



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 2019

Department of Housing, Local Government and Heritage

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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 2019, 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, Local Government and Heritage.

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 2019 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 Non – adjusting post balance sheet event – COVID-19

In accordance with Circular Fin 05/2020, the local authority has included a note in their Annual Financial Statements (see note 23) in relation to COVID-19. This note refers to the impact of COVID-19, a non-adjusting post balance sheet event, and describes the uncertainty faced by the local authority as a result.

Whilst my opinion is not qualified as a result of the uncertainty, I have included an Emphasis of Matter paragraph.

The COVID-19 outbreak and the emergency measures taken to mitigate it have had a significant impact on the finances of local authorities post year-end. This has resulted in a reduction in, and uncertainty of, various income sources, together with increased levels of spend. Reductions in income have also had a bearing on the cashflow of the local authority and the ability to deliver services.

The local authority has taken a number of steps to address these both at local and national level including:

Local Level:

- Throughout the year, both the Corporate Policy Group (CPG) and the Council has been briefed on the financial implications.
- Increasing the overdraft limit facility to €17 million for 2020.
- Applying the 9 month commercial rates waiver to qualified ratepayer accounts and claiming the credit in lieu from the government fund.
- Estimating the loss of income from parking, leisure activities and various other income streams for submission to Department of Housing, Local Government and Heritage
- Identification of exceptional costs incurred because of COVID-19 for inclusion in the submission to Department of Housing, Local Government and Heritage.
- Identification of cost savings in current year budget without reducing service levels.

National level :

The Council has participated in the submission of acute financial management reports to the Department of Housing, Local Government and Heritage, namely:

- Indicative figures calculating the impact of COVID-19 on 2020 Commercial Rates
- Analysis of Rated Properties Impacted by COVID-19
- Analysis of Local Government Goods & Services Income Impacted by COVID-19
- Analysis of additional expenditure incurred as a response to the COVID-19 pandemic

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. Tipperary County Council has taken a number of actions as outlined above in response to the evolving situation. Financial support from Central Government, particularly through the 9 month Rates Waiver Scheme, has been of significant assistance in the stabilisation of Council finances and the projected end of year outturn is less pessimistic than originally forecast.

3 Financial Standing

3.1 Statement of Comprehensive Income

The Council generated a surplus for the year of €6.5k after net transfers to reserves of €2.3m, giving an accumulated surplus on the revenue account of €5,562m in 2019. Note 16 of the AFS sets out the variances between the actual outturn and the adopted budget. The over/ under expenditure for 2019 as detailed in note 16 of the AFS was presented to and approved by the members at the monthly meeting held in July 2020.

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

	€m
Increase in fixed assets	19.4
Increase in long term debtors	2.9
Increase in trade debtors and prepayments	5.2
Decrease in bank and cash balances	13.6
Decrease in creditors and accruals	2.8

Increase in loans payable	3.0
Increase in other long term creditors	4.0
Decrease in other balances	4.6

3.2 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 2018 meeting to adjust the Local Property Tax base rate for 2019 by 10%.

4 Income Collection

4.1 Income Collection

A summary of the revenue collections are as follows:

	Debtors		Yield	
	2019	2018	2019	2018
	€m	€m	%	%
Rates	7.61	7.83	83	82
Rents and Annuities	0.79	1.05	95	93
Housing Loans	0.17	0.25	90	85

4.2 Rates

As was highlighted previously commercial rates are a main source of income for the Council. The Council is heavily reliant on a small number of large clients with 20% of rates income relating to 9 ratepayers.

The revaluation of the Council's rate base by the Valuation Office took place in 2019 with adjustments coming into effect in 2020.

The rates collection performance increased to 83% in 2019 and is calculated after taking account of specific doubtful arrears of €2.03m (2018: €2.23m). Debtors were €7.6m at 31 December 2019 (2018: €7.83m) and are net of credit balances of €219k.

Write offs/ vacant property adjustments amounted to €4.58m which is 7% lower than the 2018 figure.

The provision for bad debts while adequate based on year end information has not been

revised to take account of any adjustments that may be required in respect of the COVID-19 pandemic.

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 throughout the course of the year. As evidenced in the above table, all major income levels, including the collection of Commercial Rates, have improved between 2018 and 2019. Targets have also been set for 2020 and whilst we are working in a difficult environment, every effort is being made to achieve targets. Any adjustments that may be necessary in respect of the COVID-19 pandemic will be made in the 2020 Annual Financial Statement.

