



LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Dun Laoghaire Rathdown County Council

for the

Year Ended 31 December 2010



Comhshaol, Pobal agus Rialtas Áitiúil
Environment, Community and Local Government

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DUN LAOGHAIRE RATHDOWN COUNTY COUNCIL

1. Introduction

1.1 I have completed the statutory audit of the accounts of Dun Laoghaire Rathdown County Council for the year ended 31 December 2010. My audit opinion, on the Annual Financial Statement (AFS) of the Council, which is unqualified, is stated on page 5.

1.2 This report is issued in accordance with section 120 of the Local Government Act, 2001.

2. Main Issues

Attention is drawn to the following main issues in this report:

- The decrease in the Council's bank balance and investment balances (paragraph 4.2)
- The Council's stock of unsold affordable houses and apartments amounted to 155 at the end of 2010 (paragraph 5.4)
- A review of capital account balances including the consolidation of scheme codes and reallocation of reserves (paragraph 5.5)
- An underlying trend of increased arrears on the main income sources. Arrears in the three of the four main collection categories have again increased in 2010. The commercial water charges collection percentage remained low in 2010 at 41% despite an increase from 39% in 2009, but it is still much lower than the yield of 62% achieved in 2005 (paragraphs 6.2 to 6.6)
- The Council ceased to collect waste from householders as at 30 June 2010 (paragraph 7.1)
- Cherrywood Science and Technology Park (paragraph 7.2)
- The management of certain aspects of the Council's public procurement procedures and practices need to be improved to ensure the delivery of better value for money (paragraph 7.3).

3. Financial Performance

3.1 The Income and Expenditure account with comparative figures for the previous year may be summarised as follows:

	2010 €000	2009 €000
Expenditure	188,436	200,179
Income	<u>200,203</u>	<u>211,396</u>
Surplus/(Deficit) for year before transfers	11,767	11,217
Transfers (to)/from reserves	<u>(11,651)</u>	<u>(11,204)</u>
Overall surplus /(Deficit) for year	116	13
Opening Balance at 1 st January	<u>8,994</u>	<u>8,981</u>
Closing Balance at 31 st December	<u>9,110</u>	<u>8,994</u>

3.2 The transfers between the revenue and capital accounts are set out in note 15 of the AFS. All transfers were approved by the Council.

4. Financial Standing

4.1 The Council's state of affairs at the 31 December 2010 as shown in the Balance Sheet may be summarised as follows: -

	2010 €m	2009 €m
Fixed Assets	2,835	2,719
Work in Progress & Preliminary Expenses	686	819
Long Term Debtors	147	146
Net Current Assets	151	147
Long Term Creditors	<u>(225)</u>	<u>(189)</u>
Net Assets	<u>3,594</u>	<u>3,642</u>
Represented by:		
Capitalisation account		
Income WIP	2,835	2,719
Specific Revenue Balance	704	776
General Revenue Balance	18	18
Other Balances	9	9
	28	120
	<u>3,594</u>	<u>3,642</u>

4.2 The Council had bank investments of €109m at the 31 December 2010 and these included refundable deposits of €5.8m. This is a big decrease from the amount of €134m at the 31 December 2009.

4.3 **Unfunded Balances:** The Council's accounts disclose that it has net capital expenditure of €87.6m, which will require funding. At the year-end unfunded project balances amounted to €48.8m and the unfunded non project balances amounted to €14.4m (see note 11 in AFS). The unfunded net work in progress and preliminary expenses amounted to €24.4m at the year end (see note 2 in AFS). The total of these unfunded balances is €87.6m (€75.3m in 2009), and the Council should immediately identify the source of funding for the various projects.

4.4 **Trade Debtors:** Included under trade debtors is an amount of €40.5m for affordable housing. The Department of Environment, Community and Local Government (the Department), through a working group, is reviewing the accounting treatment of affordable housing.

5. Capital Account

5.1 The capital account records income and expenditure in respect of the acquisition and provision of assets related to services provided by the Council. The capital account balances have been de-aggregated for the purpose of disclosure in the balance sheet, and this is shown in note 12 of the AFS. Loans and assistance to persons housing themselves are excluded from the capital account as these are accounted for separately in the balance sheet.

5.2 A summary of the transactions on the capital account with comparative figures for 2009 is as follows:

	2010	2009
	€000	€000
Expenditure (including transfers)	245,819	201,818
Income (including transfers)	<u>205,325</u>	<u>142,521</u>
Outturn for the year	(40,494)	(59,297)
Opening Balance Favourable/(Adverse)	<u>109,379</u>	<u>168,676</u>
Closing Balance Favourable/(Adverse)	<u>68,885</u>	<u>109,379</u>

5.3 Three Year Capital Programme Report

Section 135 of the Local Government Act, 2001 requires that a report on the program of capital projects proposed by the authority for the year under review and the following two years to be submitted to the members of the Council. This was passed by the Council at a meeting held on 21 December 2009.

