



Rialtas na hÉireann
Government of Ireland

Statutory Audit Report to the Members of Kilkenny County Council for the Year Ended 31 December 2020

Local Government Audit Service

Prepared by the Department of Housing, Local Government and Heritage

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Auditor's Report to the Members of Kilkenny County Council

1 Introduction

I have audited the Annual Financial Statement (AFS) of Kilkenny County Council for the year ended 31 December 2020, 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 2020 and its income and expenditure. My audit opinion, which is unmodified, is stated on page 5 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 COVID-19 – Impact on Local Authorities

2.1 Overview

The COVID-19 outbreak and the emergency measures taken to mitigate it have had a significant impact on the finances of local authorities during 2020. This has resulted in a reduction in income from some sources, an increased level of COVID-19 related expenditure and related government subvention for the local authority.

At a national level, the Government introduced a number of schemes including the restart grant schemes and rates waiver scheme to support businesses, as noted in paragraphs 2.2 and 2.3 below. In addition, local authorities were reimbursed by the Department of Housing, Local Government and Heritage (the Department) for the loss of income from goods and services and for additional COVID-19 expenditure incurred by them (see paragraph 2.4).

In June 2021, it was agreed by the General Accounts Working Group to amend Note 23 and include an additional Note 24 in relation to Restart Grants / Plus in the audited Annual Financial Statements 2020.

2.2 Restart Grants Scheme

During 2020, the Government decided to support commercial micro, small and medium businesses, through the Restart Grant Scheme and later the Restart Grant Plus Scheme. The qualifying businesses were required to have a rateable premises and have experienced a loss of turnover due to the COVID-19 restrictions. The scheme provided for assistance with the costs of reconnecting with the marketplace, reopening their business and re-employing staff. Qualifying businesses who met the specified eligibility criteria could apply to the local authority for grants under these schemes.

Under the service level agreement between Enterprise Ireland, Department of Enterprise, Trade and Employment, the Department and each local authority, the Council had responsibility to manage within its functional area the processing of applications and payments, in accordance with the criteria specified, and to make reports to the above Government departments to enable oversight and review of the scheme. Each business was responsible to self-certify in completing its application that it met these criteria.

The Council only verified the application against a rate account, where one existed, and confirmed that the applicant had fully completed the application including the declaration. The Council did not have to verify any other information included in the application. Where rates were not assessed in 2019 or 2020, estimates of liability were made by the local authority. This was necessary to determine the support available to the relevant business.

Accordingly the audit of expenditure under these schemes, which amounted to €11.3m in Kilkenny County Council for the year ended 31 December 2020, was limited to the specific responsibilities of local authorities, as set out above, and did not include the verification of other eligibility criteria declared by the applicants.

The accounting treatment for this is set out in Note 24 in the AFS.

2.3 Rates Waiver Scheme

In order to support both the local government sector and commercial ratepayers, a funding package of €900m was allocated by the Government to fund the cost of a waiver of commercial rates for nine months from 27 March 2020 to 27 December 2020.

The waiver was available to businesses, which were forced to close, and those, which experienced significant negative economic disruption due to public health restrictions, imposed in response to COVID-19.

The total amount received by Kilkenny County Council for the year ended 31 December 2020 was €8.6m.

The accounting treatment for this is set out in Note 23 in the AFS and further disclosure is included in Appendix 7.

The methodology and manner for calculating rates income collection differs in 2020 compared to prior years.

2.4 Reimbursement for loss of goods and services income and COVID-19 related expenditure

The Department reimbursed the Council for the loss of goods and services income and additional expenditure incurred by them as a result of COVID-19. The total amount received by Kilkenny County Council for the year ended 31 December 2020 was €2.3m, split between €1.1m for the loss of goods and services income and €1.2m for additional COVID-19 related expenditure.

3 Financial Standing

3.1 Statement of Comprehensive Income

The Council recorded a surplus of €16,635 for the year, increasing the accumulated surplus to €44,633 at 31 December 2020. This was after transfers of €5.9m (2019: €4.3m) to the capital account to fund projects.

