Rialtas na hÉireann
Government of Ireland

LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Clare County Council

for the

Year Ended 31 December 2019

Department of Housing, Local Government and Heritage

housing.gov.ie

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AUDITOR'S REPORT TO THE MEMBERS OF CLARE COUNTY COUNCIL

1 Introduction

I have audited the Annual Financial Statement (AFS) of Clare County Council for the year ended 31 December 2019, which comprises the Statement of Accounting Policies, Statement of Comprehensive Income, Statement of Financial Position, Funds Flow Statement and notes to and forming part of the accounts. The financial reporting framework that has been applied in its preparation is the Code of Practice and Accounting Regulations for Local Authorities, as prescribed by the Minister for Housing, Local Government and Heritage.

My main statutory responsibility, following completion of the audit work, is to express my independent audit opinion on the AFS of the Council, as to whether it presents fairly the financial position at 31 December 2019 and its income and expenditure. My audit opinion, which is unmodified, is stated on page 13 of the AFS.

The Council is by law, responsible for the maintenance of all accounting records including the preparation of the AFS. It is my responsibility, based on my audit, to form an independent opinion on the statement and to report my opinion. I conducted my audit in accordance with the Code of Audit Practice. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the AFS. It also includes an assessment of the significant estimates and judgments made by the Council's management in the preparation of the AFS, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations, which I considered necessary to provide sufficient evidence to give reasonable assurance that the financial statement is free from material misstatement, whether caused by fraud or error.

This report is prepared in accordance with Section 120(1) (c) of the Local Government Act, 2001 and should be read in conjunction with the audited AFS.

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

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

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

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

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

- Presentation to Council Members at the June Statutory meeting setting out the impact of COVID -19

- Six Month Half Year Report to Council to June 2020, presented to members at the September Statutory meeting.
- Request for an approval from Council members of an increased overdraft facility
- Participation in the submission of Acute Financial Matters Reports to the parent department on the:
    - COVID-19 Impact on Commercial Rates Customers by Sector
    - COVID-19 Impact on Other Local Authority Income from Goods and Services
    - COVID-19 Impact of additional expenditure arising in responding to the pandemic.
- Preparing a draft budget 2021 with the focus on ensuring key services are not impacted

The following assistance has been made to local authorities:

- 100% waiver of commercial rates for a nine month period for all commercial rates customers with the exception of a small number of categories. The Council will be reimbursed in full on the application of this waiver.
- Advance payment has been received from the department in relation to Local Property Tax Allocations to assist with the Council's cash flow

Chief Executive's Response

The auditor's points above summarise the various financial reports completed both locally and nationally during 2020 to present the data on the severe financial challenges for the Council presented by COVID-19. This Council had predicted extraordinary financial and cash flow impacts in the areas of commercial rates, income from goods and services and additional expenditure incurred in responding to the crisis. The funding of the nine month waiver of Commercial Rates provided by the government to Clare County Council has eliminated significantly the rates income impact.

The loss of income from other goods and services and the cost of additional expenditure incurred has again been presented to government in late December 2020 as part of the national position. The estimated impact for this Council is a loss of €6.5m. (Parking Income €0.56m, Leisure/ Tourism Facilities €3.7m, Other Income €0.21m and additional expenditure of €2m). Confirmation of funding this loss by government remains under review and I expect clarification on this point by late January 2021.

Until such time as the AFS 2020 is completed and the availability of government funding clarified, it is not possible to accurately predict the final impact on 2020. This financial impact of the pandemic on our income continues into 2021 with restrictions on business and society remaining in place and again there will be income shortfalls from Commercial Rates and other goods and services.

3 Financial Standing

3.1 Statement of Comprehensive Income

The Council recorded a surplus for the year of €535k after transfers to and from reserves of €12.22m (which includes loan repayments). There was a cumulative surplus of €2.47m in the general revenue balance at the end of 2019. Both transfers to reserves and over expenditure

were approved by the Council at its meeting in June 2020. Details of over/under expenditure are contained in note 16 to the AFS.

Significant movements in the finances of the Council during the year included:

- Increase in fixed assets(excluding depreciation) of €17.09m includes €11.15m relating to housing acquisitions (net of disposals)
- Increase in net trade debtors and prepayments of €0.41m
- Decrease in net creditors and accruals of €2.01m
- Decrease in in bank investments of €4.39m
- Increase in cash at bank of €10.07m

Chief Executive's Response

The Council through financial and budgetary controls including effective income collection systems achieved a positive financial position in 2019, continuing the trend of recent years in stabilising the revenue account of the local authority.

