



Rialtas na hÉireann
Government of Ireland

Value for Money Unit

Local Government Audit Service

**An Overview of Capital Unfunded Balances
in Local Authorities**

April 2019

Local Government Audit Service

The Local Government Audit Service (LGAS), incorporating the Value for Money (VFM) Unit, being an external audit service, provides independent scrutiny of the financial stewardship of local authorities.

The sectoral goals of the LGAS are to:

- carry out the audits of local authorities and other bodies in accordance with the Code of Local Government Audit Practice thereby fostering the highest standards of financial stewardship and public accountability
- promote the achievement of value for money in local authorities by undertaking Value for Money audits and publishing reports thereon.

It is the responsibility of local authority management to ensure that value for money is achieved by establishing and maintaining sound arrangements including procedures for planning, appraisal, authorisation and control of resources.

This report was prepared on the basis of information, documentation and explanations obtained from the public bodies included in this report. The draft report was sent to all local authorities and relevant Government Departments for factual accuracy and where appropriate the comments received were incorporated in the final version of the report.

The website of the Department of Housing, Planning and Local Government is the primary means of publishing reports of the Value for Money Unit of the Local Government Audit Service. Should any errors arise they will be corrected and noted in the report published at

<http://www.housing.gov.ie/en/publications/localgovernment/auditservice/>

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Executive Summary

Background

The Annual Financial Statements (AFS) of a local authority provides details of capital income and expenditure in the capital account. Capital account balances are made up of debit and credit balances. One such category of debit balance is an unfunded capital balance (relating to capital works projects which have no definitive source of funding). In accordance with the Local Authority Accounting Manual 2006¹, an unfunded capital balance is defined as "An unfunded job that will have no future funding agreed". Unfunded balances can be further split between project (related to a completed asset code) and non-project balances (non-project balances are net balances on capital jobs which do not relate to an existing asset in the Fixed Asset Register e.g. capital maintenance works) in the following areas:

- work-in-progress and preliminary expenses
- completed project balances
- non project balances unfunded.

The purpose of this review is to:

- i. quantify the value of unfunded balances as at 31 December 2016, by each local authority
- ii. identify some of the factors that gave rise to unfunded balances
- iii. review the classification of capital balances and highlight balances classified as funded which may have no clear funding plan or timeframe
- iv. quantify funded balances which remained almost static over three years to end of 2016
- v. outline other governance issues
- vi. quantify the level of reserve balances and review financial management as at 31 December 2016.

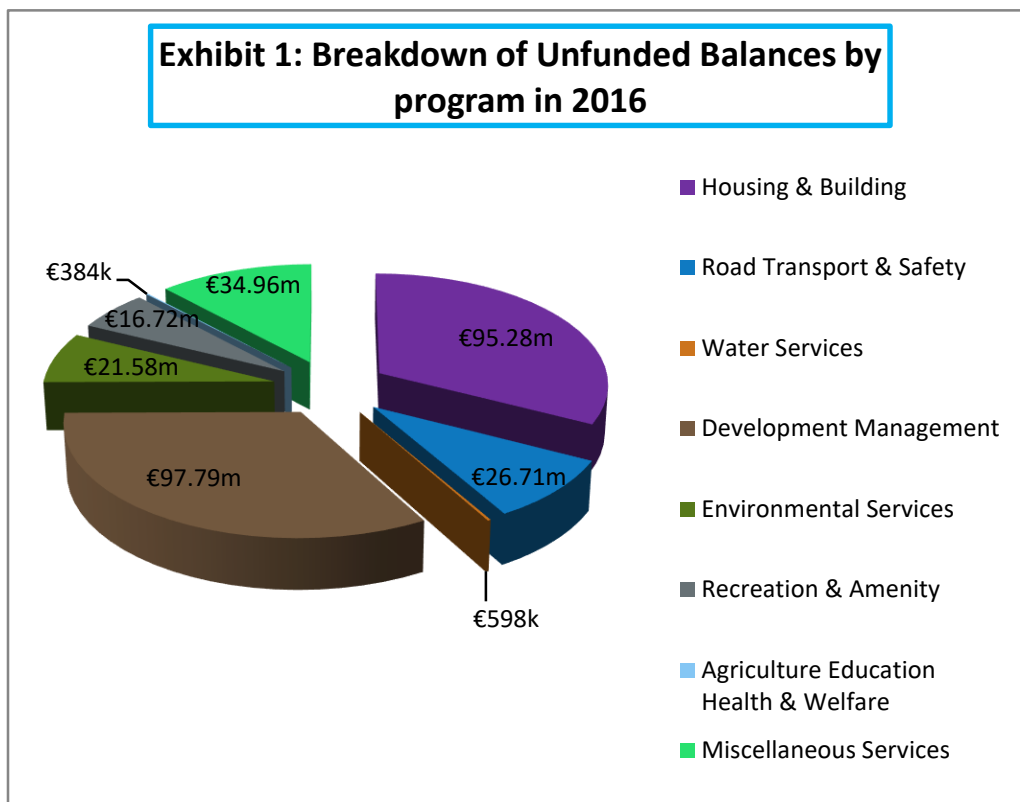
The review was completed using detailed questionnaires which were agreed and signed off by the Head of Finance in each local authority. The data was verified by the Local Government Auditors (LGAs) and the relevant data has been analysed, collated and included in this report. A draft report was sent to all 31 local authorities for confirmation of factual accuracy and feedback comments and all responded.

¹ Local Authority Accounting Manual 2006 Section C.3.1.2. page 13.

i. Quantification of unfunded capital balances

The value of unfunded balances as at 31 December 2016 was €294 million. Financial management information extracted from local authorities for this review, initially identified balances totalling €371.5 million. However, upon review by Heads of Finance, some categorisations of unfunded balances were found to be incorrect as these balances had an identifiable source of funding. Therefore the value of the unfunded balances was reduced by €77.5 million, to €294 million as at 31 December 2016 (See Appendix 1 and Appendix 2). The review was undertaken in consultation with the relevant Local Government Auditor and represented 72% of the capital debit balances included in the 2016 AFS (See Appendix 5)

The unfunded balance at 31 December 2016 of €294 million is analysed by program activity in Exhibit 1 and is related to 26 local authorities as 5 local authorities had funding sources identified for all their capital balances. A comparison of this figure with the 31 December 2014 AFS showed a decrease of €214 million.



