Rialtas na hÉireann
Government of Ireland

Statutory Audit Report to the Members of Cork County Council

for the Year Ended 31 December 2021

Local Government Audit Service

Prepared by the Department of Housing, Local Government and Heritage
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Contents

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 2021, 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 2021 and its income and expenditure. My audit opinion, which is unmodified, is stated on page 12 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 continued to have a significant impact on the finances of local authorities during 2021. 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 in 2021, the Government introduced the Small Business

Assistance Scheme for COVID (SBASC) and extended the Rates Waiver Scheme to support businesses, as noted in paragraphs 2.2 and 2.3 below.

As agreed by the General Accounts Working Group, the audited Annual Financial Statements for 2021 includes revised Notes 23 and 24 in relation to the rates waiver and SBASC respectively.

2.2 SBASC Scheme

As part of the Government's 2021 COVID Support package, the Small Business Assistance Scheme for COVID (SBASC) was introduced as a direct aid to companies, self-employed, sole traders or partnerships with a minimum turnover of €50,000 who were not eligible for the Revenue scheme CRSS, Fáilte Ireland Business Continuity Scheme or the Department of Tourism, Culture, Arts, Gaeltacht, Sport and Media's Live Performance Support. The scheme was funded by the Department of Enterprise, Trade and Employment but was administered on its behalf by the Local Authorities.

The SBASC II scheme was introduced in the second quarter in 2021 and included businesses which were not operating from rateable premises. A €1,000 grant was also introduced for businesses with a pre-COVID turnover between €20,000 and €49,999.

As with the Restart Grant Schemes in 2020, each business had to self-certify by completing the application that it met the relevant criteria. The Local Authority was required to verify the application against rate accounts, where one existed, and to confirm that the applicant had fully completed the application including the declaration.

Accordingly the audit of expenditure under these schemes, which amounted to €1.26m in Cork County Council for the year ended 31 December 2021, 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

The Government continued its support for the local government sector, with the provision of an amended commercial rates waiver in 2021. This waiver, funded by Government, at a cost of €542m supported local businesses in payment of their rates bills, and ensured continuity of services at local authority level.

The total amount received by Cork County Council for the year ended 31 December 2021 was €19.1m. The accounting treatment for this is set out in Note 23 in the AFS and further disclosure is included in Appendix 7.

In 2021, as in 2020, the methodology and manner for calculating rates income collection differed from previous years.

3 Financial Standing

3.1 Statement of Comprehensive Income

The Council recorded a surplus for the year of €65k, increasing its general reserve balance to €7.6m 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 9th May 2022 including transfers to reserves of €10.04m in excess of budget. Revenue income and expenditure variances between budgeted and actual out-turn across service divisions are disclosed in Note 16 to the AFS.

3.2 Statement of Financial Position (Balance Sheet)

The Council has shown a satisfactory Statement of Financial Position (Balance Sheet) at 31 December 2021. However, it is noteworthy that the Council's long term borrowings increased during 2021 and remain significant, particularly those loans that are funded from the Council's revenue account (paragraph 8). Given the continued financial uncertainty as a result of the COVID-19 pandemic, the impact of the war in Ukraine and the high levels of inflation on the wider economy, strict budgetary control and financial management is required.

3.3 Local Property Tax

Local Property Tax (LPT) received by Council in 2021 was €27.85m, which represents an increase of €1.65m on the 2020 comparative amount of €26.2m. This increase is mainly due to the Council's decision to increase the base rate of LPT by 7.5% for 2021. LPT is recorded in the Statement of Comprehensive Income at €17.15m, which represents the discretionary portion of LPT. The remaining €10.7m 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

The Council achieved a surplus of €65k at 31 December 2021 due to active budget control and ongoing financial management. The financial position was sustained despite the continuing impact of COVID-19 on costs and income. The Council prudently managed spend and welcomed support from national government through the commercial rates waiver and additional grants. These factors provided buoyancy and allowed for prudent provision to the Capital Programme and maintenance of reserves. The main reasons for transfers to reserves exceeding budget were because of rolling forward unspent General Municipal Allocation, Town Development Fund, Village Enhancement Fund and transfer of the Plant and Materials account surplus to reserves for purchase of plant and equipment.

4 Income Collection

4.1 Income summary

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 (%)
	2021	**2020**	**2021**	**2020**
Commercial Rates	10.77	10.40	89	87
Housing Rents	(0.12)	(0.03)	101	100
Housing Loans	3.09	3.28	69	62

4.2 Commercial Rates

Revenue income from rates in 2021 amounted to €113.9m, which represents 29% of total revenue income. The rates collection performance in 2021, while representing an improvement on 2020, was again impacted by COVID-19 and the continuation of the provision of an amended rates waiver scheme.

In January 2022, AFM Report no. 40 was published by the Acute Financial Matters Subgroup of the CCMA Finance Committee entitled “Monitoring & Assessment of Potential Ongoing Impact of COVID-19 on 2021 Commercial Rates”. This report advised that 2022 is deemed to present a far greater risk to rate collection levels due to a combination of the following;

- Discontinuation of the rates waiver scheme leading to large and negative fluctuations in rates receipts during 2022
- Withdrawal of government supports provided during COVID-19 may result in many businesses deciding to close as it is no longer economically viable to remain open
- Businesses may decide to remain operational on an online basis only which could result in a significant increase in vacant properties

Given the risks set out in the AFM report and the economic challenges facing many ratepayers, continued focussed effort is required to maintain rate collection performance.

