

# FINANCE DIRECTORATE

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## INTRODUCTION

### RÉAMHRÁ

The Finance Directorate provides a major support service to the organisation in relation to the provision of the following:

- (a) Paymaster Function and related Accounting and Revenue/Taxation implications
- (b) Maintenance and Development of, as well as ensuring the integrity of all Accounting systems
- (c) Foster, sponsor and provide assistance/expertise in the identification and implementation of new systems in the Finance and related areas
- (d) Statutory Accounting for all monies which have at one time or another flowed through the accounts and records of the County Council and provide assistance as and when required to the Town Clerk of each Town Council under the Donegal County Manager
- (e) Planning and controlling the activities of the organisation to establish Annual and Periodic Budgets, their subsequent management and to assist in the control of costs
- (f) Oversight of the Management of Debtors throughout the organisation and ensure adequate cash is available to meet ongoing needs
- (g) Line Management of the Council's independent Internal Audit function
- (h) Support to other Directorates by way of advice, support and analytical breakdowns on an ongoing basis.
- (i) Provide an essential liaison for the organisation with the External Auditor and his team and the newly formed Audit Committee.

## ORGANISATIONAL WIDE FINANCIAL ISSUES

### 1. LOCAL GOVERNMENT FUND ALLOCATION FOR GENERAL PURPOSES

The allocation received for 2008 of €44,097,787 (Fin 20/2007 in Appendix 2) represents a 6.11 % increase on the amount allocated for 2007.

I set out hereunder levels of allocations received from this source for the past number of years.

LGF ALLOCATIONS 2001 -2008	
2001	€22.800m
2002	€24.198m + 6.13%
2003	€26.160m + 8.11%
2004	€32.356m + 23.69%
2005	€35.733m + 10.44%
2006	€38.547m + 7.88%
2007	€41.557m + 7.81%
2008	€44.098m + 6.11%

## **FINANCING OF LOCAL GOVERNMENT FOR GENERAL PURPOSES NEEDS & OTHER MATTERS**

### **2. NEEDS & RESOURCES MODEL**

This model was introduced in tandem with the initiation of the Local Government Fund in 1998/1999. It continues to provide Donegal County Council with funding from this particular 'pot' over and above "across the board" increases - which all Local Authorities receive - in the Local Government Fund Allocation for general purposes. Since the introduction of the Local Government Fund, the Finance Department, in conjunction with services as required, played a major role in furnishing the requisite information by early September each year to the Finance Unit of the Department of Environment, Heritage and Local Government in advance of their preparations for the annual round of Local Government Fund Allocations and amounts therein to be made available from the "Needs & Resources" Model. With the planned introduction of a new costing system for Local Authorities and to allow work to progress in its implementation Local Authorities were not required to furnish information in 2007. The Department has used 'averaging' over the 5 year period or so to 2006 to determine amounts to be allocated in 2008 under the Needs & Resources Model.

This Model, since its introduction, has attempted to introduce some level of resource redistribution as between Local Authorities with a strong revenue base to those relatively weaker in resources available to meet their obligations. It is accepted at this stage that it is far from achieving the necessary equalisation desired across all Local Authorities having regard to needs to be met and Resources available year on year for each Authority on a relative basis. The model "lags" developments in services and immediate financial requirements for delivery of same. Last year I stated "It is noted in the letter of allocation for this year that further work in relation to "equalisation" may be progressed in 2007". I am not aware of the extent of progress, if any, made by the Department in this regard and now believe the Department will await outcomes, following completion of the Costing Project in all Local Authorities, and emergence of information which may perhaps in 2009 have some impact in greater redistribution of resources through the "equalisation" process. The following is an extract in this context from Circular letter Fin 20/2007 announcing the Local Government Fund Allocation for 2008.

*“A sum of €670,766 for equalisation” – is included in the overall allocation – “via the Needs and Resources model. As previously advised, equalisation for 2008 is calculated in proportion to each local authority’s share of equalisation over the past five years, as established by the Needs and Resources model.*

*The amount available for equalisation in 2008 is comparatively low due to the more difficult fiscal context within which the allocations are framed.*

*The proposed review of equalisation that will lead to the development of a replacement equalisation model is expected to get underway in 2008. This review will take account of changes in local authorities’ expenditure and income trends in recent years and other factors, such as the implementation of the new costing system. The review will be carried out in partnership with local authorities.”*

### **3. OTHER RELATED GOVERNANCE & FINANCING ISSUES**

Since last year when I wrote in connection with the output of the Indecon Report and Ministerial proposals in connection with the Internal Audit Committees and the Costing Project the following is a summary of what has transpired in the meantime.

(a) Audit Committees

Donegal County Council established its Internal Audit Committee and approved its membership at a Special Council Meeting on Monday 10<sup>th</sup> December 2007. Its first meeting will probably take place early in 2008. (See further comment later under the Internal Audit Section)

(b) Costing Project (Fin 12/07 in Appendix 3)

The Department of the Environment, Heritage & Local Government through its Finance Unit has commenced the rollout of the Costing Project - piloted in the Kilkenny Local Authorities - to all Local Authorities in the State. Some Local Authorities are presenting their 2008 Budgets in the new costing format rather than the existing Programme structure. Other Local Authorities including this Council and Town Councils in County Donegal will present the Budget information as heretofore and have until the end of February 2008 to restate and present - to the Elected Members - the 2008 Adopted Budget in the new costing format. We will keep the Elected Members informed on a regular basis as to progress in this regard and our ability to attain this target for the 2008 Adopted Budget restatement.

