



LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of South Dublin County Council

for the

Year Ended 31 December 2012



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 completed the statutory audit of the accounts of South Dublin County Council for the year ended 31 December 2012. My audit opinion on the Annual Financial Statement (AFS) of the Council, which is unqualified, is stated on page 7 of the AFS.
- 1.2** This report is issued in accordance with Section 120 of the Local Government Act, 2001.

2. Main Issues

Attention is drawn to the following main issues in this report:

- The rates collection percentage (paragraph 6.2)
- The decline in the housing rents and housing loans collection percentages and increase in arrears (paragraphs 6.4 and 6.5)
- Old capital debit balances being carried forward (paragraph 5.4)

3. Financial Performance

- 3.1** The Income and Expenditure Account with comparative figures for the previous year may be summarised as follows:

	2012	2011
	€000	€000
Expenditure	218,897	225,290
Income	<u>231,812</u>	<u>240,650</u>
Surplus for Year before Transfers	12,915	15,360
Transfers from/(to) Reserves	<u>(12,913)</u>	<u>(15,350)</u>
Overall Surplus for Year	2	10
Opening Balance at 1 st January	<u>12,093</u>	<u>12,083</u>
Closing Balance at 31 st December	<u>12,095</u>	<u>12,093</u>

- 3.2** Revenue expenditure and income including transfers to/from reserves for 2012 were €3.9m (1.6%) below the approved budget leaving a small surplus for the year of €1,742. Expenditure in excess of the budget on various divisions was approved by the Council.

Manager's Response

The Council closely monitors out-turn against budget through the year and early intervention is initiated if necessary to ensure that the financial position does not deteriorate year on year. While additional expenditure in excess of the adopted budget was approved by the

members for a number of sub-services in 2012 the total revenue expenditure (including transfers to reserves) for 2012 did not exceed the adopted budget and total expenditure was matched by income earned in 2012.

4. Financial Standing

- 4.1 The Balance Sheet shows net assets of €3,714m at 31 December 2012, consisting of the following:

	2012	2011
	€000	€000
Fixed Assets	3,593,131	3,594,184
Work In Progress and Preliminary Expenses	128,769	152,842
Long Term Debtors	204,039	210,291
Net Current Assets	38,657	39,378
Long Term Creditors	<u>(250,601)</u>	<u>(255,034)</u>
Net Assets	<u>3,713,995</u>	<u>3,741,661</u>

Represented by:

Capitalisation Account	3,593,131	3,594,184
Income WIP	96,632	120,681
Specific Revenue Balance	10,805	10,805
General Revenue Balance	12,095	12,093
Other Balances	<u>1,332</u>	<u>3,898</u>
	<u>3,713,995</u>	<u>3,741,661</u>

4.2 Fixed Assets

The net book value of fixed assets after accounting for depreciation was €3,593m (2011 €3,594m). The net depreciation charge in the year of €21.6m exceeded the net total of additions and disposals of €20.6m.

4.3 Net Current Assets

Net current assets mainly comprised trade debtors and prepayments €60.2m (2011 €68.8m), creditors and accruals €53.1m (2011 €60.6m) and bank investments and cash of €31.5m (2011 €31.1m).

4.4 Creditors (Amounts greater than one year)

Creditors (Amounts greater than one year) are mainly comprised of loans payable, which have decreased in the year by €6.4m. Loans payable include bridging finance loans of €34.5m (2011 €35.3m) used to finance the Council's investment in affordable housing.

5. Capital Account

5.1 The capital account records income and expenditure in respect of the acquisition and provision of assets related to services provided by the Council. It has been de-aggregated with the various accounts included under relevant account headings in the balance sheet.

5.2 A summary of the transactions on the capital account, with comparative figures for 2011 is as follows:

	2012	2011
	€000	€000
Expenditure (Including Transfers)	48,337	75,240
Income (Including Transfers)	<u>45,989</u>	<u>116,701</u>
Outturn for the year	(2,348)	41,461
Opening Balance Favourable/(Adverse)	<u>38,143</u>	<u>(3,318)</u>
Closing Balance Favourable	<u>35,795</u>	<u>38,143</u>

5.3 Capital expenditure in 2012 mainly included expenditure on housing and building of €13.5m, roads and infrastructure of €4.4m, water services €14.7m and environmental services of €6.7m.

