Rialtas na hÉireann
Government of Ireland

LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Cork 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 CORK COUNTY COUNCIL

1. Introduction

I have audited the Annual Financial Statement (AFS) of Cork County Council for the year ended 31 December 2019, 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, Local Government and Heritage.

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 2019 and its income and expenditure. My audit opinion, which is unmodified, is stated on page 10 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. 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 Statement (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 because 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 cash flow of the local authority.

Management has advised that they have taken a number of steps to address the financial uncertainty both at local and national level including:

- Applying the 9 month commercial rates waiver to qualified ratepayer accounts and claiming the credit in lieu from the government fund

- Attempting to quantify the loss of income from parking, events and various other income streams

- Attempting to quantify both the increased level of expenditure due to the pandemic and also the savings due to decreased level of activity and events funding requirements

- Updating Corporate Policy Group and Members on the impact on finance of COVID-19 including the need to account for reduced activity and income

- Applying the Restart Grant and Restart Grant Plus initiative on behalf of the Department of Enterprise Trade and Employment to qualifying businesses

- Availing of support from national government grant schemes to support the county in dealing with the impact of COVID-19

- Preparing the 2021 budget with the focus on ensuring key services are not affected

Chief Executive's Response

The COVID-19 pandemic continues to have a massive impact on all our lives. For the Council it meant the initial interruption of many of our services, but the County Council responded immediately to the consequences of the pandemic on our communities. Staff across the County stepped above and beyond in order to reassign resources where most required, whether to provide Community Call support and responses, roll out of library supports, and implementation of alternative methods of service delivery, while at the same time continuing to provide essential services through very significant operational changes so as to meet the national health guidance protocols and health and safety requirements. Staff resources were reassigned to ensure comprehensive rollout of the Restart Grants and the application of the 9-month rates waiver, both national government schemes which were very welcome to the County's business.

Corporate Policy Group were updated monthly on the financial position and a presentation was made to Council in June 2020 on the financial impact. The Council examined financial budgets on an ongoing basis to ensure resources were reviewed and assigned where needed most. The Council worked nationally to secure the funding for the 9-month waiver and the proposed compensation for the loss of goods and services income and additional COVID-19 costs, both of which will help ensure the steady financial standing of the Council in 2020. These have also facilitated the adoption of 2021 Annual Budget which continues the provision of key services, allows the Council to meet the needs of the community and drive recovery in response to COVID-19 across the County.

3. Financial Standing

3.1 Statement of Comprehensive Income

The Council recorded a surplus for the year of €63k, maintaining its general reserve balance at €7.4m at year end. In accordance with Section 104(2) of the Local Government Act 2001, the members approved all expenditure variances at their meeting on 14th September 2020 including transfers to reserves of €5.16m in excess of budget.

Revenue income and expenditure variances were again recorded between budgeted and actual out-turn across service divisions, as detailed in Note 16 to the AFS.

3.2 Statement of Financial Position (Balance Sheet)

The Council shows a satisfactory Statement of Financial Position (Balance Sheet) at 31 December 2019. As a result of the financial uncertainty arising out of the COVID-19 pandemic, however, strict budgetary control and financial management is required to maintain this position. As has been reported in previous years, the Council's long term borrowings remain significant and specifically those loans which are required to be funded by Council's revenue account (paragraph 8).

3.3 Local Property Tax

Local Property Tax (LPT) received by Council in 2019 was €32.7m, which is consistent with the 2018 comparative amount. LPT is recorded in the Statement of Comprehensive Income at €16.6m which represents the discretionary portion of LPT. The remaining €16.1m was designated as self-funding and distributed across the Council's services in accordance with the Department's direction. This funding model, based on local retention of LPT, was first introduced in 2015.

Chief Executive's Response

Through active financial management and budgetary control, the Council has achieved a positive financial position at 31 December 2019. The buoyancy for 2019 was due to ongoing prudent budgetary management, together with surplus from NPPR income and a reduction in the rates strike-off due to improved 2019 collection performance, continuing to build on the progress since 2015. This buoyancy allowed for additional provision to the Capital Programme as well as a reduction in asset loans. The main reasons why transfers to reserves exceeded budget were because of rolling forward unspent General Municipal Allocation, Town Development Fund, Village Enhancement Fund, pay parking dividend budgets and transfer of the Plant and Materials account surplus to reserves for purchase of plant and equipment.

4. Income Collection

4.1 Income Summary

Revenue income of €340.4m was recorded in 2019, representing an increase of €4m on the previous year. Locally generated income such as commercial rates, rents, loans, Local Property Tax and other services contributed 71% (€243m) of the Council's total revenue income. The remainder consists of grant income (€96.3m) and income from other local authorities (€1.1m).

A summary of the income collections, as disclosed in Appendix 7 to the AFS, is set out below:

Income Source	Debtors (€m)	Debtors (€m)	Yield (%)	Yield (%)
	2019	**2018**	**2019**	**2018**
Commercial Rates	9.6	11.4	93	92
Housing Rents	0.5	1.3	97	94
Housing Loans	3.3	3.8	65	55

4.2 Commercial Rates

Commercial rates revenue collected during the year totalled €123.3m with a collection rate of 93%, representing a yield and collection increase of 1% and €0.3m respectively on the previous period. Commercial rates income accounted for 39% of the Council's revenue income in 2019. The proportion of debtor balances decreased by €1.8m to €9.6m which included write offs of €11.79m in respect of vacant properties and uncollected accounts.