Source: Survey Questionnaire

Audit testing was carried out on unfunded balances up to a maximum sample size of the top 20 balances. However, as the majority of local authorities had less than 20 balances, this meant that the overall percentage tested of all debit balances was high at 72% (See Appendix 5).

The total debit balances tested for this report, from the capital account balances at 31 December 2016 was €1,066 million, and the value of unfunded balances of €294 million is estimated to represent over 27% of debit capital balances.

It is important, therefore that management should regularly review the categorisation of unfunded and funded capital balances on an ongoing basis to ensure that they are accurate, and provide reliable and timely information to aid with management decision making.

ii. Factors giving rise to unfunded capital balances

A review of the factors giving rise to the unfunded balances on capital projects, identified two main reasons, being funding shortfall and expenditure overruns. Further investigations by management are required as to the reasons the remaining 36 (€38.8million) unfunded balances arose.(See Exhibit 6 for this breakdown)

a. Funding shortfall

Unfunded capital balances arose due to funding shortfalls in 74% of the value of projects (and also 72% of the number of projects). The primary contributors to the funding shortfall were:

- Future development contributions had not yet materialised
- Transfers from revenue accounts have not occurred yet due to budgetary constraints
- Sale of related assets not completed
- Potential recoupment from the relevant Government Department or state body relating to the project programme.

b. Expenditure overruns

Unfunded capital balances arose due to expenditure overruns in 12% of the value of projects (or 18% of the number of projects). The primary contributors to the expenditure overruns were:

- Other technical works required post completion
- Legal contractual issues
- Building controls.

These factors were in line with audit issues raised as part of the 2017 audit process, and were reported on in a number of statutory audit reports of Local Government Auditors as outlined in governance issues (shown at v.on page 8 of the report).

iii. Classification of capital balances

As the definition of an unfunded balance is very broad, local authorities are using different timeframes to fund balances, leading to inconsistencies as to how to classify an unfunded balance.

Using a sample of the funded debit capital balances, local authorities were asked if they had a clear plan with a timeframe, to eliminate the debit balances. The review found that in 13 local authorities, there were 61 projects valued at €39 million which were classified as funded but had no timeline provided or funding plan to clear these balances calling into question the classification. (See Appendix 3).

It was noted that timelines envisaged to fund balances in many local authorities can be up to and over 20 years, or in some cases no timeline was given, in response to this survey. This gives concerns over the classification of these debit balances as funded, if in reality there is no clear funding source, timeframe or an extended timeframe greater than 20 years. This may have an impact on budgetary considerations for the management of local authorities in order to clear these balances in the future.

Additional guidance should be provided to local authorities on how to identify and classify capital balances and funding over appropriate timeframes.

iv. Funded capital balances which remained almost static over a three year period to 31 December 2016

Where capital debit balances were classified as funded, local authorities were asked to provide details on the number of capital job codes where there was no movement or where the values have changed by less than 10% in the last three years. One local authority had no such static balances, however for the others it is acknowledged that there may be valid reasons for this, in some cases depending on stage of completion of project. In total there were 393 capital job codes in the other 30 local authorities, with a total value of €317 million, with little or no movements on balances (See Appendix 4). This raises questions as to the classification of the balance and again demonstrates a need for regular review by management on the status of capital job codes, and investigation into the reasons why some capital job codes have had no movement during the year.

v. Governance issues

Issues arising from this review were consistent with matters raised in the Local Government Auditors Reports on the AFS of local authorities for year ended 31 December 2017 relating to debit and credit balances within the capital account.

Large debit balances where no funding was identified were queried with the responsible Chief Executives, as were significant levels of credit balances. A sample of the issues raised at audit can be grouped as shown on page 8 and 9 .

a. Lack of a clear plan to reduce debit balances:

- Some local authorities stated that in order to clear debit balances, funding would be provided from the revenue account over a number of years. Other local authorities stated that due to the financial constraints, it would not be possible to fund debit balances currently from the revenue account
- Some auditors noted debit balances which required a funding source, and recommended management review in order to identify a source of funding or any reserves which may be available to reduce or eliminate debit balances.

b. Lack of a clear timeframe to reduce balances:

- Debit balances relating to purchases of land/ industrial sites/ unsold affordable units would be funded from the potential future sales of these assets, according to the local authorities
- In a small number of cases, local authorities stated that matching grant funding towards projects had been sought and was anticipated
- Borrowings have been sought (or secured with Department approval) to clear some unfunded balances
- In many local authorities credit balances are ring-fenced reserves committed to ongoing projects or earmarked for future planned projects such as housing etc.

c. Need for management review:

- Some local authorities had several hundred capital account codes relating to projects with unfunded debit balances which need review and consolidation
- Debit balances which had no activity/movement on the accounts in recent years, were in need of further examination by management
- It was noted in some local authorities, that a number of credit balances had no movement or activity over a period of years and these were recommended for follow up by management with a view to rationalisation and/or off-set within each program group
- In a minor number of cases, projects grant funding was received and either the project did not go ahead or the project was completed, but there remained an unspent balance, again these credit balances were recommended for review by management.

d. Classification of capital account balances between funded and unfunded:

- Auditors noted a number of projects which had no source of funding identified and these were queried with the local authorities
- Additional costs on some capital projects resulted in funding shortfalls and were a contributing factor in the deficit balances on the capital accounts.
- Corporate governance issues exist pertaining to the management, review and classification of unfunded and funded balances within the capital account which need to be addressed.

vi. Reserves and financial management

Financial standing in local authorities is a combination of their revenue position and balance sheet standing, but also includes their level of reserves and the level of their unfunded balances.

A review of these reserves as at 31 December 2016/2017 in local authorities identified the following;

- The total reserves in these categories in the 31 local authorities was €1.15 billion in 2016 (€1.20 billion in 2017) (See Appendix 6). It should be noted that a portion of these reserves would be designated within the local authority for specific areas or projects.
- The largest reserves in a local authority amounted to €171 million in 2016 (€180 million in 2017)
- One local authority had negative reserves in 2016 (none in 2017)
- The average reserves per local authority was €37.2 million in 2016 (€38.8 million in 2017)
- As at 31 December 2016 and 2017, 13 local authorities were in a deficit position, and 18 local authorities were in a surplus position on their revenue account.

Whilst recognising that there are very valid reasons for the reserve amounts, very different levels of reserves exist in local authorities of comparative sizes. A separate specific revenue reserve exists which may be available to further reduce unfunded balances in some cases.