3.2 Local Property Tax (LPT)

The Finance (LPT) Act 2012 (as amended), makes specific provision to allow the elected members of a local authority to pass a formal resolution to vary the base rate of the LPT for their administrative area by a percentage known as the local adjustment factor. The Council members voted not to increase or decrease the base rate in the financial year 2019.

3.3 Local Property Tax Allocation

The Council's allocation under the LPT amounted to €8.07m in 2019. These monies were accounted for as follows: €6.45m under the above heading in the revenue account, €1.41m in the capital account under the heading of housing acquisitions and €21k under current expenditure. The approval to these accounting allocations was set out in a written departmental circular letter dated 19 January 2019.

Chief Executive's Response

The auditor's comments are a matter of record as Clare County Council is a net contributor to the Local Government Equalisation Fund, receiving for its revenue budget €6.4m out of a €10m Local Property Tax income.

The Council continues to highlight this anomaly for the county and is working with the elected members and our colleagues in the Department of Housing, Local Government and Heritage to secure 100% of this funding for Clare County Council particularly in light of recent reduced valuation of significant commercial property in the county.

4 Income Collection

4.1 Summary of Income Collection

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

Income Source	Yield %		Debtors €m	
	2019	2018	2019	2018
Rates	87%	87%	€10.04m	€10.46m
Rents & Annuities	85%	85%	€1.42m	€1.38m
Housing Loans	74%	69%	€0.37m	€0.43m

4.2 Commercial Rates

Commercial rates arrears have continued to decrease in 2019 and have fallen by over 5.5% over the past three years from €11.075m at year end 2016 to €10.04m at year end 2019 inclusive of credit balances. The collection yield for commercial rates remained at 87% in 2019 which was the same as the collection yield in 2018.

There are over 3,600 active commercial rates customers in 2019. There are an additional 150 accounts that are closed but are carrying arrears from prior years and had no active billing in 2019. The total number of accounts in arrears are 1,500 with the amount in arrears totalling €10.04m. The number of accounts with credit balances at year end 2019 totalled 389 with an aggregate value of €188k. Over 150 of these accounts have a credit balance of less that €50.

There were 120 accounts with arrears exceeding 20k at year end with an aggregate value of €5.1m or 3% of all active rate accounts, which represents 51% of all arrears.

Based on sample testing of rate accounts in arrears reviewed at audit, it was noted that the top 30 accounts amounted to €2.6m arrears.

At December 2020 18 of these accounts with arrears totalling €1.49m have showed no movement on the 2019 year end balances.

The general bad debt provision for rates in 2019 is €9.1m and is consistent with previous years and appears reasonable. This represents a bad debt provision of 91%, however with regard to the 2020 provision it is essential that the impact of changes in the financial circumstances experienced by customers across the County as a result the COVID-19 pandemic may require this bad debt provision to be reviewed.

Chief Executive's Response

The auditor’s comments are noted and it is again positive to report that €8.7 out of every €10 collectable in 2019 was deemed collected. This improvement in commercial rates collections is as a result of a comprehensive debt management focus and review in recent years that involved improved processes, alignment in reporting with methods used by other public sector bodies and a focused debt management training programme for the sector.

Commercial Rates funding stream is critical to the funding of service delivery for the county representing one third of our annual expenditure on operating activities. The experiences of COVID-19 on 2020 and 2021 collections, the application of the 2020 nine month commercial rates waiver and the ongoing challenges being experienced by some sectors of the economy has impacted on the collection percentage in 2020 and will involve a corresponding review of

the debtors balance sheet in preparing the AFS 2020 as referenced by the auditor in his comments.

The Council continues to engage in a positive manner with customers and are available to discuss payment arrangements.

4.3 Valuations

At the year end, the Council had 438 properties awaiting valuations from the Valuation Office. This represents an increase of 109 properties since December 2018 (329 properties). This is a potential significant cash flow and loss of income issue for the Council. The Council should make every effort to ensure the valuations are completed promptly.

Chief Executive's Response

The Council continues to work closely with the Valuation Office to capture promptly property revisions and additions for commercial rates purposes.

The valuation of commercial properties in the country is carried out by the Valuation Office, an independent government office. As part of the National Revaluation programme, the Valuation office has committed that all outstanding revisions will be completed and valued for commercial rates purposes in advance of revaluation 2022.