The year end arrears (net of €0.7m credit balances) amounted to €10.3m. Included in the gross arrears is €1.2m which pertains to one account of which their rateability is the subject of an appeal to the Valuation Tribunal.

4.2.1 Rateable Valuations

It is the responsibility of the Valuation Office to assess both new and existing commercial properties for rateable valuations and revised valuations respectively. Delays in this programme of work represent a potential loss of income for the Council. During the previous audit it was reported that this revision programme has been in significant arrears for a number of years but that the Valuation Office has undertaken to address the backlog of assessments in order to bring its revision programme up to date.

Management has advised that the COVID-19 pandemic has impacted significantly on the Valuation Office's planned work programme with inspections restricted under the Government of Ireland's Living with COVID-19 plan. At time of audit, 1,503 cases are in the process of being assessed in Cork County while a further 807 cases are awaiting assignment. It is recommended that management continues to engage with the Valuation Office to ensure this process is expedited.

4.3 Housing Rents

Rental income for the year is €21.4m, representing a decrease of €1.5m (6%) on the 2018 comparative amount. This decrease is largely as a result of almost one thousand housing tenancies transferring to Cork City Council as part of the boundary alteration process.

Rent arrears, net of credit balances totalling €779k, amounted to €521k at year end 2019, representing a decrease of €773k on 2018. The debtor balances included a combination of write offs and amendments of €468k, following the 2018 rent review and transfers of rent accounts to Cork City Council as a result of the boundary alteration.

As recommended during the last audit, there is a need for improvements in procedures relating to the consolidation of all rent collection records, financial management reporting and analysis of debt. No significant progress in this area has been noted since the last audit.

4.4 Housing Loans

The collection yield for housing loans has increased from 55% in 2018 to 65% in 2019, showing a net improvement of 10% year on year. This collection rate continues to be below the national average collection rate for local authority housing loans which in 2018 was recorded at 74%.

A reduction in housing loan arrears of €558k to €3.27m was recorded at year end 2019. This improvement was facilitated by the progression of measures to tackle mortgage arrears. In 2019, three loans were converted to Mortgage to Rent, which took into account arrears of €105k and four housing units were repossessed / voluntarily surrendered with associated arrears of €266k. In addition, 24 Shared Ownership loans totalling €2.7m were restructured and redeemed. These were replaced by annuity loans, which included capitalised arrears of €258k.

The level of arrears remain significant and it is expected that collection in 2020 will be impacted by the COVID-19 pandemic. The Council has agreed 93 COVID-19 related mortgage breaks and by the end of September 2020, 48 customers subsequently applied for an extension to the break.

During previous audits we have highlighted weaknesses in the housing loan system and how it does not facilitate effective debt management. Management advised during last year's audit that the housing loan system was in the process of being transferred to the main financial system. The current target for completion of the transfer of the housing loan system is November 2020. Progress in this area will be reviewed at the next audit.

4.5 Vacant Site Levy & Derelict Site Levy

4.5.1 Vacant Site Levy

The Urban Regeneration and Housing Act 2015 introduced the Vacant Site Levy and set out the steps and procedures to be followed by planning authorities in order to apply the levy, to be charged for the first time in January 2019. In October 2018, Circular Letter PL 06/2018 was published by the Department which specified a number of amendments to the Vacant Site Levy provisions including the following;

- Increase in levy from 3% to 7% of market valuation from January 2020
- Clarification on the definition of "vacant or idle" lands including exemptions from the levy
- Removal of reduced / zero rates of levy

At audit, it was noted that vacant site levy invoices totalling €426k were issued for 2019. Given the poor collection rate, a full provision for doubtful debts was made in AFS 2019.

4.5.2 Derelict Site Levy

A derelict site levy of 3% is charged on the 1st January of the financial year following entry onto the Council's derelict site register (from 2020 this charge increased to 7%). Currently the Council does not have a countywide centralised register as each municipal district maintains a separate register of derelict sites in their own area.

During 2019, the Council collected just €18.5k of the €305k that was due from current year charges and arrears brought forward, necessitating a 93% provision for doubtful debts in AFS 2019.

4.6 Provision for Doubtful Debts

The provision for doubtful debts in 2019 amounted to €31.6m and remains similar to the 2018 amount. From the review carried out at audit, the overall provision for doubtful debts appears to be materially adequate.

It has been recommended in previous audit reports that a number of collection areas would benefit from a more systematic process in determining an appropriate provision for doubtful debts each year. Due to the negative impact on income streams resulting from the COVID-19 pandemic during 2020, it is imperative that the Council prioritise the implementation of such a process as part of the AFS 2020 work programme. The provision for doubtful debts in AFS 2020, in any event, will need to be cognisant of changes in the economic environment.

Chief Executive's Response

Commercial Rates
Both comments with respect to Commercial Rates are noted. Management is very conscious of the importance of the rating function to the organisation together with the critical associated role that the Valuation Office performs in this regard. The Council continues to work with the Valuation Office to expedite the progress in addressing the revisions backlog and maximise the income resources for the Council.

