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Government of Ireland

LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Waterford City and County Council

for the

Year Ended 31 December 2017

Department of Housing, Planning and Local Government

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AUDITOR'S REPORT TO THE MEMBERS OF WATERFORD CITY AND COUNTY COUNCIL

1. Introduction

I have audited the Annual Financial Statement (AFS) of Waterford City and County Council for the year ended 31 December 2017, which comprise the Statement of Accounting Policies, Statement of Comprehensive Income, Statement of Financial Position, Funds Flow Statement and notes to and forming part of the accounts. The financial reporting framework that has been applied in its preparation is the Code of Practice and Accounting Regulations for Local Authorities, as prescribed by the Minister for Housing, Planning and Local Government.

My main statutory responsibility, following the completion of the audit work, is to express my independent audit opinion on the AFS of the Council, as to whether it presents fairly the financial position at 31 December 2017 and its income and expenditure. My audit opinion, which is unmodified, is stated on page 3a of the AFS.

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

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

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

2. Financial Standing

2.1. Statement of Comprehensive Income

The Council recorded a surplus of €505k for the year after transfers to reserves of €3.6m, reducing the Council's General Revenue Reserve deficit to €7.1m. A significant one-off contributory factor in the reduction was the transfer of the €495k surplus from the Specific Revenue Reserve. The outturn continued the trend of small annual reductions in the deficit in accordance with the Council's 2014 loan drawdown and refinancing plan, which aims to reduce the deficit over thirty years.

Reduction of the deficit must remain a key objective of the members and management who may consider reducing the deficit over a shorter time frame. Both income and expenditure were below the previous year level, with the income declined greater than that of expenditure.

Chief Executive's Response

Ideally an accelerated reduction in the deficit can be achieved. However, against the backdrop of increased demands for services and the impact on revenue budgets the accelerated reduction would be too great from a service delivery perspective. Therefore, we have decided to unwind the deficit over a longer period of time.

2.2. Transfers to Reserves

Significant variances between the AFS and the annual budget were recorded in Note 16 to the AFS. These amounted to €2.2m and €1.6m for income and expenditure respectively. The variance, including additional expenditure of over €1m, not included in the original budget, was approved by the Members in accordance with Section 104 of the Local Government Act 2001, at their meeting in June 2018. Management should strengthen its budgetary and financial oversight processes to ensure that variances are minimised.

Chief Executive's Response

The increased variance in both income and expenditure to budget was in the main related to the road works program. The net deficit on the service mainly increased due to non-budgeted expenditure. The variance was approved by the Members as part of the Section 104 resolution.

2.3. Rates on Water Treatment Facilities

Irish Water (IW) related infrastructure was included in the rate revaluation process undertaken in 2014 by the Valuation Office for the Council. This resulted in an increase of almost €4m in the Council's annual commercial rates income. An exemption from commercial rates was later granted to IW, but this was replaced by a corresponding state compensation each year, with €4.5m received in 2017.

However, the exemption was removed in 2017 and water related infrastructure will be subjected to inclusion in the global valuations process. To date, the Council has continued to be compensated. However, the financial impact of this change, continued compensation, and any impact on future Council income needs to be closely monitored.

Chief Executive's Response

The significance of this is well understood by the executive in terms of its impact on the Council's Annual Budget. Any proposed changes at national level will be closely monitored.

2.4. Shared Ownership Loans

The Council's revenue account contained an estimated adjustment of €1m between the revenue account and long term debtors in respect of transfers that management asserted were due. This (expenditure) adjustment was in respect of transfers provided for in the mortgage agreement, for movement between rental charges and interest rates. Heretofore, this adjustment was made when an individual loan was redeemed. The change in accounting policy was not disclosed in the Statement of Accounting policies in the notes to the AFS.
At audit, I requested management to ensure that this adjustment / provision is properly

calculated, in accordance with the loan agreement and other regulations, and assigned to each individual loan account balance before completion of the 2018 AFS.

Chief Executive's Response

The recognition of these sums was in the prior year records. In relation to the Annual Financial Statement for 2018, a more detailed exercise will be carried out to establish the individual sums in question. Accounting entries will be undertaken to provide assurance as to individual account calculations.