4.3 Housing Loan Arrears

Due to efforts being made by the Council to monitor and recover arrears the collection yield in respect of housing loans increased to 90% in 2019 (2018 : 85%). Loan debtors at 31 December 2019 were €171k (net of credit balances of €127k). 86% of total arrears were outstanding for in excess of 3 months, with €159k being owed by 15 clients.

The bad debts provision is sufficient based on year end information but has not taken account of any adjustment that might be required as a result of the COVID-19 pandemic.

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. Collection rates for housing loans generally have recorded a year on year improvement over successive years.

4.4 Rents and Annuities

The Council introduced a standard differential rent scheme for the County in 2018 to regularise the scheme throughout the County and to provide equity for all council tenants.

The 2019 collection yield per Appendix 7 of the AFS was calculated at 95% (2018:93%).

	Debtors	Debit	Credit
	Appendix 7	Balances	Balances
	€m	€m	€m
2019	0.786	1.130	0.344
2018	1.049	1.354	0.305

The above table reflects the impact of the credit balances on the closing arrears, giving a net arrears figure of €0.786m at year end.

€737k (65%) of debit balances were outstanding for in excess of three months of which €81k was owed by 10 clients.

Bad debts appear to be adequately provided for at the year end but has not been adjusted to take into consideration the effects of COVID-19.

Chief Executive's Response

Tipperary County Council continues to actively engage with tenants to put in place payment plans where possible. The Council continues to record one of the highest percentage collection yields across all Local Authorities under this heading.

5 Fixed Assets

5.1 Fixed Assets

The net value of fixed assets in the balance sheet at 31 December 2019 was €3,773m, of which €796m related to land, housing and buildings. The depreciation charge on land of €2.8m reflects the level of depletion of Ballaghveny Landfill.

Fixed asset additions and transfers from work in progress amounted to of €26.9m.

Housing stock increased by 113 units and included new builds and second hand purchases. Transfers from work in progress included car parks at Suir Island and Stereame, Templemore Fire Station and the Carrick on Suir Town Hall.

Disposals at net book value amounted to €6m and included 26 council houses, the old museum in Clonmel and various lands no longer required by the Council.

5.2 Work in Progress

Accumulated expenditure on work in progress and preliminary expenses amounted to €6.5m at 31 December 2019 (2018: €6.6m). The construction of council housing accounts for €5.7m of this expenditure.

6 Irish Water

6.1 Balancing Statement with Irish Water

€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, Local Government and Heritage (the Department).

6.2 Water Related loans

Recoupable IW related loans of €0.88m remain at 31 December 2019. 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 a further 26 assets to IW in 2019 and to date in 2020, bringing the total number of legally transferred over ground properties to 159. 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 €70.4m at 31 December 2019.

Expenditure in 2019 including transfers to revenue amounted to €62m (2018: €49m). The increase in expenditure refers mainly to the provision of housing.

Water Services expenditure includes €4.6m (2018: €3.6m) which refers to the Local Government Services National Training Group (LASNTG) as set out in 7.2 below.

The balance on project and non-project balances classified as unfunded amounted to €18.6m. The main unfunded balances were:

	€m
Land/Sites purchased for housing	14.4
Land for industrial use	1.4
Clonmel to Carrick on Suir Greenway/Blueway	0.7
Other	0.4

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 Local Authority Services National Training Group (LASNTG)

The LASNTG is a shared service, providing a national network of training, through 5 regional training centres established in 1997. The training centres are owned, managed and operated by local authorities in partnership with relevant stakeholders.

The operation of each regional training centre is governed by a management and technical committee. Each has a manager and staff employed by its host authority which is responsible for the management and administration of the centre. The centre operated by Tipperary County Council is located at Roscrea.

LASNTG is self financing with any surplus being re-invested in enhancing its product.

The LASNTG comprises representatives from local authorities, the Local Government Management Agency, government departments and the 5 regional training centres. The local authority membership of the LASNTG is drawn from four national training groups as follows:

- Road Services Training group
- Water Services Training group
- Environmental Services Training group
- Fire Services Training Group

Funding for training and development including the administration of the LASNTG office and regional training centres is derived from course fees and grants drawn down from the Department of Housing, Local Government and Heritage, Irish Water, local authorities and the private sector.