Furthermore, the report identified 146 capital project balances (classified as funded) with debit balances of €105 million, which required offsets against existing credit balances. It is important that these offsets are reviewed and completed in a timely manner. (See Exhibit 10 on Page 22)

This review and the comments made in audit reports highlights that whilst significant work has been performed by the local authorities to improve the management and governance procedures of their capital balances, an additional body of work to analyse reserves and unfunded balances needs to be undertaken. This may be beneficial to more appropriately gain a better understanding of the financial standing of local authorities.

1. Introduction

1.1 Background

Definition:

In accordance with the Local Authority Accounting Manual 2006, an unfunded capital balance is defined as "An unfunded job that will have no future funding agreed". Unfunded balances can be further split between project (related to a completed asset code) and non-project balances (Non-Project balances are net balances on capital jobs which do not relate to an existing asset in the Fixed Asset Register e.g. capital maintenance works) in the following areas:

- work-in-progress and preliminary expenses
- completed project balances
- non project balances unfunded.

1.2 Financial statement disclosures

Capital account balances include unfunded balances. All capital job codes/balances are included in Note 11 of the AFS which is a composite note consisting of Note 2 (net work-in-progress and preliminary expenses), Note 10 (net capital balances) and Note 5 (agency works recoupable). All unfunded balances are therefore included in the AFS, but not all are disclosed separately in the financial statements. See analysis below of net capital debit balances extracted from the audited AFS.

Exhibit 2: Analysis of Net Capital Debit Balances as at 31 December 2016 and 2017		
	2017	2016
	€	€
Opening balance 1 January	(417,161,640)	(532,389,010)
Opening adjustment in 2017	(2,678,807)	-
Capital Re-classification	(70,903,133)	819,429
Capital Expenditure	(1,194,126,240)	(1,024,398,036)
Capital Income	1,037,198,687	926,911,978
Net Transfers	196,968,803	211,893,999
Closing Balance 31 December	(450,702,330)	(417,161,640)

Source: Amalgamated AFS 2016 and 2017

1.3 Basis for selection

In order to review capital balances and in particular unfunded balances, it was appropriate to select all 31 local authorities to participate in the review. Completed questionnaires were verified by the LGAs and the relevant data has been analysed, collated and included in this report. As part of the data collection and verification exercise approximately 72% of all debit capital balances, were examined, and the percentages tested varied from 23% up to 94% in different local authorities. This was due to the profile of the ongoing projects in local authorities (See Appendix 5).

1.4 Scope of the review

The management information was extracted by the LGAs using local authority IT systems. This information was then reviewed and agreed with the Heads of Finance in each local authority. This exercise established the level of unfunded capital balances for 2016.

The information included in this report is taken from the responses received under the review questionnaire. The questionnaire received from all local authorities was agreed with and signed off by the Head of Finance in each local authority.

The following additional sources of information were also used for the review;

- Local Government Audit Service (LGAS) Overview Report for 2016
- 2016/2017 Local Government Statutory Audit reports
- 2017/2016/2014 Annual Financial Statements.

1.5 Methodology

The questionnaire was sent to all Heads of Finance in the local authorities, who with the assistance of the LGAs, completed and provided information for both funded and unfunded capital balances for the year end 31 December 2016. This information comprised the following details;

Profile of Capital Balances

- Total listing of all capital balances by program group
- Categorisation of all capital balances between unfunded and funded.

Unfunded Balances

Unfunded balances were subject to audit testing performed by the LGAs. The selection criteria were based on testing the 20 largest unfunded balances for each local authority (if they had 20 or more unfunded balances). The additional information collected comprised:

- Quantification of unfunded balances tested
- Reasons for funding deficit
- Categorisation and reliability of balances tested.

Funded Balances

Additional information was requested for funded balances and audit testing was performed by the LGAs on selected capital balances for reasonableness of management's assumptions. The additional information requested comprised:

- Total number of funded balances and balances tested
- Analysis of the projects and funding sources
- Review of funding plan over specific number of years.

The funded balances were selected for audit testing using the following criteria:

- 15 largest debit balances for completed asset funded projects
- 10 largest debit balances pertained to land projects
- 10 largest debit balances pertaining to work-in-progress projects or projects where only preliminary expenses had been expended
- 10 largest debit reserve balances if applicable
- 10 largest debit balances referenced as non-project reserve balances where appropriate.

Reserves

Information on reserves balances was extracted from the AFS as at 31 December 2016/2017 (See Appendix 6).

2. Quantification of unfunded capital balances

2.1 Total value of unfunded balances

The review sought to quantify the total amount of unfunded balances by each local authority. The review identified that unfunded balances totalled €294 million at 31 December 2016 as set out in the Exhibit 3 below. This amount related to 26 local authorities, as 5 local authorities had funding sources for all their capital balances. An analysis of unfunded balances by local authority and program group is shown in Appendix 1.

Exhibit 3: Total unfunded capital balances as at 31 December 2016			
Program groups	Value unfunded balances per original questionnaire €	Value of Adjustments following HOF review €	Revised value of unfunded balances €
Housing & Building	142,942,257	47,666,128	95,276,129
Road Transport & Safety	27,869,013	1,161,121	26,707,892
Water Services	698,228	100,685	597,543
Development Management	97,793,611	-	97,793,611
Environment Services	40,517,780	18,942,277	21,575,503
Recreation & Amenity	16,723,228	-	16,723,228
Agriculture, Education, Health & Welfare	383,797	-	383,797
Miscellaneous	44,615,151	9,651,687	34,963,464
Total	371,543,065	77,521,898	294,021,167

Source: Survey Questionnaire

The value of unfunded balances was extracted from management information in local authorities. As can be seen from the above exhibit, when these balances were reviewed by Heads of Finance, the categorisation was amended to funded balances and consequently the value was reduced by €77.5 million, from the original €371.5 million to €294 million. (See Appendix 2).

As noted later in this report, the classification of balances needs to be reviewed across a number of local authorities and this may result in further reclassifications. It is important therefore, that management review the accuracy of this information on an ongoing basis to ensure that it correctly reports their level of funded and unfunded balances. Unfunded balances will require identification of a source of funding which may have budgetary implications for management decisions.

2.2 Categorisation of unfunded balances by program group

From information obtained by extractions and our survey questionnaire, the review was able to provide an overall analysis by program group of all unfunded balances in 2016 and this is set out in Exhibit 4 below.