A small project was established in Finance in 2007 to progress this work agenda and €50,000 was provided by the Department during 2007 to assist us with the costs associated with its implementation. As noted earlier it is likely the Minister for the Environment, Heritage & Local Government will use the output of the Costing Project to compare and contrast costs of service provision across all Local Authorities. This may allow him to progress the Equalisation agenda in terms of annual allocations from the Local Government Fund for General Purposes. Locally in each Local Authority the output of the project, will by linking costs to volume of service, should provide ongoing information with respect to unit costs and allow for greater focus on and management of key "cost drivers" in the organisation. I quote from Circular letter No. Fin 20/2007 advising of the Local Government Fund Allocation for 2008.

*"In particular, the new system will lead to greater transparency in the financial affairs of local authorities and in the presentation of financial data. It will strengthen the ability of local authorities in terms of value for money and efficiency, and it will be of considerable benefit to councillors in supporting their role in monitoring performance and in taking a strategic overview of local authority activities".*

(c) Other Developments

In terms of financing and development of new income sources Elected Members will be aware of current Government initiatives in the development of a "Green Paper" for the Local Government Sector and the establishment of a new commission on Taxation. We await whether either or both of these initiatives by Government will provide Local Authorities with a wider income raising base in future years.

4. REDEMPTION OF MORTGAGE AND NON MORTGAGE RELATED LOANS & FUNDING GAP ISSUES IN THE MORTGAGE LOAN BOOKS ETC.

2007 Targets as per Page 282 of the Budget 2007 Report (Redemptions & New Borrowings Proposed) and Outcomes

For the Budget 2007 the following was included in that report.

Strategy	Amount	Loan Charge Savings in 2007
	€M	€
Redemption of € 3.9m high fixed rate loan	3.9	587,200
Redemption of Non Mortgage Loans (up to)	<u>11.0</u>	<u>967,000</u>
	<u>14.9</u>	<u>1,554,200</u>
Deduct cost of additional borrowings proposed in Water & Environment	16.3	<u>460,300</u>
		<u>1,093,900</u>

€9.9m of the monies targeted of up to €15m from the Disposal of Assets proceeds was used to redeem €3.9m Mortgage related loans and €6m Non Mortgage related loans. This €9.9m is being carried on overdraft pending actual receipt from the Purchaser through the legal/conveyancing process.

It was not possible to redeem any further Non Mortgage related loans of up to €5m due to cash constraints arising from our inability to realise proceeds as cash in the required time frame and our overdraft position.

In relation to borrowings proposed for Water & Solid Waste Services of €16.3m in the event we borrowed €9.1m during 2007.

As well in 2007 we redeemed €2.5m of high Fixed Rate Loans and €0.5m of Variable Rate Loans to the Housing Finance Agency which had been redeemed by Borrowers to the Council. The redemption was funded by drawdown for other variable rate Equity Loans for recent years and current purposes and which we were carrying on overdraft for some time. This provided the Council with savings in loan charges of €0.225m in 2007 - which were not included in the Adopted Budget - and in a full year of €0.450m.

**Summary of outcomes on Loan Charges and other savings for 2007 arising from above.**

	<u>Savings (Additional Costs) Targets</u>	<u>Savings (Additional Costs)</u>
	<u>Adopted Budget</u>	<u>Outturn</u>
	€	€
Redemption of Fixed Rate Loans €3.9m	587,200	587,200
Redemption of Non Mortgage Related Loans up to €11m	967,000	319,600
Additional Borrowings Budgeted	(460,300)	(105,000)
Redemption of HFA Loans of €3m	-----	225,000
Other Savings arising from Redemptions	-----	<u>333,200</u>
<b>Totals</b>	<b><u>1,093,900</u></b>	<b><u>1,360,000</u></b>

This extract is for illustrative purposes in relation to proposals as per Page 282 last year and outcomes anticipated or otherwise. It does not represent costs/savings in the context of overall borrowings and redemptions by Donegal County Council. For information €92,000 net was the amount saved on Loan Charges overall in 2007 as against the Adopted Budget of €5.54m net.

The requisite approvals were obtained from the Department of Environment, Heritage & Local Government for all redemptions made to OPW and HFA.

**5. WIDER CONTEXT OF THIS STRATEGY INCLUDING AMOUNTS ADOPTED IN THE 2006 BUDGET**

In May 2007 the following was included by way of the County Manager's foreword to the Draft (Unaudited) Annual Financial Statement for 2006.

"Members will be aware from the Adopted Budgets for 2006 and 2007 that the proceeds from the Disposal of Assets were agreed to be used to retire both Mortgage Related and Non Mortgage Related Loans. In 2006 this was €2.8m Mortgage related and €2.3m Non Mortgage related.

Members at the March 2007 Council meeting approved the application of the proceeds from the sale of certain assets to effect loan retirements to provide savings in Loan Charges as Budgeted for in 2006 of €483,000 and is now reflected in this Annual Financial Statement for 2006. For 2007 the figures for redemption are €3.9m Mortgage related and a balance of €8m to €11m in non Mortgage related loans to be funded from Disposal of Assets in accordance with the 2007 Adopted Budget.