4.3 Housing Rents

Rental income for the year was €22.32m, representing an increase of €1.96m (9.6%) on the 2020 comparative amount. The income increase is primarily due to a 3% global rent increase applied to all tenants in February 2021 as well as a formal rent review of tenants in the Western Division applied in September 2021.

The net credit balance of €120k of housing rent arrears at the year end is due to a combination of accounts in arrears totalling €1.05m with accounts in credit of €1.17m. This matter was queried at audit and management has acknowledged

that a rent accrual of €330k was, in error, not applied at year end 2021, which would have more accurately recorded year end net arrears at €210k.

The reporting limitations of the current housing rents management system, including those that impede proper management and analysis of rent arrears have been repeatedly highlighted during previous audits. It is again recommended that these control weaknesses should be addressed as a priority.

4.4 Housing Loans

The collection yield for housing loans has increased to 69% in 2021 from 62% in 2020 but remains well below the 2020 national average of 79%. Housing loan net arrears decreased by €189k to €3.09m at the year end, comprising accounts in arrears totalling €3.36m and accounts in credit totalling €0.27m. The successful transfer of three loans to the Mortgage to Rent Scheme during 2021 contributed significantly to the decrease in arrears.

A total of 130 (12%) of the 1,114 housing loan accounts have arrears of greater than 12 months or more, representing €3.05m (or 91%) of gross arrears. Shared ownership loans account for €2.27m (68%) of the gross arrears and continue to represent a significant challenge to Council.

4.5 Vacant Site Levy (VSL)

Cork County Council listed twelve confirmed sites on its vacant site register (VSR) in 2021 with a combined market value of €8.2m. Following recommendations made by the Council's Active Land Management Team no vacant site levy demands were issued in 2021. Management has advised this decision was made due to status changes for all confirmed sites including land ownership changes, development commencement, change of residential zoning status under the County Development Plan Review or sites subject to housing planning consent applications in 2021.

Management has advised that, since 2019, VSL invoices have been issued with a total value of €660k. Of this amount, the boundary alteration in 2019 required levies totalling €339k to be transferred to Cork City Council for collection. Appeals to An Bord Pleanála resulted in levies totalling €128k being cancelled. While no levies were collected during 2021, a total of €53k has been collected since 2019 leaving an uncollected balance of €140k.

The County Development Plan (2022-2028) was adopted in April 2022 and included a review of residentially zoned lands. It is recommended that the Council expedites the process of confirming and registering vacant residentially zoned sites not currently included on the VSR for invoicing. Under the Finance Act 2021, VSL will be replaced by Residential Zoned Land Tax in February 2024 and tax collection is to be managed by the Revenue Commissioners.

4.6 Derelict Site Levy

Derelict Site Levy invoices totalling €32k were levied in 2021 by Cork County Council on four properties. As recommended in previous audit reports, Cork

County Council has introduced a countywide standardised approach to management of Derelict Sites.

However, further work is required to identify and assess additional potential derelict sites to ensure an appropriate application of the levy. During the year, no levies were collected and the year-end debtor figure was €340k. Given the poor collection rate, management has made an almost full provision for these arrears in the AFS.

4.7 Provision for Doubtful Debts

The provision for doubtful debts in AFS 2021 is €32.65m, representing a decrease of €1.14m from the 2020 provision of €33.79m. While the overall provision in AFS 2021 is materially adequate, it should be kept under constant review given the current economic uncertainty.

As has been highlighted during previous audits, for many debtor accounts the IT systems do not have a debt management facility and the absence of aged debt reporting prevents an accurate, automated and reliable debtor management system. This has resulted in certain weaknesses being identified where the provisions are determined based on commentary from various staff members without a systematic approach to factor in post year end activity in their review.

Chief Executive's Response

Commercial Rates - Management is very conscious of the importance of the rating function to the organisation and is cognisant of the difficulties which the business community continues to face. The Council is committed to working with ratepayers to manage this. The capacity of many ratepayers to address rate liability is likely to be considerably impacted in the short to medium term and, as a result, significant challenges lie ahead in seeking to maintain collection levels.

Housing Rents - The year end weekly accrual for housing rent debit will be appropriately applied and recorded for 2022.

The limitations of the current iSeries system are acknowledged. The financial system is currently under review and the introduction of a new financial management system will allow the proper management and controls to be put in place for the analysis of rent arrears.

Housing Loans – During 2022 the Council identified variances nationally in the calculation of the Housing Loan collection rate. This was discussed as part of the Internal Audit Review of Housing Loans Operations in 2022 and it concluded that clearer parameters should be determined nationally "as to what should be included in the calculation as guidelines in this regard lack specificity, thereby bringing any comparisons between authorities into question." It is expected this would have a positive impact on the Council's comparative performance.

An alternative performance measure is to monitor progress on reducing arrears from year to year. The combined value of accounts in arrears at the end of 2021 was €3.36m down from €3.62m in 2020, a reduction of €0.26m, or 7%. This rate

of reduction has kept pace with the progress made on reducing arrears last year.