The members at the Council meeting held in April 2021, approved by resolution in accordance with section 10(2) of the Local Government Act, 2001, the expenditure incurred in 2020 that was in excess of the adopted budget for the year.

Chief Executive's Response

Council managed to balance expenditure with the income available for 2020 despite the impact of Covid-19. This could not have been achieved without the various Covid 19 supports from Government.

3.2 Work in Progress

There was an increase of €1.9m in work in progress and preliminary expenses cumulative expenditure when compared to 2019; bringing the total at the end of 2020 to €8.6m. This represents an increase of 28% and reflects the increased cumulative expenditure on ongoing projects.

Chief Executive's Response

The balance on projects in progress will fluctuate from year to year depending the number and size of projects on hand at any point in time.

4 Income Collection

4.1 Summary of Income Collection

A summary of income collection performances showing the 31 December 2020 arrears position in respect of the main income categories with the comparative figures for 2019 were as follows:

Income Source	Yield		Debtors	
	2020	2019	2020	2019
	%	%	€m	€m
Rates	83	94	2.0	1.3
Rents & Annuities	96	95	0.4	0.5
Housing Loans	90	90	0.3	0.3

The collection yield for Rates fell by 11%. The table indicates an 83% collection yield in 2020 (94% in 2019). However, as highlighted in paragraph 2.3, due to the effect of COVID-19, the Department introduced a nine month waiver (credit in lieu) of commercial rates from 27 March to the 27 December and this had an effect on the actual amount collected. For prior year comparison purposes, if this sum had been categorised as 'Collected' rather than as 'Waivers and Credits' the percentage collected would have been 90%.

The collection yield for Rents and Annuities improved by 1% and the collection yield for Housing Loans remained unchanged. This contributed to overall arrears in these three income categories increasing by €0.6m to €2.7m at 31 December 2020.

The arrears collection unit, located within the central finance directorate, continues to contribute to these collection yields across all of the main income categories. It is important that the level of resources allocated to this unit remain sufficient to deliver an effective collection function.

The amounts outstanding at year-end remain significant and despite the increase in the arrears on rates, it is commendable that the percentage yields on all three of the above categories of income continues to be higher than the national average returns for local authorities.

Chief Executive's Response

Covid-19 impacted the collection of commercial rates. However, the collection of outstanding monies owing to the Council across our income streams remains a top priority for management.

5 Capital Account

5.1 Capital Account Overview

The Council had expenditure of €59.4m on the capital account in 2020 a decrease €4.3m when compared to 2019. The Housing Directorate accounts for 63% (€37m) of the total 2020 capital expenditure.

The capital account recorded an overall credit balance of €9.4m at 31 December 2020, an increase of €4.9m on the previous year. However, within this are deficit balances amounting to €12.7m in respect of historical and more recent schemes that overran their budgets. These will require additional revenue budgetary funding unless funding from the Department or alternative sources can be identified. Furthermore the Council borrowed €5m in 2020 to fund current projects, and these loans will have to be funded from revenue. Major debit balances are outlined below:

- Refurbishment of the Kilkenny City Parade €3.3m
- Kilkenny Central Access Scheme €2.4m

Management need to ensure that funding for every job in the capital account is identified and secured before the job progresses, as otherwise deficits will continue arise and thus put further pressure on the Council's finances. Funding from the revenue account and other sources will have to be maintained or increased in order to address all the deficits.

5.2 Voluntary Housing and Approved Housing Bodies

Payments to Approved Housing Bodies (AHB's) amounted to €15.5m in 2020, a decrease of €1.2m on the 2019 period. As such substantial funding was awarded to external housing providers, it is essential that sufficient oversight and assurance is exercised by the Council to ensure that the application of this funding, is in compliance with all regulatory frameworks.

The Council should issue requests for the submission of annual statements of occupancy from the AHB's. The Local Government Management Agency has standardised the format of such occupancy statements. The application of these returns should be specifically directed towards the identification of void units, which would contribute to the effective delivery of housing related services.

Chief Executive's Response

Council accepts that there is further work required in this area. A template has been developed by the LGMA to deal with regulatory requirements around occupancy reporting to local authorities annually. Initial meetings were held with all AHB's in 2020 around new reporting measures. Council intends to meet all reporting requirements during 2022.