Tipperary County Council provides management, administrative and technical support to the LASNTG and the four national training groups from its offices in Nenagh. Recruitment of staffing for the LASNTG is managed by Tipperary County Council.

While activities of the LASNTG are run independently of the normal business of the Council, all income and expenditure of the service are processed through the capital account. Recoupments are made to the Council from the LASNTG for expenditure incurred on its behalf. The Capital Water Services Programme recorded €4.6m income and expenditure and in respect of the LASNTG in 2019 (2018: €3.6m).

The €1.3m credit closing balance on the capital account, represents reserves generated over a number of years plus amounts due to creditors of the LASNTG at year end.

As the financial transactions of this shared service (LASNTG) are administered by Tipperary County Council, the Council has a responsibility to ensure that appropriate governance and oversight of the financial affairs of this organisation are in place. I recommended to

management that an internal review be undertaken, and welcome that internal audit are currently undertaking a review.

Chief Executive's Response

A review has been concluded by Internal Audit and recommendations are being implemented.

7.3 Houses at Cabragh Bridge

Approval was granted by An Board Pleanala to Tipperary County Council in 2012 for the construction of 6 housing units at Cabragh Bridge, Thurles.

The contract to build the houses was put out to tender in November 2014 and was awarded in December 2015 for €1.7m excluding VAT. Works commenced on 1 March 2016 with a completion date of 64 calendar weeks. The certificate of substantial completion was signed off on 18 December 2018 and the final account was agreed with the contractor and came in on target.

The houses were allocated on 25 October 2019.

This project encountered numerous delays, has extended over a number of years and has incurred further costs including site costs to bring the total spend to date to €2.8m. The final account to the Department is outstanding and will be reviewed once complete.

Chief Executive's Response

The original proposal to construct houses at Cabragh Bridge dates back to 2002 when the lands were purchased. Temporary facilities were provided to assist the families and significant costs were incurred in the period 2003-2019 on the maintenance and upkeep of these services on site. The design of the project necessitated wayleave agreements, determination and consideration of the proposed Thurles By-Pass route prior to submission for planning and ongoing discussion with the families in terms of agreement on the design proposal. Additional families had moved onto the bridge at Cabragh in recent years and the Council was most anxious to have the bridge cleared of habitable structures/mobile homes prior to any occupation of the new dwellings across the road. This necessitated offers of tenancy elsewhere and court injunctions which in itself incurred significant legal expenses and delays as it entailed a number of hearings in the High Court. Security costs were incurred in the final months to safeguard the integrity of the units, as national publicity around the development had heightened tensions in the area. An agreement was negotiated over a number of months with the families who were being offered tenancies, in terms of the future use of the bridge at Cabragh, which facilitated the families moving into their new homes in late October 2019. The final account on the overall Cabragh Bridge project is in the final stages of being completed (the final account on the construction element is complete). It is complex because it dates back over a number of years. The Council intends to make a strong case to the Department to support the overall expenditure incurred.

7.4 N52 Borrisokane Streets Improvement Scheme

The main contractor for the N52 Borrisokane Streets Improvement Scheme was appointed on 1 November 2018 following submission and acceptance of the tender amounting to €2m excluding VAT.

The works commenced in November 2018 with a scheduled completion period of 52 weeks.

The project consisted of improvements to Main Street, the N52 Birr Road and Mill Race Culvert Works at the junction of the N52 and N65 in Borrisokane.

Issues arose which resulted in delays and additional costs. I have been advised the work is substantially complete. Payments made to the contractor to date amount to €3.4m excluding VAT.

I intend to review this project next year when the final account should be available.

Chief Executive's Response

This Scheme was a significant project based within Borrisokane town centre on a heavily trafficked national secondary route. The project investment ensured the complete renewal of the main street in the town and access routes. A number of issues arose during the course of this project, one of which was unforeseeable and which required an urgent project management response to assure business continuity within the town and the safe passage of traffic. Once works are complete and we receive the final account, the Council will seek full reimbursement of the costs of the project from Transport Infrastructure Ireland.