Progress continues to be made on the resolution of loans in long-term arrears. Restructuring continues to be a successful and sustainable long-term solution for addressing shared ownership loans in arrears. 21 shared ownership loans were restructured by the Housing Loans Collection Unit in 2021, resolving €328k of arrears. The completion of 3 mortgage to rent applications saw a further 128K of arrears resolved and the repossession of a vacant property, resolved €49k of arrears.

Vacant Site Levy - In respect of the 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 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.

Therefore, Cork County Council will continue to maintain and update the VSR as appropriate until it is replaced with the Residential Zoned Land Tax in February 2024 and continue to pursue the payment of any outstanding VSL. The transition from the VSL to the Residential Zoned Land Tax needs to be carefully managed and this matter needs to be brought to the attention of the Department to ensure a consistent approach.

Derelict Sites Levy - The Council has placed a strong focus on property activation matters, including tackling vacant/derelict sites, in recent times. As part of the overall approach, the Council's Municipal District Operations & Rural Development directorate has deployed a range of actions including a countywide set of policies and procedures, quarterly progress reports and a proactive review of sites on the DS registers.

The collection of levies is challenging, particularly where property owners are not able to pay same due to financial, health or other circumstances, including hardship cases. The Council, through its Property Activation Unit, is currently examining opportunities to utilise CPO powers to acquire some strategic / prominent sites.

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. This provision will be further reviewed as part of the AFS 2022 and Budget 2023 work programme, particularly given the current economic uncertainty.

5 Transfer of Water and Waste Water Functions to Irish Water

5.1 Irish Water Service Level Agreement

A new Irish Water (IW) local authority agreement will replace the existing service level agreement and is due to be in place by 1 January 2023 for the duration of a transitional period running until 31 December 2026. The Government has said its ambition is for local authorities to no longer have staff working in water services beyond the end of 2026.

Cork County Council's expenditure and subsequent recoupment of the SLA with IW was €32.1m for 2021 across revenue and capital. As has been highlighted during previous audits, approximately 85% of these recouped costs relate to payroll and central management charges. It is recommended that the Council establishes the financial implications of the new arrangement with IW, both during the transitional period from 2023 until end of 2026 and beyond.

IW has agreed to pay legacy debtor totalling €3.03m in the form of an offset against IW creditors. Following a negotiated procedure with IW, credit notes totalling €926k have been issued by the Council in 2021/2022. These credits relate to central management charges, legal and planning issues over a few years. The creditor amounts to be offset relate primarily to development contributions and agreement on final liability is subject to negotiation with IW. It is recommended that all such matters be resolved as soon as possible so that the Council is clear as to its financial position with IW.

5.2 Transfer of Water Assets to Irish Water

In 2014, water related assets were removed from the Council's fixed assets in compliance with national arrangements for local authorities. Cork County Council nominally 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 2021 AFS. It is recommended that this process be completed at the latest prior to December 2026, which is the end of the transitional period referred to in paragraph 5.1.

Chief Executive's Response

The operation of the service level agreement (SLA) for water services and the proposed new IW/LA agreement to replace the SLA is a national issue on which there is ongoing engagement. The Framework for Future Delivery of Water Services was agreed in June 2022 and sets out the parameters for the implementation of the 2021 policy paper "Irish Water – towards a national publicly owned, regulated, water services utility". Engagement is ongoing between the local authority sector and Irish Water to have a new agreement in place for 2023. In addition, the sector is engaging with the Department of Housing Local Government and Heritage (DHLGH) to deal with the other

aspects of the transformation of the water sector as it impacts on local authorities and implement the Department's commitment that local government would not be left with trapped / stranded costs.

The outstanding debtor and creditors due to IW and the Council have been successfully agreed in respect of CMC, legal, planning and others and the matter will be concluded before year end 2022.

At end of October 2022, 572 assets have successfully transferred to Irish Water and completed the vesting order process. Please note that this calculation consists of the data/assets transferred in 2015-2022 plus the S.I. 13 Assets assessed and approved by the Irish Water National Special Projects Office (NSPO). The remaining assets are mainly those that require subdivision and separation of folios which will result in remaining assets for Cork County Council. The process of agreeing and mapping these subdivisions will be time consuming and will run through 2022 and 2023. Cork County Council will undertake a valuation process on these remaining assets when there is a reasonable number which have been resolved.

6 Capital Account

6.1 Capital Account

Capital expenditure, including transfers, in 2021 increased significantly, totalling €284.5m, representing an increase of €73.3m on the previous year. Total capital income including transfers was €302.4m representing an increase of €79.5m on the 2020 comparative amount. This has resulted in an overall improvement in the capital account balance of €17.9m and a closing credit balance of €173.4m. Capital expenditure by Roads Services represented 54% of total spending (€152.2m) with Housing Services totalling 29% for the year (€83.7m).

6.2 Capital Balances

The capital account consists of 1,498 capital codes comprising primarily various categories of reserves and capital project financial activity. At year end 2021 the capital account recorded a net favourable position of €173.4m (see table below), comprising 516 favourable code balances with an aggregate value of €202.8m and 332 deficit balances totalling €29.4m. It was noted that 650 capital codes had a nil balance at year end 2021, 600 of which remain categorised as active.