Exhibit 4: Capital unfunded balances by program group 2016		
Program groups	Value of unfunded balances €	% Breakdown
Housing & Building	95,276,129	32.40%
Road Transport & Safety	26,707,892	9.08%
Water Services	597,543	0.20%
Development Management	97,793,611	33.26%
Environment Services	21,575,503	7.34%
Recreation & Amenity	16,723,228	5.69%
Agriculture, Education, Health & Welfare	383,797	0.13%
Miscellaneous	34,963,464	11.89%
Total	294,021,167	100.00%

Source: Survey Questionnaire

It is noted that of the total unfunded balances of €294 million, €193 million (66%) related to Housing & Building and Development Management expenditure categories.

2.3 Comparability of unfunded balances

A review of the unfunded balances figure identified that there was a significant decrease in this balance by €214 million in the two years ending 31 December 2016. See Exhibit 5 below.

Exhibit 5: 2016 V. 2014 year on year comparison

Program groups	2016 Survey Results €million	2014 Audited Amount €million
Unfunded Balances	294	508

Source: 2016 Survey Questionnaire (unaudited) /2014 Audited Financial Statements

It has to be acknowledged that various interpretations exist of the definition of what constitutes an unfunded balance and this is further examined in this review under Section 3, but none the less the level of unfunded balances in local authorities appears to be decreasing year on year, which is welcomed.

2.4 Level of unfunded balances

Total debit balances tested from the capital account at 31 December 2016 amounted to €1,066 million (See Appendix 5). This represented an average percentage sample of 72% of the total capital debit balances in local authorities. The value of unfunded debit balances after reclassification of €294 million is estimated to represent over 27% of debit capital balances. This is a significant percentage of total debit balances and local authorities should review governance procedures in this regard. This is further discussed in Section 5 of this report.

3. Factors giving rise to unfunded capital balances

3.1 Review of unfunded balances

The primary reasons why unfunded balances arose are set out in Exhibit 6 below:

Exhibit 6: Reasons why unfunded balances arose in 2016						
Categories of reasons provided	Unfunded Projects per original questionnaire		Adjustments following HOF review		Unfunded Projects per review findings	
	No.	€	No.	€	No.	€
Funding Shortfall	281	265,932,565	25	47,202,215	256	218,730,350
Expenditure Overrun	69	37,687,942	3	1,182,212	66	36,505,730
Further investigative work required	56	67,922,558	20	29,137,471	36	38,785,087
Total	406	371,543,065	48	77,521,898	358	294,021,167

Source: Survey Questionnaire

3.2 Funding shortfall

Unfunded balances arose due to funding shortfall in 72% of the number of projects or 74% of the value of projects. The review found that some of the primary reasons for the funding shortfall were as follows:

- Future development contributions not yet materialised
- Transfers from revenue accounts have not occurred yet due to budgetary constraints
- Sale of related assets not completed
- Potential recoupment from the relevant Government Department or state body relating to the project programme.

3.3 Expenditure overrun

Unfunded balances arose due to expenditure overrun in 18% of the number of projects or 12% of the value of the projects. The review found that some of the primary reasons for the expenditure overrun were as follows:

- Other technical works required post completion
- Legal contractual issues
- Building controls.

3.4 Further investigative work required

The category of further investigative work arose where the responses provided were unclear or had no explanation when queried. The Heads of Finance stated that further investigative work would be required to identify the exact reasons why the unfunded balances arose in these cases. This accounted for 10% of the number of projects or 13% of the value of these projects. See Exhibit 6.

Of the 26 local authorities with unfunded balances, two local authorities did not provide detailed information as to the reasons the unfunded balances arose and the expected source of future funding. Others noted that additional work is required to complete and finalise in this area.

Again this is consistent with information included in the local government audit reports where one local authority has stated that considerable investigative work is required to definitively establish the level of unfunded balances.

3.5 Inherent difficulty in valuing unfunded balances in certain circumstances

Notwithstanding the issues raised above, it is acknowledged that there are inherent difficulties in valuing unfunded balances for local authorities in certain cases. A review of responses to the survey identified some circumstances as set out below:

- An asset had been purchased to aid economic development, but its subsequent sale or otherwise is dependent on circumstances outside the control of the local authority. The local authority has to balance its competing roles in these circumstances, and some of the related factors are outside its control. Depending on the future course of action the value of asset may change
- Residual values attached to land could vary significantly depending on final usage
- Conclusion of negotiations with external agencies which are as yet uncertain.

4. Classification of capital balances as funded

4.1 Definition of a funded balance

A capital debit balance is classed as funded where there is a definite source of funding for the completion of the project. At commencement, a status flag is assigned to the project indicating that it will be funded in the financial management system. However there is a requirement to update this flag regularly as the project progresses and particularly where circumstances change. An income shortfall or expenditure overrun can mean that a residual debit balance where no source of funding has been identified remains on the project after completion. In this case the status should be updated to an unfunded status.

4.2 Findings on the classification of funded balances

A review of the classification of funded balances and inconsistencies in the manner in which their status is recorded is set out below:

I. No timeline provided or funding plan for balances classified as funded

Local authorities are using different timeframes to classify balances as funded, and there was no consistent timeframe applied. On examining a sample of the funded debit capital balances we asked local authorities if they had a plan to clear the debit balances and the timeframe for this plan. In cases where the local authority stated that they intended to clear debit balances by transfers from revenue, timeframes were given in some instances. The review found that in 13 local authorities, there were 61 projects valued at €39 million, with both no plan and no timeframe for funding (even though they are classified as funded) (See Appendix 3). The reasons these debit balances arose are included in the analysis in the section below.

II. Classification of balances as funded balances and reasons why they arose

The questionnaire asked all local authorities to provide reasons why debit capital balances arose, and if they had a plan to clear these balances. It queried the source of funding identified and the timeframe in the plan to clear these debit balances categorised as funded balances. In some instances the local authority replied that they had a plan to clear the debit balance but did not provide a timeframe, and in others they stated that they did not have a plan to clear the balance but did insert a timeframe. The responses included the following factors which led to the funded debit capital balances (similar factors that gave rise to unfunded balances):

- (i) Expenditure overrun (Exhibit 8)
- (ii) Income shortfall (Exhibit 9)
- (iii) Offset against existing credits (Exhibit 10)
- (iv) Future funding (Exhibit 11)
- (v) Other (Exhibit 12)

On analysing the funding timelines for each of these categories (i) – (v) above, it was found that there were projects with no clear funding plan or timeframe, or the information was not provided, even though the capital balances were classified as funded.