5.4 Affordable Housing

The Council had 155 affordable units on hand and available for sale at end of 2010. The downturn in the housing market has affected the sales of the affordable houses. Every effort should now be made to maximise housing unit sales while ensuring that the Council receives the best available value for

the properties sold. The proposed sale price in all cases is at a substantial discount as compared to the acquisition price.

Agreement has been reached with the Department to transfer 31 of the units to social leasing.

- 5.5 A review of all significant debit and credit balances in each of the programme groups should be undertaken in order to establish the council's net funding obligations on these projects. Such a review should include the netting off of old debit and credit balances with the approval of the Department.

The Council has already commenced work on this review, which will include the consolidation of codes, transfer of reserves, an examination of all "dormant" balances, and an examination of funding 'flags' assigned to individual projects to ensure that they are correct.

6. Collection Accounts

- 6.1 The details of the various revenue collection accounts are set out in Appendix 7 of the Annual Financial Statement.

- 6.2 The collection yields from the main revenue collections, with comparisons for the past five years, were as follows:-

	2010	2009	2008	2007	2006	2005
Rates	81%	85%	91%	95%	93%	93%
Housing Rents and Annuities	81%	82%	86%	89%	88%	88%
Housing Loans	81%	88%	98%	104%	113%	119%
Commercial Water Charges	41%	39%	31%	43%	51%	62%

- 6.3 The collection of commercial water charges improved slightly in 2010 but still remains very unsatisfactory. The management of this collection must be improved.
- 6.4 The collection percentage in respect of loans has decreased quite dramatically in the last three years.
- 6.5 The arrears owing to the Council for rates has increased by over €4.5m in 2010 to €19.2m. All legal resources available to the council should be applied in order to secure payments of the sums due.

Manager's Response - commercial rates

It is clear that the economic downturn is taking its toll on local authorities' income nationally from commercial rates and water charges. With 29% of local

government revenue coming from this source, these figures present a worrying trend for local government in terms of its ability to fund and maintain services. Local Authority income for the financial year 2009 from commercial rates was 84% of the actual amount due. In comparison in 2006 the actual national average collection figure was 93.3% of the amount due. Available data indicates that the average national collection will deteriorate further in 2010 to 76% of the amount due.

Local authorities have to perform an extremely delicate balancing act in setting and collecting commercial rates. They need to be efficient in ensuring that local businesses pay rates on time; however, at the same time they need to ensure that businesses can remain viable.

In normal economic conditions the Council would expect to collect a significant proportion of outstanding arrears at the end of the following financial year and the remainder in subsequent years. However, having regard to current economic conditions, the normal collection percentages are not currently being achieved.

The collection performance of this authority is satisfactory and compares favourably with both that of the other Dublin Authorities and the average national collection percentage, as outlined in the opening paragraph.

In response to the deterioration in the collection performance the Council has intensified its collection efforts evidenced by the fact that the number of cases referred to the Law Department increased from 500 in 2008 to over 1000 in 2010, a 100% increase.

The Council will continue to make every effort to ensure the maximum rate collection percentage is achieved cognizant of the difficult trading environment being experienced by the business community. As part of those initiatives a Debt Collection and Credit Control Unit was also established within the Finance Department in 2011 to enhance and build on the procedures and processes already in place in the debt collection area.

Manager's Response - non domestic water charges

The end of year arrears stood at €8.6m in comparison to the previous years figure of €9.02m, a decrease of €0.42m (4.7%). It must be noted that the bills for the last trimester of 2010 in the sum of €2.4m issued in March 2011. It is the practice in this Council to accrue back to the relevant accounting year invoiced amounts that issue in a following year. However, businesses had no opportunity to make any payment in respect of this invoiced amount in the year 2010 itself.

If the amount accrued back to 2010, for which invoices only issued in 2011, are excluded from the 2010 collectable figure then the collection performance increases by a percentage of 8.00%. The collection performance for this Council for 2010 then increases to 49% in comparison to the figure included in the 2010 AFS of 41%.

Subject to availability of resources the Council is hopeful of a continuing collection performance improvement having regard to the various collection strategies now in place and proposed new strategies.

It must also be noted that comparisons of non domestic water charges collections in respect of 2009 and subsequent years with collections prior to those years does not comprise a "like with like" comparison. In 2004 the number of metered water accounts totalled 577 while in 2009 this figure has increased to 3,500. The 2004 annual debit was €1.9m while in 2009 it was €7.5m following completion of the meter installation programme in 2008.

