



Rialtas na hÉireann
Government of Ireland

Statutory Audit Report to the Members of Galway City Council for the Year Ended 31 December 2020

Local Government Audit Service

Prepared by the Department of Housing, Local Government and Heritage
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Auditor's Report to the Members of Galway City Council

1 Introduction

I have audited the Annual Financial Statement (AFS) of Galway City Council for the year ended 31 December 2020, 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 2020 and its income and expenditure. My audit opinion, which is unmodified, is stated on page six 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 COVID-19 – Impact on Local Authorities

2.1 Overview

The COVID-19 outbreak and the emergency measures taken to mitigate it have had a significant impact on the finances of local authorities during 2020. This has resulted in a reduction in income from some sources, an increased level of COVID-19 related expenditure and related government subvention for the local authority.

At a national level, the Government introduced a number of schemes including the restart grant schemes and rates waiver scheme to support businesses, as noted in paragraphs 2.2 and 2.3 below. In addition, local authorities were reimbursed by the Department for the loss of income from goods and services and for additional COVID-19 expenditure incurred by them (see paragraph 2.4).

In June 2021, it was agreed by the General Accounts Working Group to amend Note 23 and include an additional Note 24 in relation to Restart Grants / Plus in the audited Annual Financial Statements 2020.

2.2 Restart Grants Scheme

During 2020, the Government decided to support commercial micro, small and medium businesses, through the Restart Grant Scheme and later the Restart Grant Plus Scheme. The qualifying businesses were required to have a rateable premises and experienced a loss of turnover due to the COVID-19 restrictions. The scheme provided for assistance with the costs of reconnecting with the marketplace, reopening their business and re-employing staff. Qualifying businesses who met the specified eligibility criteria could apply to the local authority for grants under these schemes.

Under the service level agreement between Enterprise Ireland, Department of Enterprise, Trade and Employment, the Department and each local authority, the Council had responsibility to manage within its functional area the processing of applications and payments, in accordance with the criteria specified, and to make reports to the above Government departments to enable oversight and review of the scheme. Each business was responsible to self-certify in completing its application that it met these criteria.

The Council only verified the application against a rate account, where one existed, and confirmed that the applicant had fully completed the application including the declaration. The Council did not have to verify any other information included in the application. Where rates were not assessed in 2019 or 2020, estimates of liability were made by the local authority. This was necessary to determine the support available to the relevant business.

Accordingly the audit of expenditure under these schemes, which amounted to €18.9m in Galway City Council for the year ended 31 December 2020, was limited to the specific responsibilities of local authorities, as set out above, and did not include the verification of other eligibility criteria declared by the applicants.

The accounting treatment for this is set out in Note 24 in the AFS.

2.3 Rates Waiver Scheme

In order to support both the local government sector and commercial ratepayers, a funding package of €900m was allocated by the Government to fund the cost of

a waiver of commercial rates for nine months from 27 March 2020 to 27 December 2020.

The waiver was available to businesses, which were forced to close, and those, which experienced significant negative economic disruption due to public health restrictions, imposed in response to COVID-19.

The total amount received by Galway City Council for the year ended 31 December 2020 was €21m. The accounting treatment for this is set out in Note 23 in the AFS and further disclosure is included in Appendix 7. The methodology and manner for calculating rates income collection differs in 2020 compared to prior years.

2.4 Reimbursement for loss of goods and services income and COVID-19 related expenditure

The Department reimbursed the Council for the loss of goods and services income and additional expenditure incurred by them as a result of COVID-19. The total amount received by Galway City Council for the year ended 31 December 2020 was €4.3m, split between €3.9m for the loss of goods and services income and €369k for additional COVID-19 related expenditure.

3 Financial Standing

3.1 Statement of Comprehensive Income

The Council recorded a surplus of €10.1m for the year ended 31 December 2020. This resulted in an accumulated surplus of €166k at that date after transfers to the capital account of €10m. The members at the Council meeting held in April 2021, approved by resolution in accordance with section 10(2) of the Local Government Act, 2001, the expenditure incurred in 2020 that was in excess of the adopted budget for the year. The members in accordance with S.104 of the Local Government Act, 2001 also approved transfers to the capital account of €10m.