Housing Rents
The need for improvements is acknowledged. The solution is the transfer of the Housing Rent Collection records from the current system (iSeries) to the main financial system. At this time the main financial system utilised by Cork County Council is under review and a final decision on the continuing use of this system is awaited. This issue will be progressed once that decision is made.

Housing Loans
2019 saw a significant improvement in the collection rate of Housing Loans, largely through the resolution of a number of accounts in high arrears, through restructuring of Shared Ownership mortgages, progression of the Local Authority Mortgage to Rent scheme and the repossession / voluntary surrender of properties where no other option was possible. Despite the impact of COVID-19 this work continued with considerable ground covered in 2020.

The Housing Loans System has been highlighted as a weakness in past audits which was a legacy system limited in terms of functionality. The new Housing Loans module of Integra was introduced, going live in November 2020. The new system will enhance the options available to both the Collections team and the Housing team in managing debt and will also benefit the borrowers because of the associated efficiencies in managing their accounts.

Vacant Site Levy
In respect of Vacant Site Levy, the legislation and process introduced is not as robust as the Council would have liked and consequently the collection of monies has proved difficult thus far. The County Council has and will continue to engage fully with the process. The primary purpose of the Vacant Sites Levy is as an aid to housing activation and, while the legislation is cumbersome in terms of the process and proofs required to effectively secure the levies as income, the Council will endeavour to work with same as a housing / development activation measure. The current legislative process puts significant onus and financial risks on the Council which will need to be reiterated to the Department.

Derelict Site Levy
The purpose of the derelict sites levy is to alleviate dereliction rather than as an income source. Bills are issued for the levy, mostly to prompt people to take action to alleviate the dereliction. The legislation on the Derelict Sites levy is cumbersome and the charge is minimal compared to the resources required to collect the levy. In many cases there are property ownership issues. It is considered that the issue of dereliction requires increased focus. To that end, the Council proposes to establish a centralised unit in 2021 which will include, amongst other things, "a targeted scheme of dealing with dereliction".

Provision for Doubtful Debts
The Council acknowledges the adequacy of the bad debt provision which is reviewed regularly to adapt to changes in income activity. The provision will be further reviewed as part of the AFS 2020 work programme and will include a systematic review of major debtor streams to determine an appropriate doubtful debt provision on an annual basis.

Any impact relating to COVID-19 will be fully considered and appropriately included in AFS 2020.

5. Transfer of Water and Sewerage Functions to Irish Water

The Council acts as an agent for Irish Water (IW) under the terms of a service level agreement since IW has been allocated full responsibility, by statute, for all aspects of water services planning and delivery at local, regional and national levels since 2014.

5.1 Irish Water Service Level Agreement

Management advised, during last year's audit, that IW wrote to the Council confirming their agreement in principle to release a €3m (excl. VAT) debtor amount due since 2014, subject to a planned audit of the allocation of central management charges to IW. It had previously been recommended that this amount should be fully provided for in the AFS. Management addressed this issue in the interim by fully offsetting the debtor amount against IW's creditor amount in accordance with Section 7 of Local Government (Financial Provisions) (No. 2) Act 1983. This offset had been recorded in AFS 2018. It is noted that the aforementioned planned audit of the allocation of central management charges by IW, which had been scheduled to take place prior to the end of 2019, had still not been completed at time of audit. It is recommended that this be expedited so that there is certainty as to the collectability of the €3m debtor amount.

5.2 Transfer of Assets to Irish Water / Retained Water Assets

In 2014, water related assets were removed from the Council's fixed assets in compliance with national arrangements for local authorities. Cork County Council retained 10% of the value of its water and sewerage network assets within fixed assets while determining the legal title of properties adjacent to water treatment facilities. As this process is ongoing, the €88m nominal value for these assets, which was originally recorded in Note 1 of AFS 2014, remains unchanged in the 2019 AFS.

As at October 2020, management has advised that the transfer process is just over 51% completed. 536 assets of the 1,048 assets identified have been transferred or submitted to IW National Special Projects Office (NSPO) for transfer. It is recommended that this process be expedited in order to provide greater clarity on the value of assets being retained by Council.

Chief Executive's Response

Irish Water and Cork County Council agreed a resolution in 2019 regarding the debtor balances between both parties. It is anticipated the planned audit of the allocation of central management charges which has commenced will be complete by end Q1 2021.

As part of the ongoing transition arrangements with IW, local authorities were required to transfer water assets from their balance sheet. In order to safeguard the Council's interests regarding assets that may remain in Council ownership, an amount of €88m representing 10% has been retained to represent Cork County Council's interest in water assets. There are a total of 1,048 identified assets and a specific reconciliation exercise is ongoing to identify folio references and maps in respect of these assets in order to affect the transfer of relevant assets to Irish Water. Resources are dedicated to this project but it a complex and time intensive task. This position is reviewed on a quarterly basis with our partners, Irish Water, in order to maintain progress on the matter.