Capital Balance Category	Balance (€m)
General Reserves	78.7
Development Reserves	31.4
Insurance Reserves	26.9
Asset Replacement Reserves	12.5
Realised Tenant Purchase Annuities	8.5
Non-Project Balances	6.7
Voluntary and Affordable Housing Reserves	6.1
Capital Project Balances	2.3
Agency Works Recoupable	0.3
Net Capital Balance at year end 2021	**173.4**

The funding position of the €202.8m favourable balances show €194.8m is categorised by Council as committed to be spent or earmarked to fund planned capital expenditure. The remaining €8m has been earmarked to either fund deficit balances across the various directorates (€7.1m) or subject to negotiation with the granting authority as to appropriate use (€0.9m).

It is recommended that, where relevant, the Council ensures reserves held for specific projects are linked to its rolling 3 year capital programme so that the proposed use of capital balances is readily identifiable.

The most significant deficit balances at year end 2021 are as follows;

Description	Balance (€m)
Deficit Housing Balances (see paragraph 6.5)	15.16
Deficit Municipal District Operation Balances	4.57
Deficit Roads Balances (see paragraph 6.7)	4.37
Construct Kanturk Fire Station – Environmental Services (see paragraph 6.10)	0.88
Dursey Cable Car & Visitor Centre – Economic Development, Enterprise & Tourism	0.53

6.3 Inactive Capital Codes

Following reviews during previous audits, it was noted that there remained a significant number of financially inactive capital codes across a number of directorates at year end 2021. A review of the capital account identified 386 codes (45%) with no financial activity of the 848 codes with either debit or credit year end balances. It is acknowledged that several reserve code balances are held in order to fund the Council's capital programme as well as other capital costs such as insurances and asset replacement. However, there are 226 non-reserve capital codes with deficit balances totalling €4.7m and surplus balances totalling €11.6m, which have been flagged by Council as inactive.

The Housing directorate has advised that significant progress has been made in closing codes under its remit that are no longer active, resulting in over 300

housing codes listed for closure in 2022. It is recommended that progress on this review continues across all relevant directorates so that Council's financial obligations relating to inactive residual balances are clarified.

6.4 Housing Capital

Housing capital expenditure during 2021 totalled €83.7m, representing a decrease of almost €20m on 2020. The most significant expenditure amounts relate to the following categories;

Category of Housing Capital Expenditure	2021 Expenditure Amount (€m)
Turnkey Social Housing Schemes	40.32
Own Build Social Housing Schemes	13.64
Part V Social & Affordable Housing	12.63
Capital Advance Leasing Facility (CALF)	3.42
Buy and Renew Acquisitions	2.95
Social Leasing Schemes	2.52
Disabled Persons Grants & Essential Repairs Grants	1.74
Single House Acquisitions	1.01

6.5 Surplus and Deficit Housing Balances

Housing capital codes showed a net favourable position of €11.22m at year end 2021 from 723 individual capital codes with favourable balances of €26.38m and deficit balances of €15.16m. In respect of the favourable balances, €22.95m has been flagged as either committed to ongoing housing projects or earmarked to fund planned future projects with the remaining €3.43m to be used to fund deficit housing balances or subject to negotiation with the granting authority as to appropriate use. The deficit balances are summarised based on information provided by management in the table hereunder:

Funding Status of Deficit Housing Balances	No. of Codes	Aggregate Deficit Balance (€m)	% of Total Deficit Balance
An application for funding is required to be made by Housing directorate	143	11.35	75%
Funding has been secured	48	2.15	14%
An application for funding has been made by Housing directorate and a response is awaited	18	1.10	7%
Requires funding from Council's own resources	9	0.56	4%
Totals:	**218**	**15.16**	**100%**

It was noted at audit that a significant number of the Housing capital projects requiring an application for funding to be made were flagged as such in previous years, many with no financial activity recorded during 2021. It is therefore recommended that applications to the Department for capital funding are issued

in a timely manner by the Housing directorate so that funding is secured and any potential risk of financial exposure can be readily identified and addressed.

6.6 Roads Capital

During 2021, the Council spent €152.2m on roads capital, including transfers to revenue, primarily under the remit of the Roads directorate. This represents a significant increase on the 2020 comparative amount of €79.4m. Capital expenditure for the year on National Roads projects totalled €134.7m with expenditure on Divisional Roads of €17.5m. The most significant expenditure projects, which are all grant funded, include the following;

Project Name	Expenditure 2021 (€m)
N22 Baile Bhuirne Macroom Road Development (Para 6.8)	86.6
Ringaskiddy Land & Property Acquisition re M28	34.4
Carrigaline Western Relief Road	4.6
N71 Seafield to Knockroe Pavements	2.2

6.7 Deficit Roads Balances

The most significant roads deficit balances in AFS 2021 are as follows;

- CSIP 2km Infrastructure Scheme - €1.65m
- 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 and the deficit remains to be resolved between Cork County Council and Cork City Council. It is recommended that the financial obligations regarding this deficit are finalised and agreed between the two local authorities as soon as possible. This matter was raised during the previous audit.

Carrigtwohill Railway Underbridge is a longstanding deficit which management has indicated will require to be funded by Council's own resources through the preparation of a special contributions scheme. Management has previously advised that the deficit relating to the Ballincollig Bypass Land Acquisition is planned to be funded by the Council's own resources. It is again recommended that the funding of these deficits is resolved as soon as possible.