Chief Executive's Response

The Council continues to maintain strong financial and budgetary controls. Robust fiscal management has led to provision of reserves. The Council will continue to adhere to the requirements of circular Fin 05/2014.

3.2 Statement of Funds Flow

The Statement of Funds Flow recorded an overall inflow of €3.9m of cash for the year ended 31 December 2020. This represents an 11% increase in cash balances from €34.8m at December 2019 to €38.7m in December 2020.

Chief Executive's Response

The Council continues to monitor weekly its cash flow projections and is mindful of future funding requirements.

4 Income Collection

4.1 Summary Of Major Income Collection

A summary of income collection performances showing the 31 December 2020 arrears position in respect of the main income categories with the comparative figures for 2019 were as follows:

Income Source	Yield %	Yield %	Debtors €m	Debtors €m
	2020	2019	2020	2019
Rates	61	83	10.8	8.8
Rents and Annuities	79	80	2.3	2.0
Housing Loans	86	86	0.2	0.2

The rates collection yield during the year decreased by 22% to 61% with arrears increasing by €2m to €10.8m. The collection yield for housing loans remained constant at 86%. The collection yield for rents and annuities decreased by 1% to 79%. These decreases have been reflected in the overall level of debtors increasing to €13.3m at 31 December 2020 (2019 €11m).

It is acknowledged that COVID-19 presented challenges in respect of collection of monies due and may present further challenges in 2021. All efforts should be made to further improve these collection yields where possible.

The debt management unit, located within the central finance directorate, continues to contribute to the collection yields across all of the main income categories. It is important that the level of resources allocated to this unit remain sufficient to deliver an effective collection function.

Chief Executive's Response

The debt management unit will continue to engage and work with all customers, in particular those in arrears to agree suitable payment plans. All existing resources will be utilised and maximised to monitor arrears and to make every effort to return to pre COVID-19 collection levels.

4.2 Bad Debts Provision

The bad debts provision was reviewed for the above income collection areas. The level of coverage afforded by the provision is adequate. While this was considered materially adequate for the year, it is important given the on-going impact of the global pandemic, that the Council keeps the provision under constant review.

Chief Executive's Response

The debt management unit within the Finance Department will continue to review and maintain our bad debt provision as required.

4.3 Rates

The full year's accrued income for 2020 of €37.8m is recorded in the Income and Expenditure Account. In accordance with Note 23 in the AFS, the Council transferred customers credit balances of €3.4m into deferred income where customers continued to pay their rates, were entitled to, and received a rates waiver, and did not receive a refund by year-end.

Similar to other local authorities, collection performance in 2020 was significantly affected by COVID-19. Notwithstanding same, the decline in the Council's collection yield in 2020 is noteworthy and will require significant effort to return to the collection yields of previous years.

Chief Executive's Response

The debt management unit will continue to work in a pro-active manner with rates customers and engage with those in arrears once the remaining waiver for 2021 is applied. All resources will be utilised and maximised to return to pre COVID-19 collection levels.

5 Housing

5.1 Approved Housing Bodies

Payments to Approved Housing Bodies (AHB's) amounted to €15.5m in 2020, an increase of €2.2m (16.5%) on the 2019 period. As such significant funding was awarded to external housing providers, it is essential that sufficient oversight and assurance is exercised by the Council to ensure that the application of this funding is in compliance with all regulatory frameworks.

All mortgages entered into by the Council which have been funded through the capital assistance scheme should be registered with the Property Registration Authority. A register of mortgages should be maintained by the Council to ensure the provision of effective governance and oversight.

The Council should issue requests for the submission of annual statements of occupancy from the AHB's. The Local Government Management Agency (LGMA) has standardised the format of such occupancy statements. The application of these returns should be specifically directed towards the identification of void units which would contribute to the effective delivery of housing related services.

Chief Executive's Response

Payments to AHB's for the delivery of social housing under the capital advance leasing facility and the capital assistance scheme have increased substantially over the past number of years and this growth will continue over the next period in line with Government policies, including Housing For All. Oversight and governance will be required in relation to this expenditure to ensure compliance with regulatory frameworks.