4.4 Housing Rents

A collection level of 85% was recorded in 2019 which was on par with the prior year. At the year-end rent arrears amounted to €1.42m (€1.38m in 2018). It was noted that a previous audit recommendation for the undertaking of a complete rent review was undertaken.

There are a total of 3,103 active rent accounts of which 789 were in arrears for greater than twelve weeks at the end of 2019, and these amounted to €1.29m. The top twenty five arrear accounts amount to €286k of this and represent 21% of the total rent arrears.

The bad debts provision for housing rents is 87% of the total gross arrears and this provision may need to be reviewed in the current year, due to the pandemic.

From the files selected for review at audit it was noted that in almost all cases there was evidence of engagement or on-going attempts at engagement by housing rents section with rent account holders in arrears.

Chief Executive's Response

As noted by the auditor, in the year 2018 the rent review was completed and collection percentages have remained at 85% in 2019. The collection of housing rents is a priority of the housing department where the section continues to make every effort in this area, including regular tenant meetings, facilitating payment arrangements and the close monitoring of all accounts where arrears arise.

4.5 Housing Property Vacancies

The Council expended €2.06m on the refurbishment of its vacant housing stock prior to letting during 2019. As at the start of November 2020 the summary of waiting periods of refurbishment on the sixty seven units recorded in this category includes seventeen units which have been awaiting refurbishment or re-allocations to tenants for a period exceeding twelve months.

Chief Executive's Response

Returning vacant stock to productive use remains a key focus of the housing section. At all times we strive to minimise the vacancy period. The situations whereby the property is vacant for a substantial period can be for a number of reasons such as: the property requires extensive refurbishment works; the expenditure requires sanction from the DHLGH to secure the funding necessary to undertake the works; investigative reports may be required to address issues such as radon, structure, BER, Japanese Knotweed etc.

The process remains under review to seek to further improve the systems to minimise vacancy periods and provide much needed accommodation to those eligible for same.

4.6 Housing Loans

Housing loans arrears amounted to €367k (net) in 2019 (€430k in 2018). There has been an increase of 5% in the collection yield for housing loans which is welcome. It was also noted that while overall arrears decreased, individual arrears on some accounts continued to increase as mortgage payments received are insufficient to cover the monthly loan instalments.

From the samples selected for review at audit there is significant evidence of ongoing and continued engagement with housing loan account holders in arrears.

It is noteworthy that for a number of accounts in arrears reviewed at audit, significant resources continue to be committed to facilitate agreed payment plans with customers who subsequently fail to adhere to the terms of said payment plans. The Council should follow through on potential legal action where the terms of such agreements with account holders are not adhered to.

There are a total of 227 active housing loan accounts of which 67 of these were in arrears for greater than three months at the end of 2019 and these amounted to €387k (€418k total gross loan arrears). The top fifteen arrear accounts total €263k and represents 63% of the total gross loan arrears.

Shared Ownership loan accounts for 47 % of the total loan arrears at the year end. These arrears decreased significantly from €172k at 2019 year end to €95k (unaudited) at the end of September 2020.

The level of bad debt provision at €300k or 72% on the gross arrears balance at the year end would again appear to be over-prudent and needs to be reviewed in the current year.

Chief Executive's Response

The level of arrears on Housing mortgage loans reduced again in 2019 (by €63k) improving the collection percentage in this area to 74%, where there has been continued improvements year on year. This reduction in arrears is due to the continuous focus and implementation of

alternative options for borrowers under the Mortgage Arrears Resolution Process (MARP) where the customer is in arrears and finding it difficult to meet their repayments. This process will continue to address the remaining customers who are in arrears.

Shared Ownership loan customers account for nearly half of the arrears outstanding and highlight learnings for any future new shared ownership loan model introduced nationally

5 Irish Water

5.1 Transfer of Water and Sewerage Functions to Irish Water (IW)

Issues with regard to the transfer of title of properties transferred to IW including the subdivision of folios, right of way issues and sites not registered were highlighted in the 2014 – 2018 audit reports. The Council is continuing to work with IW on these matters.