Exhibit 7: Balances classified as funded by LA's but no information provided as to the funding mechanism		
Reasons why debit balance arose	No. of Projects	Value of Projects for which no information provided as to how to fund balance €
Expenditure overrun (Exhibit 8)	13	5,407,871
Income shortfall (Exhibit 9)	9	5,253,417
Offset against existing credits (Exhibit 10)	16	7,298,560
Future funding (Exhibit 11)	7	7,424,882
Other (Exhibit 12)	35	23,329,802
Total	80	48,714,532

This gives concerns over the classification of these debit balances as funded. There is a need for an in-depth review of capital debits balances both funded and unfunded at least annually;

- to establish overall funding requirements and ensure the correct classification of funded or unfunded projects
- to identify any associated capital credit balances and carry out the processing of necessary off-sets or write-offs to clear the balances of completed projects
- to review capital flags of projects to ensure that the current status is updated annually and that all projects with no funding plan are appropriately classified as unfunded.

Each of the factors are further analysed below:

I. Expenditure overrun

Local authorities provided details of the number of projects where debit balances arose due to expenditure overruns. As is noted below, 13 projects with a value of €5,407,871 had no timeframe planned to clear these debit balances. See Exhibit 8.

Exhibit 8: Expenditure overruns on funded balances in 2016		
No. of years to be funded over	No. of Projects	Value of Projects €
Within 1 year	27	3,362,882
1-5 years	35	35,054,700
5-10 years	7	3,754,384
10-20 years	10	13,746,568
Greater than 20 years	-	-
No information	13	5,407,871
Total	92	61,326,405

Source: Survey Questionnaire

II. Income shortfall

Local authorities provided details of the number of projects where debit balances arose due to income shortfalls. Of the total projects, 9 projects with a value of €5,253,417 had no timeframe planned to clear these debit balances. See Exhibit 9.

Exhibit 9: Income shortfall on funded balances in 2016		
No. of years to be funded over	No. of Projects	Value of Projects €
Within 1 year	5	4,114,865
1-5 years	20	4,962,354
5-10 years	3	2,085,281
10-20 years	1	1,668,609
Greater than 20 years	-	-
No information	9	5,253,417
Total	38	18,084,526

Source: Survey Questionnaire

III. Offset against future credits

There were 146 projects totaling €105 million where the local authorities stated that there were credits on related capital projects/ programme groups which could be off-set against these debit balances. However the timeframe for doing so was either not applicable or not provided for 16 projects with a value of €7,298,560. See Exhibit 10 below.

Exhibit 10: Timeline of funded balances to be offset against existing credits		
No. years over which to offset against credit balances	No. of Projects	Amount €
0-1 year	75	48,330,160
1-5 years	53	40,316,478
5-10 years	1	2,302,966
10-20 years	1	6,782,987
Not applicable/not provided	16	7,298,560
Total	146	105,031,151

Source: Survey Questionnaire

IV. Future funding

Some local authorities provided the explanation that the balance would be cleared with future funding. However, Exhibit 11 shows the analysis by timeline of this category, included in this are 7 projects valued at €7,424,882 that have no timeframe to clear these balances.

Exhibit 11: Period of time over which balances will be funded by future funding		
No. of years to be funded over	No. of Projects	Value of Projects €
Within 1 year	206	40,829,648
1-5 years	295	111,463,908
5-10 years	40	118,096,351
10-20 years	12	50,335,844
Greater than 20 years	1	289,470
No information provided	7	7,424,882
Total	561	328,440,103

Source: Survey Questionnaire

V. Other

This was similar for a number of funded projects categorised as 'Other'. This means that a funding mechanism is not clear or not identified. 35 of these projects had no timeframe plan to clear the balances for projects valued at €23,329,802. See Exhibit 12 below.

No. of years to be funded over	No. of Projects	Value of Projects €
Within 1 year	57	13,075,240
1-5 years	86	68,751,251
5-10 years	22	26,454,577
10-20 years	10	9,032,542
Greater than 20 years	1	3,627,944
No information provided	35	23,329,802
Total	211	144,271,356

Source: Survey Questionnaire

In summary it can be seen that one project totaling €3,627,944 was classified as funded but with a timeframe to clear the balance of over 20 years while a further 35 projects totaling €23,329,802 had no information provided in relation to their timeframe to clear these balances.

Analysis of capital balances which have remained almost static in the last three years

Local authorities were asked to provide details on the number of capital job codes where the values have changed by less than 10% in the last three years. It is acknowledged that there may be valid reasons for this in some cases depending on stage of completion of project. In total there were 393 capital debit balance job codes in 30 local authorities with a total value of €317million (See Appendix 4).

Only one local authority had no static balances, which demonstrates the need for regular review by management on the status of capital job codes.

Further analysis is shown in Exhibit 13 below.

Exhibit 13: Analysis of capital balances with less than a 10% movement over three years to 31 December 2016			
No. of projects per local authority	Total number of capital job codes	No. of local authorities	Value of Projects €
0	0	1	0
1-10	71	15	30,826,958
11-20	145	10	114,185,990
21-30	96	4	158,445,393
>30	81	1	13,747,180
Total	393	31	317,205,521

Source: Survey Questionnaire

Inconsistencies in the manner in which the status of these balances is recorded

During the review, we visited a number of local authorities and found that there was an inconsistency in how capital debit balances both funded and unfunded were reviewed and monitored.

From issues raised above, further work is required in this area to identify and accurately record funded balances, and ensure balances are correctly stated. Additional guidance in this area would be helpful to local authorities. This guidance could include;

- A detailed definition of what constitutes an unfunded capital debit balance
- A requirement for a structured monitoring and review process at least annually
 - at individual project job code level
 - at divisional program level and
 - at finance level as part of the annual production of the Financial Statements.

5. Governance issues reported in Audit reports

5.1 LGAS Overview Report 2016

According to the 2016 LGAS Overview report, unfunded balances continue to be an area of focus in the majority of audits. Statutory audit reports for 2016, highlight the following governance issues

- Credits not offset against debit balances
- Reconciliations on capital project balances not completed
- Funding plans not in place
- Significant number of static capital balances
- No identifiable source of funding
- Further investigative work required.

5.2 Local Government Audit Reports 2017

Consistent issues were found arising from this review, with matters raised in the Local Government Auditors Reports on the AFS of local authorities for year ended 2017.