Capital assistance scheme mortgages are registered by the Council's legal representatives on the Council's behalf. A copy of the register held by the Council's solicitors will be requested and updated by the Council as appropriate. The Council has updated the AHB's housing stock on ihouse and this will facilitate the issuing out to all AHB's of an annual statement of occupancy which will commence in Q4 2021. The Council will establish a register of all capital assistance scheme mortgages.

6 Procurement

6.1 Procurement Steering Group

The Council has established a procurement steering group to review and make recommendations to the Senior Management Team on strategic procurement policy decisions and initiatives. The group held two meetings in 2020 and developed a Corporate Procurement Policy, which was adopted by the Senior Management Team in June 2021.

Chief Executive's Response

The procurement steering group together with the procurement team continue to support and work with the Senior Management Team and all directorates to ensure that the Council is complying with all procurement rules and regulations while achieving value for money and maximising efficiencies for the Council.

6.2 Public Spending Code

The Council published a Quality Assurance Report for 2020 which reflected the level of compliance with the Public Spending Code. This report was submitted to the National Oversight and Audit Commission. The report highlighted the requirement for training in relation to compliance with the Public Spending Code and General Data Protection Regulations.

Chief Executive's Response

Due to the significant volume of activity taking place across the Council coupled with the fact that there has been significant staff turnover in recent years, the Senior Management Team highlighted, as a priority, the importance of rolling out a training and awareness programme on the requirements of the code. Training for forty seven staff including the Senior Management Team was delivered across two modules by the Institute of Public Administration.

6.3 Supplier Payments

During 2020, the Council made payments totalling €5.1m that were not processed through the standard electronic funds transfer (EFT) file payments system. Management advised that these payments were made either through banking online payments or by same day money transfers. I have expressed my concerns to management regarding these non-standard payment processes.

Chief Executive's Response

All of these payments were fully authorised within the controls and processes that apply within our purchase to pay cycle within the Agresso system. There were twenty three UK suppliers paid a total of €448k directly through our banking on line payments system in 2020. The majority of the balance of payments relate to specific housing and land purchase transactions which must close on a specific date and therefore direct payments to our solicitors were processed to complete these contractual payments. €4.2m of these occurred in March 2020 during the initial days of the COVID-19 pandemic when working remotely and in compliance with our COVID-19 Business Continuity Plan. All these payments were also fully authorised in advance. A risk assessment will be completed and the benefits of transferring to a Single European Payments Area format file for payment processing will be considered in the coming months.

7 Irish Water

7.1 Transfer of Water and Sewerage Functions to Irish Water

All functions relating to the provision of water and sewerage, other than rural water schemes, transferred to Irish Water (IW) from 2 January 2014, with a twelve year service level agreement signed between the parties on this date. During 2020, costs of €3.3m incurred by the Council relating to the provision of services under the terms of this agreement continued to be recouped, as recorded in appendix 4 to the AFS.

Chief Executive's Response

Negotiations regarding IW and its role in the context of the Government's White Paper on the establishment of the new water utility have continued in 2021. The Council continues to deliver services on behalf of IW under a service level agreement. The Council will continue to recoup costs of delivering a water service as part of this agreement.

7.2 Transfer of Assets to IW

Sixteen out of twenty four assets have been transferred to IW to date. Issues exist pertaining to the transfer of the remaining eight assets including registration of title. It is important these issues are resolved and these assets are transferred to IW as soon as possible.

Chief Executive's Response

The Council has eight remaining residual assets to transfer to IW. The Water Services Section are working with IW to complete these asset transfers. A local authority report for each asset is being prepared that will be submitted to IW. These reports will then be used by the IW's legal team to carry out the required searches and advise on the title remediation which will assist the Council in completing the relevant Property Registration Authority (PRA) application package and subsequent registration with the PRA.