In addition to the savings of loan charges, which allowed the Council to balance its Budgets for 2006 and 2007, the use of Assets proceeds to allow redemption of monies to the O.P.W. in respect of Mortgage related loans has the effect of dealing with the elimination of the Historical Mortgage related Funding Gap in time. At the end of 2006 the redemption and funding of €2.8m has reduced this Funding Gap from €5.327m as at 31/12/2005 to €2.507m as at 31/12/2006. This is due to the fact that the Funding Gap originally arose through the non redemption of monies to the Office of Public Works who were the lending agency prior to the establishment of the Housing Finance Agency. These monies retained and otherwise used had been redeemed by borrowers with the Council. The reasons for non redemptions with the lending agency and the use of monies in other matters which date back perhaps to the 1980's are not definitively available at this point in time but may include use of redeemed amounts as matching monies for old Grant Schemes such as House Improvements, DPG's, etc.

Given the negative connotations of having a Mortgage Related Funding Gap - most Local Authorities did not - is a further reason in addition to saving substantially in respect of loan charges, up to €2.5m perhaps in a full year, why the strategies adopted in the Budgets for both 2006 and 2007 need to be delivered. The alternative would have been to provide from Revenue Sources in the Annual Budget to write down the Funding Gap over a period of 10 years - €0.5m per annum - as we were/are required by the Department of Environment Heritage & Local Government including its Audit service to so do. Members will note that not alone is this avoided on foot of this strategy but also by saving loan charges to the extent stated we are making available €3m approximately to the Revenue requirement annually on a recurring basis".

The above summarises the impacts from the redemption of monies in full targeted in the Adopted Budgets for 2006 and 2007 as evaluated and estimated in May of 2007.

The update as of December 2007 on above is as follows:

The tabulation below summarises, for loan redemptions, funded from Disposal of Asset proceeds, achieved in relation to the Adopted Budget Strategies in 2006 and 2007, savings in Loan and other Charges and the full year impacts over and above where relevant. As you can see the amounts for redemption achieved or to be achieved\* with the aid of the proceeds of Fixed Asset Disposals results in full year savings of almost €2m on Loan Charges etc. When the Draft AFS for 2006 was completed a figure of €2.5m was mentioned. However as noted earlier under Item 4 we did not achieve redemption of all loans targeted in 2007. This illustrates the value of using Asset proceeds in minimising requirements to be funded from Local Government Fund Grant and Commercial Rates as we prepared for the 2007 Budget and now as we prepare a Draft Budget for 2008.

*\* As in 2007 actual application of €9.9m in respect of Disposal of Asset proceeds when received by Donegal County Council will be tabled for the Elected Members approval at the next ordinary meeting of the County Council following receipt.*

		2007		Full Year	
	<i>Date of redemption</i>	<i>Loan Charges Savings €</i>	<i>Other Savings €</i>	<i>Loan Charges Savings €</i>	<i>Other Savings €</i>
<b>Mortgage Related</b>					
Redemption of OPW €2.8m*	25 <sup>th</sup> January 2006	333,000	139,200	333,000	139,200
Redemption of OPW €3.9m	22 <sup>nd</sup> December 2006	587,200	194,000	587,200	194,000
<i>Subtotal €6.7m</i>		920,200	333,200	920,200	333,200
<b>Non Mortgage Related</b>					
Redemption of €2.3m*	31 <sup>st</sup> March 2006	150,000	-----	150,000	-----
Redemption of €6m	30 <sup>th</sup> June 2007	319,600	-----	554,000	-----
<i>Subtotal €8.3m</i>		469,600		704,000	
<b>Totals €15.0m</b>		1,389,800	333,200	1,624,200	333,200
Total for full year					1,957,400

*\*The application of Asset Disposal Proceeds for these redemptions was agreed by the Elected Members in March 2007.*

It is not possible, given our Overdraft position, decisions taken subsequently and availability of identified Assets over and above current commitments following the July meeting of the Council, to pursue a strategy in the Draft Budget for 2008 of redeeming the balance of Non Mortgage Loans as planned in the Adopted Budget for 2007. Work continues in the completion of the Council Asset Register with input from all Directorates. During 2008 it is expected that the 'audit' of all our assets will be completed - perhaps with assistance from the Research Unit of the Community & Enterprise Directorate - which will allow us have a comprehensive Asset Register as required under the accounting regulations we operate under in any case and as a result facilitate with the agreement of each Directorate of Services identification of those assets which are surplus to service requirements. It will then be possible to agree with Elected Members how the proceeds from the sale of such surplus assets can be applied on a prioritised basis taking into account current commitments agreed.

Any proposals to further redeem Variable Rate Loans from the proceeds from the sale of Assets will be agreed with the Elected Members in the context of the Draft 2009 Budget proposals.

#### **6. WRITE DOWN OF THE ACCUMULATED REVENUE DEFICIT.**

The Accumulated Revenue Deficit stood at €11,478,000 as at the 31<sup>st</sup> December 2006. Again as in 2007 in drafting the budget for 2008 it has not been possible, given other requirements for 2008 to provide for a further write down in 2008 of €800,000. When finalising the Draft Annual Financial Statement for 2007 it is hoped that it may be possible to write down a further amount of this accumulated deficit of €11,478,000 as at the 31<sup>st</sup> December 2006.

#### **7. COUNTY CHARGES**

In the process of meeting Elected Members for the preparation of the Draft Budget for 2008, I have been asked by some Elected Members for details in relation to Financial arrangements with Town Councils. In this section I will deal with the issue of County Charges from the perspective of the 2007 Adopted Budget. You should note where relevant, other Directorates may make reference to working and financial arrangements with the Town Councils i.e. Roads, Planning, in relation to the Economic Development Fund and so forth.