6. Capital Account

Capital expenditure in 2019 totalled €202m (including transfers to revenue), representing an increase of €33m (19.5%) on the 2018 expenditure of €169m. Total capital income in 2019 was €212m (including transfers from revenue), representing an increase of €21m (11%) on the 2018 comparative amount of €191m.

The most significant capital expenditure areas are housing (€108.3m) and roads (€47.3m). Other significant expenditure items include the River Ilen (Skibbereen) Flood Risk project (€6.3m), Upgrade of N25 interchange at Little Island (€1.8m), Haulbowline Remediation project (€1.5m) and Town Resurfacing & Drainage Clonakilty (€1.5m).

6.1 Capital Balances

The capital account consists of 1,389 capital codes and recorded a net favourable position of €143.8m at 31 December 2019, comprising 557 favourable balances of €167.7m and 430 deficit balances of €23.9m. In addition, it was noted that 402 capital codes had a nil balance at year end 2019. Housing and roads directorates are, between them, responsible for 68% of all capital codes.

The most significant deficit balances at year end 2019 are as follows;

Description	2019 Balance (€)
Roads Projects (see paragraph 6.3.1)	€3.86m
Housing Projects (see paragraph 6.2.1)	€3.65m
Town Resurfacing & Drainage, Clonakilty	€1.26m
Forrest Hill Settlement	€0.90m
Repossessed Houses	€0.79m
Dursey Cable Car & Visitor Centre	€0.54m

6.1.1 Inactive capital codes

During previous audits I highlighted the large number of codes in the capital account with no financial activity during the year. At the end of 2019, there were 370 inactive codes across all directorates, representing 37% of the 987 codes with a year end balance. The funding status for 360 (97%) of these codes remained unchanged from the position at year end 2018.

I recommend that the budget holders in each directorate review each capital code under their remit on an ongoing basis in order to clearly establish the funding position and, where appropriate, develop and execute an action plan to address inactive balances. I have also recommended that, where appropriate, all relevant capital balances which are classed as being earmarked to fund planned future projects, should be aligned with the Council's approved capital programme.

6.2 Housing Capital

In 2019, the Council spent €108.3m on housing capital with €84.5m of this expenditure relating to social housing acquisitions and builds including turnkey social housing schemes (€37.1m), own build social housing (€15.4m), properties acquired through Part V agreements (€14.4m), single house acquisitions (€12.6m) and buy and renew acquisitions (€5m).

6.2.1 Deficit Housing Balances

There is an overall €13.48m favourable capital balance in housing at year end 2019. This includes 238 favourable balances totalling €25.97m and 340 deficit balances amounting to €12.49m. Management has advised that 87% of the favourable balances have been flagged as either committed to ongoing housing projects or earmarked to fund planned future projects.

The advised funding status of the €12.49m deficit balances are as follows;

Funding Status of Housing Deficit Balances	Amount (€)
Projects where applications for funding have yet to be made to the Department but will be completed in due course	€9.51m
Projects where funding is guaranteed and in place	€1.64m
Projects the Council will have to fund from its own resources	€1.34m

The most significant deficit capital balances in housing are as follows;

- Energy Efficiency (2 codes - North & South) - €1.48m
- SCL Commogue / Ballinacubby - €0.81m
- Site at Loreto Convent, Fermoy - €0.73m
- Site at Old Barrack Road, Bantry - €0.63m

It is noted that the majority of all housing deficit balances, including those listed above, are categorised as requiring an application to be made to the Department (or other funding body) to secure funding.

6.3 Roads Capital

In 2019, the Council spent €47.3m on roads capital. The most significant expenditure projects during 2019, which are all grant funded, include the following;

Project Name	Expenditure 2019 (€)
BV MCRM BCLG Advance Wks, Other and Construction Contract	€8.26m
N40 ITS Package 2A ITS Support	€3.36m
N71 Derry Pavement Strengthening	€2.94m
N72 Grange East & West Pavement Strengthening	€2.49m
N71 Lissleane to Gallanes Pavement	€2.14m
N71 Canrooska Pavement Strengthening	€1.97m

6.3.1 Deficit Roads Balances

The most significant roads deficit balances in AFS 2019 are as follows;

- CSIP 2km Infrastructure Scheme - €1.59m
- Buttevant Street Design - €1.16m
- Carrigtwohill Railway Underbridge - €0.62m
- Ballincollig Bypass Land Acquisition - €0.49m

The Cork Science and Innovation Park (CSIP) development lies within the city area following the boundary alteration. Management has advised that the funding of this deficit is part of the ongoing discussions between Cork County Council and Cork City Council in finalising boundary finances.

Management has also advised that negotiations are ongoing with Transport Infrastructure Ireland (TII) regarding securing additional funding for Buttevant Street Design and Ballincollig Bypass Land Acquisition as well as for a number of other roads deficit balances. Carrigtwohill Railway Underbridge is a longstanding deficit which management have indicated will require to be funded by Council's own resources, through the preparation of a special contributions scheme.

Chief Executive's Response

Capital Balances
The Capital account is closely monitored throughout the year at an overall level and individually with each directorate. Budgetary management of capital projects is more effective with the use of individual codes and this is reflected in the number of codes reported in the capital account. In parallel with the review of the Council's Capital Programme, a comprehensive review will be undertaken across all programme groups; funding requirements will be identified for remaining deficit balance and any inactive accounts will be reviewed.