8 Loans Payable

8.1 Overview

Capital debt amounted to €49.9m at 31 December 2020. This is further analysed as follows:

Purpose of Borrowings	2020 €m
Asset loans	21.44
Mortgage loans	12.46
Recoupable loans (Voluntary Housing)	9.70
Loans fully recoupable pertaining to IW	0.80
Bridging finance loans (Affordable Housing)	5.00
Shared ownership/rented equity loans	0.53
Total	49.93

The following funding arrangements exist in relation to the above loans:

- The Council's asset loans of €21.44m are being paid on an interest only basis. However, an agreement is in place with the Housing Finance Agency (HFA) to fund these loans on an annuity basis from December 2022. Funding plans should be put in place to fund the principal portion of these loans when they become payable.
- The Council's bridging finance loans of €5m relate to borrowings for seventy two housing units originally acquired for resale under the affordable housing scheme but were unsold. These have been allocated to AHB's under five year leases. It was noted at audit, that the lease term on these properties have expired. At present, there are no proposals for repaying the principal on these loans.
- Repayments of mortgage related borrowings are largely matched by corresponding income. A funding surplus of €785k existed at year end, with the principal due from borrowers exceeding the balances payable by the Council to the HFA on the associated loans.
- The recoupable loans balance includes loans that are being serviced by the Department in relation to AHB's (€9.7m) and Irish Water (€0.8m).

Chief Executive's Response

A working group has been established by the Department to examine the treatment of unsold affordable homes and outstanding loans to be recouped by local authorities. The Council awaits guidance from the Department in relation to the process agreed for the repayment of these outstanding loans.

9 Capital Account

9.1 Capital Account Overview

The capital account recorded a net credit balance of €45m at the end of 2020. This €45m can be further analysed as follows:

Capital Account Balances	€m
Development Levy Balances	15.8cr
Work In Progress and Preliminary Expenses	1.9dr
Affordable Housing Balances	8.0dr
Other Reserves	39.1cr
Total Capital Balance	45.0cr

These balances are reviewed in more detail below:

9.2 Development Levy Balances

Development levy balances total €15.8m at 31 December 2020. Of this sum, €3.3m remains uncollected at the end of 2020. These funds are only applied to capital projects once the amounts due have been collected and can only be allocated in accordance with the terms and conditions of the development contribution scheme.

9.3 Work In Progress and Preliminary Expenses

Preliminary and work in progress balances total €1.9m. This balance related to projects that are at varying stages of completion. Included in this balance is an amount of €958k pertaining to 5.2 acres of land on the Merlin Coast Road.

9.4 Affordable Housing Balances

Included in the capital account balance is an €8m debit balance relating to unsold affordable housing units. In addition to this debit balance, the Council continue to have loans amounting to €5m due in relation to unsold affordable housing units (paragraph 8.1). A funding plan is required to clear this deficit.

9.5 Other Reserves

At the end of 2020 the Council held €39.1m of reserves for capital projects and events. Some of the most significant reserves include:

Reserve	€m
Tenant Purchase Scheme	2.5
City Centre Pedestrianisation	2.2
Planning Part V Housing Developments	2.4
New Cemetery Development	2.2
Public Lighting - LED Replacement	1.9
Sliabh Bhan Remedial Works	1.8
Lenaboy Castle Children's Arts Hub	1.7
Future Gratuities	1.6

Chief Executive's Response

A working group has been established (see 9.4 above) by the Department to examine the treatment of unsold affordable homes, outstanding loans and capital account balances to be recouped by local authorities. The Council awaits guidance from the Department in relation to the process agreed for the repayment of these outstanding loans and debit balances.

10 Land Records

The property project management team has identified 549 land records pertaining to Galway City Council.

These assets are further analysed as follows:

- 345 assets or 63% are in the ownership of Galway City Council
- 112 assets or 20% are registered to third parties
- 92 assets or 17% are unregistered. Most of these unregistered lands appear to relate to small portions of land remaining from road improvements.

To ensure effective oversight of fixed assets, it is essential that all assets are accurately identified and recorded. The property project management team has informed me that the migration of fixed asset data to a new property management system is now complete and that the implementation of the system is currently in progress.

Chief Executive's Response

The property project management team continue to progress the property interest register project. In 2021, priority has been given to processing lands required for development of capital projects or infrastructure, using a risk based approach.

Once these have been completed smaller portions of land will be addressed including a reclassification of some lands.

11 Payroll

11.1 Availability Allowances

The Council pays unsanctioned availability allowances to some staff. This matter needs further attention from the relevant divisional management to ensure that the Council complies with national protocols.