5.4 Old Capital Balances

The capital account includes a significant number of old capital debit balances that have shown little movement in recent years and are being carried forward. These balances need to be reduced and they should be closely monitored.

Manager's Response

Capital balances are monitored through the year to ensure grant claims and recoupments 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 Council has engaged with the Department of the Environment, Community, and Local Government (the Department), the National Roads Authority and the Department of Transport, Tourism and Sport about ongoing and completed schemes as part of this review process so that issues that affect outstanding balances can be resolved without delay.

The range of other sources of income for capital projects can include internal capital receipts, revenue budget, development contributions, borrowings and income from disposal of assets. All such sources of income are regularly examined in the context of funding capital balances.

5.5 Affordable Housing

The national accounting policy for the Affordable Housing Scheme was amended for AFS 2011 and this is set out in note 18 to the statement of accounting policies. 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 AFS 2011, the bridging finance was brought into the relevant capital jobs.

At the 31 December 2012 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.

5.6 Boherboy Water Supply Scheme

The Boherboy Water Supply Scheme provides low level reservoir storage at Saggart and high level reservoir storage at Kiltalown. Water is fed to the Saggart reservoir from a connection off the existing 1,600 mm diameter Dublin City Council (DCC) main from Ballymore Eustace Water Treatment Plant at the existing DCC Saggart reservoir site. Water is pumped from the new Saggart reservoir to the high level reservoir at Kiltalown via a dedicated rising main. A series of distribution mains from each reservoir serves the area of South Dublin bounded by Athgoe to the west, Newcastle/Baldonnell to the north, Woodtown to the south and Edmonstown to the east.

Cumulative expenditure to 31 December 2012 on this project was €56.6m, of which payments to the main contractors amounted to €46.8m. Further payments were made in 2013.

The scheme was advertised in September 2006 and the civil contractor was appointed in March 2008. Significant additional costs have been incurred on this project arising from approved price variations, additional items and contractor's claims. The main contractor ceased work prior to the completion of the project in late 2010 and went into liquidation and a new contractor had to be engaged to complete the contract and this resulted in additional costs.

The final cost of this project has still to be determined as the Council has not agreed all the contractor's claims. The final cost will also include the cost of land acquisitions, which have to be agreed with individual landowners.

This project has been funded mainly by the Department (71.2%) with the balance being funded from a combination of water pricing (i.e. financial contribution included in non domestic water charges) and development contributions.

- 5.7** Capital income in 2012 amounted to €45.9m and consisted mainly of grants €21.4m, non mortgage loans €7.8m, development contributions €2.7m and transfers from revenue €8.8m.

5.8 Three Year Capital Programme Report

A report on proposed capital projects for the period 2013 to 2015 was prepared under section 135 of the Local Government Act, 2001.

6. Summary of Major Revenue Collections

- 6.1** The percentage yields from the main revenue collection accounts were as follows:

	2012	2011
Rates	74%	74%
Housing Rents	74%	75%
Housing Loans	98%	100%
Commercial Water Charges	46%	53%

6.2 Rates

The rates collection percentage was 74 % in 2012, similar to that in 2011. There has been a significant decline in the collection percentage in recent years. The arrears at 31 December 2012 were €39.9m (2011 €38.6m) and a significant bad debts provision has been made against these debtors in the accounts.

Manager's Response

The collection of commercial rates income stabilised in 2012 following a period of deterioration coinciding with the recent economic downturn. 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.

6.3 Commercial Water Charges

The commercial water charges collection percentage decreased to 46% in 2012 from 53% in the previous year. The collection percentage remains low and this is mainly due to the high level of arrears being brought forward from previous years.

Manager's Response

The Council has addressed some technical issues which delayed the issue of bills in the latter part of 2012 and continues to prioritise the collection of non domestic water charges resulting in significant improvement to the cash collection during 2013 compared to previous years. Non domestic water consumers are offered a range of payment options and accounts are closely monitored so that bills are swiftly followed by reminders and telephone contacts to prevent debt accumulating. Disconnections are initiated when customers fail to respond to contacts or do not maintain agreed payment arrangements.

6.4 Rents and Annuities

The collection percentage for housing rents remains weak and declined further to 74% in 2012. The arrears at 31 December 2012 rose to €7.3m (2011 €7m).