Housing Capital
As Housing delivery continues to grow, expenditure in this area is increasing. Processes are in place to ensure timely claims to the Department once expenditure is incurred. I confirm that all deficit balances will be reviewed and any delays in funding same will be addressed. Where it is established that funding is not / will not be available, a plan to clear the deficits will be prepared.

Roads Capital
There was significant capital expenditure throughout the year within the Roads Programme across a multiplicity of areas, in addition to the above it includes;

- Footpaths Programme; Capital Expenditure of €1.6m was incurred on footpaths throughout the County in 2019 of which the NTA funded €331,046.
- Public Lighting; The cost of installation of new public lights and retrofitting of existing lights is also managed through the capital account.
- Fleet Management; Over €2m was spent on the purchase of new and replacement fleet and machinery in 2019. This level of investment is necessary to ensure our fleet is efficient for road operations purposes and for the safety of the operators.

The N22 Ballincollig Bypass Land Acquisition deficit of €0.49 million resulted from the settlement of a High Court Case for breach of contract relating to the provision of accommodation works for a landowner. To date TII have funded most of the cost of this judgement but there remains an outstanding amount. Discussions are ongoing with TII to fund the remainder of this balance.

TII allocated a sum of €2 million for improvement of national route going through Buttevant which was increased by a further €0.9 million approx. as the works progressed. Significant archaeological discoveries were made which had to be dealt with in accordance with legislation, thereby incurring significant additional costs. Following further representations to TII by Cork County Council, a further allocation of €1 million was received in December 2019. Discussions are ongoing with TII to fund the remainder of this balance.

7. Fixed Assets

The fixed assets value had a net decrease overall of €892m from €8,183m in 2018 to €7,291m in the year 2019. The Cork boundary alteration transition completed as at 31st May resulting in a combined total of €946m being removed from the fixed asset register as these assets are being transferred to Cork City Council.

The significant increases in fixed assets in 2019 were housing additions of €63.8m. The completion of housing schemes in developments such as Kilnagleary in Carrigaline, Tir Cluain in Midleton and Cul Na Smear in Bandon totalled €21.1m representing 85 housing units. There were a further 201 units added including 186 units transferred from work in progress and 15 single house acquisitions with a combined aggregate value of €42.7m. Land disposals were recorded at €11.7m, principally comprising disposal of separate land sites in Carrigaline of €11.5m sold for housing development and development of a school campus.

As with previous audits, shortcomings in the fixed asset management system including the absence of one overall system for the recording of all land, property and plant was reported. Management has accepted the need for a proper fixed asset management system and advised during the last audit that an external review of the finance function was about to commence including a review of the corporate financial system and future system requirements. While it is noted that some progress has been made in the asset verification process, no significant progress has been noted in addressing the fixed asset management system since the last audit.

Chief Executive's Response

The Council is currently in the process of finalising a comprehensive report which reviewed all finance systems including fixed assets. The Council plans to commence work on a new financial management system in 2021 which will include a review of all fixed asset related processes and replacement of the current fixed asset system.

8. Loans Payable

Council borrowings reduced during 2019 by €54.8m to close at €317.4m at year end, primarily due to €47.7m of loans transferring to Cork City Council following the boundary alteration in 2019. Council borrowings consist of loans totalling €241.4m which have a corresponding stream of income to fund repayments. These include mortgage loans, social leasing loans, shared ownership loans and voluntary housing recoupable loans. Additional borrowings of €76m relate to asset loans (section 8.1) and bridging finance loans of €2.4m. Principal and interest payments totalling €8.9m made during 2019 related to loans that are funded by the Council's own resources.

8.1 Asset Loans

Loans held by Cork County Council for the creation of assets may be summarised as follows:

Asset Loans	2019 (€m)	2018 (€m)
Land Purchases	28.3	33.7
Waste Management	22.5	25.4
Civic Buildings	16.3	19.9
Other (Roads / Cemetery)	6.5	7.2
Totals:	**73.6**	**86.2**

The €12.6m reduction in asset loans is due to principal repayments of €8.4m including the partial redemption of one land loan at Rathgoggin totalling €1.25m. A land loan with €1.1m principal outstanding at Barrack Road, Youghal was transferred to the Land Aggregation Scheme during 2019. Furthermore, a loan in relation to land at Carrigrohane totalling €3.1m transferred to Cork City Council as part of the boundary alteration during 2019.The remaining land purchase loans totalling €28.3m continue to be paid on an interest only basis.

8.2 Treasury Management

It has been recommended during previous audits that the Finance Department should develop a formal investment fund strategy in order to ensure the optimal level of investments and borrowings is achieved. I also referred previously to Internal Audit's report published in September 2018 on treasury management which includes a number of recommendations accepted by management, including a commitment to implement by Q1 2019. During this audit I have again been advised that these recommendations and the development of a formal investment fund strategy have not yet been implemented.