Chief Executive's Response

A review of the processes and procedures for availability allowances to the small number of staff involved will be carried out, including engagement with divisional management to ensure this matter is regularised and compliant with national protocols in the future.

12 Local Authority Companies

12.1 The Lough Corrib Navigation Company

The Lough Corrib Navigation Trust was originally established by the Lough Corrib Act 1850. The Drainage Act 1856 established and clarified the remit of the trust regarding:

- The area of lands and waters within the trust
- The powers of the trust to own and dispose of land
- The authority of the trust to make laws and charge tolls.

However, in 2009, the Land and Conveyancing Reform Act was enacted which repealed The Drainage Act of 1856. The effect of this is that the legislation that established and clarified the legal remit of the Lough Corrib Navigation Trust is no longer valid. This has inadvertently undermined the statutory enablement of the trust.

Consequently, as Galway City Council discharges the functions on behalf of the Lough Corrib Navigation Trust, the Council should therefore continue to request clarification regarding the legislative basis for the delivery by the Lough Corrib Navigation Trust of its functions and activities.

Chief Executive's Response

The issues noted have been raised with the Department of Housing, Local Government and Heritage and also with the Department of Justice and Equality regarding the requirement for amending legislation or other provisions to deal with the legal status of the trust. The Council has advised the members of the Lough Corrib Navigation Trust and also the Chief Executives of the other local authorities involved of the issues and the requirement for a solution. A number of interim arrangements have also been put in place in the name of the Council regarding

insurances, contracts, licences etc., as a holding position until the issues are resolved.

12.2 Galway Salthill Failte (Leisureland)

Leisureland is a wholly owned subsidiary of the Council and its transactions were reflected in the Annual Financial Statements of Galway City Council for 2020. The company's audited figures for the year ended 31 December 2020 were included in Appendix 8. As in previous years, the audit report for Leisureland included an emphasis of matter paragraph, drawing attention to the company's reliance on the City Council in order to be classified as a going concern. The Council has undertaken to provide this support for a further twelve months i.e. until 9th April 2022.

Chief Executive's Response

The Council made additional provision in the 2021 revenue budget to ensure that resources would be available to Galway Salthill Failte to deal with additional costs arising from COVID-19 restrictions. This enabled it to provide the commitment to the company as outlined above.

13 Governance and Propriety

13.1 Overview

Corporate governance comprises the systems and procedures by which enterprises are directed and controlled. The Chief Executive, the management team and the elected members all have a role in ensuring that there are systems to achieve effective financial management and internal control.

Chief Executive's Response

The Council acknowledges the importance of embedding robust corporate structures within the local authority. In recognition of this, a dedicated corporate governance unit will be established before the end of 2021 as part of an organisational change and restructuring programme. A new directorate comprising corporate governance, organisational development and support is being established. This will comprise functions such as internal audit, risk management, information management and health and safety.

Extensive work in relation to risk management also took place during 2021. This included a staff training and awareness programme for in excess of one hundred staff, the development of a risk management policy to include a risk appetite and the implementation of risk registers in each department based on a common organisational template.

13.2 Internal Audit

The internal audit unit in the Council provides a third line of defence for the organisation and is an integral component of an effective governance framework.

The effective delivery of the internal audit function is a critical component of the overall governance and oversight afforded to the Council. The internal audit unit has produced a number of reports to date and their recommendations should be implemented as soon as practical.

Chief Executive's Response

A decision was made as part of the corporate governance review at the start of 2021 to recruit a specialist internal auditor who recently commenced employment with the Council. This person will be based in the new corporate governance unit within the wider corporate services directorate and the existing internal audit personnel previously based in the Finance Department will be transferred to this new corporate unit.

13.3 Audit Committee

The committee met on three occasions in 2020 and issued its annual report for that year in February 2021. I commend the work undertaken by the committee which continues to contribute to the independent oversight of corporate governance within the Council.

Chief Executive's Response

The Audit Committee remains an integral and key assurance within the governance structure of the Council. The Senior Management Team contributed to its deliberations throughout 2020.

Acknowledgement

I wish to record my appreciation for the courtesy and co-operation extended to audit by the management and staff of the Council.



Paul Mullen
Local Government Auditor

26 October 2021

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Department of Housing, Local Government and Heritage



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