Auditor's reports included comments related to both debit and credit balances in the capital account. Many provided analysis of the balance between debit and credit amounts, often broken down by specific capital schemes/programme groups. Generally, credit balances related to the following categories – general reserves, development levies, asset funding reserves, realised tenant purchase annuities, insurance reserves etc.

Large debit balances where no funding was identified were queried with the responsible Chief Executives, as were significant levels of credit balances. These audit findings, on debit and credit balances in the capital account, can be grouped as shown below.

I. Lack of a clear plan to reduce debit balances

- Some local authorities stated that in order to clear debit balances, funding would be provided from the revenue account over a number of years. Other local authorities stated that due to the financial constraints, it would not be possible to fund debit balances currently from the revenue account
- Some auditors noted debit balances which required a funding source, and recommended management review in order to identify a source of funding or any reserves which may be available to reduce or eliminate debit balances

II. Lack of a clear timeframe to reduce balances:

- Debit balances relating to purchases of land/ industrial sites/ unsold affordable units would be funded from the potential future sales of these assets, according to the local authorities
- In a small number of cases, local authorities stated that matching grant funding towards projects had been sought and was anticipated
- Borrowings have been sought (or secured with Department approval) to clear some unfunded balances
- In many local authorities credit balances are ring-fenced reserves committed to ongoing projects or earmarked for future planned projects such as housing etc.

III. Need for management review:

- Some local authorities had several hundred capital account codes relating to projects with unfunded debit balances which need review and consolidation
- Debit balances which had no activity/movement on the accounts in recent years, were in need of further review by management
- It was noted in some local authorities, that a number of credit balances had no movement or activity over a period of years and these were recommended for review by management with a view to rationalisation and/or off-set within each program group
- In a minor number of cases, project grant funding was received and either the project did not go ahead or the project was completed, but there remained an unspent balance, again these credit balances were recommended for review by management.

IV. Classification of capital account balances between funded and unfunded:

- Auditors noted a number of projects which had no source of funding identified and these were queried with the local authorities
- Additional costs on some capital projects resulted in funding shortfalls and were a contributing factor in the deficit balances on the capital accounts

It is important that local authorities review their management information systems and governance structures surrounding the classification and funding source of capital unfunded balances for this area. A review of local authority responses to the questionnaire pertaining to this report identified

that governance issues were consistent with the issues highlighted in the LGAS 2016 Overview Report and as set out above. This highlights the issues as being systemic, and applying to numerous project balances across different local authorities.

6. Reserves and financial management

6.1 Reserves

Included in the capital account for local authorities are reserves created for specific purposes. These reserves include general reserves, reserves for advance funding for specific assets, insurance liabilities, other purposes and realised tenant purchase annuities.

A review of these reserves in local authorities identified the following in 2016/2017:

- The total reserves in these categories in the 31 local authorities was €1.15 billion in 2016 (€1.20 billion in 2017) (See Appendix 6)
- The largest reserves in a local authority amounted to €171 million in 2016 (€180 million in 2017)
- One local authority had negative reserves in 2016 (none in 2017)
- The average reserves per local authority were €37.2 million in 2016 (€38.8 million in 2017)

Whilst recognising that there are very valid reasons for the reserve amounts, different levels of reserves exist for local authorities of comparative sizes. Furthermore, the report identified 146 capital project balances (classified as funded) with debit balances of €105 million (as highlighted in Exhibit 10, page 22), which required offsets against existing credit balances. It is important that these offsets are reviewed and completed in a timely manner.

6.2 Specific Revenue Reserve

In local authorities, specific revenue reserves were a mechanism put in place to facilitate the changeover in accounting treatment when local authorities first moved from accounting on a cash basis to an accruals basis.

In 2016, following direction from the GAWG, in accordance with Circular 11/2016 issued in December 2016, the following treatment was allowed to eliminate the specific revenue reserve based on a combination of the following:

- Write down of general revenue reserve deficits
- Write down of unfunded capital project balances.

The 2016 LGAS Overview report stated that the specific revenue reserve has decreased from €115.4 million in 2015 to €46.7 million in 2016. This has reduced further to €31.2m at 31 December 2017. This may be available to use in future years in a similar manner where a portion of this balance may be available to write off against unfunded balances.

6.3 Financial management

A review of the standing of local authorities at the 31 December 2016 identified the following:

- 13 local authorities are in a deficit position
- 18 local authorities are in a surplus position
- 26 local authorities have unfunded balances totaling €294 million
- Local authorities have reserves totaling €1.15 billion. It should be noted that a portion of these reserves would be designated within the local authority for specific areas or projects.
- Offsets are required between debit balances in unfunded balances and credit balances amounting to €105 million
- A separate specific revenue reserve of €31.2m at 31 December 2017 (2016 : €46.7m) exists which may be available to further reduce unfunded balances in some cases.

Additional detail of the deficit position in local authorities as referred to above was reviewed in the recent NOAC Report No. 8 issued in April 2016 on Financial Performance in Local Authorities. This report undertook a review of those local authorities that had significant cumulative revenue deficits at the end of 2013, or were the subject of a qualified audit opinion by the Local Government Auditor that year. The report examined the cumulative reserves position in local authorities for 2013 to 2015. Based on their audited financial statements for the year ended 31 December 2013, 12 local authorities had cumulative surpluses at the end of that year while 19 had cumulative deficits. We can see from the above review in 2016, this position has improved with six local authorities moving from a deficit to a surplus position.

While it is recognised that significant work has been performed by local authorities to improve management and governance procedures of their capital balances, an additional review to analyse reserves and unfunded balances is necessary. This may be beneficial to gain a better understanding of the financial standing of local authorities.