6 Fixed Assets

6.1 Fixed Assets Overview

Total fixed assets at the end of 2020 stood at €2,769m compared to €2,752m in 2019 and there were significant additions to assets during the year in the housing area, increasing by €16.5m to €347m in 2020.

6.2 Land and Property Registers

The Council's fixed assets are recorded in the fixed asset register, which is part of the financial management system (Agresso).

The Council has commenced work on a land and property register but this has not been completed to date. It is a requirement of the Accounting Code of Practice that land and property registers are accurately maintained. Management should ensure that adequate resources are devoted to this project as it is essential that all land and property is accurately recorded to ensure that the beneficial ownership of all assets is safeguarded and sufficiently insured.

Chief Executive's Response

The land and property register is in place. Further work will be carried out on the register during late 2021 and 2022 as resources allow.

7 Development Contributions

7.1 Development Contribution Debtors

Included in trade debtors and prepayments at 31 December 2020 was €7.08m (2019: €6.98m) in relation to development contributions due to the Council (Note 5 to the AFS). A provision for bad debts of €6m (representing 85% of the booked debt at that date) has been provided and is included in the overall 2020 year-end bad debts provision of €11.5m. I consider that this is an adequate provision.

Chief Executive's Response

All outstanding monies owing to the Council are pursued irrespective of the level of provision included in the year-end Balance Sheet.

7.2 Special Development Contributions

Section 48 (12) (b) of the 2000 Planning & Development Act requires the repayment of special contributions to the planning applicant, together with interest arising, where the specific infrastructure works were either not commenced within five years or not completed within seven years of the date that the payment was made to the local authority.

Previous audits had specified that a review of special contribution payments that have been advanced to the Council arising from previously awarded planning permissions, was required. The purpose of this review is to identify if the Council has existing obligations to provide refunds of advanced contributions and to confirm the existence of any legal obligations that may exist to organisations that are no longer in existence. The internal review has been completed and the Council's exposure to refund special development contributions and any associated interest penalties remains to be addressed by management.

Chief Executive's Response

The review has been completed and Management is satisfied that no significant refunds are payable. All claims for refunds are fully investigated before any refund is processed.

8 Loans Payable

Loans payable by the Council at the end of 2020 amounted to €57.9m, an increase of €3.9m and can be analysed as follows:

Loan Type	2020	2019
Mortgage Related	35.1m	34.8m
Non Mortgage Loans	16.0m	11.7m
Recoupable	3.7m	4.2m
Shared Ownership – Rented Equity	3.1m	3.3m
	57.9m	54.0m

Repayments on mortgage related loans are matched by corresponding income. There was a mortgage loan surplus of €2.4m at the end of 2020.

The non-mortgage loans of €16.0m, of which €5m was borrowed in 2020 (para 5.1), related to borrowings by the Council in respect of the funding of projects that are currently not recoupable from any external funding source. The cost to the Council of servicing these loans in 2020 was €0.9m.

Recoupable loans are matched by corresponding long-term debtors in Note 3 in the AFS.

Chief Executive's Response

A strong focus continues to be maintained on the collection of the mortgage loans from borrowers. The annual repayments on the non-mortgage related loans are fully provided for each year in the Income and Expenditure Account.

9 Procurement

As a public organisation, the Council (including all of its subsidiary companies) is required to observe compliance with all public procurement regulations. In the course of the audit it was reported that further progress was achieved in regard to compliance with public procurement regulations. Every effort should continue to be made in order to ensure compliance with the Council's procurement policies across all departments.

Chief Executive's Response

The focus on compliance with procurement regulations has been maintained by Management.

10 Local Authority Companies

10.1 Local Authority Companies General

The Council has an interest in a number of companies, the details of which are disclosed at Appendix 8 of the AFS.