2.5. Statement of Financial Position (Balance Sheet)

The net current liability position deteriorated further to close at €10.4m, an increase of €2.6m on the previous year. This continues the trend of increasing liability that has been evident over the last few years. The Council has been in a permanent overdrawn position with the bank for over two years. The continued reliance on this 'permanent' overdraft facility, together with bridging and refinancing loans recorded in Note 7 (that have become akin to longer term loans) is a matter of concern.

Chief Executive's Response

The level of and outflow timing of capital activities is the main reason for the outturn in 2017. State grant income realised on major projects such as the Greenway were below the level anticipated and the combination of these items led to above position. Council investment in long term capital projects to develop the city and county is significant and the aim is to manage this over an extended period. It is our intention to correct this position over the next few years through the Council's capital investment program by limiting the extent of the Council's contribution.

3. Income Collection

A summary of the major collection yield and corresponding closing debtors, with comparative for the previous year, are as follows:

Income Source	Yield %		Debtors €m	
	2017	2016	2017	2016
Rates	79	81	8.3	8.2
Housing Loans	61	58	1.9	2.1
Rents and Annuities	77	79	3.6	3.2

The Council's general performance on income collection requires improvement as arrears increased to €13.8m. Improvement is required across all income streams. At audit, shortcomings were noted in the use of accounting controls for effective reporting on collections in accordance with the categories detailed in Note 5 to the AFS. Management should consider establishing an effective centrally managed income collection system to drive performance, oversee staff and properly administer the accounting entries. This will contribute to improved information on the performance of individual income streams.

Chief Executive's Response

The best options regarding operational structures are currently being considered given the need to strategically focus on the collective areas of debtor account monitoring, reporting

and controls.

3.1. Commercial Rates

The Council achieved a collection yield of 79%, a fall on the previous year, with arrears rising to €8.3m. Arrears written off amounted to €1.5m which was consistent with previous years. The collection performance was at the lower range of the scale compared with other local authorities. At audit, arrears of approximately €1.3m were reviewed with individual collectors to establish progress made in the collection of these amounts. A high level of property vacancies and legal enforcements were noted. The bad debts provision remained consistent with the previous year at €3.3m

I have recommended that the documented procedures for the formal review of arrears authorised by management is improved, and that credit balances on customer accounts are reviewed.

Chief Executive's Response

The collection percentage for 2017, if calculated on a like for like basis with 2016, when "commercial rates" on water networks were accounted for under this heading would have been 82%. The procedure around the review of accounts is being addressed on an ongoing basis.

3.2. Rents and Rental Assistance Scheme (RAS)

Housing rents recorded a collection yield of 77%, with year-end arrears increasing by €400k to close at €3.6m, net of credits. The collection performance is at the lower range of the scale when compared with other local authorities. The increase in arrears continues a trend of steadily increasing customer balances with the Council effectively addressing the current accrual, and not the accumulating arrears. A review of these balances at audit noted:

- Gross arrears amounted to over €4.3m – (after removing credits)
- Included in the arrears were 211 customer balances amounting to €900k. The Council housing records reported that these customers had individual arrears in excess of €1,000 each while having a household income of over €500pw (Net). A significant portion of these were not in payment plans.
- Payment plans to recover arrears are extending over a prolonged periods (years).
- No effective action to address over 390 households who did not return income details.
- Minimum rent charges are amongst the lowest in local authorities at between €16 / €18 pw for a housing unit
- Three separate rent schemes are in operation, some have not been reviewed since 2012.
- Annual rent assessments are not conducted.
- Manual records do not facilitate effective review of rent assessments.

There is a need for management to review the operational effectiveness of its rent collection, rent schemes and collection methods. An increase in the bad debts provision, which stood at €1.2m at year end, may be required if performance does not improve.

Chief Executive's Response

- A very high percentage (80%) of cases in arrears are in payment plans and Housing are proactive in pushing same. No housing services are provided to households not returning income details. These will be reviewed and followed up.
- A national Differential Rent Scheme is proposed in Rebuilding Ireland and in the event of failure to implement same this Council will seek to reconcile and rationalise the three existing rent schemes into one scheme in the next year. Annual rent assessments are being conducted since 2017 and will be carried out annually in the future. The issue of manual records is being addressed.