Under Section 100 Part 12 of the Local Government Act 2001, Donegal County Council levies on each rating Town Council under the Donegal County Manager what is referred to as County Charges for the provision of County Wide Services for which Donegal County Council is the relevant Authority for example Fire, Library and so forth. (Where the Town Council is the Authority e.g. Planning Services provided by the County Council are recovered separately by a charge for Agency Services).

Prior to the Local Government Act 2001 the levying of such charges was done in accordance with prescribed criteria and formulae as laid down by statute and regulations made under such statutes. With the commencement of the Local Government Act 2001 the need to continue to charge for County Wide Services was provided. However it was left to each Local Authority to agree arrangements locally for recovery of such charges. We have over recent years employed a consistent format in terms of net costs both direct and indirect deemed to be in respect of County Wide Services as well as the basis for their attribution across all rating authorities including Donegal County Council under the Donegal County Manager. The basis for attribution of such costs on a pro rata basis is a combination of current year Local Government Fund Allocations and previous year Rate Income in each of the four Authorities.

The following Table sets out by Programme Group the Adopted Budget for 2007 and the element of each that represent Services available on a County Wide basis.

Programme Group	Adopted Budget 2007 on Net Basis	Element of each Programme Group Budget on a net basis representing "County Wide" Services
	€	€
Housing, Social & Building	4,324,218	2,111,085
Roads, Transportation & Safety	14,187,768	1,880,155
Water Supply & Sewerage	12,514,456	_____
Planning incentives and controls	4,513,190	802,984
Environment Protection	7,823,742	5,229,951
Recreation & Amenity	7,100,428	4,059,301
Agriculture, Education Health & Welfare	2,399,366	218,918
Miscellaneous Services	10,301,139	1,403,335
<b>Totals</b>	<b>63,164,307</b>	<b>15,705,729</b>

These amounts in respect of County Wide Services nett costs - that is after allowing for all income accruing to the County Council for such services as you can see stood at €15,705,729. This was broken down for each Authority bases on the aforementioned formula as follows:

	<b>Amount €</b>	<b>% of Total</b>
1. Donegal County Council	13,635,794	86.82
2. Letterkenny Town Council	1,246,533	7.94
3. Buncrana Town Council	493,504	3.14
4. Bundoran Town Council	329,898	2.10

In the event the following amounts were agreed initially with each Town Council Manager and Clerk and subsequently Adopted by each Elected Council.

	<b>Amount €</b>	<b>Difference €</b>	<b>% of Total</b>
1. Donegal County Council	14,295,131	+ 659,337	91.02
2. Letterkenny Town Council	824,810	- 421,723	5.25
3. Buncrana Town Council	300,994	- 192,510	1.92
4. Bundoran Town Council	284,794	- 45,104	1.81

In addition Letterkenny Town Council pays €1,130,190 in respect of the Town Boundary extension to achieve revenue neutrality as at 1<sup>st</sup> January 2004 on an ongoing basis (no adjustments have been made since in the Local Government Fund allocations both Donegal County Council and Letterkenny Town Council receive in terms of this Boundary extension).

In respect of the difference between the calculated amount and the amount subsequently charged to each Town Council it was agreed with each Town Manager that each Town Council would bridge the gap where necessary over a 4-5 year period commencing in 2008.

In drafting the 2008 Budget the following amounts have been agreed at executive level for Adoption by the Elected Members.

	<b>€</b>	
Letterkenny Town Council	954,810	(+€130,000)
Buncrana Town Council	325,994	(+ €25,000)
Bundoran Town Council	329,794	(+ €45,000)

### **HOW WE COMPARE WITH OTHER COUNTIES.**

The most recent information available on a comprehensive basis is in respect of the Adopted Budgets for 2005 and these are set out in the Table overleaf.

You will note, at 0.8% in respect of charged amounts and 1.2% in terms of calculated amounts for charges as a % of Revenue Expenditure, Donegal County Council is at the lower end of such charges in the context of other County Councils.

I am confident that given the consistency of our approach in relation to items included, and their cost, for County Wide Services as well as the formula used for their attribution Donegal County Council continues to be at the lower end for such charges by all County Councils.

**LOCAL AUTHORITY BUDGETS 2005 (SOURCE: DEPARTMENT OF THE ENVIRONMENT, HERITAGE & LOCAL GOVERNMENT)**

<b>County Council</b>	<b>Revenue Gross Expenditure €</b>	<b>County Charge €</b>	<b>Revenue % Gross Expenditure</b>
Carlow	39,458,055	3,132,830	7.9
Kerry	108,177,778	6,497,353	6.0
Louth	55,088,301	2,850,000	5.1
Wicklow	68,734,579	3,393,345	4.9
North Tipperary	57,073,696	2,240,408	3.9
Monaghan	55,511,058	2,114,226	3.8
Offaly	46,801,618	1,463,505	3.1
Wexford	89,304,542	2,693,685	3.0
Longford	43,076,000	1,106,400	2.5
Kildare	104,346,934	2,433,159	2.3
Clare	93,174,456	2,036,840	2.1
Mayo	119,446,816	2,195,398	1.8
South Tipperary	76,757,757	1,371,338	1.7
Waterford	57,807,400	955,000	1.6
Cork	268,178,085	4,075,500	1.5
Meath	87,414,978	1,144,710	1.3
Westmeath	54,631,890	570,000	1.0
Cavan	58,273,998	540,000	0.9
<b>Donegal*</b>	<b>135,742,900</b>	<b>1,143,598</b>	<b>0.8</b>
Galway	121,164,996	607,425	0.5
<b>* Excluding Boundary Extension Compensation</b>		<i>1,130,190</i>	
	<b>2005 Total €</b>	<b>2005 Actual Charge €</b>	<b>Shortfall €</b>
<b>Letterkenny</b>	924,366	649,810	274,556
<b>Bundoran</b>	317,609	239,794	77,815
<b>Buncrana</b>	450,776	253,994	196,782
<b>Total</b>	<b>1,692,751</b>	<b>1,143,598</b>	<b>549,153</b>
	<b>1.2%</b>	<b>0.8%</b>	