7. Acknowledgement

The LGAS would like to thank the following for their cooperation and advice during the course of this VFM Overview on the Capital Unfunded Balances in local authorities;

- The local authorities - Finance and Service divisions
- Local Government Auditors in each local authority
- Department of Housing, Planning and Local Government, Local Government Finance Division and personnel consulted
- Local Government Management Agency

References

Main Publications

- Accounting Code of Practice for Local Authorities - January 2018
- Local Authority Accounting Manual 2006
- LGAS Overview Report for 2016/2015/2014
- Statutory audit reports 2017
- AFS 2017, 2016, 2014

Department Circulars and Reports

- Relevant Local Government Finance Circulars (e.g. Fin 11 of 2016)
- Local Government Finance Guidance issued

General Accounts Working Group

- Relevant related publications

Other Publications

- Financial Reporting Accounting Standards (FRS102)
- National Oversight Audit Commission - Report No 8 Financial Performance in Local Authorities - April 2016

Appendices

Appendix 1 - Analysis of unfunded capital balances by program group 2016

Appendix 2 - Unfunded balances incorrectly classified

Appendix 3 – Funded balances with no planned funding mechanism

Appendix 4 - No. of funded balances with less than 10% movement (over 3 years to 31 December 2016)

Appendix 5 – Capital balances with % tested

Appendix 6 –Note 10. Reserves for specific purpose

Appendix 1 – Analysis of unfunded capital balances by program group 2016

City & County Councils	Housing & Building	Road Transport & Safety	Water Services	Development Management	Environmental Services	Recreation & Amenity	Agriculture Education Health & Welfare	Miscellaneous Services	Total
Carlow County Council	1,302,514	3,172,258	-	-	647,677	-	-	171,612	5,294,061
Cavan County Council	118,638	-	-	-	247,652	-	-	2,764,580	3,130,870
Clare County Council	1,028,026	540,033	-	879,460	-	-	-	341,928	2,789,447
Cork City Council	29,859,009	5,183,687	-	1,344,623	1,790,753	3,957,538	-	62,492	42,198,102
Cork County Council	1,412,738	822,355	288,972	(8,000)	21,770	(36,073)	-	-	2,501,762
Donegal County Council	130,533	-	-	-	-	-	-	-	130,533
Dublin City Council	23,058,487	-	-	29,393,525	10,925,025	902,147	-	-	64,279,184
Dún Laoghaire - Rathdown County Council	1,080,864	11,305,370	-	2,387,475	(389,074)	1,918,403	-	24,038,402	40,341,440
Fingal County Council	50,040	-	-	55,729,569	-	-	-	-	55,779,609
Galway City Council	77,231	-	-	-	-	174,580	-	-	251,811
Galway County Council	620,959	-	-	124,117	-	-	-	-	745,076
Kerry County Council	-	-	-	-	-	-	-	-	-
Kildare County Council	-	-	-	-	-	-	-	-	-
Kilkenny County Council	-	1,457,337	-	1,293,770	-	5,638,902	-	110,553	8,500,562
Laois County Council	990,337	264,088	-	778,876	-	-	-	-	2,033,301
Leitrim County Council	-	13,739	-	143,694	-	43,467	-	767,377	968,277
Limerick City & County Council	33,608	105,162	(37,779)	-	532,862	-	-	-	633,853
Longford County Council	-	-	1,682	1,078,640	-	-	-	-	1,080,322
Louth County Council	-	-	-	-	-	-	-	-	-
Mayo County Council	568,070	658,557	-	1,139,357	-	802,687	-	-	3,168,671

Appendix 1 – Analysis of unfunded capital balances by program group 2016 (Contd.)

City & County Councils	Housing & Building	Road Transport & Safety	Water Services	Development Management	Environmental Services	Recreation & Amenity	Agriculture Education Health & Welfare	Miscellaneous Services	Total
Meath County Council	862,895	(1,434,258)	-	(1,022,470)	4,998,163	-	-	1,233,803	4,638,133
Monaghan County Council	10,887	2,383,754	166,511	40,359	-	511,759	-	609,627	3,722,897
Offaly County Council	3,941,500	71,160	-	2,588,129	149,296	314,450	-	89,379	7,153,914
Roscommon County Council	-	-	-	-	-	-	-	-	-
Sligo County Council	579,637	492,814	-	1,522,085	-	1,453,034	-	-	4,047,570
South Dublin County Council	-	-	-	-	-	-	-	-	-
Tipperary County Council	16,058,632	-	-	1,236,725	57,449	-	-	2,878,868	20,231,674
Waterford City & County Council	(848,369)	(646,002)	-	1,538,371	-	19,629	-	(1,786,689)	(1,723,060)
Westmeath County Council	7,725,417	23,215	238,499	-	-	-	-	35,111	8,022,242
Wexford County Council	331,383	879,320	-	2,471	494,554	649,882	383,797	-	2,741,407
Wicklow County Council	6,283,093	1,415,303	(60,342)	(2,397,165)	2,099,376	372,823	-	3,646,421	11,359,509
Total	95,276,129	26,707,892	597,543	97,793,611	21,575,503	16,723,228	383,797	34,963,464	294,021,167

Source: Survey Questionnaire (figures rounded)

Appendix 2 –Unfunded balances incorrectly classified

City & County Councils	Total No. of Projects	No. of Correctly classified	Value of correctly classified €	No. of Incorrectly Classified	Value of Incorrect classification €
Carlow County Council	15	15	5,294,061		-
Cavan County Council	20	11	3,130,870	9	558,256
Clare County Council	6	6	2,789,447		
Cork City Council	20	20	42,198,102		
Cork County Council	20	16	2,501,762	4	1,195,927
Donegal County Council	1	1	130,533		
Dublin City Council	20	12	64,279,184	8	45,254,209
Dún Laoghaire-Rathdown County Council	20	15	40,341,440	5	15,925,185
Fingal County Council	20	13	55,779,609	7	632,816
Galway City Council	2	2	251,811		
Galway County Council	5	5	745,076		
Kerry County Council	0	0	-		
Kildare County Council	0	0	-		
Kilkenny County Council	30	30	8,500,561		
Laois County Council	11	11	2,033,301		
Leitrim County Council	2	2	968,277		
Limerick City & County Council	6	6	633,853		
Longford County Council	7	7	1,080,322		
Louth County Council	1	0	-	1	2,934
Mayo County Council	9	6	3,168,671	3	220,921
Meath County Council	8	8	4,638,133		
Monaghan County Council	20	20	3,722,897		
Offaly County Council	19	19	7,153,914		
Roscommon County Council	0	0	-		
Sligo County Council	9	9	4,047,570		
South Dublin County Council	0	0	-		
Tipperary County Council	78	78	20,231,674		
Waterford City & County Council	7	7	(1,723,060)		
Westmeath County Council	20	20	8,022,242		
Wexford County Council	10	10	2,741,407		
Wicklow County Council	20	9	11,359,509	11	13,731,650
Total Projects	406	358	294,021,167	48	77,521,898

Source: Survey Questionnaire (figures rounded)