6.8 N22 Baile Bhuirne Macroom Road Development

This project relates to the design and construction of approximately 22km of upgrade to the main N22 Cork - Tralee road by means of a Type 2 dual carriageway. The estimated total scheme cost is €280m and management have advised that this is being fully funded by Transport Infrastructure Ireland (TII). Construction on the scheme commenced in December 2019.

Management has also advised that a significant number of claims for additional

costs have been submitted by the contractor which have been referred to dispute resolution and that these matters are being progressed in advance of scheduled conciliation hearings over the coming months. Management have further advised that any agreement on the resolution of these disputed claims will be on the basis that TII will provide funding for same. The projected date of completion for this project remains stated as December 2023.

6.9 Youghal Front Strand Flood Mitigation Works

This capital project originally had a budgeted total cost of €186k, funded by the Council's own resources together with a contribution of €61k from Irish Water. At audit, management advised that the projected final cost is now expected to be €304k, representing an increase of 63% on budget. Management cited a number of factors that were not foreseen when the original budget was determined including poor ground conditions, invasive species, ecological costs and provision of suitable fill material which all fed into cost escalation. Management proposed that contract variation costs, which have not yet been finalised, will primarily be funded by the Council's own resources together with an increased contribution from Irish Water of €30k approx.

Management has accepted there were shortcomings in the project appraisal stage and that the nature of the site merited a more thorough assessment. Such an assessment would have produced a more realistic estimate of costs at the outset. It is recommended that a formal post project review of this project is conducted to ensure that any lessons to be learned are identified and to mitigate the risk of financial exposure on future similar projects.

6.10 Construction of Kanturk Fire Station

The construction of a new fire station in Kanturk is a Council capital project, grant funded by the Department. The original budgeted project cost was €1.86m. At time of audit, management advised that the total expenditure incurred to date on this project was €2.7m (excluding land costs of €0.4m), representing an increase of 45% on original budget. Unforeseen ground conditions and the impact of COVID-19 have been cited as the main reasons for cost increases. The new fire station was officially opened in May 2022.

Management has advised that grant funding claims totalling an additional €839k have been submitted to the Department, further to the €1.83m funding secured to date. If approval of these additional grant claims is not secured then the Council may be required to fund this shortfall from its own resources. It is recommended that this project is reviewed in order to identify lessons learned, where relevant, for the benefit of the organisation.

Chief Executive's Response

Cork County Council utilises capital codes to manage and monitor projects which operate for greater than one year. The number of project codes (1,498) reflects the activity of the Council's Capital Programme. The rolling 3-year Capital Programme sets out the areas and types of infrastructure required and the 2023-2025 programme will be presented in Q4 2022. Project codes are

necessary operational drivers for project managers, the facilitation of statutory reporting as part of AFS and provide more effective budgetary management.

Inactive Capital Codes are either reserve codes that are designated for specific purposes, be it Reserves of the Council which are allocated to fund projects in the Capital Programme or project codes that require final account close out. Work has been ongoing in 2022 to address these codes with significant progress in Housing and this will continue in Housing and across other directorates for 2022 and 2023.

Housing Capital expenditure decreased in 2021 due to several external factors that impacted on delivery, including the continuing impact of COVID-19, rising cost of inflation on materials and shortage of construction labour resources. However, it should be noted that Cork County Council delivered 489 units between Acquisitions, Build & Leasing in 2021.

The Housing Finance Unit continues to work with the Finance Department to ensure codes are properly set up and managed right through to their closure when projects are completed. In 2022, with assistance from the Finance Department, a total of 340 codes will now be closed out of 723 initially analysed, a process which commenced in 2021. This exercise has resulted in the identification of an overall credit balance of €484k to be transferred to Capital Reserve Fund codes by year end 2022, as agreed. All remaining deficit balances are being reviewed and procedures are in place to maximise Department draw down and reduce the balances to zero as soon as is practicable. Regular meetings with Finance will continue in relation to code management. Any remaining deficit balances will be self-funded from credit balances and ICRs.

The comments on the CSIP and Carrigtwohill Railway Underbridge balances, Ballincollig Bypass, and the N22 Baile Bhuirne Macroom Road Development are noted and agreed.

The County Engineer's team is carrying out a formal review of the Youghal Front Strand Flood Mitigation Works to identify and understand the shortcomings which occurred. This will be used as a case study of the risks associated with the appraisal of smaller projects. It will be discussed with the Council's coordination group of project delivery teams and will be incorporated into our lessons learned database.

Similarly, in relation to Kanturk Fire Station, a team comprising Architects, Fire and Finance will be established to review this project as recommended to identify lessons learned for the benefit of the organisation.

7 Fixed Assets

7.1 Fixed Assets

The value of fixed assets had a net increase of €81.3m in 2021 to €7,407.7m from €7,326.4m at the end of the previous year. The most significant increase in fixed assets related to housing additions of €77.96m. The completion of housing

schemes developments in Carrigtwohill, Crosshaven, Dunmanway, Mallow, Midleton and Kanturk totalled €48.9m representing 201 units. A further 127 units were added to the fixed asset register comprising 122 units transferred from work in progress and 5 single house acquisitions, with an aggregate value of €29.06m. Building additions of €3.5m related mainly to the construction of the new Kanturk Fire Station at a cost of €3.1m.

