

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 implications
- (b) Maintenance, Development and ensure integrity of Accounting system
- (c) Statutory Accounting for all monies which have at one time or another flowed through the accounts and records of the County Council
- (d) Planning and controlling the activities of the organisation to manage Budgets available and to assist in the control of costs
- (e) Oversight of Management of Debtors and ensure adequate cash is available to meet ongoing needs
- (f) Line Management of the Council's independent audit function
- (g) Support to other Directorates by way of advice, support and analytical breakdowns on an ongoing basis.

LOCAL GOVERNMENT FUND ALLOCATION FOR GENERAL PURPOSES

The allocation received for 2007 of €41,556,957 (Fin 19/2006 in Appendix 2) represents a 7.81% increase on the amount allocated for 2006.

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

LGF ALLOCATIONS 2001 -2007	
2001	€22.800m
2002	€24.198m + 6.13%
2003	€26.160m + 8.11%
2004	€32.356m + 23.69%
2005	€35.733m + 10.43%
2006	€38.547m + 7.88%
2007	€41.557m + 7.81%

NEEDS & RESOURCES MODEL

This model introduced in tandem with the initiation of the Local Government Fund in 1998/1999 continues to provide Donegal County Council with funding from this particular 'pot' over and above across the board increases in the overall Local Government Fund Allocation. The Finance Department, in conjunction with services as required, play 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 the preparations by them for the annual round of Local Government Fund Allocations.

Over the years since its introduction this model has attempted to introduce some level of resource redistribution. 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. It is noted in the letter of allocation for this year that further work in relation to "equalisation" may be progressed in 2007.

FINANCING OF LOCAL GOVERNMENT

The report from the Consultants appointed by the former Minister for Environment, Heritage and Local Government in association with the Institute of Fiscal Studies, Birmingham was published earlier this year (2006). While the report covered many areas including possible new income sources and approaches to efficiency gains the Minister and Government have not to date made any changes to the determination of the local income base for Local Authorities. The focus from the Minister's perspective is more on making efficiency and value for money gains through the possible development of shared services and enhancing accountability structures. The Minister in determining 2007 allocations has clearly set out his objectives in this regard through the likely development of new costing structures, and the initiation of Audit Committees to provide for greater transparency and accountability in the operation of Local Authorities expending as he states in excess of €9 billion annually. It is clear from all of this that it is expected, in tandem with what he views as a generous allocation from the Local Government Fund for both General Purposes and Non National Roads (2007 Allocation to be advised in early 2007) such efficiency improvements and gains, which he anticipates, will allow for Local Authorities to achieve their service objectives within the existing funding mechanism.

**FINANCE DIRECTORATE
STIÚRTHÓIREACHT AIRGIDIS**

Draft Budgeted Expenditure: €13,312,516
Draft Budgeted Income: €68,267,016

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

A large bulk of the 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, Overhead Funds allocated to other Directorates and these amount to €11,935,600 in total.

Draft Budgeted Expenditure: €4,526,000

Draft Budgeted Income: €1,243,600

(Pages 1-3 of Blue Pages)

LOAN CHARGES - MORTGAGE RELATED LOANS

The Draft Budget includes a figure of €1,965,000 for these loan charges in the Housing Programme for the interest repayable (and the capital deficit between loan repayments to lending agencies and receipts to the Council from borrowers) in respect of a variety of Housing Loan schemes as introduced by various Governments over many years.

There is a corresponding income of €1,243,600 in respect of the interest element of repayments by mortgages.

The inclusion of interest only plus the funding of the deficit between income from borrowers and repayment requirements to Lending Agencies is in accordance with the New Accountancy Guidelines as issued by the Department of Environment, Heritage and Local Government.

In addition the Council discharges its responsibilities through the Finance Directorate for the accounting, legal and taxation matters relating to this area. Presently we also follow up with mortgage account holders for the repayment of loans.

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 the Housing Finance Agency. The Housing Finance Agency accounts for the bulk of Local Authority Loans particularly in relation to Housing.

COUNCILS HISTORICAL FUNDING GAP IN ITS MORTGAGE LOAN BOOK

As you will be aware from the Annual Financial Statement reports in recent years and in my note to Elected members prior to meeting with you at the workshop for the 2007 Budget the Council has at present a historical funding gap of €5,327,432 in its Mortgage Loan Book which became apparent on transition to the new Accounting regime following on the commencement of the Local Government Act 2001. We are required to resolve this matter urgently and it has arisen in the context of the current Local Government Audit as to what the Councils proposals are to deal with same.

We have over the past couple of years undertaken a detailed examination of the Council's Mortgage Loans Register and we have identified further loans at high fixed rates to the value of €3.9m which can be redeemed giving a saving of €587,200 in Loan Charges (principal plus interest) on an annual basis which are now included in the balancing of the Draft Budget for 2007 in this regard.

ADOPTED BUDGET 2006

In the drafting of the 2006 Budget high fixed rate loans to the value of €2,800,000 were identified at that stage. Savings in loan charges to the value of €333,000 (principal plus interest) in relation to this were used in achieving a balanced 2006 Budget.

