



LOCAL GOVERNMENT AUDIT SERVICE

Statutory Audit Report

to the

Members of Dún Laoghaire-Rathdown County Council

for the

Year Ended 31 December 2012



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

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**AUDITOR'S REPORT TO THE MEMBERS OF DÚN LAOGHAIRE-RATHDOWN
COUNTY COUNCIL**

1. Introduction

1.1. I have completed the statutory audit of the accounts of Dún Laoghaire-Rathdown County Council for the year ended 31 December 2012. My audit opinion on the Annual Financial Statement (AFS) of the Council, which is unqualified, is stated on page 4 of the AFS.

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 main issues in this report:

- Fixed Assets - Land (paragraph 4.3)
- Ballyogan Bailing Station (paragraph 5.4)
- Major revenue collections (paragraphs 6.1 to 6.5)

3. Financial Performance

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

	2012	2011
	€m	€m
Expenditure	171.17	173.09
Income	<u>180.82</u>	<u>194.99</u>
Surplus	9.65	21.90
Transfers to Reserves	<u>(9.55)</u>	<u>(21.51)</u>
Overall Surplus for the year	0.10	0.39
Opening Balance at 1st January	<u>9.50</u>	<u>9.11</u>
Closing Balance at 31st December	<u><u>9.60</u></u>	<u><u>9.50</u></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.

3.3. The main variances between the adopted budget and the AFS are detailed in Note 17 of the AFS. The Members approved the over-expenditure in April 2013.

3.4. A provision of €1.5m was made in the 2012 budget for the credit balance.

4. Financial Standing

4.1. The Balance Sheet shows net assets of €3,641.54m at 31 December 2012, consisting of the following:

	2012	2011
	€m	€m
Fixed Assets	3,415.48	3,430.87
Work In Progress and Preliminary Expenses	179.01	115.70
Long Term Debtors	142.73	155.14
Net Current Assets	124.86	122.28
Long Term Creditors	(220.54)	(238.83)
Net Assets	<u>3,641.54</u>	<u>3,585.16</u>

Represented by:

Capitalisation Account	3,415.48	3,430.87
Income WIP	154.92	107.72
Specific Revenue Balance	18.45	18.45
General Revenue Balance	9.60	9.50
Other Balances	43.09	18.62
	<u>3,641.54</u>	<u>3,585.16</u>

4.2. The Council's finances remain on a sound financial footing with the 2012 accounts showing a current ratio of 3.11 and net working capital of €124.86m.

4.3. Fixed Assets - Land

The Council's land holding is stated in Note 1 to the AFS at a value of €149.59m. The Council is in the process of introducing a comprehensive property register called the Property Interest Register (PIR). This system will record the location, holding, tenure, burdens and easements, price paid and location of title documents. The Council has not yet completed the reconciliation of the land included in the PIR system with the value of the land reported in the AFS.

The important work in this area will be kept under review at audit.

Manager's Response

The Property Interest Register is an on-going project. The Register when completed will be a record of the property interests held by the Council. Acquisitions of land are currently being input, checked and updated on the system. Once they are up to date the recording of disposals will commence. The values in the P.I.R. relate to the purchase price while only land assets in the Council's land bank with a value in excess of €10,000 are included in the general ledger and as such the values in PIR will not match those in the general ledger.

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. It has been de-aggregated with the various accounts included under relevant account headings in the balance sheet.

5.2. A summary of the transactions on the capital account, with comparative figures for 2011 is as follows:

	2012	2011
	€m	€m
Expenditure (Including Transfers)	49.38	87.72
Income (Including Transfers)	<u>53.03</u>	<u>100.60</u>
Outturn for the year	3.65	12.88
Opening Balance Favourable/(Adverse)	<u>81.76</u>	<u>68.88</u>
Closing Balance Favourable/(Adverse)	<u><u>85.41</u></u>	<u><u>81.76</u></u>

A review of the major favourable and adverse balances in each of the service divisions is currently being undertaken which includes the consolidation of job codes, transfers to reserves and an examination of all dormant balances.

Manager's Response

This review is on-going and it is anticipated that further progress will be made before the commencement of the next audit.

5.3. Capital Programme Report

A report on the capital programme over the next four years, estimated at €165m was submitted to the members of the Council, in March 2012, in accordance with section 135 of the Local Government Act, 2001.

5.4. Ballyogan Bailing Station

The Ballyogan Bailing Station, which is within the environs of the Ballyogan Recycling Park and operated for a period of five years from 2004 to 2009, is now non operational and the system has been dismantled. The building which housed the bailing station is now empty.

The main works contract, which commenced in 2002, involved the construction of a bailing facility of approximately 3,500 sq. metres plus extensive site work and facilities.

The construction of the Ballyogan Recycling Park was funded by a loan of €36m. The outstanding balance on this loan as at 31 December 2012 was €15.6m.