In all there are a net 375 water assets to be transferred to IW (of which 50 of these are described as being non-operational assets which will not be transferred) leaving a net 325 assets for transfer. The most significant details included in this total are as follows;

- 188 assets have to date been assessed and recorded for transfer to IW. Currently 83 of these assets are covered by ministerial orders with the rest to be completed in due course
- 137 assets remain to be transferred to IW and these fall into the following categories:
    - 116 assets identified to be transferred to IW which are on third party registered land (99) and unregistered lands (17)
    - 17 assets are pending and awaiting agreement with Corporate Services and will transfer to IW in the coming months
    - 4 assets are with the National Special Projects Office (NSPO) for investigation to ascertain if they can be considered underground assets and therefore transferred to IW.

As part of the Service Level Agreement (SLA) the Council continues to operate the water service on behalf of IW and costs in this area are fully recouped from IW. During 2019 €8.2m was billed to IW with €1.4m outstanding at year end.

Chief Executive's Response

Clare County Council continues to work with Irish Water to advance the progress on the on-going transition arrangements in order to transfer Water and Waste water assets

6 Capital Account

6.1 Capital Account Overview

The favourable balance in the capital account at the end of 2019 increased to €27.88m from €20.50m at the end of 2018. Capital expenditure and income totals including transfers for the year amounted to €55.84m and €63.22m respectively.

6.2 Capital Balances

The main elements of these capital balances are as follows;

· Non Project Balances Funded	€10.54m Cr.
· Reserves	€9.13m Cr.
· Development Levies	€8.73m Cr.
· Completed Asset Funded / Unfunded	€1.77m Dr.
· Realised Tenant Purchase Annuities	€1.24m Cr.
· Non Project Balance Funded	€0.39m Cr.
· Capital – Preliminary Funded /Unfunded(Net)	€0.38m Dr.

Chief Executive's Response

The auditor's comments are noted and reflect the activity referenced at point 6.3 below.

6.3 Capital Expenditure

There was a continued significant increase in overall expenditure in 2019. Total expenditure of €55.84m (including transfers) was €12.12m or 27.72% greater than that incurred in 2018 of €43.72m. The main items of expenditure were those in Housing and Building of €27.57m and Roads Transportation & Safety of €15.46m and the combined expenditure totals in these categories totals €43.03m and accounts for 77.06% of the overall expended total in 2019.

The following were the main capital projects of expenditure incurred during 2019;

Housing	
Capital Housing Acquisitions	€11.09m
Four Construction Projects	€ 7.58m
Voluntary Housing Payments	€ 3.94m
Vacant Housing Stock	€ 2.03m
Roads	
Ennis Flood Relief Works	€ 4.51m
Shannon Bridge Crossing	€ 3.73m
Storm Damage 2014	€ 2.18m
Other Projects	
Ennistymon Multi Service Centre	€ 2.40m
Quin Road Campus	€ 1.34m
Shannon Park	€ 1.17m

Chief Executive's Response

The level of expenditure on capital projects in 2019 has increased 89% on 2016 levels and over 115% on five years previous in 2015. This reflects the increased investment in Housing, Roads and Transportation, Digital Hub and Innovation, Public Realm and Education by this Council.

These balances are monitored closely by individual project managers and collectively with the finance department.

6.4 Specific Committed Project Balances

The details on the above matter have been subject to audit comment in previous audit reports. At the conclusion of this audit I have requested the Chief Executive to have all such specific Committed Project Balances listed and to identify whether any expenditure commitments on these balances are going to arise in the immediate future.

In light of the future potential impact of the COVID-19 pandemic on the Council's finances consideration must be given to the reallocation of any such balances in order to finance shortfalls in the expenditure or income totals in either the revenue or capital account respectively. Any financial adjustments deemed necessary may require the elected member's approval.

Chief Executive's Response

This committed project credit balances referenced by the auditor form part of the Council's capital balances and represents specific projects that are planned and at various stages of preliminary or design stage of the project implementation. In a number of cases the committed balance represents the Council's matching funding requirement for a project that has been awarded grant funding under the various capital grant schemes including the RRDF / URDF programme. Having this committed funding, places the Council in a positive position when the project advances to construction and delivery.

The provision of own resource match funding is a key element of Local Government capital project funding. These balances are reviewed on a regular basis by the finance directorate with project managers. As part of the AFS 2020 process the balances referenced will be discussed with the auditor in tandem with the Council's capital programme 2020-2022 as presented at the 2020 budget meeting to members. This report outlined projected expenditure of €393million over a three year period and the specific committed balances represents less than 2.5% of this projected expenditure.