## **8. TRANSFER OF WATER FUNCTION TO DONEGAL COUNTY COUNCIL**

On the 1<sup>st</sup> of January 2004 Donegal County Council became the Water Authority for the whole of the County of Donegal. We were required to effect the transfer on the Revenue Neutral Basis. This resulted in the following, which are dealt with separately from the County Charge:

	€
Letterkenny Town Council	144,000
Buncrana Town Council	163,300
Bundoran Town Council	(80,900)

These amounts, which are the same each year, are receivable or (payable) annually by Donegal County Council and are included in Programme Group 3, Water Supply & Sewerage. Again as for the boundary extension in Letterkenny, there has been no adjustment in respect of this in the Local Government Fund Allocations for Donegal County Council and each of the Town Councils since 2004.

It is note worthy that increasing costs in the Water/Waste Water area, since the transfer of the function, are not passed on to the Town Councils on the basis that Donegal County Council recovers such costs from the Non-Domestic Sector and the Departments Local Government Fund meets the cost of providing services to the Domestic Sector. As members will be aware it is not at all transparent that the Local Government Fund does provide such funding on an adequate basis for Water Services provided by Donegal County Council to the Domestic Sector.

## **9. Other issues in context of County Charges**

In the determination of County Wide Services and related costs the following are not included, due to in some instances long standing arrangements with Letterkenny Town Council as the town hosts these facilities. As such none of these costs are attributed to Buncrana and Bundoran Town Councils.

	€ Donegal County Council Gross Costs	€ Contribution from Letterkenny Town Council
County Museum	414,600	207,300
An Grianán Theatre (Loan Charges)	104,700	52,400
Arts Centre	670,000	80,000

**FINANCE DIRECTORATE  
STIÚRTHÓIREACHT AIRGIDIS**

<b>Draft Budgeted Expenditure:</b>	<b>€14,219,400</b>
<b>Draft Budgeted Income:</b>	<b>€71,972,600</b>

The following pages set out the above as per each Relevant Programme Group.

In addition to Payroll costs and Non Pay costs associated with Accounting and Administration tasks of the Finance Department a large bulk of further Non Pay Expenditure in the Finance Directorate tends to be predominately non-discretionary - Loan Charges, Insurance Premia, Irrecoverable Rates, Mortgage Protection Insurance, Audit Fee, County Enterprise Board Payroll, Contribution to VEC, Malicious Injuries, Agency Services, Banking Costs, as well as Overhead Funds allocated to other Directorates. These amount to € 11,695,100 in total.

## Programme Group 1

### HOUSING, SOCIAL & BUILDING SERVICES SEIRBHÍSI TITHÍOCHTA, SÓISIALTA AGUS FOIRGNÍOCHTA

Draft Budgeted Expenditure: €4,792,200

Draft Budgeted Income: €1,325,000

(Pages 1-3 of Blue Pages)

#### LOAN CHARGES - MORTGAGE RELATED LOANS

The Draft Budget includes a figure of €4,491,600 for these loan charges in the Housing Programme for the interest repayable in respect of a variety of Housing Loan schemes as introduced by various Governments over many years.

There is a corresponding income of €1,325,000 in respect of the interest element of repayments by mortgagees ( including new borrowing).

The inclusion of interest only is in accordance with the Accountancy Guidelines for the establishment of Budgets in this regard as issued by the Department of Environment, Heritage and Local Government.

The Finance Directorate is responsible for the payment of all Loan Charges - both Mortgage and Non Mortgage related - and for the negotiation of loans sourced from other than from the Housing Finance Agency. The Housing Finance Agency accounts for the bulk of Local Authority Loans both Mortgage and Non Mortgage particularly in relation to Housing.

#### INCOME FROM HOUSING LOANS

The Annual Accrual amounts to €2,453,848 for this heading with the interest element of €1,285,362 included in the Draft Budget for 2008 in accordance with Accounting Guidelines.

The work in relation to the accruals and follow up of same as well as handling issues such as Interest Rate Charges, Mortgage Protection Insurance and Tax Relief at Source is handled by Debtors Management Section in the Finance Directorate. Pursuit of defaulters is largely done through a long standing process including issue of Final Demands and consequential legal actions. We also follow up with mortgage account holders for the repayment of loans with some assistance from the Revenue Collection Service. It is hoped to further develop and formalise this assistance during 2008 as Donegal County Council progresses its negotiations with relevant staff and their representatives.