3.3. Housing Loans

The Council continued to record a poor collection performance on housing loans with the top 50 customer accounts in arrears amounting to €1.79m. At year end, total arrears on the loan book amounted to €3.4m off set by specific provisions of €1.36m and other small credit balances. The bad debts provision amounted to €1.2m with the level of uncollectable loan write-off at €300k is one of the highest when compared with other local authorities.

Chief Executive's Response

During 2018, initiatives were advanced in terms of appropriate loans being re-structured and in cases of unsustainability with a move to the Mortgage to Rent scheme for some customers. The issue of provision sums within debtor balances is being reviewed.

3.4. Debtors and Provisions for Doubtful debts

Debtors, including the main collection accounts detailed above are recorded in Note 5 to the AFS and amounted to €38m at year end. The Council provision for bad debts is also recorded in this note and amounted to €8.4m.

In addition, the Council utilises a number of specific bad debt provisions within certain income departments that was previously highlighted at audit. At year end, these provisions amounted to €1.7m. I have again requested that this practice cease and that the credit balances are assigned to relevant customer accounts. These specific provisions also impact on the reported performance yields for the main collection accounts.

Chief Executive's Response

The issue of more timely application of provisions against individual accounts for reasons of vacancy for commercial rates or exhausted legal proceedings generally will be prioritised to ensure a more updated status on outstanding debt.

4. Transfer of Water and Sewerage Functions to Irish Water (IW)

Responsibility for the delivery of water production and treatment was transferred to IW in 2014 with the Council continuing to deliver services on their behalf in accordance with a service level agreement. In 2017, income from the provision of these services amounted to €9.5m and provided a valuable contribution to the Council operational overheads and central management charge. No significant progress has been made with issues highlighted

at the last audit in respect of:

- Legacy transfer of assets: Over 364 properties were due to be transferred to IW - to date the largest assets have transferred, the remaining schemes are delayed by a wide range of issues including title registration and mapping.
- A reciprocal payment provided for, in the final balancing statement, a sinking fund related a Design Building and Operate scheme remains to be resolved.
- Planning contributions of approximately €685k were recorded in accruals and remain to be transferred to IW pending a review of historical planning contributions.

Chief Executive's Response

- Detailed work continues between the Council and I.W. to bring the remaining items to a conclusion. The Property Registration Authority of Ireland are being engaged with to enable progress to be made on historical mapping issues.
- The sinking fund remains in place as it is dependent on a resolution of this a matter between I.W. and the third party service provider.
- This issue of final agreement of values for water planning contributions will be looked at as part of the 2018 AFS.

5. Capital Account

The deficit on the capital account increased by over €900k, to close at €6.6m and comprised deficit balances of €31.3m and reserves of €24.7m. Work remains outstanding in consolidating the 560 separate project balances on the capital account. Included in capital expenditure of €33m for the year were the following main projects:

	€
• WCURS (Waterford)	5.1m
• Greenway	5.6m
• Housing Acquisition	5.4m
• North Quay Development	1.8m
• Dungarvan Town Center	1.3m

During the year inter-capital transfers of over €13m were allocated to the Greenway and the Dungarvan Town Centre projects, reducing their year-end deficit balances to €808k.

5.1. WCURS (Waterford City Centre Urban Renewal Schemes)

The deficit on this scheme was highlighted at the last audit. It is now expected that the scheme will costs over €12m with approximately fifty percent coming from Council funds. As previously highlighted the costs incurred on additional works undertaken for third parties remains to be recouped. Council procedures for controlling and managing the approval of these additional costs remain to be improved. At present, the scheme records a deficit of €5m which requires an element of funding from the Council's own resources presenting a challenge for the Council.

Chief Executive's Response

Funding of the scheme is being addressed in terms of overall capital funding. The Council continues to look to maximise grant funding on the various elements making up this scheme. Monies have been recovered from state utilities in respect of additional works

requested by them.