8.3 Loan Drawdown Agreement

Management have advised that a facility to draw down loans up to the value of €68.7m over the medium term has been negotiated and agreed by the Council with two financial institutions. These borrowings are to be utilised to part fund the Council's capital programme over the next number of years. Given the financial uncertainty arising from the COVID-19 pandemic and the fact that the Council's existing loan repayment obligations are significant, it is recommended that management take the necessary steps to ensure Council's capacity to meet the repayment cost of these borrowings can be met without risking additional financial exposure.

Chief Executive's Response

The Council's loan book is actively managed throughout the year. In order to minimise the impact on annual budgets and secure best value for money, the Council refinances and redeems loans where possible, as evidenced in recent years. The Council continues to negotiate in relation to land loans, which is being addressed on a national basis on behalf of local authorities.

The treasury review has been delayed by impact of the COVID-19 pandemic. The Council is committed to commencing a review of our Treasury Management Policy in 2021 and implementing the recommendations of the Internal Audit report on Treasury Management.

The Council has undergone extensive engagement with both EIB and CEB in respect of two framework loan agreements to finance our capital infrastructure requirements, specifically under the Social Sustainability Investment Programme (SSIP). Part of this engagement included examination of our financial capacity to meet the repayment of any borrowings. It is recognised this is a significant and positive undertaking which will generate further development of the County. In order to manage the SSIP programme a Capital Projects Implementation Unit (CPIU) has been established together with a Programme Oversight Group and Steering Group which examine the need and financial risk of projects before commencement of each scheme.

9. Development Contributions

Development contribution debtors are recorded at €14.9m in Note 5 of AFS 2019. This represents a decrease of €1.3m when compared with 2018 and includes a transfer of short term development debtors to Cork City Council of €4.3m following the boundary alteration. A provision for doubtful debts of €12.2m has been made, representing 82% of current debtors, which appears reasonable.

9.1 Financial Management System

Following publication of Internal Audit's report on the Management and Control of Planning Development Contributions for Single Dwellings in November 2019, Planning reviewed a number of key recommendations and advised they have taken the following initial steps;

- Created a new monthly reporting facility on one of the existing legacy systems to improve the accuracy of information on individual development charges
- Established a working group to explore the possibility of developing an improved information system which could report on location and status of commenced developments
- Followed up on recorded unpaid development charges including an examination of a significant number of additional active and potential developments. This was done in order to ascertain the status and collectability and to issue demands for payment or to correct inaccurate information, where appropriate.

Previous audit reports have consistently highlighted control weaknesses in the legacy system used to manage development contributions, including issues such as not facilitating effective debt management or corporate reporting. These weaknesses were again highlighted through the follow up action taken by Planning following the publication of Internal Audits' report. This underpins the need for the Council to identify, acquire and roll out an appropriate integrated financial management system as a priority to replace the reliance on some legacy systems still in use by the Council.

9.2 Special Development Contributions

Section 48 (12) (b) of the 2000 Planning & 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 from the date that the full payment was made to the local authority. It was noted during previous audits that €9.7m of special development contributions which had previously been held in Development Management were transferred to the Roads directorate (€7.9m) and Recreation and Amenity directorate (€1.8m).

Management advised that a register of special development contributions has been established by Planning Directorate and issued to each relevant directorate for status update on associated works commenced and completed. This register records an aggregate value of €8m as at October 2020 with management advising that a number of special contributions have been utilised, transferred to Cork City Council following the boundary alteration or refunded over the last twelve months. However, at time of audit, the potential liability that may exist regarding the remaining special development contributions remains unclear. Given the significance of the timelines for commencement and completion of associated works, it is again recommended that this work be expedited so that the Council's financial obligations are clearly established.

Chief Executive's Response

As outlined above, significant work had been undertaken by Planning Directorate in reviewing development contributions and debt management in 2020. The Council is committed to ensuring a functioning development contribution management system is in place which is critical to the delivery of our Capital Programme. An external review of the financial governance functions in Cork County Council is about to conclude which will provide governance recommendations and an implementation plan that will include a systems selection and implementation process. This will account for the requirements of the development contribution system.

Progress has been made in 2020 in the management of special development contributions. This work will be built on in order to identify the specific requirements, activity and consequent impact on the Council's obligations.

10. Procurement

The procurement section in Cork County Council primarily provides an advisory role and is responsible for raising awareness and developing appropriate procurement practices across all directorates. At the time of audit, the procurement section comprises two full time staff as well as the Head of Procurement. However, the Head of Procurement role has been vacant since February 2020. Management has advised that a draft version of Council's Corporate Procurement Plan 2024 has been prepared but remains uncompleted. It is now hoped that this document will be concluded and published in 2021.

As has been reported during previous audits, the shortcomings in the Council's financial management system continue to impede the Council's ability to accurately measure the impact of the initiatives introduced by the procurement section. While it is acknowledged that procurement training has been rolled out for Council staff over the past year, no significant progress has been made in addressing the shortcomings in the Council's financial management system since last year.

Chief Executive's Response

The Finance Department is actively seeking to address this issue to ensure that the results achieved to date with the reestablishment of the Procurement Unit will be built upon. The role of Procurement Officer will be filled in 2021. Significant progress was made in 2019 with the rollout of a bespoke training programme from 1-hour awareness sessions to 2-day training and this has increased both the knowledge of the organisation and procurement compliance. The Council will continue to provide the corporate body with the appropriate tools to allow all divisions to make optimal strategic decisions including, but not limited to, procurement. The advancement of this will be covered in the Corporate Procurement Plan which will be complete in 2021.