Gross arrears of €639,090 were outstanding at 31<sup>st</sup> December 2006 (net arrears shown in the A.F.S are €528,402) with an amount of €549,412 outstanding at the end of December 2007. These amounts do not include credits where Mortgagees pay in advance for whatever reason and/or arise due to failure to cancel Bank standing orders following redemptions of loans advanced by them. We follow up such matters on an ongoing basis to resolve as quickly as we can.

Programme Group 2

**ROADS & TRANSPORTATION SERVICES  
SEIRBHÍSI BOITHRE AGUS IOMPAIR**

Draft Budgeted Expenditure: €84,700

Draft Budgeted Income: € Nil

(Pages 4-6 of Blue Pages)

**LOAN CHARGES**

The Draft Budget for 2008 includes a provision of €84,700 in respect of Loan Charges for Navenny Street Car Park in Ballybofey.

### Programme Group 3

## WATER SUPPLY AND SEWERAGE SOLÁTHAR UISCE AGUS SEARACHAS

Draft Budgeted Expenditure: €144,900

Draft Budgeted Income: € Nil

(Pages 7-10 of Blue Pages)

### WATER CHARGES 2007 OUTCOME - PROPOSALS FOR 2008 CHARGING

These are dealt with in the report by the Director of Water, Environment and Emergency services in his report.

All income from Water Charges is available to the Water Directorate and budgeted details are set out in Programme Group 3 (Blue Pages 7 - 10).

### COLLECTION OF WATER CHARGES

The billing and follow up of these charges is now based on the Electoral Area Offices through the Corporate Services Directorate on a "service giving" basis who work both with the Water, Environment & Emergency Directorate and Revenue Collectors on a day to day basis.

In doing this work and including dealing with some of the accounts seriously in default Corporate Services rely on expertise and back up from the Debtors Management Section, Finance Directorate based in Lifford. The Debtors Management Section is primarily responsible for all system aspects in this regard including Database Management, Customer Set Ups and development of reporting templates as requested. This periodically requires Debtors Management to interface with the software supplier to ensure from a system perspective accurate and detailed billing as well as customer statements can issue and allow for the accurate "bringing to account" of this important area of income in the Annual and Periodic Financial Statements. The Debtors Management Section also deal through the legal process with the more persistently difficult cases where efforts by Corporate Services at the local level have been exhausted without achieving the necessary payment

Donegal County Council is since the 1<sup>st</sup> January 2004 the Water Authority for the whole county and all bills are issued in the name of the County Council.

## WATER DEBTORS - ARREARS

The total amount outstanding for Water Charges at the time of writing is €2.3m approximately and is projected to be €5m approximately when the 2007 Annual Financial Statement is completed following issue of bills in early 2008 that refer to 2007 consumption, the completion of all necessary reconciliations and the detailed examination of all individual accounts outstanding.

In 2007 with the roll out of the metering project and the transition from, in some instances, old to new meters this has given rise to delays in the issue of bills for water consumption in 2007. This coupled with the fact that late on in 2007 identification and billing of new customers - not billed previously for water consumption - proceeded and such bills have only recently issued and/or in the course of being issued and explains to some extent the projected high level of Debtors at 31<sup>st</sup> December 2007. This Projected Debtor Balance of €5.0m shows a marked disimprovement on the figure of €2.2m at the 31<sup>st</sup> December 2006 (Source Draft (Unaudited) Annual Financial Statement 2006). It will be necessary in early 2008 to identify amounts owing by each consumer both in total and by age and to vigorously enforce collection through legal and other means including implementation of the Council Policy for disconnection of supply. The involvement of the staff of the Water Services Directorate will be necessary in these contexts.

With the projected level of Uncollected Debtors at €5m which has risen steeply in 12 months due to a variety of reasons as indicated it is prudent that in the context as well of publicised debate in the media and press concerning Water Charging by Local Authorities that the provision for Bad and Doubtful Debts is increased from €387,000 to €562,000. This latter figure represents a 6.61% of the anticipated income of €8,495,00 following on from the increase in charges as we move towards full cost recovery from the Non Domestic Sector. To the extent this provision appears to be unnecessary as we progress through 2008 based on greater collection levels (with reduction of debtors to end of 2006 levels at least when all bills for 2007 consumption have been issued and with the help of all relevant staff), monies can be made available to Water Services to try and meet other demands e.g. Staffing, Goods & Services which it has not been possible to include to the extent requested in the 2008 Draft Budget. A caveat worth mentioning however is the anticipated income of €8,495,000 is based on as yet incomplete information on consumption patterns which will only be available after a full year, i.e. 2008. To this extent we may need as well to keep billed amounts under constant review.

### **CUSTOMER BILLING 2008**

This section from 2008 onwards will rely on accurate and timely interfaces as between the Service Provider Laing O'Rourke and its systems in terms of the generation of bills for issue by Corporate Services and establishment of new customers. In these respects liaison with Corporate Services locally and the Revenue Collection service in each Electoral area will be a necessary ingredient in the process. In 2007 - and it is expected as well in 2008 - the Finance Directorate has worked with and assisted in developing systems interfaces process and procedures to allow a smooth transition from current arrangements to the situation where the Service Provider Laing O'Rourke plays a pivotal role in providing Customer and Billing data.

### **CUSTOMERS FOR BILLING PURPOSES**

It is projected that 8,000 consumers approximately will receive bills for supply of Water and where relevant Waste Water Services in 2008 from Donegal County Council.

### **LOANS FOR WATER SCHEMES**

The Draft Budget for 2007 includes a provision of €4,300 in respect of Loan Charges for borrowings from the Office of Public Works for Water Schemes.