Manager's Response

The Council continues its efforts to concentrate on reducing arrears and improving rent and annuity collection levels. Arrears have been reduced to date in 2013.

Of the number of accounts that are in arrears (6,680), 3,562 owe less than €500. There are currently 4,104 tenant accounts in debit where arrangements have been negotiated for clearing their arrears.

There are a total of 3,085 accounts in credit.

A business process improvement exercise was recently undertaken on the rent assessment and rent collection processes within the rents unit which has resulted in a restructuring of rent teams who now have responsibility for assessment and monitoring of rent accounts.

A new Rent Assessment Module is now functional and is enabling more efficient assessment of rent due. Similarly a new Rent Account Monitoring System is under development and is scheduled to be functional in September 2013. This will facilitate the early monitoring of tenants' rent accounts and immediate follow up and earlier pursuit of tenants where payment as due is not received.

It is anticipated that the restructuring and new systems put in place will have a positive impact on our rental income collection levels.

In terms of breaches of agreements reached as at 31 July, 2013 there have been 3 evictions for non payment of rent, and 72 Notices to Quit have also issued in 2013.

The Council also provides a tenancy sustainment service.

6.5 Housing Loans

Mortgage loan accounts in arrears over 90 days totalled 149 (12.6% of total loans) with a revenue balance outstanding of €486,692. Loan accounts with arrears in excess of €5,000 account for 50% of this balance. The comparable figures for 2011 were 136 loan accounts (11.5% of total loans) with a revenue balance outstanding of €363,442. The arrears position has deteriorated over the year.

Manager's Response

The increasing mortgage arrears problem is not isolated or unique to Council loans and recent figures released by the Central Bank indicate an ongoing increase in the number of mortgage accounts in arrears nationally.

The Mortgage Arrears Resolution Process (MARP) was formally introduced in Housing Authorities on 1 October 2012 and the appropriate formal structures were put in place for dealing with mortgage arrears at that time. This provides a formal process for how the Council must treat its borrowers who currently are in, or facing mortgage arrears.

Applicants to qualify for a local authority loan, must submit confirmation of inadequate loan offers from two financial institutions. The Council is cognisant that each arrear's case is unique and needs to be considered on its own merits. The table hereunder outlines details of the formal MARP arrangements that have been put in place since October 2012.

Invited to MARP	MARP Applications Received	Approved	Being assessed	Refused
133	76	46	9	21

There are also a further 89 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. However, to date in 2013 the Council has had to repossess a further two properties and it is intended, pending the current state of the property market, to sell these properties and clear any remaining residual balances in the manner recently prescribed by the Department.

7. Specific Matters

7.1 Development Levy Debtors

The Council's development levy debtors totalled €28.7m at the year end and are included in trade debtors and prepayments in the AFS. The provision for doubtful debts includes €17m in respect of these debtors. These balances are mainly in excess of one year old.

Manager's Response

Development contributions are tied to both the planning permission and the property and can not be written from the ledger until the planning permission has expired and it has been confirmed that the development was not carried out. Commencement notices received in the period 2006-2008 for a significant level of development are currently expiring and development contribution debt associated with these permissions is under review. Extensions of time on planning permissions also affect development contributions.

An increasing number of debtors are engaged in long term payment plans with the Council. Debtors are dealt with on a case by case basis and payment arrangements are agreed if considered fair and reasonable in the context of the debtor's access to cashflow over a period of time. The collection of contributions improved further in 2013 and the bad debt provision has been reviewed and is considered appropriate.

7.2 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 €3m. 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.

Manager's Response

Follow up and arrangements relating to these debtors are reviewed monthly. Provision was made in the 2013 budget to increase a range of related bad debt provisions including refuse collection, litter control and waste regulations. Debtors and provisions are reviewed bi-monthly with the Finance Department and detailed review of bad debt requirements are also included in the budget and revised budget processes.

7.3 Procurement

The Council introduced a new Procurement Procedures Manual in December 2011, updating its procedures on public procurement and tendering. Divisions are required to monitor their aggregate spend in order to determine best value in purchasing.

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.

7.4 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.

7.5 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.

8. Acknowledgement

- 8.1** 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
30 August 2013