10.2 Kilkenny Abbey Quarter Development Partnership and Kilkenny Abbey Quarter Development Limited

Kilkenny Abbey Quarter Development Partnership (the Partnership), which is registered with the companies registration office as a limited partnership, is a joint venture between the Council and the National Treasury Management Agency (NTMA). The purpose of the Partnership is to develop Abbey Quarter which is the site of the old Smithwick's brewery in Kilkenny city and to own, develop and lease the properties to facilitate business, enterprise, education and research campus' on the properties. The Partnership has limited partners and a general partner. The Council and the NTMA are both limited partners in the Partnership with an agreed investment and limited liability of €1.6m each. This is the first partnership of this nature between the NTMA and a local authority.

Kilkenny Abbey Quarter Development Limited (the Company) is the general partner in the Partnership and is owned in equal shares by the Council and the NTMA. The Company acts for and on behalf of the Partnership as well as managing and administering the business of the Partnership. This includes managing all aspects of the development, ownership and operation of the partnership property known as the Abbey Quarter in Kilkenny City. The majority of the Council's investment in the project currently consists of 5 plots on the site which were previously owned by the Council but have now been transferred into the ownership of the Partnership.

The financial statements of the Partnership for the year ended 31 December 2020 show a net loss of €366k. Accumulated losses at the date were €1.0m.

The financial statements of the Company are also for the year ended 31 December 2020. The Company's operational costs consist of nominal administrative expenses which are then recharged to the partnership. Hence the Company had Nil profit for the year and Nil retained earnings at the year end.

The financial statements of both entities had to be restated for 2017 and 2018 in order that all transactions were correctly reflected in the Partnership and Company accounts. These restated financial statements, together with the financial statements for 2019, were completed in September 2021 and correctly reflect the transactions of both entities.

Chief Executive's Response

The Partnership has made good progress during 2020 and 2021 despite construction delays due to Covid-19. The Brewhouse building will be available for occupancy in March 2022 and it is anticipated that the majority of the building will be let by that date. Both the Partnership and the Company are audited annually.

10.3 Kilkenny Local Authorities Leisure Complex Limited

This company oversees the day-to-day management of the Watershed Leisure Centre and is wholly owned by the Council.

The company's financial statements for the year ended 31 December 2020 recorded a loss of €21k (2019 operating profit of €244k) before depreciation and amortisation of government grants. The net loss recorded for 2020 after adjusting for depreciation and government grants was €286k. The Council's interest in the company is disclosed at note 3 to the AFS, at a value of €5.9m.

The company's auditors included a paragraph in their audit opinion in respect of a material uncertainty relating to going concern. Their opinion is not modified in respect of this matter. The auditors drew attention to Note 4 to the company's AFS which stated that the company reported a net loss for the financial year and that current liabilities exceeded current assets by €441k as at 31 December 2020.

10.4 The Watergate Theatre Company

This company oversees the day-to-day management of the Watergate Theatre. It is a company limited by guarantee and not having a share capital.

The company's audited accounts for the year ended 31 December 2020 recorded a surplus for the year of €93k thereby reducing the accumulated losses at that date to €46k. The negative value of members' funds at the balance sheet date was €13k.

11 Governance and Propriety

11.1 Governance Overview

Corporate governance comprises the systems and procedures by which enterprises are directed and controlled. The Chief Executive, the management team and the elected members all have a role in ensuring that there are systems to achieve effective financial management and internal control.

11.2 Risk Management

The risk management framework provides the executive management and the Council members with assurances that major organisational risks are identified and appropriately managed. An up to date risk register is maintained by the Council. In accordance with best practice, risk management is a standing agenda item at all management team meetings.

11.3 Internal Audit

The internal audit unit in the Council is an integral part of the governance structures of the Council. The internal audit unit has produced a number of reports to date, and the recommendations in these reports should be implemented as soon as practicable.

11.4 Audit Committee

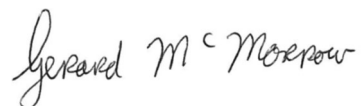
The committee met on four occasions in 2020 and issued its annual report for that year in March 2021. I commend the work undertaken by the Committee which continues to contribute to the independent oversight of corporate governance within the Council.

Chief Executive's Response

Noted

Acknowledgement

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



Gerard M^c Morrow

Gerard McMorrow

Local Government Auditor

29 October 2021

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