The development of systems to help manage procurement is included in the Financial Governance and Systems Review, which will shortly produce a governance recommendation and implementation plan that will include a systems selection and implementation process. In the context of procurement itself, as well as the need to be able to track compliance through establishing links between financial transactions and the procurement competition conducted, systems should also be able to provide information that allows Cork County Council to identify corporate strategic procurement opportunities. In order to be effective, 'opportunity analysis' will involve using a mix of detailed spend data analysis, market knowledge and consultation with stakeholders.

11. Local Authority Companies

The Council's interest in companies is set out in Appendix 8 to the AFS. Nine companies are listed including information with regard to the extent of control exercised by the Council, brief financial details and the date of the latest financial statements received to which this information relates.

At the time of audit, seven of the nine financial statements presented at audit were signed by the subsidiary companies auditors. The auditor's opinion on the accounts for each of these companies was unmodified and did not include an emphasis of matter paragraph. Signed audited accounts were not presented at audit for two companies. Council management have advised, due to the financial impact of COVID-19, the Council may be required to provide additional financial support to some of these companies during 2020 and 2021.

11.1 Spike Island Development Company DAC

Spike Island Development Company is a company formed to develop Spike Island as a tourist attraction and is dependent on the financial support of the Council in order to continue as a going concern.

As was noted during the last audit, the accounts show an increase in turnover in the year. The company generated a profit for the first time in 2019 (2019: €4k, 2018: loss €15k). The Council provided a revenue subvention of €579k in 2019 (€666k in 2018).

11.2 Camden Fort Meagher Developments Designated Activity Company

The principle activity of the company is to develop and operate Camden Fort Meagher as a tourist attraction. For the year ending 31 December 2019 the company recorded revenue of €341k (2018: €253k) and a loss for the financial year of €12k (2018: €6k). During 2019, the company received a subvention of €293k from Cork County Council. In 2020, COVID-19 meant that the fort did not open at all to visitors. The fort previously averaged 13,000 visitors per year and is run by volunteers.

11.3 Claycastle Leisure Company DAC

The company owns and maintains a leisure centre in Youghal which is operated by a third party and is dependent on the financial support of Cork County Council. During 2019, this company received €70k (2018: €60k) from the Council to fund the maintenance of the assets.

Chief Executive's Response

The Council and its subsidiaries continue to operate under our "Subsidiary Companies Key Principles and Operational Procedures ". This facilitates appropriate compliance reporting process and good corporate governance arrangements across all Council companies.

In Q3 2020 annual performance review meetings were held with company directors and senior Council management. Outside of this formal review process, financial meetings were established with some companies to monitor the impact of COVID-19 and support the subsidiary companies, where required. Other ad-hoc meetings were also held throughout the year. As evidenced by the increase in turnover, the SIDC board is actively working to increase visitor numbers and revenue to reduce the Council subvention; the operation and financial management of leisure centre and Fort Camden is overseen by their respective boards and forms part of the performance review meetings.

12. 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 appropriate systems of financial management and control are in place. In 2018, Cork County Council, commissioned the Institute of Public Administration (IPA) to undertake an independent review of governance arrangements within the Council. The review, published in June 2020, found that Cork County Council is generally compliant with its governance arrangements but did make a number of recommendations which, when implemented, would further improve this area.

12.1 Risk Management

The Risk Oversight Committee (ROC) is responsible for supporting risk management within the Council and meets with selected directorate representatives every two months to review individual Directorate Risk Registers which feed directly into the Corporate Risk Register. The Risk Oversight Committee's work is overseen by the Corporate Development Management Sub-Group (CDG) which evaluates and re-assesses each corporate risk twice yearly. The CDG then formally submits the Corporate Risk Register to the Senior Management Team for further deliberation and eventual sign off.

The corporate risk register and individual directorate risk registers are now managed and maintained in a dedicated risk management information system. Management has advised that this information system has facilitated the scheduling of reviews and updates and has led to improved reporting processes in this area.

12.2 Internal Audit

The 2019 Internal Audit (IA) annual work plan was approved by the Audit Committee and the Chief Executive. The head of IA reports directly to the Audit Committee and to the Chief Executive in respect of the unit's work. A new head of IA commenced in February 2020.

The unit produced eleven reports during 2019 which were of a high standard. I have taken account of these reports during this audit. The IA unit is reasonably well resourced with a staff complement of eight.

12.3 Audit Committee

The Audit Committee met on five occasions during 2019. A new Audit Committee was appointed following the local elections which met on 22nd October 2019 during which a new chairperson was elected. I met with the Audit Committee to discuss my 2018 audit report in December 2019. This report was presented to Council at their meeting on 14th September 2020 together with the report from the audit committee under Section 121(3) of the Local Government Act 2001 as amended by Section 60 of the Local Government Reform Act 2014.

Chief Executive's Response

Governance Review
There are 30 recommendations in the Governance Review which was undertaken by the Institute of Public Administration and commenced in early 2019. The report was finalised on

the 30th of June 2020. Many of the recommendations have been undertaken and are finalised and more are in train and are progressing.