Disposal of assets totalled €7.6m, comprising €2.8m for land, housing and plant & machinery with a further €4.8m of housing transfers completed as part of the transfer of assets to Cork City Council under the boundary alteration.

During 2022, Internal Audit published a report entitled "Audit of the Recording of Fixed Assets". This report identified a number of shortcomings in the management of fixed assets and made eleven recommendations. Progress on the full implementation of these recommendations should be made as soon as possible.

At the last audit, management advised that the Council would commence work in 2022 on a new financial management system to address shortcomings highlighted at previous audits. No significant progress has been noted in addressing the fixed asset management system during this year's audit.

Chief Executive's Response

The comments in respect of fixed assets are noted and agreed. The recommendations from the Internal Audit report are being followed up. The Council plans for a new financial management system in 2022 will include a review of all fixed asset related processes and replacement of the current fixed asset system.

8 Loans Payable

8.1 Loans Payable

Council borrowings increased during 2021 by €9.3m to close at €315.3m at year end. This consisted of loans totalling €235.5m which have a corresponding stream of income to fund repayments, €77.4m of asset loans funded from the Council's own resources at a cost of €8.6m in 2021 (section 8.2) and €2.4m of bridging finance loans currently repaid on an interest only basis.

8.2 Asset Loans

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

Asset Loans	2021 (€m)	2020 (€m)
Land Purchases	24.7	25.9
PLEEP	22.0	0.0
Waste Management	17.5	19.8
Civic Buildings	8.7	12.7
Other (Roads / Cemetery)	4.5	5.2
Totals:	**77.4**	**63.6**

The €13.8m increase in asset loans was primarily driven by the Public Lighting Energy Efficiency (LED Retrofit) Project (PLEEP). This €22m loan drawdown from the HFA in December 2021 is a fixed interest loan. It remained unspent at year end and is therefore included as deferred income in Council's Balance Sheet as per the Department's Finance Circular 01/2022. Cork County Council is acting as lead authority for this €53m project in the South West Region and is the contracting authority on behalf of the constituent local authorities.

Principal repayments of €8.2m were made in 2021 on asset loans, including the partial redemption of one loan re lands at Rathgoggin totalling €1m. The remaining land purchase loans totalling €24.7m continue to be paid on an interest only basis.

8.3 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. Implementation of recommendations made in Internal Audit's report published in September 2018 on treasury management has also been recommended. I have again been advised that these recommendations and the development of a formal investment fund strategy have not yet been implemented.

8.4 Loan Drawdown Agreement

As noted in last year's audit report, management had advised that a facility to drawdown loans up to the value of €68.7m over the medium term had been negotiated and agreed by the Council with two financial institutions, the European Investment Bank (EIB) and Council of Europe Development Bank (CEB). Borrowings from this loan facility are to be utilised to part fund the Council's capital infrastructure requirements under the Social Sustainability Investment Programme (SSIP) over the next number of years. No loan drawdowns from this facility have been made at time of audit. It is recommended that management ensure the Council has the capacity to meet the repayment

cost of any additional borrowings.

Chief Executive's Response

The Council's loan book is actively managed throughout the year. 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 increase in asset loans is solely related to public lighting efficiency programme that will allow the Council to meet climate action targets of reduced energy consumption and deliver savings.

The treasury review has been delayed by impact of the COVID-19 pandemic. The Council is committed to publishing a revised Treasury Management Policy in Q1 2023 and continuing with the implementation of the recommendations of the Internal Audit report on Treasury Management.

The Council continues 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 and to ensure effective management of the SSIP programme. The Capital Projects Implementation Unit (CPIU) works with a Programme Oversight Group and Steering Group to examine the need and financial risk of projects before commencement of each scheme. The first loan drawdown will be completed in Q4 2022.

9 Development Contributions

9.1 Development Contributions

Income from development contributions, which is important to the delivery of Council's capital programme, recovered somewhat during 2021 to €14.7m, representing an increase of €6.7m on the previous year. Management has advised this recovery is primarily due to a return to pre-COVID activity.

Development contribution debtors are recorded at €12.4m in Note 5 of AFS 2021. A provision for doubtful debts of €10.98m has been made, representing 88% of current debtors, which appears reasonable based on post year end receipts to June 2022.

9.2 Development Contributions Management System

Legacy systems that are not fully integrated into the general ledger system (Integra) continue to be used to manage development contributions. Previous audit reports have consistently highlighted control weaknesses in these legacy systems including issues such as not facilitating effective debt management or corporate reporting.

It is acknowledged that initiatives have been undertaken to address the

shortcomings highlighted in the Council's systems used to manage development contributions. However, the need for the Council to identify, acquire and roll out an appropriate integrated financial management system to better manage this important income stream remains a priority.

9.3 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.

During previous audits, it was reported that a register of special development contributions raised since 2011 had been established by the Planning Directorate. The work done in maintaining and updating the register is acknowledged. The register is issued to each relevant directorate regularly for status updates in order to record new accounts, amounts paid or amounts written off to date. At the time of audit, the register shows an aggregate value of potential and active development contributions due totalling €9.8m.