Appendix 3 – Funded balances with no planned funding mechanism

City & County Councils	No. of Funded projects	2016 Balance €
Cavan County Council	8	598,194
Clare County Council	2	1,213,880
Cork County Council	4	1,224,026
Dublin City Council	12	18,811,766
Dún Laoghaire-Rathdown County Council	5	2,279,020
Fingal County Council	4	2,131,242
Galway County Council	1	639,650
Louth County Council	7	2,782,178
Meath County Council	1	238,018
Monaghan County Council	8	2,308,609
Roscommon County Council	1	71,604
Wexford County Council	3	2,402,264
Wicklow County Council	5	4,638,263
Total	61	39,338,714

Source: Survey Questionnaire

Appendix 4 – No. of funded balances with less than 10% movement (over 3 years to 31 December 2016)

City & County Councils	Number of capital job codes	Value of capital job codes as at 31 Dec 2016 €
Carlow County Council	6	3,205,675
Cavan County Council	3	84,224
Clare County Council	6	7,896,883
Cork City Council	0	-
Cork County Council	81	13,747,180
Donegal County Council	5	1,060,000
Dublin City Council	11	22,983,844
Dún Laoghaire-Rathdown County Council	23	100,138,308
Fingal County Council	6	4,232,678
Galway City Council	1	28,193
Galway County Council	13	15,443,531
Kerry County Council	19	4,469,972
Kildare County Council	23	19,767,933
Kilkenny County Council	2	179,872
Laois County Council	10	1,846,754
Leitrim County Council	10	1,334,182
Limerick City & County Council	3	344,477
Longford County Council	12	1,542,540
Louth County Council	19	26,554,977
Mayo County Council	10	7,619,212
Meath County Council	12	7,142,295
Monaghan County Council	16	5,296,037
Offaly County Council	12	7,580,527
Roscommon County Council	1	139,497
Sligo County Council	3	261,009
South Dublin County Council	18	11,165,562
Tipperary County Council	23	22,092,950
Waterford City & County Council	3	2,354,000
Westmeath County Council	2	240,302
Wexford County Council	27	16,446,202
Wicklow County Council	13	12,006,705
Total	393	317,205,521

Source: Survey Questionnaire

Appendix 5 – Capital balances with % tested

City & County Councils	Funded Balances Tested €	Unfunded Balances Tested €	Total Overall Balances Tested €	Balances Tested as a % of Total Debit Capital Balances %
Carlow County Council	6,488,971	5,294,061	11,783,032	84%
Cavan County Council	3,137,366	3,747,960	6,885,326	87%
Clare County Council	9,529,839	2,789,447	12,319,286	67%
Cork City Council	11,124,880	35,383,157	46,508,037	79%
Cork County Council	17,595,116	3,780,247	21,375,363	64%
Donegal County Council	4,220,904	130,533	4,351,437	23%
Dublin City Council	62,751,312	109,533,394	172,284,706	82%
Dún Laoghaire-Rathdown County Council	147,436,709	52,499,032	199,935,741	92%
Fingal County Council	44,958,601	56,510,153	101,468,754	85%
Galway City Council	10,085,467	251,811	10,337,278	56%
Galway County Council	23,315,240	745,076	24,060,316	69%
Kerry County Council	9,727,380	-	9,727,380	55%
Kildare County Council	25,543,032	-	25,543,032	23%
Kilkenny County Council	4,581,383	8,500,562	13,081,945	88%
Laois County Council	11,746,651	2,033,302	13,779,953	85%
Leitrim County Council	3,611,986	1,683,204	5,295,190	87%
Limerick City & County Council	5,526,714	674,632	6,201,346	63%
Longford County Council	2,680,436	1,080,322	3,760,758	86%
Louth County Council	37,472,697	2,934	37,475,631	78%
Mayo County Council	14,824,194	3,389,591	18,213,785	63%
Meath County Council	25,295,205	9,212,323	34,507,528	94%
Monaghan County Council	8,852,116	1,665,603	10,517,719	74%
Offaly County Council	10,162,198	7,153,915	17,316,113	84%
Roscommon County Council	2,743,806	-	2,743,806	59%
Sligo County Council	4,096,983	4,047,574	8,144,557	42%
South Dublin County Council	71,288,948	-	71,288,948	81%
Tipperary County Council	27,064,239	20,231,674	47,295,913	78%
Waterford City & County Council	21,861,809	4,606,487	26,468,296	78%
Westmeath County Council	1,722,338	8,242,363	9,964,701	84%
Wexford County Council	24,603,904	2,741,407	27,345,311	60%
Wicklow County Council	40,973,066	24,842,236	65,815,302	76%
Total	695,023,490	370,773,000	1,065,796,490	72%

Source: Survey Questionnaire

Appendix 6 – Note 10. Reserves for specific purpose

City & County Councils	Closing Balance as at 31 Dec 2017 €	Closing Balance as at 31 Dec 2016 €
Carlow County Council	33,729,735	28,841,870
Cavan County Council	11,408,035	8,900,283
Clare County Council	12,126,707	15,417,080
Cork City Council	41,013,360	40,296,736
Cork County Council	85,198,680	81,433,692
Donegal County Council	19,531,519	17,162,494
Dublin City Council	72,200,807	57,004,621
Dún Laoghaire-Rathdown County Council	180,629,566	171,043,987
Fingal County Council	127,010,575	117,873,514
Galway City Council	18,950,447	14,503,653
Galway County Council	27,896,283	28,596,746
Kerry County Council	55,261,410	52,811,146
Kildare County Council	70,410,523	58,860,093
Kilkenny County Council	7,294,872	7,893,586
Laois County Council	8,208,551	7,799,739
Leitrim County Council	9,069,931	9,121,387
Limerick City & County Council	37,836,518	64,258,855
Longford County Council	8,500,026	8,427,250
Louth County Council	40,149,936	36,590,368
Mayo County Council	4,132,513	4,682,815
Meath County Council	40,052,883	40,508,400
Monaghan County Council	12,068,441	10,981,569
Offaly County Council	6,503,490	11,331,195
Roscommon County Council	4,257,656	3,518,856
Sligo County Council	11,194	(25,480)
South Dublin County Council	137,600,841	131,864,859
Tipperary County Council	64,487,194	60,632,385
Waterford City & County Council	5,705,451	3,401,598
Westmeath County Council	8,626,080	6,406,264
Wexford County Council	21,163,533	18,871,078
Wicklow County Council	32,723,844	34,872,933
Total	1,203,760,601	1,153,883,572

Source: 2016/17 Audited Financial Statements

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