6.5 Unfunded Capital Balances

The closing unfunded balances decreased to €3.35m at the end of 2019 (€3.95m in 2018). Some of the items in this total are as follows;

• Gaurus Land	€1.16m
• County Burial Ground, Kildysart	€0.71m
• Housing Scheme Kilkee	€0.67m
• Blakes Corner, Ennistymon	€0.25m
• Land Acquisitions for Housing Purposes	€0.56m

Chief Executive's Response

Capital balances are reviewed on an ongoing basis as part of project management and financial reporting. The unfunded project balances totalling €3.35m listed represents less than 2.5% of the €152million expenditure on capital in the last four years and is a positive financial management outcome for the Council across a significant quantum of project codes.

The balances listed represent the purchase of land by the Council for specific projects in the Housing, Recreation, Roads & Transportation and Burial Ground development. The Master-planning of commercial sites is underway and when completed will identify the development potential and financial return capacity for each site. This expenditure represents work in progress preliminary expenditure and funding arrangements will be put in place as the projects advance. The housing land acquisitions represent land available for use as part of the social housing development programme and this will be recouped as housing schemes are progressed on these sites.

6.6 Paying Orders held by County Solicitor

A review of outstanding payments for various acquisitions by the Council held by the County Solicitor at the end of 2019 was further reviewed at 30 September 2020.

It was noted that there were still outstanding paying orders of €659k relating to housing matters (€67k), road land compensation claims (€436k) and a separate land compensation award for a roads project (€156k) where legal formalities have not been finalised. This latter case refers to a major road contract scheme that has been completed years ago and needs to be brought to a conclusion as a matter of urgency.

Chief Executive's Response

The outstanding payments held on account refer to specific projects that have legal and governance formalities to be completed before the funds are transferred to the third party. The Council is aware of these specific cases and works closely with the Council's legal representatives to resolve any outstanding matters.

6.7 County Library Project Ennis

In December 2019, following the completion of the public tender process carried out in accordance with the Public Procurement Guidelines a contractor was appointed for the above works and a written confirmation letter received from the relevant central funding agency concerned. The construction programme on this project commenced on 6 January 2020. A total of €1.12m has been paid for construction works up to September 2020. There has been no works completed on the site since March 2020.

The Chief Executive's response details the current situation with regard to this project. This matter will be further reviewed at the next audit.

Chief Executive's Response

Work is currently ongoing to retender this project with a view to having construction recommence on site in Quarter 2. Full details on the status of this project will be available for the auditor during the 2020 audit.

6.8 Additional Consultants Fees County Library Project Ennis

During 2019 a claim for additional fees was submitted by the Design Team for the above project and their sub-contractors. The claim was disputed by the Council. In January 2020, the matter was referred to independent conciliation procedures as provided for in the terms of the contract.

The conciliation process concluded during 2020 and the conciliator's recommendation has been received by the Council and is currently undergoing clarification on some of the detail therein. This matter will be further reviewed at the next audit.

Chief Executive's Response

The outcome of the conciliation process will be finalised in the coming weeks. The Design Team and the Council continue to engage positively on the retendering of the construction contract as referenced at 6.7 above.

6.9 Car Parking Facilities at the Cliffs of Moher Centre Legal Costs

In December 2019 the High Court ruled in favour of the Council on a challenge taken by a party with regard to the planning process for the visitor centre at the Cliff of Moher. This ruling is now being appealed to the Court of Higher Appeal by the other party.

The High Court awarded costs in favour of Clare County Council with a stay on said costs order pending the final determination of an appeal. Stay on costs order is still in place and the matter has been appealed to the Court of Appeal and is will be heard in 2021.

The Chief Executive's response details what procedures the Council have put in place on order to recover the sum expended in the action concerned.

At the conclusion of the audit it was recommended to senior management that a report on

any similar material cases in the various divisions where actions by other parties had to be defended by the Council should be prepared for review at the next audit. This report should identify amongst other matters, where legal costs were awarded to the Council, the total costs involved and what actions have been put in place by the Council in order to recover the costs involved. This matter will be further reviewed at the next audit.

Chief Executive's Response

Clare County Council welcomes the decision of the High Court in favour of the local authority in relation to the planning process for the visitor centre at the Cliffs of Moher. The Council has engaged legal representation to respond to the appeal of the other party which is referred to the Court of Higher Appeal. It is expected that this case will be heard during 2021. The Council is seeking through the courts to recover its legal costs incurred from the other party as per the decision of the High Court.