A Debt Collection and Credit Control Unit was also established within the Finance Department in 2011 to enhance and build on the procedures and processes already in place in the debt collection area.

Manager's Response - housing loans

The reduction in collection yield for loan accounts over the last three years reflects the downturn in the economy and in borrowers ability to meet repayments.

A large proportion of the Council's arrears relate to the more recently issued Shared Ownership loans, which have average instalments of €830 per month. Where reductions in household income occur due to unemployment etc, the repercussions are likely to be manifested in reduced loan repayments. For example, Shared Ownership loans account for 22% of the Council's loan book but make up 79% of the total arrears.

Local authorities are under considerable pressure at the present time to use all options short of going down the legal route. This Council currently adheres to the Central Bank's Code of Conduct on Mortgage Arrears, where relevant arrangements to pay arrears are negotiated when possible. However, there is evidence that some borrowers are unwilling rather than unable to make or keep such arrangements. For these borrowers the loss or delay in using the ultimate sanction of repossession is bound to influence their priorities in relation to payment of household bills.

There are limits on the options available to local authorities to facilitate restructuring of loans. It is hoped that the anticipated guidelines from the Department will assist in this regard.

Manager's Response - rents

Arrears have been increasing, particularly since 2009 and this has been experienced by all the Dublin Authorities, for the following reasons:

- Downturn in the economy - tenants being made redundant and, in many cases, waiting for long periods for social welfare and/or redundancy payments.
- The additional weekly payment, traditionally paid to social welfare recipients at Christmas, was not paid in 2009. This could have contributed to the large fall off in payments for December of that year.
- It should also be noted that the debit figures for rents also includes

retrospective debits applied to accounts for tenants/occupiers who submitted income details for previous years.

7. Specific Matters

7.1 Environmental Waste Charge

The Council privatised its waste collection service in mid 2010.

Details of the amount charged for the half year to 30 June 2010 and collection amounts for the year 2010 with comparative figures for the past five years, are as follows:

	2010	2009	2008	2007	2006	2005
	€m	€m	€m	€m	€m	€m
Arrears at 1 January	22.0	26.9	28.8	25.8	20.6	18.7
Total billed for year	<u>2.3</u>	<u>5.1</u>	<u>9.0</u>	<u>15.0</u>	<u>17.4</u>	<u>16.3</u>
Total due for year	<u>24.3</u>	<u>32.0</u>	<u>37.8</u>	<u>40.8</u>	<u>38.0</u>	<u>35.0</u>
Less:						
Receipts	5.6	9.2	10.1	11.1	11.1	12.8
Waivers and Write-offs	<u>2.8</u>	<u>0.8</u>	<u>0.8</u>	<u>0.8</u>	<u>1.1</u>	<u>1.6</u>
	<u>8.4</u>	<u>10.0</u>	<u>10.9</u>	<u>11.9</u>	<u>12.2</u>	<u>14.4</u>
Arrears at 31 December	<u>15.9</u>	<u>22.0</u>	<u>26.9</u>	<u>28.9</u>	<u>25.8</u>	<u>20.6</u>

The Council continued to accrue charges in 2010 for the first six months up to 30 June 2010 at which date the service ceased. A private operator took over most of the households as their customers.

For the last number of years I have recommended that legal proceedings should be instituted against non-payers and that the legal department should register charges against properties where significant arrears exist.

I am informed that over 10,000 households who used the services of private operators – still owed over €10.4m to the Council at 31 December 2009. These accounts should still be vigorously pursued.

The Council collected €5.6m of money owed to it in 2010 and collected €1.6m up to early December 2011. This leaves a balance of €13m still owing.

Tenders in connection with the provision of services for households and other publicly provided waste services in DLR were received on 27 May 2010.

A tender assessment board made a recommendation that Panda be appointed to provide the services. The Council received €500,000 from the successful applicant in respect of the outsourcing of this service.

Manager's Response – environmental waste charges

At the end of 2010 the waste charges due to the Council from householders was €15.9m. This balance represents a 28% reduction on the 2009 outstanding arrears figure of €22m and a 41% reduction on the 2008 figure, which stood at €27m, and constitutes a significant reduction in the level of arrears and is reflective of the Council's continuing efforts to maximise its income collections. The Council estimates that a significant proportion of the outstanding arrears will be written off, or waived under the terms of the various Waiver of Charges Schemes, once remaining qualifying applicants submit waiver applications. It is the Council's experience that waiver applicants, in general, often only apply for a waiver once they face the prospect of a discontinuance of supply or other sanctions. It should be noted that the total cumulative debit in respect of environmental waste charges from their introduction in 2000 to the 31 December 2010 was €140m of which €124m has either been collected or waived, representing 89% of that debit total, a significant collection performance to date.