**Programme Group 4**

**DEVELOPMENT INCENTIVES & CONTROLS  
DREASACHTAÍ FORBARTHA AGUS STIURADH**

**Draft Budgeted Expenditure: €270,500**

**Draft Budgeted Income: €270,500**

**(Pages 11-13 of Blue Pages)**

**COUNTY ENTERPRISE BOARD**

The Draft Budget includes €270,500 in expenditure to cover payroll costs of the County Enterprise Board. These costs are 100% recoupable.

**ENVIRONMENT PROTECTION  
COSAINN NA TIMPEALLACHTA**

**Draft Budgeted Expenditure: €700**

**Draft Budgeted Income: € Nil**

**(Pages 14-16 of Blue Pages)**

**LOAN CHARGES**

The Draft Budget for 2008 includes a provision of €700 in respect of Loan Charges for borrowings from the Office of Public Works for the Fire Service.

**LANDFILL BUDGET INCOME**

Our Income figures for the Draft Budget for 2008 are based on 32,250 tonnes with no increase proposed in the 'gate' charge to give €4,434,000 (all money amounts quoted herein are inclusive of the Government levy). Please refer to the report and relevant section therein prepared by the Director of Water, Environment & Emergency Services included earlier in this booklet.

**Programme Group 6**

**RECREATION AND AMENITY  
CAITHEAMH AIMSIRE AGUS TAITNEAMHACHT**

**Draft Budgeted Expenditure: €143,700**

**Draft Budgeted Income: €71,900**

**(Pages 17-19 of Blue Pages)**

**LOAN CHARGES**

The Draft Budget for 2008 includes a provision of €143,700 in respect of Loan Charges for the Grianán Theatre (€106,100) and the County Museum (€37,600). These costs are 50% recoupable from Letterkenny Town Council.

**Programme Group 7**

**AGRICULTURE, EDUCATION, HEALTH & WELFARE  
TALMHAÍOCHT, OIDEACHAS, SLÁINTE AGUS LEAS**

**Draft Budgeted Expenditure: €992,000**

**Draft Budgeted Income: € Nil**

**(Pages 20 - 22 of Blue Pages)**

**LOAN CHARGES**

The Draft Budget for 2008 includes a provision of €964,500 in respect of Loan Charges for Piers and Harbours Improvement Works.

**CONTRIBUTION TO VOCATIONAL EDUCATION COMMITTEE**

The Draft Budget for 2008 includes a provision of €27,500 in respect of the statutory contribution to the Vocational Education Committee.

**MISCELLANEOUS  
ÉAGSÚIL**

**Draft Budgeted Expenditure: €6,510,300**

**Draft Budgeted Income: €2,628,635**

**(Pages 23-27 of Blue Pages)**

**FINANCIAL MANAGEMENT SYSTEM DEVELOPMENTS**

I have in previous years set out the progress we have made from being a pilot site to the completion and publication of our Final Accounts in accordance with the Department's Accounting Guidelines based on a new Accounting Code of Practice.

The draft budget for 2008 includes for the staffing of the Finance Directorate to obtain the best outcomes in terms of such new developments and the far-reaching change in Accounting Practice when compared to a number of years ago.

In 2007 we continued progress in relation to processes for Budgeting and Budgetary control. This involved on a periodic basis reporting and systematically tabling at the Senior Management Team level issues in regard to Revenue income and expenditure with required follow up by each Directorate. We also participated nationally in the development of information reports from Agresso and these are currently being rolled out across all Local Authorities. In 2008 a new costing system will be implemented. This new costing system it is anticipated will provide for greater accountability and comparability of costs in the provision of services as noted earlier in my report.

**OVERDRAFT INTEREST**

The Draft Budget for 2008 includes a provision for this heading of €610,000 which is an increase in of €260,000 in the 2007 provision.

We did not exceed our overdraft limit of €30m for the first 6 months or €50m for the latter 6 months at any stage in 2007.

We continue to make every effort to minimise overdraft requirements which averaged €22.7m throughout 2007. The need for all Directorates to ensure

payments/recouplements to the Council are invoiced in good time and followed up in a timely fashion is crucial. The Council is required to manage its cash very closely given the fact of the accumulated over spending on the Revenue Account, the carrying of unfunded Capital balances of €8,145,000 as at 31<sup>st</sup> December 2006 as well as problems with ongoing recouplements in the Capital/Fixed Asset Formation Account area. This latter issue is getting even more problematic particularly in relation to investment in the Water and Waste Water infra-structure as the Department of Environment, Heritage & Local Government Water Division adjudicates on Water Pricing reports for individual schemes. As well in 2007, to achieve some of the Loan Charges savings as budgeted, we had to redeem loans from overdraft awaiting receipt of "cash" from the sale of Fixed Assets and at the time of writing (20<sup>th</sup> December 2007) we await receipt of amounts to give €9.9m which we are carrying on overdraft in this connection.

Donegal County Council is charged the Ulster Bank Group's Prime Rate currently at 5.10% (02/01/2008) on overdrawn amounts.

### **BANK CHARGES**

The 2008 Draft Budget includes for a provision of €29,000, for Bank Charges in line with the agreement we have with Ulster Bank Ltd for the period, 1<sup>st</sup> January 2005 - 31<sup>st</sup> December 2009. All Transaction costs, Merchant Banking costs, Bank Services including all 3<sup>rd</sup> party costs are included in this agreement. There are no further charges other than overdraft costs for Banking Services.