Recovery of legal costs are captured in the Financial Management System and reported as part of the AFS process. Details on these costs as specified can be reviewed with the auditor at next audit.

7 Fixed Assets

7.1 Fixed Assets

Fixed assets were included in the AFS for the first time in 2003. The complete asset bases held at that date were valued in accordance with the guidelines issued by the then Department of Housing, Planning and Local Government (the Department). Since 2003 all assets either purchased or constructed are included in the balance sheet at cost.

In 2014 the financial value of the assets base was further enhanced with the inclusion of assets held by the former town councils of Ennis and Kilrush.

The net book value of fixed assets increased by €16.35m during 2019 with the most significant increase relating to housing additions which accounted for €11.15m of this increase.

The net book value of fixed assets is €2.77billion as outlined in Note 1 to the AFS. This includes Roads and Infrastructure assets of €2.25billion that account for approximately 81% of the total value.

Chief Executive's Response

The Auditors comments are noted. The Fixed Asset accounting register is prepared in line with the Accounting Code of practise (ACOP).

8 Loans Payable

8.1 Loans Payable Overview

Clare County Council has loans payable totalling €83.99m at year end 2019 of which 87.15% are non-mortgage loans (€73.19m). The vast majority of loans payable are Housing Finance

Agency (HFA) borrowings at €48.72m or 58.01% of total loans payable and the remaining balances are with various other financial institutions.

Non-mortgage Loans

The €73.19m of non-mortgage loans as at 31 December 2019 are made up as follows;

- 34.9% or €25.5m relates to Corporate Building Loans
- 16.10% or €11.76m relate to Recoupable and SOS Loans
- 15.9% or €11.62m relate to Housing Land / Maintenance Loans
- 10.6 % or €7.77m relate to Road Loans
- 8.4% or €6.14m relate to the Cliffs of Moher Loans
- 7.2% or €5.3m relate to Recreation and Amenity Projects
- 6.9% or €5.10m relate to Landfill and Recycle Facilities

Loan repayments made during 2019 totalled €6.72m which consisted of principal repayments totalling €6.03m and interest payments of €0.69m. This represents a decrease on the 2018 loan repayments which totalled €6.95m (principal of €6.29m and interest of €0.66m).

The land and housing loans of €11.62m at the year-end included €8.77m which are being repaid on an interest only basis with repayments on these loans totalling €76k during 2019. These repayments are non-recoupable and are therefore funded by Clare County Council's own resources through the revenue budget.

Recoupable Loans

There are recoupable loans totalling €8.35m at year end 2019. These consist of voluntary housing loans (€7.63m) and water related loans (€0.72m). The total repayments on these loans during 2019 were €0.87m (voluntary housing €608k and water related loans €262k) and are fully recoupable by Clare County Council. As these loans are fully recoupable, the loan balances are now recorded in the AFS as loans payable with a matching amount in long term debtors in accordance with Department Circular Fin 01/2018.

Chief Executive's Response

The Council continues to manage its long term finance closely reviewing recoupable loans, terms and interest rates. The land loans referenced have been converted to annuity loans as the period of interest only has ceased. This arrangement clarifies the funding arrangement for these housing lands. The recoupable loans are claimed bi-annually from the funding department.

9 Development Contributions

9.1 Development Contributions Overview

Included in trade debtors and prepayments at 31 December 2019 was €3.41m (2018 - €3.8m) in respect of development contributions due to the Council (Note 5 of the AFS).

In accordance with Circular Fin 04/2017 issued by the Department, the current element only (i.e. outstanding accounts due for payment in the following twelve months) of the development contributions debt book was included as a debtor in the 2019 AFS.

Following a review of post year end receipts, €433k of the year end net debtor had been collected at the end of December 2020.

9.2 Bad Debt Provision

A provision for doubtful debts relating to development contributions of €2.91m (representing 85% of the debt) has been made and is included in the overall 2019 bad debt provision of €14.58m. The bad debt provision comprises largely of accounts where the development phase of projects is uncertain to go ahead and/or the amount billed is unlikely to be realised in the short-term.

An aged debtor analysis of development contributions shows 78.6% of the current debtor amount is greater than five years.

A yearly review of the bad debt provision should be undertaken to ensure that it is appropriate.