The continuing efforts of the Council to collect the outstanding waste charges arrears are also evidenced by the fact that in 2010 the waste charges collected amounted to €5.6m while the accrued charges for the year amounted to €2.3m.

Following a review and assessment of the interim arrangements relating to the utilising of the services of Debt Collection Firms the Finance Department in 2010 completed a procurement competition and formalised the appointment of Debt Collection Firms.

To June 2011, a total of 8,794 accounts have been referred to Debt Collection Agencies with a total monetary value of €8.9m. This policy of utilising the services of Debt Collection Agencies will continue. To that date 314 summonses against defaulting householders were issued and judgements in 62 cases were obtained where the cases proceeded to Court Hearing.

The Council continues to vigorously pursue all monies owing to it in respect of Environmental Waste Charges irrespective of the fact that it no longer provides a direct waste collection service to the majority of the residents of the County. It will continue to utilise all appropriate strategies available to it to maximise income collection in this area and its determination in that regard is evident from the fact that it continues to receive payments in respect of domestic water charges despite the fact such charges were abolished with effect from 1 January 1997.

7.2 Cherrywood Science and Technology Park

I outlined in last year's report how the Joint Venture agreement was terminated.

An agreement was signed by the Council in June 2010 following mediation with the other parties, namely, Cherrywood Science and Technology Park, Bank of Scotland, AIB and NIB. The main items in

the agreement that the Council (through its subsidiary company, DLR Properties Limited) was to receive two office blocks (namely AA and G2) and unencumbered freehold title to four plots of land marked respectively Lots 1,2,3 and 6.

The accounts of DLR Properties Limited were produced to 30 June 2010 and to 30 June 2011. I recommend that they be produced to 31 December 2011 to make them co-terminus with those of the Council.

The Council has consolidated its accounts with the accounts of DLR Properties in 2010 in accordance with the requirements of the Department's "Local Authority Accounting in Ireland - code of practice and accounting regulations".

The treatment in the accounts has been laid out in the statement of accounting policies.

Manager's Response

The unencumbered freehold title to Blocks AA and G2 and relevant lands transferred to the Council on the 29 September 2011. The recommendation of the auditor that the financial accounting period in respect of the annual accounts of DLR Properties should refer to the period ending 31 December rather than the 30 June will be forwarded to the CEO of DLR Properties for consideration by the Board of that company.

7.3 Procurement

Pursuant to the EU Directive on procurement, it is incumbent on the Council to ensure that its expenditure on services, supplies and works comply with the EU directive on procurement.

In previous audits I have expressed my concern in relation to the Council's tendering and ordering procedures. A number of infringements of both Department of Finance and the Council's own purchasing procedures were noted in the course of this audit.

The Council need to urgently and effectively address the management weakness identified in procurement, tender assessment, contract administration and payment approvals. It also needs to encourage all suppliers to participate in the tendering and supply process to ensure economy and value for money is achieved.

I note that procurement is now the responsibility of a procurement group under the chairmanship of a senior engineer, and that this team (drawn from all sections of the council) has been established to direct and coordinate the Council's procurement activity.

Manager's Response

The Council has established a corporate procurement team (CPT) under the director of corporate services to direct all council departments in complying with EU directives and national guidelines on procurement. The CPT are actively advising departments on all procurement issues and are tasked with regularising and standardising the Council's approach to procurement. A set of procurement guidelines produced by the CPT have been posted on the Council's intranet site and made available to all staff. These guidelines outline the financial thresholds for EU, national and council procurements. The CPT are also in the process of reviewing procurement in all departments to address the following issues:

- Applying proper procurement procedures where not presently in place
- Evaluating the scope for financial savings through procurement
- Evaluating the scope for cross departmental aggregation of procurement spend
- Reviewing the scope for regional aggregation of procurement spend

7.4 Long-term Borrowings and Long-term Debtors

The Council held long-term borrowings of €167.6m at the close of the year. These were classified as mortgaged related loans amounting to €18.8m and non-mortgaged loans amounting to €148.8m.

7.5 Payment of Acting Allowances

It was noted that the Council paid acting allowances to staff during 2010. The total amount paid was approximately €206,000. Approval to the continuing payment of such allowances where their periods exceed six months, is required in accordance with Departmental circular LG(P) 13/09 entitle "re staffing moratorium". On my request, the Council is to obtain approval for these payments from the Department.