8 Loans Payable

8.1 Loans Payable

The Council had loans payable of €92.8m at 31 December 2019 (2018: €95.8m) of which €49.1m are fully recoupable. In 2019 new borrowings from the HFA of €2.9m 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 were leased in 2017 for a six year period to an Approved Housing Body (AHB) under the Social Leasing Scheme. The lease 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 €41k in 2019.

9 Development Contributions

9.1 Development Contributions

Development contribution debtors per note 5 of the AFS were €4.7m at the end of 2019 (2018: €4.7m)

The bad debts provision was reviewed at the end of 2019 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 previously 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.

10 Local Authority Companies

10.1 Local Authority Companies

The Council's interest in eight companies is recorded in Appendix 8 to the AFS. Seven of these companies are audited by private firms having been appointed by the respective board of directors. The companies' board of directors (whose primary responsibility under the Companies Act, 2014 is to manage the businesses on behalf of its stakeholders), include representatives of the elected membership and the Council's senior management who act in ex-officio capacities.

The Internal audit unit of the Council carried out a review of the governance arrangements in place in these companies in 2019. I have noted the findings and welcome the recommendations made.

10.2 Financial Statements

These companies are heavily dependent on funding from the Council which is applied for on an annual basis. As highlighted in earlier audits, it is important that the Council stress the requirement to have accounts submitted by 31 March annually as it may need to make provisions in its own AFS based on the information provided.

10.3 Nenagh Arts Centre Limited

Nenagh Arts Centre Limited generated a profit for the year ended 31 December 2019 to bring the retained earnings to €35.5k. The directors report on the accounts refers to the COVID-19 pandemic and the fact that as of the date of signing the accounts (30 July 2020) the impact of the pandemic on the company was not known.

10.4 Thurles Regional Arts Centre

Thurles Regional Arts Centre is a company limited by guarantee. After inclusion of its grant from the Council the company records a breakeven position annually. The directors report refers to the restrictions placed on the company's business due to the outbreak of the COVID-19 pandemic and that as a result, since the year end, the company has temporarily ceased to trade. This is to ensure the safety of staff and that government recommendations and restrictions are complied with. The company has reduced its cost base so that the burden of costs during the non-trading period is mitigated. There is uncertainty as to when the company will return to full capacity.

10.5 Thurles Swimming Pool Limited and Roscrea Swimming Pool Limited

The audited accounts for the year ended 31 December of Roscrea Swimming Pool Limited are outstanding as of the date of this report.

In 2020 Thurles Swimming Pool Limited has been adversely affected by restrictions implemented by the Government designed to slow and contain the spread of COVID-19. The company has acted to mitigate the impact by availing of government measures to support businesses impacted by COVID-19 reducing the cost base and freezing of all non-critical spending.

The company's auditor opinion for 2019 states that the reliance of the company on continued government support together with the impact of both Brexit and COVID-19 creates a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern.

10.6 South East Regional Craft Centre Limited

The accounts of the South East Regional Craft Centre Limited for the year ended 31 December 2019 reported a loss of € 84k (2018: €34K) bringing the members deficit to €31.5k.

Note 4 to the accounts 'Going Concern' includes the following statement "*The company has operated in deficit for the last number of years and depleted cash reserves. As this cannot continue further the Directors decided to cease trading on 20/6/2019. Funding from the Department of Social Protection has also been stopped on that date.*"

On 29th June 2019 it was mutually agreed to terminate the lease agreement on the building and release the lessee (the company) and the lessor (the Council) from any further obligations and liability under the lease agreement. The building has been taken back into the fixed assets of the Council.

A reserve has been set aside in the capital account of the Council to clear the remaining outstanding debts of this company amounting to €31.6k.

11 Governance and Propriety

11.1 Internal Audit

The Council's internal audit unit was staffed by 2.6 WTE's in 2019. 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 appointment of members to the new audit committee was ratified by the Council members at their June and July 2019 meetings.

The Audit Committee met on 4 occasions in 2019. The 2019 annual report of the Audit Committee was approved by the Council at its June 2020 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. In March 2020, management put in place a risk oversight committee (ROC) to assist the management team in fulfilling its Risk identification and management functions and also agreed for the ROC to carry out a structured overview of the Council's existing Risk Register module on Decision Time, with a view to identifying a more structured approach to organisational risk management. Following this review a number of recommendations were made to the risk oversight committee and will be considered by the management team at their December 2020 meeting.

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

18 December 2020

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Department of Housing, Local Government and Heritage



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