5.2. Housing Acquisitions

Expenditure of €5.48m was recorded for housing acquisition and developments. A year end (net) closing deficit of €183k was recorded. A significant level of grants funding was included in the year-end government debtors in respect of these projects and this remained to be collected at the date of audit.

Included in the expenditure were a number of schemes which recorded deficit balances totalling €1.15m. These mainly comprised buy and renew developments, a rough sleeper shelter constructed on leased land, that had not received funding and a 16-unit apartment scheme delayed due to difficulties in acquiring remaining units. Some of the delays date back to 2016 and the Council will have to self-fund these projects until grant funding is obtained.

Chief Executive's Response

The balances referenced above have been sought from the Department and progress is being made in realising the grants.

5.3. Turn Key Housing Acquisitions

The Council also entered into a number of significant turn-key housing acquisition contracts during 2017, while incurring only minor preliminary expenditure for the acquisition of 113 housing units across five separate projects. These projects, with a committed cost of €21.7m are due for completion and delivery in 2018. The timely funding of these projects from state grants is a critical matter for the Council to ensure that they operate within the limits of their current bank overdraft.

Chief Executive's Response

Given the significant impact these specific projects have on Council's finances and cash flow the Housing Section has prioritised work to minimise any delays in the timelines.

5.4. North Quay Development

At year end the North Quay project, included in work in progress, recorded a deficit of €2.4m in respect of preliminary costs. The Council is actively engaging with private developers to develop this site and is also hoping to source significant state funding.

Chief Executive's Response

The North Quay development project has been submitted for significant Urban Regeneration Development funding in September 2018.

5.5. Waterside Car Park Development

This carpark was completed in 2017, at a cost of €1.6m, on land leased from Bord Gais who also made a capped capital contribution. At present, a deficit of over €500k remains to be funded, mainly due to increased costs that were not included in the original design and tender. The increased costs mainly comprised works at the access bridge, public lighting and treatment of Japanese Knotweed. At audit, concern was expressed to management at the delays in recouping amounts from Bord Gais, the absence of formal management approvals and controls in respect of the additional works.

Chief Executive's Response

A positive adjustment of €200k relating to site construction tax (VAT) will process in 2018. The balance to be funded as part of the 2018 capital account allocation process.

5.6. Land Bank Deficits and Loans

Deficit balances of €3.4 million were recorded on capital account in respect of land holdings requiring funding. These balances are in addition to over €6.5m recorded in long term land loans classified as asset loans in Note 7 to the AFS.

Chief Executive's Response

Currently any historical purchased land is being reviewed in terms of its use, whether it can be developed or sold. With any proceeds being applied to the deficit balances above.

5.7. Budgetary Control and Management Approvals

Additional costs continue to be incurred on a number of projects without the required formal management approvals as required by the Council's policies and procedures prior to the expenditure being incurred. This results in continuing funding shortfalls arising on projects and has been a significant contributing factor in the deficit balance arising on the Capital Account.

Management should have in place appropriate operational structures to control and approve additional works, while also identifying the relevant funding sources. Project files should also appropriately record the decision making process and retain suitable underlying documentation to clearly demonstrate proper accountability and transparency in the administration of public funds.

Chief Executive's Response

It is acknowledged that, in some circumstances where additional works are directed, formal approval procedures need to be put in place. Equally additional costs often occur that are a result of contractual obligation and these need to be handled through contract process and cannot be subject to formal approval procedures.

6. Fixed Assets

The value of assets reduced marginally mainly due to movements with housing stock. Shortcomings in asset records have previously been highlighted and significant work remains to be done in order to facilitate completion of a proper reconciliation of subsidiary records of the AFS.

Certain land and other property records are currently held in summary codes within the fixed assets records. These require de-aggregation and reconciliation to subsidiary records including the Property Registration Authority of Ireland information in order to identify each land holding. In addition, a review of heritage records and a review of the efficiency and cost effectiveness of the plant and machinery yards' which were recommended during the last audit remain to be completed.

The review of the yards should include the procedures for plant and fleet acquisition and disposal, to ensure that acquisitions are commensurate with service delivery and value for money.