### **IRRECOVERABLE RATES**

The 2008 Draft Budget includes a provision of €2,099,200 for this heading an increase of €99,200 which in effect is a provision for Bad and Doubtful Debts. This equates to about 10% of the rate warrant of €20,850,000 approximately for 2008.

Rates prove irrecoverable for a number of reasons including downturn in economic activity, closure of operations, vacant and for renting and so on. With the completion of the AFS in recent years Commercial Rates Debtors have been carefully scrutinised and collectable debts have been clearly identified. This information has been and will be used to pursue defaulters more intensively for payment. It should be noted that notwithstanding the increased provision for this heading all Commercial Rate Debtors will be vigorously pursued for payment of amounts due, the Council will continue to

facilitate all forms of payment and will seek at all times to help ratepayers obtain satisfactory payment schedules thus avoiding unnecessary hardship.

### **INTERNAL AUDIT UNIT**

€329,300 is included in the Draft Budget 2008 under this heading. The Unit provides the Internal Audit service to the Council and to the Town Councils.

Internal Audit looks at how the Councils are identifying and managing their risks. It does not focus only on financial statements or financial risks: much of this work is looking at reputational, operational or strategic risks. It also gives an independent opinion on whether internal controls - such as policies and procedures - put in place to manage these risks are actually working as intended. It provides this information by, for example, checking that laws and regulations are complied with; that the assets of the organisation are being safeguarded; that operations are conducted effectively, efficiently and economically in accordance with the organisation's policies; and that records and reports are reliable and accurate. The responsibility to manage risk always resides with management. Internal audit's role is to identify potential problem areas and recommend ways of improving risk management and internal control.

Provision has been included for the recently established Audit Committee which will be in operation in 2008. The functions of this committee are to

- Review financial and budgetary reporting practices and procedures
- Foster the development of best practice in the internal audit function
- Review auditors' reports and assess follow-up action by management
- Assess and promote efficiency and value for money
- Review risk management systems
- Make appropriate recommendations and report to the Council at least annually

The scale, complexity and diversity of our business, allied to the need for transparency and accountability, serves to highlight the importance of this committee, one of whose chief aims will be to encourage all of us to strive for continuous improvement in our own performance and in the delivery of services to the general public.

## OVERHEAD FUND

This fund is generated from the levying of a percentage on Direct Labour Costs for certain grades in accordance with Circular No. RW 3/307 dated 15<sup>th</sup> March 1988 as revised by Circular No 15/2005 dated 6<sup>th</sup> May 2005. The fund will provide €5,202,600 in 2008. The table overleaf sets out the uses of the monies generated and these are included in each Programme Group as set out. The overall position estimated at the 31/12/07 shows this account to be in balance and known and/or likely commitments accrued in full or in part.

There is a 5% decrease on our Insurance Premia for 2008 in respect of Public Liability and the Council is self-insured for any one claim up to €6,500 (excess). In the context of excesses our Insurers have advised that there may be a potential liability to Donegal County Council of €4 million in relation to claims with them. This figure was included in a note to the Draft Unaudited Financial Statement of 2006. The Council has not accrued for this level of liability in our accounts and in terms of 2008 in the Draft Budget we have provided €1,757,700 which includes premia of €1,450,800, excess claims of €261,900 and provision of €45,000 for a staff member to progress outstanding issues as noted under the Roads Directorate.

An overhead charge of 44% (up from 35%) as allowed by Department Circular No 15/2005 dated 6<sup>th</sup> May 2005 will be applied in 2008 to direct labour costs to jobs funded 100% by Department Road Grant allocations which are notified in February of each year.

**DETAILS OF DISBURSEMENT OF OVERHEAD FUND MONIES**

		<b>2008</b>	<b>2007</b>
		<b>€</b>	<b>€</b>
Programme Group 1	Holiday Pay and Sick Pay	58,900	57,800
Programme Group 2	Holiday Pay and Sick Pay	875,000	825,000
Programme Group 3	Holiday Pay and Sick Pay	420,000	350,000
Programme Group 7	Holiday Pay	19,000	18,000
Programme Group 8	Insurance	1,757,700	1,224,900
"	Postage	185,000	175,000
"	Telephone Bills	95,000	95,000
"	Recruitment Costs	125,000	115,000
"	Goods & Services General	25,000	25,000
"	Contribution to Payroll Costs in Stores	75,000	80,000
Programme Group 9	Contribution to IS Costs	200,000	200,000
"	Write Down of Capital cost of year 2000 and Euro transition costs	20,300	50,000
"	Contribution to Superannuation Costs	1,346,700	1,200,000
	<b>TOTAL</b>	<b>5,202,600</b>	<b>4,415,700</b>

It is expected that the write down of Capital Costs as mentioned in the Table should be completed by the end of 2008.

Programme Group 9

**SUPPORT SERVICES/CENTRAL MANAGEMENT CHARGE  
SEIRBHÍŚÍ TACAÍOCHTA**

Draft Budgeted Expenditure: €1,280,400  
Draft Budgeted Income: €67,676,565  
(Pages 28-30 of Blue Pages)

**FINANCE SECTION**

Provision in the Draft Budget 2008 includes €1,280,400 expenditure in respect of Accounting and Administration costs in the Finance section.

**INCOME**

The Draft Budget for 2008 includes €67,631,265 made up of income from Local Government Fund, Rates and County Charge.