Risk Management
The frequency of meetings of the Risk Oversight Committee has been increased from quarterly in 2019 to every 2 months in 2020 and going forward with 6 meetings in 2020. Each Director now presents their respective risk registers to the Risk Oversight Committee and this enables a comprehensive and transparent review of risk in each directorate. The Corporate Risk Register has also undertaken a full review.

Internal Audit
The Internal Auditor has recently drafted an Audit Strategy for 2021 to 2023 that seeks to introduce additional supports to assist management in best practice governance. Measures include assessment of governance structures and systems in place through its audit activities in addition to establishing an advisory service framework to assist management in the design and implementation of optimal governance within operations where needed.

Audit Committee
The Audit Committee has added the review of the minutes of the ROC to their agenda. Since October 2019 the Audit Committee has held six meetings and received presentations from four Directors of Service / Senior Management. The Head of Finance attends every meeting to present on matters such as financial reports, progress on previous internal audit recommendations, the AFS and Budget preparation. The Head of Internal Audit also attends every meeting to present on internal audit reports and progress of the internal audit plan. This facilitates a greater oversight and a comprehensive understanding of the operational issues for the Audit Committee.

13. Provision of Housing by Approved Housing Bodies (AHB)

Management has advised that, following the boundary alteration with Cork City Council from 31st May 2019, AHBs account for 1,799 housing units as at October 2020. During previous audits, non-compliance issues were identified with regard to the recommendations made in the Local Government Audit Service (LGAS) Value for Money report on the “Oversight Role of Local Authorities in the Provision of Social Housing by Approved Housing Bodies” (AHB) (VFM Report no. 29 published December 2015). The VFM Progress Report on this issue published in July 2019 showed a slight improvement in Cork County Council’s level of compliance with the 2015 recommendations. Management have advised that some further progress has been made since last year with 42% full compliance and 46% partial compliance now being achieved.

It is noted during this audit that the number and value of Capital Asset Leasing Facility (CALF) loans has significantly increased during the year, rising from €11.3m in 2018 to €22.4m in 2019. As has been highlighted during previous audits, given the number of housing units under the remit of AHBs and the reliance on some AHBs to inspect and report on their own properties, there is a significant risk to the Council. In order to mitigate this risk, it is recommended that full implementation of all applicable recommendations made in VFM no. 29 should be progressed as a priority issue.

Chief Executive’s Response

Progress is ongoing in this area against a back-drop of increased activity, particularly by the larger Tier 3 AHBs in Cork County. A rental standards inspection programme of AHB properties is now in place. Efforts to progress the full implementation of the VFM No. 29 recommendations will continue.

14. Cork Boundary Alteration

The boundary alteration and associated realignment of political structures in 2019, as underpinned by the Local Government Act 2019, took place from 31st May, 2019. While a number of the financial arrangements between both local authorities have been agreed, there remain a number of unresolved items still under negotiation at the time of audit.

Management has advised that the following is the current position regarding the financial arrangements between both local authorities;

- A contribution by Cork County Council to Cork City Council of €5.675m in respect of 2019 for the performance by the City Council of functions in relation to the relevant area from the transfer day of 31st May 2019 to 31st December 2019. This amount was offset against the first annual contribution made by Cork City Council in August 2020.
- Cork City Council to make payments to Cork County Council of €13.07m annually (with indexation to be applied) over a ten year period up to 31st December 2029, or such longer periods as may be prescribed by the Minister.
- Other financial arrangements which have been or are in the process of being negotiated include transfer of capital balances, bonds, securities and development contributions.

It is recommended that management continue to engage with their counterparts in Cork City Council in order to finalise and agree any outstanding matters so that the Council's financial obligations are clarified as soon as possible.

Chief Executive's Response

The Cork local government boundary alteration was the single biggest priority for the Council in 2019 in order to successfully transition the transfer area from the County Council to City Council without impact on the citizens. In 2018 a dedicated High-Level Implementation Team was established to ensure a planned and orderly approach to the transition of services to Cork City Council. The subsequent enactment of the Local Government Act 2019 further clarified the parameters within which the transition was required to be delivered. The process was managed in a strategic manner with the preparation of comprehensive transition plans and a joint communications plan, sharing these with the City, as well as the County establishing a structure of directorate to directorate team meetings to make decisions and to deliver upon the range of tasks.

The County was particularly alert to the importance of the financial negotiations. A high-level team, led by the Director of the Boundary Transition Programme and Head of Finance, continued to work with the IOC and its Finance Panel in painstakingly examining the range of income and costs. The negotiations concluded in 2020 in respect of the 2019 contribution, the Annual Contribution figure (indexed) and Bonds & Securities with other financial arrangements reaching a conclusion at this point.

The process has been extremely challenging for all concerned, and particularly for this organisation due to the range and extent of services which had to be transitioned to the City and it required a whole of organisation approach. I am satisfied that this Council has delivered a highly professional approach to the boundary transition and believe that the organisation has successfully achieved all of the statutory obligations that were placed on it through the legislation and the statutory IOC Implementation Plan.

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.

Colin Nolan

Local Government Auditor

18 December 2020

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