Chief Executive's Response

The de-aggregation of a grouped land bank is currently being reviewed with the intent of breaking it down into its individual land parcels. The issue of the review of heritage assets will be considered as part of the 2018 AFS preparation process.
A review of the Machinery Yard procedures for plant and fleet acquisition is underway and will be completed by January 2019

6.1. Holy Ghost Properties

A number of years ago the Council entered into an agreement for the purchase of properties by way of deferred annual payment of €110,000 over twenty years. During 2017, the Council disposed of one of these properties for €50k. This property was independently valued in excess of the sale price.

It is acknowledged that the property was in poor repair. Nonetheless, a core objective of the original purchase was the enhancement of the quay and adjacent Viking Triangle area. Other properties, acquired as part of the original acquisition, have been repaired and let to commercial and other undertaking by the Council. Notwithstanding, a provision in the sale contract for the purchaser to upgrade the premises, the building remains in a state of apparent disrepair amidst the Council's ongoing development and extensive expenditure within the Viking Triangle.

Chief Executive's Response

The sale price of the property was agreed following risk analysis that outlined that the costs of maintenance intervention would be too great and a contract clause was provided for in the sale requiring the purchaser to undertake the works. This has not been done and this Council will seek remedy under the contract in this respect.

7. Loans Payable

Council long term borrowings amounted to €135m at year end, including additional borrowing of €4m drawn down in 2017. These new borrowing represents the final drawdown of a €33m re-financing arrangement that commenced in 2014.

Overall borrowings include €26.9m for approved housing bodies and water production which are recoupable from state funds. Revenue funded borrowings of €67.5m remained at a high level, as summarised in Note 7 to the AFS. These include loans of €14.1m held on an interest only basis. These interest only loans were mainly drawn down between 2008 and 2011 on a short term basis to provide bridging finance. However, they remain a separate source of core Council financing, along with bank overdraft facilities. An appropriate funding arrangement for the full annuity repayment of these loans remains to be addressed by the Council.

Chief Executive's Response

€11.1 million of the interest only relates to Social Leasing Schemes, where the interest is recouped. The balance is allowed for and funded from the Council's own resources.

8. Refundable Deposits

Refundable deposits of €2.77m are recorded in Note 8 to the AFS. The general ledger records some details in respect of this amount. However, the general ledger entries were originally based on separate manual records maintained by operational sections. Management did not provide an appropriate reconciliation and supporting schedules in respect of these deposits. I have again recommended that this matter be attended to.

Chief Executive's Response

This Council will look to improve the reconciliation process as part of next year's year-end Annual Financial Statement process.

9. Procurement

Shortcomings in the Council's procurement process were highlighted in a number of years audit reports. In 2015, a report by consultants, employed by the Council, identified systemic defects, and made recommendations to address the identified weaknesses. The Council has since established a procurements section to implement the recommendations and progress was noted at the last audit. Nonetheless, at audit it was noted that an additional overarching weakness was the absence of effective reporting to senior management on the progress made and issues requiring further effective action. Since then the Council's procurement section has worked to collate the considerable detail available into effective management reports, the first of which became available in early 2018.

Notwithstanding, that the Council reported to National Oversight & Audit Commission (NOAC) that its performance under the Public Spending Code was generally positive on larger projects, the initial results from the new procurement self-assessment reports were somewhat disappointing.

The main issue identified is that certain budget holders were not operating in compliance with required procurement directives on individual contracts for amounts under €25k. These 'smaller' contracts represent a significant level of annual expenditure when aggregated for both the suppliers and the Council. The reports also highlighted on-going deficiencies regarding:

- Long standing legacy contracts
- Single supplier exceptions requiring specific Director of service approval.

- The use of multiple individual quotations for expenditure amounts under €5k, that aggregate to significant expenditure requiring a formal tender / procurement process.

Arising from these reports, senior management can now take effective action to ensure that all budget holders are exercising effective administrative oversight of their responsibilities in accordance with the Council's obligation for operational procurement. In order to address the shortcomings, consideration could also be given to reducing the number staff actively involved in procurement from its current level of over two hundred.

Chief Executive's Response

Significant improvements have been brought about in the area of procurement through the Procurement Team and training.