9.3 Review of Arrears

A review of the top twenty net development debtors identified that there are arrears totalling €2.12m on these accounts at year end. These debtors amount to 62% of the development debtors of €3.41m. A summary of these twenty accounts may be classified as follows:

Classification	Amount €	%
Potential Bad Debt Write off	0.77m	36
Active / Payment Plan	0.04m	2
Paid in full 2019	0.33m	16
Credits as levies not due	0.98m	46

The payment plans are generally within the lifetime of the planning permission i.e. generally greater than one year.

Chief Executive's Response

The auditor's comments are noted. Development Contributions billing and collection are monitored and reviewed on an on-going basis by the planning department. The level of debt associated with the top twenty development debtors has fallen from €2.78m in 2018 to €2.12m in 2019. This represents a significant reduction of 23%. There are a number of developments that initiated commencement but did not proceed further than site opening development works and these amounts that are reported as due and payable are being reviewed on an ongoing basis.

There are also some developments in the statutory company insolvency process that await final determination

10 Procurement

10.1 Public Spending Code

The Council has completed the "Quality Assurance Report 2019". This report reflects the Council's self-assessment of compliance with the Public Spending Code.

The report as submitted to National Oversight Audit Commission (NOAC) included in-depth checks carried out on Shannon Town Flood Relief and the Council's Housing Grants

10.2 Use of Service Organisations

Arising from review at audit of procurement of services from third party providers it was noted that the contract with the facilitator of the on line Parking Systems had expired in 2019. I am informed that the matter has not be rectified as of yet and needs to be addressed as a matter of urgency.

Chief Executive's Response

The Council's planned parking review in 2019 was deferred as a result of COVID-19. This will be a review of its parking arrangements and systems across the county and include all elements of parking to include the area highlighted by the auditor.

11 Governance and Propriety

11.1 Governance Overview

Corporate governance comprises the systems and procedures by which enterprises are directed and controlled. It is the responsibility of management to ensure that such systems and procedures exist and are robust.

11.2 Internal Audit Function

The quality of output of the internal audit unit is of a high standard. The internal auditor reports directly to the audit committee and the Head of Finance. It is recommended that in future that the internal auditor reports directly to the Chief Executive as is the practice in other similar

organisations.

During 2019 the unit issued seventeen reports including two reviews related to the Council's obligations under the Public Spending Code. I have taken account of the findings in these reports, in the course of my audit.

Chief Executive's Response

The comments of the Local Government Auditor in relation to internal audit are noted. The recommendations made by Internal Audit in their reports are tracked by that unit and are reported at Senior Management level and Audit Committee on a continuous basis.

11.3 Audit Committee

The audit committee met five times during 2019. The annual report of the audit committee was presented and approved by the Council in February 2020. The minutes and report of the committee were made available to me at audit. I commend the work undertaken by the audit committee which contributes to the independent oversight of the corporate governance within the Council.

Chief Executive's Response

The audit committee is a key element of the governance structure in Clare County Council, having an independent role in oversight and audit. The committee meets the Chief Executive and members of Management team during the year in relation to their service areas.

11.4 Risk Management

An effective risk management framework provides the executive management and the Council members with assurance that major organisational risk are identified and appropriately managed.

The Council's Risk Management Policy was updated and adopted by the management team in June 2019. The Council has corporate / directorate risk registers in place and these are currently being reviewed and updated as part of senior management team objectives for 2021-2024.

The area of risk management as outlined are of significant importance for the Council. The corporate risk register is reviewed by senior management, while individual directorate risk registers aligned to the annual team plan are also in place.

Chief Executive's Response

The area of risk management as outlined is of significant importance for the Council. Individual directorate risk registers are aligned to the annual team plan and reviewed in line with the risk management framework.

The Council plans an independent review of the Risk Registers framework in 2021.

12 Other Matters

12.1 Deferred Income

Deferred income is recorded in AFS 2019 as €12.28m which is less than the 2018 figure of €12.77m and is made up as follows;

- Capital €10.06m
- Revenue €1.5m
- Irish Water €0.72m

The material elements of deferred income amount noted above are as follows;

- Roads – Bonds €3.10m
- Roads – Other €2.25m
- Storm €0.75m
- Housing & Building €1.03m
- Other Projects €2.95m

Chief Executive's Response

Deferred income refers to income that the Council has received for specific projects or works and is carried forward until the expenditure is incurred. This consists of the elements outlined above and relates to a number of areas for example:

1. Planning Development bonds held for completion of estate taking in charge
2. Roads restoration projects from special contributions received as part of the planning process
3. The 0.720m Irish Water SLA amount is advance working capital from Irish Water. It is to be treated as deferred income for the life of the SLA (12 years).
4. Local Enterprise Office refundable aid funds available for future grant aid.