Related plant and associated equipment consisted of two bailers costing €5.3m, were acquired in 2003. These were sold in 2012, and after taking account of depreciation, resulted in a loss on disposal of €859k.

Included in fixed assets in Note 1 of the AFS, under the heading of buildings is an asset described as "Ballyogan Recycling Park Stage 1", valued at €32m.

Manager's Response

The Ballyogan Bailing Station is a regional facility, funded jointly by Dún Laoghaire-Rathdown County Council (DLRCCO), Dublin City Council (DCC) and South Dublin County Council (SDCC). It is an EPA licensed Water Transfer Station, and baled waste specifically for transfer to the regional landfill at Arthurstown, Co. Kildare. Waste tonnages collected by DLRCC were significantly reduced following the entry of private operators into the DLRCC waste market. As a cost saving measure with effect from May 2009, household waste collected by the Council's vehicles, was directed to the bailing station at Ballymount in SDCC and the bailing of waste ceased at the Ballyogan facility. The Council ceased to provide a household waste service from the end of July 2010. Arthurstown landfill is now closed and the balers have been removed to allow the building to be used as a general waste transfer station.

5.5. Goatstown Housing

The initial plan for this project was for the construction of 105 dwellings and a resource centre. Due to objections raised during the planning process the project was revised to the construction of 92 units and the exclusion of the resource centre. The scheme was substantially completed in early 2010. There is a debit balance of €415k on this project as at 31 December 2012, which the Council has to fund.

Manager's Response

The balance on this code will be examined as part of the on-going review of capital balances.

5.6. Cherrywood Science and Technology Park

DLR Properties was set up to acquire the Council's rights, interests and entitlements in the Cherrywood Joint Venture. The company is limited by shares and is wholly owned by Dún Laoghaire-Rathdown County Council. The principal object of the company is to acquire, develop, hold and manage properties of all kinds; to act as builders, property developers, managers, investors and dealers and to carry on all activities in relation to the aforementioned businesses.

The unencumbered freehold title to two office blocks (namely AA and G2) and relevant lands transferred to DLR properties in September 2011. The company now requires funds to complete and refurbish one of the office blocks.

It was recommended at a previous audit that the accounts be produced to 31 December as opposed to 30 June to make them co-terminus with those of the Council. DLR Properties Limited has filed with the Companies Registration Office an 18 month set of accounts up to 31 December 2012.

Manager's Response

Additional funding in the sum of €4m to finish the shell Block G2, the building cladding system, along with various repairs to elements of the structure and to fit out the lobby and other areas to render it marketable for letting purposes was approved by the Council at its meeting in September 2013.

5.7. Dublin Waste to Energy Facility, Poolbeg

The Dublin Waste to Energy project is a Public Private Partnership between Dublin City Council (acting on behalf of the Dublin Area Local Authorities) and Dublin Waste to Energy Ltd to design, construct, operate, maintain and finance a waste to energy facility.

Total expenditure on the project to the end of 2012 was approximately €95m, of which €10.87m was reimbursed to Dublin City Council by Dún Laoghaire-Rathdown County Council.

The €10.87m is included as an adverse balance in the Council's capital account.

6. Major Revenue Collections

6.1. Collection Table

The yields from the main revenue collection accounts, with comparatives for the previous four years were as follows:

	2012	2011	2010	2009	2008
	%	%	%	%	%
Rates	75	76	81	85	91
Housing Rents and Annuities	79	80	81	82	86
Housing Loans	64	73	81	88	98
Commercial Water Charges	50	44	41	39	31

6.2. Commercial Rates

The collection yield for rates of 75% for 2012 is after a write off of €8.94m. The collection yield has been declining steadily since 2007 when it was 95%. Included in Note 5 of the AFS is a bad debts provision of €17.4m in respect of rates, which is 69% of the closing arrears balance of €25m. The income has also declined due to the revaluation of properties within the county.

During audit a sample representing 20% (€5m) of the total arrears was selected for examination. The findings established that of the sample examined:

- 34% related to vacant properties
- 30% were subsequently struck off in 2013
- 17% related to businesses in administration, receivership or liquidation
- 11% where arrangements to clear the arrears were agreed
- 8% were still being pursued for the arrears.

Manager's Response

The collection performance in respect of commercial rates had deteriorated significantly over the last number of years coinciding with the very significant deterioration in the economic climate. In recognition of the collection difficulties additional resources and effort have been dedicated by the Council to stabilising the collection performance, together with the introduction of new initiatives and the updating of collection processes and procedures following review, and the success of those efforts is evidenced by the stabilisation of the collection performance. The collection percentage achieved in 2012 was 75.34% which represents a deterioration of less than 1% on the 2011 collection performance which given the very difficult economic environment in which businesses operate is considered reasonable and in keeping with national norms. A major objective of the Council in 2012 was the stabilisation of our collection performance in respect of commercial rates and that has been achieved.