10. Local Authority Companies

Appendix 8 to the AFS provides some details on the Council's relationship with these entities including loan guarantees of €5.1m. Funding of €790k was advanced by the Council during 2017 and includes supports to a number of entities not included on the schedule. The entities are wholly or almost wholly depended on the public funds, facilities, premises or other assistances provided by the Council.

While the Council exercises significant influence and control over the various companies and entities, there was no significant progress made with previous audit recommendations. These included the introduction of an overarching governance structure for entities to ensure a consistent corporate oversight and reporting arrangement that would provide assurance that risk and performance issues are identified and addressed on a timely basis.

There was also a poor response to an audit questionnaire issued to the entities by Council management.

Chief Executive's Response

For future audits the authority will look to ensure that responses are sought and are returned back to the Council.

10.1. Other Community Entities

The Council provides facilities and assistance to other community entities including the Waterford Sports Partnership and Waterford Public Participation Network with Council staff involved in the management of these entities. I have recommended that governance arrangements between the Council and these entities be reviewed, that control accounts be appraised by senior management to ensure that monies due are remitted on a timely basis, in order to eliminate related deficits in the Council's AFS.

Chief Executive's Response

A reconciliation process exists between Waterford Sports Partnership and the Council annually given the scale of activity which transacts through the Council's financial records. With regard to other community entities, we will seek to examine any other significant entities and look at appropriate checking of financial transactions.

11. Governance

11.1. Audit Committee

The Audit Committee met on three occasions during 2017 and I attended their January 2018 meeting to discuss my audit report. Their annual report to Council and the committee's minutes detailed their work for the year including: approval of internal audit work plans, an update of the audit charter, risk management oversight, presentations from directorates, Regional Audit Forum meeting, senior management briefings and reviewing the implementation of internal audit report recommendations.

11.2. Internal Audit

Previous audit reports have highlighted resourcing and leadership issues within the unit, mainly related to adequate staffing. In late 2017, a new internal auditor was appointed which rejuvenated the unit's work, resulting in the presentation of five reports to the Audit Committee for their consideration. The work of the unit was considered during the course of the audit.

11.3. Ethics Returns / Code of Conduct

The Council Ethics Registrar advised that annual returns were received from relevant persons and that the required reports to the Chief Executive on non-compliance were made. Arising from my review, recommendations were made to the acting Director of Service, Corporate, Culture, H.R. and I.S that Council's procedures for monitoring the requirements of Section 7 of the Code of Conduct for Local Authority Employees be further improved.

11.4. Risk Management

The Council improved their risk management register with the identification of overarching corporate risks. I have recommended that the Council standardise the format of individual directorate risk registers to facilitate analysis. Management could also consider the introduction of a Risk Management Policy to further develop awareness and understanding of potential risks to the Council and to improve the risk management culture and ethos in all decision making.

11.5. Preparation of Accounts

The Local Government Act 2001, and the Code of Practice and Accounting Regulation require local authorities to prepare their Annual Financial Statement (AFS) by March 31st each year. The 2017 draft AFS was not finalised until May 2018 and not presented to Members until their June meeting. The Council should work to complete its AFS by March of the following year, in common with the majority of other local authorities

Chief Executive's Response

The Council will continue to strive to achieve publication on a timely basis.

12. Payroll and Travel Costs

Throughout the year a consistent and significant level of overtime was recorded in the delivery of operational activities. At audit, management attention was drawn to the requirements of the Organisation of Working Time Act, 1997 (as amended). It was also recommended that they ensure that their obligations, in respect of other relevant employee welfare legislation, are properly observed. Senior management and direct line management supervision and the quality of information maintained within the system, for oversight and statutory reasons, are in need of improvement. There also remains a need to introduce common standards for overtime pay and allowances within the Council.

Travel and subsistence costs for training increased significantly in the year. I have requested management to review current arrangement to ensure compliance with public sector norms.

Chief Executive's Response

Waterford City and County Council will undertake a formal review of overtime and travel policies and procedures to be completed in early 2019.

13. Acknowledgement

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

James Moran
Local Government Auditor

23rd October 2018

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Department of Housing, Planning and Local Government

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