The Council is fully committed to bringing these projects to a successful conclusion as soon as practicable. These balances are reviewed quarterly and released to the revenue and capital account as appropriate.

12.2 Ennis Leisure Centre

At the end of 2019 operating losses of €565k were recorded at the above centre. There is an increasing pattern of losses at the facility with a deficit of €347k recorded in 2018. The continuing losses being incurred here is not sustainable and procedures to rectify this issue should be put in train in order to address this situation.

During 2019 senior management engaged an independent consultancy firm who specialise in leisure facilities to undertake a report on the operations and management of the above centre.

The main recommendations of the report included the following:

- Tighter financial control over income and expenditure is required including regular performance reports
- A review of third party contracts and staffing levels should be conducted.

At the conclusion of the previous audit, senior management were requested to prepare a report on these findings. The Chief Executive's Response hereunder details senior management's response to the aforementioned matters.

Chief Executive's Response

It is accepted the losses incurred for this facility are unsustainable. In late 2019 a new pricing and activity schedule to maximise income was agreed. There is a renewed focus on the management of income and expenditure with significant oversight by senior management to manage the budget. A separate report on the actions identified in the independent report and the status of same has been provided to the auditor.

The review of the third party contracts is ongoing with contracts reviewed as they fall due and a review of staffing levels has been completed with necessary amendment to minimise cost.

As a result of COVID-19 restrictions on business and society, the facility was closed for most of 2020 and some of the actions are deferred. It is therefore difficult to measure the benefit of the changes in terms of the overall operating loss at this time. This will be further reviewed with the auditor at the next audit.

12.3 Insurance Matters

At the end of September 2020 there were 181 outstanding insurance claims on the books of the Council's insurers Irish Pubic Bodies (IPB) with a potential gross value estimated at €9.29m (IPB valuation). Of these, 174 claims relate to public liability cases, which account for 96.13% of the total claims to be settled and 96.84% of the potential settlement costs.

During 2019 IPB informed the Council that it would be in receipt of a retained earnings distribution of €0.6m in 2019. All such sums will be accounted for in accordance with the recommended accounting principles relating to this matter.

Chief Executive's Response

The auditor comments are noted. These related to claims with the Council's insurers awaiting conclusion and are an estimate of the potential total cost of the claim. The settlements of these claims will have no impact on the Council's finances as they are fully covered under the insurance policies in place.

12.4 Government Debtors

At the end of 2019, government debtors stood at €13.72m (2018 - €12.4m), the majority of which related to projects which were capital in nature. Of this total €11.74m is shown as due from the Department of Housing, Local Government and Heritage.

At the end of December 2020 a total balance of €3.2m still remains unpaid, €2.5m of this balance relates to projects in the initial stages and has yet to be claimed from the Department.

Senior management with responsibility for such debtors should again ensure that debtors of this nature are collected promptly.

Chief Executive's Response

The Council welcomes the Auditor's observations in this area, highlighting the level of investment by Clare County Council in Local Authority Social Housing Investment programme that was due to this Council at the year-end December 2019.

In 2019 the internal process for tracking claims made and due from the department has been amended to put a more robust system of recording and reporting on this high value area. The Council continues to advance these schemes through the various stages of planning and design until a claim can be made for recoupment of the grant from the department. There is therefore a time period during this process that the Council carries this expenditure and reports it in the annual accounts as a government debtor.

13 Timelines for Responses and Preparation of Accounts Deadline

The draft AFS for 2019 was signed by the Chief Executive and Head of Finance, submitted to the Department and presented for audit in June 2020. This was in accordance with Circular Fin 03/2020 Preparation and Submission of the Annual Financial Statement 2019.

It is also acknowledged that audit requests were addressed by the Council in a timely and professional manner in challenging conditions while adapting to new work practices as a result of the global pandemic. I would like to particularly thank the Head of Finance, the Financial / Management Accountants respectively and all the finance staff for their assistance and courtesy during the course of the 2019 audit process.

Acknowledgement

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

Thomas O'Callaghan.

Thomas O'Callaghan
Local Government Auditor

29 January 2021

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Department of Housing, Local Government and Heritage