The write off of €8,945,801 is comprised of a number of individual items. Of the total figure, €3.86m is in respect of the strike off of rates on vacant properties. A further €3.29m of the overall write off figure is attributable to decisions of the Valuation Tribunal in respect of valuation appeals referred to that body arising from the general revaluation of commercial properties which was undertaken in this county. Decisions of the Tribunal received in 2012 had retrospective effect to 1 January 2011 and the cost to the Council in 2012 was €3.29m reflecting the very unfavourable outcome of the revaluation process

to the Council. A certain amount of rates will also have to be written off each year arising from companies going into liquidation/receivership/examinership etc. Of the overall figure for write offs of €8.9m, €1.8m is comprised of this element. These three elements combined (€3.86m +€3.29m +€1.8m) make up the write off figure in the AFS. It should be noted that the Council has made adequate provision in its annual budget to meet these costs.

The Council estimates that the rates bad debt provision is an appropriate and reasonable provision in view of the current economic environment. The Council reviews its bad debt provisions annually during the budgetary process and that assessment will be undertaken as normal this year when all bad debt provisions will be reviewed.

6.3. Housing Rents

The housing department keep the rents records on a system called OHMS. The figures on this system are not reconciled with those on the general ledger. At the end of 2012 the arrears balance on OHMS was €3.32m and in the general ledger it was €2.79m, which is a difference of €530k. This difference should be reconciled.

During audit a sample representing 8% (€285k) of the total arrears was selected for examination. The findings established that of the sample examined:

- 27% were in or pending Court Hearings
- 22% had pre legal action letters or warnings issued
- 20% were cases in dispute
- 16% were where the tenant had vacated the house
- 11% were where the tenant was in dialogue with the Tenancy Sustainment Officer
- 4% were currently on arrangement to pay

6.4. Housing Loans

The collection yield for housing loans deteriorated dramatically over the last number of years to 64.3% in 2012. The arrears outstanding increased from €496,202 to €695,739. The provision for bad debts in respect of housing loans in 2012 was only €39k, and needs to be increased.

The Council issued new loans to the value of €1.6m in 2012.

During audit a sample representing 40% (€335k) of the total arrears was selected for examination. The findings established that of the sample examined:

- 79% were being dealt with under the Mortgage Arrears Resolution Process (MARP)
- 21% having gone through legal proceedings the Council had repossessed the property

Manager's Response

A large proportion of the Council's arrears relate to the more recently issued Shared Ownership Loans which have average instalments of €870 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 25% of the Council's loan book but make up 82% of the total arrears. The Council has adhered to the Code of Conduct for Local Authorities which is based on the Central Bank's Code of Conduct, and more recently to the updated guidance from the Department of the Environment, Community and Local Government in August 2012 for dealing with loan arrears which incorporates a Mortgage Arrears Resolution Process. The Council is managing loan arrears under the processes and procedures under MARP and arrangements are being negotiated with borrowers as far as possible to arrange payment of arrears.

Repossessions are always the last resort but legal proceedings were on-going in one case in 2012.

6.5. Commercial Water Charges

The collection yield for commercial water showed an increase in recent years, to 50%, after a write off of €1.11m. The bad debts provision included in Note 5 to the AFS in respect of commercial water charges is €3.2m, which is 51% of the closing arrears balance of €6.29m.

During audit a sample representing 36% (€2.24m) of the total arrears was selected for examination. The findings established that of the sample examined:

- 53% were amounts in dispute
- 18% were still being pursued
- 15% were in respect of an IDA site, and were not yet allocated to the individual users
- 14% were paying or had made agreements to pay

Manager's Response

Over the last four years the Council has seen a continuous improvement in its collection yield in respect of non domestic water charges increasing from a collection yield of 39% in 2009 to 50% in 2012. The collection yield in 2012 shows an improvement of 6% over the collection yield of 44% achieved in 2011.

Furthermore, when account is taken of the amount charged back to 2012, for which invoices only issued in February 2013 and for which businesses had no opportunity to make any payment in respect of this invoiced amount during 2012, and when this amount is excluded from the 2012 collectable figure then the 2012 collection performance increases by a percentage of 10%. The collection performance for 2012 then increases to 60%.

Similar to rates, a major objective of the Council in 2012 was to continue the improvement in the collection yield in respect of non domestic water charges through progress in resolving outstanding problematic accounts and improved collection performance and this objective was achieved.

The provision for bad debts in respect of non domestic water charges is made based on known information in respect of certain accounts in arrears at the end of the year together with a provision for those accounts, where an element of the account may become uncollectable, and the Council is satisfied that the provision at the end of 2012 is adequate in that regard.


7. Internal Audit

7.1. Internal Audit

All internal audit reports issued in 2012 were made available to me. In the course of my audit, I placed reliance on work carried out by the Internal Audit Unit.

8. Acknowledgement

I wish to record my appreciation of the courtesy and co-operation shown by the County Manager and his staff to me at all times in the course of the audit.



Anne (N) Brennan,
Local Government Auditor
26 September 2013