads Authority and the Department of Transport, Tourism and Sport about ongoing and completed schemes as part of a review process so that issues that affect outstanding balances can be resolved without delay.

All sources of income are regularly examined in the context of funding capital balances. Funding sources include internal capital receipts, revenue budget, development contributions, borrowings and income from disposal of assets.

3.3 Affordable Housing

The national accounting policy for the affordable housing scheme was changed in 2011 and this is set out in note 18 to the statement of accounting policies in the AFS. The amended policy was introduced to appropriately reflect the changing circumstances in the housing market, which impact on the scheme, including the deployment of unsold affordable homes for other purposes, including temporary use under the social leasing or rental accommodation schemes. From 2011, the bridging finance was brought into the relevant capital jobs.

At the 31 December 2013 the Council's stock of affordable housing units acquired under the provisions of Part V of the Planning and Development Acts 2000-2007 was mainly leased for a five year period under the terms of the Department's Affordable Leasing Scheme. The cost of these units has been funded by bridging loans of €34.5m from the Housing Finance Agency. The income from the leasing scheme is funding the relevant interest charges on the loans.

In 2013 the Council completed the accounting policy change with the inclusion of the affordable units in fixed assets in the balance sheet.

3.4 Capital Programme Report 2014-2016

A report on proposed capital projects for the period 2014 to 2016 was prepared under section 135 of the Local Government Act, 2001. The level of investment over these three years was shown at €117m.

4. Income Collection

4.1 The percentage yields from the main revenue collection accounts were as follows:

| | 2013 | 2012 |
|--------------------------|------|------|
| Rates | 77% | 74% |
| Housing Rents | 75% | 74% |
| Housing Loans | 96% | 98% |
| Commercial Water Charges | 52% | 46% |

4.2 Rates

The rates collection yield increased by 3% to 77 % in 2013. The arrears at 31 December 2013 were €34.5m, a reduction of €5.4m on the previous year and this was mainly due to the write off of uncollectable balances. A significant bad debts provision has been maintained against the closing arrears in the accounts.

Chief Executive's Response

The Council prioritises the early collection of income and is committed to vigorous follow up and pursuit of debt. Accounts are closely monitored and early contact is made with debtors to encourage them to avail of a suitable payment scheme so that debt does not accumulate. A legal debt collection process is initiated if ratepayers do not respond to requests for payment.

4.3 Commercial Water Charges

The commercial water charges collection yield increased to 52% in 2013 from 46% in the previous year. Despite the favourable increase, the collection percentage remains low and this is mainly due to the high level of arrears being brought forward from previous years.

Chief Executive's Response

The Council addressed some technical issues during 2012 which improved the billing of non domestic water charges and delivered significant improvements to the cash collection during 2013. During 2013 the non domestic consumers were offered a range of payment options and accounts were closely monitored so that bills were swiftly followed by reminders and telephone contacts to prevent debt accumulating. Disconnections were initiated for customers who failed to respond to contacts or did not maintain agreed payment arrangements.

Irish Water was established as a new utility company as provided for in the Water Services Act 2013 and is responsible since January 2014 for billing non domestic water customers. The Council currently manages this business activity on behalf of Irish Water, in accordance with a service level agreement.

4.4 Rents and Annuities

The collection yield for housing rents remains weak despite an increase in the year of 1% to 75%. The arrears at 31 December 2013 fell slightly to €7.2m (2012 €7.3m).

Chief Executive's Response

The Council has been operating in an extremely difficult financial environment over the last number of years, which has affected all our tenants. Our current rent scheme is based on the concept of ability to pay, and is based on total household income. A new Rent Assessment and Monitoring Computer System has been implemented and commenced towards the end of 2013.

The rent section is very pro-active and operates a system of early intervention to contact those tenants who are starting to fall into arrears as early in the process as possible. We encourage tenants who are falling behind with their rent payments to contact us to try and allow us to help them deal with the problem. The Council encourages tenants to avail of MABS where appropriate. In addition the housing department operates a tenancy sustainment support service, through Focus Ireland, in conjunction with our housing welfare officers.