Separately, the Finance Directorate has listed, by account, €11.1m of special development contributions received, and held in Development Management, and available for transfer to Roads (€7.7m) Recreation (€1.3m) and Cork City Council (€2.1m).

It is again recommended that the project status of the relevant works for which the special development contributions have been raised is expedited so that the Council's financial obligations are clearly established.

Chief Executive's Response

The impact of lifting of COVID-19 restrictions has continued to see an increase in income from development contributions with income received at 30th September 2022 of €9.4m compared to €7.2million for the same period in 2021. Work in reviewing development contributions and debt management continues with a dedicated team in place.

Further progress has been made in 2022 in the management of Special Development Contributions (SDCs). A Data GIS layer has been added to the Internal Planning Enquiry Viewer allowing spending sections to check payment of SDCs on developments with data automatically updated weekly.

10 Procurement

10.1 Procurement

The Procurement Unit in Cork County Council primarily provides an advisory role and is responsible for raising awareness and developing appropriate procurement practices across all directorates. Since the last audit, the Council's Corporate Procurement Plan 2020-2023 has been finalised. The stated

objective of this document is to ensure the delivery of an effective and well-managed procurement function that delivers the guiding principles of procurement – value for money, equal treatment, transparency, proportionality and mutual recognition.

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 Unit. To help mitigate the risk resulting from these shortcomings, the Procurement Officer has advised that work has commenced on the creation of a database in order to capture and record established framework agreements while the Council's Procurement Portal for use by management and staff has been updated and re-launched on the intranet.

Chief Executive's Response

It is acknowledged that the current Financial Management System has limitations in reviewing and ensuring procurement compliance, monitoring expenditure resulting from procurement processes and identifying strategic procurement opportunities. The development of a system to enable same is included in the Financial Governance and Systems Review and the follow-on implementation plan. The objectives of procurement compliance, monitoring of expenditure and exploring strategic procurement opportunities will be achieved in the roll out of the implementation plan.

However, whilst acknowledging such limitations, it is not necessarily an impediment to the work of the unit and adapted measures have been and are being put in place to mitigate against identified limitations.

On compliance and probity, the Council relaunched the Procurement Portal which offers practical assistance to those staff responsible for procuring goods and services. It provides a user-friendly tool to ensure compliance with national and EU legislation, the use of appropriate templates for tenders and contract documentation and advice on the tendering process itself. The number of staff, since the relaunch in January 2022, who have visited the portal is 694, with a total of 6,628 site visits for year 2022 to date.

The Procurement Unit, with the assistance of the Management Accounting Team, are in the process of designing a suite of reports which will enable expenditure analysis and the use of such expenditure reports in conjunction with other platforms such as e-tender analysis, Framework and Contract analysis etc. will facilitate exploration of strategic procurement opportunities.

11 Local Authority Companies

11.1 Local Authority Companies

The Council's interest in companies is set out in Appendix 8 to the AFS. Ten 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, five of the ten financial statements presented at audit were signed by the subsidiary companies auditors. Audited financial statements were not presented for the other five companies. The auditor's opinion on the accounts presented was unmodified and did not include an emphasis of matter paragraph. It is noted that the Council's "Subsidiary Companies Key Principles and Operational Procedures" report does not contain reporting deadlines for the auditors and directors of the local authority companies. It is recommended that management review and address this issue so that signed audited accounts are available contemporaneously with the Council's AFS.

The funding provided to the local authority companies directly from Cork County Council by way of a revenue subvention totalled €1.2m in 2021 (2020: €1.3m). Many of the entities operate in the sectors most affected by COVID-19.

11.2 Spike Island Development Company DAC (SIDC)

Spike Island was impacted by COVID-19 restrictions and closures in 2020 and in 2021. However, revenue, excluding the revenue subvention received from Cork County Council, increased by €0.8m to €1.5m in 2021. The Council provided a revenue subvention of €353k in 2021 (€669k in 2020). The company recorded a loss of €24k for the year (2020: €39k profit).

An Internal Audit report on SIDC was finalised in September 2021, which offered limited assurance regarding the operation of the company and made 18 recommendations. The implementation of these recommendations within agreed timeframes is recommended.

11.3 Housing Infrastructure Services Designated Activity Company

The principal activity of the company is the provision of a design, build and finance service for housing estate infrastructure projects. Cork County Council is a joint shareholder together with the National Treasury Management Agency (NTMA).

The company commenced activities on 28th August 2019. The net liabilities are stated in the 2021 audited financial statements of the company at €879k (2020: €508k) primarily consisting of €1.04m in loans repayable to Cork County Council and NTMA by 2031.

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 processes and good corporate governance arrangements across all Council companies. The requirement for the timely submission of audited accounts has been raised with the companies and will be progressed to improve compliance for 2022. In Q3 2022 annual performance review meetings were held with company directors and senior Council management. Outside of this formal review process, 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 implementation of the Internal Audit report recommendations is continuing to progress.