Manager's Response

The arrangement whereby employees "act up "into a higher grade is necessary for the effective management of the organisation due to existing vacancies and shorter term work arrangements, such as vacancies arising from maternity leave etc. The council will seek approval for the required acting arrangements.

7.6 Land Aggregation Scheme

A land aggregation scheme has been put in place for land owned by a local authority in respect of which outstanding loans with the HFA have fallen due for payment.

Under this scheme a local authority can apply to the Department to pay off the capital and loan costs attaching to a parcel of land. Subject to available funding the Department will recoup the authority the outstanding capital on the loan together with up to seven years interest.

The ownership of the land will transfer to a central body.

The interest on such loans has not been charged to revenue but continues to increase the capital balance for up to seven years.

The Council had three such loans with seven years interest accumulated on their balance and another loan which has not yet reached seven years.

As of December 2011, 2.8 hectares of land at Enniskerry Road have been transferred to the Housing and Sustainable Communities Limited under the Land Aggregation Scheme. The Department recouped the outstanding capital remaining on the loan plus the interest due to the amount of €10.257m.

7.7 Development Levies

As at the end of 2010 the accounting system in this area was in need of improvement. It is essential that the records in respect of planning and development contributions be properly reconciled to the figures produced by the Agresso financial system. The Council should be able at any time to produce lists showing development levies due to support the debtors figure in the accounts. The accounts show debtors of €90m at the end of the year comprising long term debtors of €51m and €39m in respect of current debtors.

The Council has engaged consultants to design a new system which should address audit concerns. Development contributions are accounted for in the capital account and do not affect the income and expenditure account for the year.

7.8 Non Principal Private Residence Charges (NPPR)

The Local Government (Charges) Act 2009 introduced this annual charge of €200 on a self-declaration basis. A net income of € 3.14m was recorded for the year, after agency payments to the Local Government Computer Services Board who collect the charge for all local authorities. I have recommended an improvement in interactions with other state agencies to facilitate data sharing and exchange arrangements, as provided by the Act.

7.9 Fixed Travel Allowances

Fixed travel allowances were paid to certain officials in the Council who did regular business mileage. This mileage was logged over a 3-month period. In 2007, Revenue began taxing the amounts of fixed travel allowances paid. Many officials opted out of the fixed travel allowance scheme as a result and now claim expenses as they are incurred in the normal way and these are not liable for tax. Currently there are approximately 40 staff still in the scheme.

I recommend that this scheme should cease and the officials who need to make travel expense claims do so in the ordinary way each month and they will then get reimbursed in full without any tax deduction.

Manager's Response

This allowance is capped at the 5001-5500 mileage band for existing employees and new allowances are not being approved. The removal of the allowance as suggested could involve industrial relations issues. However, the matter will be kept under review by the Council in view of the auditor's recommendation.

7.10 Accounting and Control issues

In the course of the audit a number of accounting and control issues were identified. Where errors were material, they have been corrected in the audited AFS for 2010. In other cases adjustments to the 2011 accounts have been agreed with management .

7.11 Internal Audit

Internal audit is an independent appraisal function within an organisation which operates as a service to management by reviewing and evaluating the operations of the Internal Control System.

The internal audit department of the Council is functioning effectively. The unit produces reports containing many recommendations for improving procedures, reducing exposure to risk and generally strengthening internal controls.

All internal audit reports issued in 2010 were made available to me. In planning and conducting my audit, I have taken account of the work of the Internal Audit Unit. The internal auditor should report directly to the County Manager and the audit committee rather than to the Head of Finance.

7.12 Audit Committee

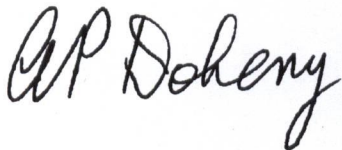
The Audit Committee met 5 times over the course of 2010 and prepared an annual report to the Council. As the external auditor, I met the Audit Committee to discuss my previous audit report and any follow up action required by management.

7.13 Objection at audit

I received an objection at the opening of the audit relating to educational course fees being paid to two councillors in lieu of them going to various conferences. This matter is under investigation at the moment and will be dealt with separately and I will report directly to the objector, in accordance with article 25 of the Local Government (Financial Procedures and Audit) Regulations, 2002.

8. Acknowledgement

I wish to record my appreciation of the assistance and co-operation extended to my colleagues and myself by the Council staff we dealt with during the course of the audit.

A handwritten signature in black ink that reads "A. P. Doheny". The signature is written in a cursive style with a large initial "A" and "P".

A. P. Doheny
Local Government Auditor
21 December 2011