Unfortunately, not all tenants co-operate with the rent section in dealing with their rent and rent arrears, and as a result 95 tenants were served with Notice to Quit proceedings, due to non payment of rent in 2013, with 61 Warrants for Possession granted by the District Court. Three evictions for non payment of rent were carried out by the County Sheriff, on foot of Court Orders in 2013.

4.5 Housing Loans

Mortgage loan accounts in arrears over 90 days totalled 171 (15.4% of total loans) with a revenue balance outstanding of €683,093. Loan accounts with arrears in excess of €5,000 account for 58% of this balance. The comparable figures for 2012 were 149 loan accounts (12.6% of total loans) with a revenue balance outstanding of €486,692. The arrears position has deteriorated over the year.

Chief Executive's Response

The Council has implemented the Local Authority Mortgage Arrears Resolution Process guidance issued in 2012 and updated in June 2013. These guidelines outline procedures which should be followed when a mortgage holder account is in arrears. The council contributes to the national MARP (Mortgage Arrears Resolution Process) fund which is available to subvent losses incurred by local authorities arising from foreclosures on housing loans.

| Invited to participate in MARP | MARP Applications Received | Approved | Refused |
|---------------------------------------|-----------------------------------|-----------------|----------------|
| 157 | 88 | 62 | 26 |

There are also a further 79 accounts that are on an arrangement to pay their arrears, these are arrangements made outside of the MARP. Repossession of homes is a last resort and the Council continues to make every effort to tackle the problem to the benefit of both the borrower and Council. In 2014 the Council has had to repossess two properties and it is intended to take these dwellings into the Council's housing stock subject to sanction from the Department.

The Council also engages with distressed property owners who wish to avail of the mortgage to rent scheme and the related housing loans are funded as part of the scheme once an application is approved.

5. Debtors

5.1 Development Levy Debtors

The Council's development levy debtors totalled €20.8m at the year end with €4.6m shown as short term debtors and the balance of €16.2m shown as long term debtors. Income from development contributions not due to be paid within the current year is deferred and shown under long term creditors in the balance sheet. A provision for doubtful debts has been made against the short term debtors. These balances are mainly in excess of one year old.

5.2 Trade Debtors and Prepayments - Old Balances

Included in trade debtors and prepayments under the categories of government debtors and other services are old balances over one year old of approximately €2.5m. The commercial debtors category also contains old balances over one year old of approximately €1m relating to refuse collection, shop lettings and other miscellaneous items. The collection of these old balances should be reviewed and the bad debts provision increased if necessary.

Chief Executive's Response

Follow up and arrangements relating to debtors are reviewed regularly. These accounts have been re-examined and the funding bodies have been contacted in relation to the outstanding accounts.

6. Irish Water

In 2013 legislation was enacted which provided for the establishment and functions of Irish Water. The legislation provided that from the 1 January 2014, all functions of a local authority relating to water services together with water services assets and liabilities shall transfer to Irish Water and that local authorities will deliver services on behalf of Irish Water through service level agreements for an agreed payment.

The analysis, computation and valuation of assets and liabilities to be transferred to Irish Water will be computed and agreed between local authorities and Irish Water in 2014.

The transfer of water services functions outlined above will have significant financial implications for the Council in 2014.

7. Procurement

The Council has established a dedicated Procurement Unit which will seek to maximise savings through the use of national and regional procurement frameworks and the improvement and monitoring of tendering and purchasing procedures within the organisation.

As part of the audit, purchasing procedures and controls were reviewed and tested, covering all divisions in the Council. While controls were found to be generally satisfactory, some audit test exceptions were noted and reported to management.

8. Governance

8.1 Risk Register

As part of its risk management function the Council has developed an intranet based computerised risk register which identifies and records on a divisional basis operational and corporate risks facing the organisation. A number of sections have input and recorded their risk assessments on the system with a number of others to be completed.

8.2 Internal Audit

Internal audit is an important part of the overall control environment and during the year the section carried out a number of reviews and made recommendations for improvements in internal control. In the course of my audit I placed reliance on the work of internal audit.

9. Acknowledgement

- 9.1** 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.



Conor Cummins
Principal Local Government Auditor
4 September 2014