Housing Infrastructure Services DAC (HISCo) was established by the Ireland Strategic Investment Fund (which is controlled and managed by the National Treasury Management Agency) and Cork County Council. The Company provides an innovative solution to the provision of both on-site and off-site infrastructure that is hindering the delivery of residential development throughout Ireland. It operates on a fully commercial basis recovering its investment via an Infrastructure Fee. HISCo recently signed a contract with a developer to deliver 34 social housing units in Bantry and is currently considering projects in 12 counties all of which will predominantly support the delivery of private residential units.

12 Governance and Propriety

12.1 Governance and Risk Management

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.

The Risk Oversight Committee (ROC) is responsible for supporting risk management within the Council and meets with selected directorate representatives to review individual Directorate Risk Registers, which feed directly into the Corporate Risk Register. The ROC met on five occasions during 2021 and their 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 sign off.

12.2 Internal Audit

The Local Government (Financial and Audit Procedures) Regulations 2014 require local authorities to maintain an adequate and effective system of internal audit of its accounting records and control systems. Internal Audit has an important role in providing assurances on the adequacy of control systems and procedures including internal controls, risk management and governance arrangements.

The 2021 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 Audit Tracker System was launched in Q1 2021. This system is designed to provide management and the Audit Committee with visibility and reporting capability in relation to progress being made in implementing recommendations made by IA through its audit assurance process.

IA also delivers management support through its advisory and consultancy service which aids management in determining governance requirements for new initiatives and emerging issues/challenges. The unit presented ten reports to the Audit Committee during 2021.

12.3 Audit Committee

The Audit Committee met on five occasions during 2021. I met with the Audit Committee to discuss my 2020 audit report in December 2021. This report was presented to Council at their meeting on 9th May 2022 together with the Audit Committee's report 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

The Corporate Directorate has continued to implement the recommendations arising from the independent review of the Council's governance arrangements by the Institute of Public Administration in June 2020. Of the 30 recommendations, 26 have been implemented and 4 remain outstanding.

The Risk Oversight Committee held 5 meetings in 2021. The minutes from the ROC were brought to the Audit Committee where they were reviewed. During 2021, the number of risks in the Cork County Council Corporate Risk Register has increased from 21 to 27, this represents a 28.5% increase. There has been a 12% decrease in the numbers of risk across the Council's individual directorate risk registers in the same timeframe, this is attributable to an increased focus on risk identification and risk definition. It is intended to undertake a full comprehensive review of the Corporate Risk Register including increased training and development.

The Internal Audit Unit has continued its modernisation of the function in line with the Institute of Internal Auditors three lines model, published on 20 July 2020. The unit is well resourced and the Internal Auditor regularly briefs the Chief Executive on audit matters, including discussions on each audit conducted and consultation engagements that take place as part of the advisory and consultation service. Internal Audit is also a major focus in key management groups including Corporate Development Management Group, Risk Oversight Committee and Information Security Committee.

During 2021, the Audit Committee met five times and presentations were delivered by 5 Directorates giving an update on their operations, risks and challenges. This will continue in 2022 and 2023. A total of twenty-eight presentations, briefings and reports were delivered. Internal Audit and Finance briefings were also presented, considered and discussed at each meeting.

13 Provision of Housing by Approved Housing Bodies

The number and value of Capital Asset Leasing Facility (CALF) loans has continued to increase during 2021, rising to €33.7m from €29.9m in 2020. During 2021, the Council advanced €4.2m of funds to various AHBs, mainly in relation to CALF and CAS projects. This expenditure has been included in Note

10 to the AFS across a number of line items. I have requested management to ensure that such capital payments in 2022 are appropriately reflected in the "voluntary housing" line in Note 10 to the 2022 AFS.

Management has confirmed that AHBs account for 2,106 housing units as at 31 December 2021, representing an increase of 56 housing units from the previous year. At audit, a progress update was sought on the recommendations made in VFM Progress Report on the “Oversight Role of Local Authorities in the Provision of Social Housing by AHBs” (July 2019). Management advised that significant progress has been made in implementing the recommendations made since the previous audit, which is welcomed. It is recommended that progress continues to be made in implementing all relevant recommendations in this report.

Chief Executive’s Response

Work continues with governance in this continuously expanding area within the AHB/Leasing Unit. It should be noted, however, that a few of the recommendations as made in this VFM report have either now been dealt with at a national level or are no longer applicable with the establishment of the statutory Approved Housing Bodies Regulatory Authority in February 2021.

14 Payroll and Pensions

14.1 Payroll Overtime and Allowances

At this and previous audits, the levels of overtime and various allowances included in the overall payroll costs, have been highlighted to management.

During last year’s audit, management advised that a review of these costs, together with local pay rates was underway. An update was sought during this audit and management advised the review remains ongoing. As previously recommended, a specific timeframe should be set for concluding this review, implementing an action plan and seeking Departmental approval for local rates and allowances, where necessary.

Chief Executive’s Response

A review of allowances is ongoing with the HR and Finance teams. A new travel expenses system will be in place Q1 2023 which will address some allowances and work is continuing on the remainder. Following this, a review of overtime costs and processes will be undertaken.

15 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 at the time of audit including transfer of capital balances, bonds, securities, fixed

assets and development contributions.

Chief Executive's Response

The Council notes the comments with respect to Cork Boundary Alteration and continues to engage with Cork City Council to finalise and agree any outstanding matters.

Acknowledgement

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

Colin Nolan

Local Government Auditor

28 October 2022

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