In drafting the 2006 Budget we targeted the redemption of Non Mortgage Loans to the value of €2m giving a saving in Loan Charges of €150,000 approximately. Again this saving was used to achieve a balanced 2006 Budget.

The cash resources to allow for these redemptions were/are to be sourced from the proceeds from the Disposal of Assets - some of which has already been received - and which will be tabled early in the New Year for the Members formal approval to allow completion of the 2006 Annual Financial Statement.

MORTGAGE & NON MORTGAGE LOANS GENERAL - REDEMPTION OF LOANS/DISPOSAL OF ASSETS

In addition to amounts of €4.8m (to achieve Budgetary Balance in 2006), €3.9m mentioned earlier and in finalising strategies for the 2007 Draft Budget to match available income and unavoidable expenditure costs it is proposed to target additional loan charges savings. These savings nett at a further saving of €506,700 on the Adopted Budget for 2006. Members should note these savings are after allowing for increased costs - interest rate increases of 0.5% expected in 2007 - and including additional borrowings particularly in Water and the Environment areas (these amount to €460,300).

It is anticipated that €12-15m from the proceeds from the Disposal of Assets will need to be realised in the first half of 2007 to allow for achievement of these savings and in relation to the financing of the redemption of €3.9m mentioned earlier. Again Elected Members should note that proceeds will also need to address costs of disposal, capital balances if any associated with the creation/purchase of the Asset in the first instance. All matters in connection with the application of the proceeds

from the Disposal of Surplus Assets (as well as the Disposals themselves) will be brought to the Elected Members at an Ordinary Council Meeting for approval in due course.

INCOME FROM HOUSING LOANS

The Annual Accrual amounts to €2m approximately for this heading with the interest element of €1,243,600 included in the Draft Budget for 2007 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. Arrears of €761,403 were outstanding at 31st December 2005 with an amount of €659,833 outstanding at the end of November 2006. These amounts do not include credits where Mortgagees pay in advance for whatever reason and /or arise due to failure to cancel standing orders following redemptions 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 2007 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 SÉARACHAS

Draft Budgeted Expenditure: €151,100
Draft Budgeted Income: € Nil
(Pages 7-10 of Blue Pages)

WATER CHARGES

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

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 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 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 responsible for all system aspects in this regard including Database Management, Customer Set Ups and development of reporting templates as requested. It also periodically requires this section to interface with the software supplier to ensure from a system perspective accurate and detailed billing as well as customer statements can issue. The section relies on accurate input from the Water, Environment & Emergency Services Directorate for meter readings and the identification of new customers working in conjunction with Corporate Services and Revenue Collectors in the Electoral Areas.

Donegal County Council is now the Water Authority for the whole county and all bills are issued in the name of the County Council.

The total amount outstanding for Water Charges at the time of writing is €1.8m and is projected to be in the range of €2.5m to €2.8m when the 2006 Annual Financial Statement is completed following issue of bills in early 2007 that refer to 2006 consumption, the completion of all necessary reconciliations and the detailed examination of all individual accounts outstanding.

IDENTIFICATION OF NEW CUSTOMERS FOR BILLING PURPOSES

The additional customer accounts targeted (2,500) in the Draft Budget for 2006 did not materialise. In drafting the Budget for 2007 we have not included at this stage income that may be raised from new customers given our experience in 2006 and the need also to deal with any issues arising from the "tidy up" of our existing customer database. It will be surprising if we do not for 2008 at least have identified nett additional customers given the ongoing survey work which forms part of the Non Domestic Metering Programme. We will throughout 2007 work with Corporate and Water Services in determining collectable additional income for 2007 if possible and in preparation for the Draft 2008 budget in due course.

In finalising the amount for inclusion as income for Water Charges in the Draft Budget for 2007 when compared to the Adopted Budget for 2006 was not available arising from the fact that the aforementioned 2,500 customers new customer accounts did not materialise and due to reductions in volumetric amounts as per the most recent meter readings received for billing purposes. Please refer to the report and relevant section therein prepared by the Director of Water, Environment & Emergency Services included earlier in this booklet.

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.

OTHER MATTERS - ENVIRONMENT BUDGET

As for Water above in the finalisation of Income figures for inclusion in the Draft Budget for 2007 we were faced with negative buoyancy of €480,000 approximately due to reduction in tonnage for disposal at the Landfill in 2006 from 33,000 tonnes anticipated to 29,500 tonnes. Our Income figures for the Draft Budget for 2007 are based on 30,000 tonnes with no increase proposed in the 'gate' charge to give €4,125,000 (all money amounts quoted herein are inclusive of the 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 4

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

Draft Budgeted Expenditure: €335,800

Draft Budgeted Income: €335,800

(Pages 11-13 of Blue Pages)

COUNTY ENTERPRISE BOARD

The Draft Budget includes €335,800 in expenditure to cover payroll costs of the County Enterprise Board. These costs are 100% recoupable.

Programme Group 5

**ENVIRONMENT PROTECTION
COSAINT NA TIMPEALLACHTA**

Draft Budgeted Expenditure: €700

Draft Budgeted Income: €Nil

(Pages 14-16 of Blue Pages)

LOAN CHARGES

The Draft Budget for 2007 includes a provision of €700 in respect of Loan Charges for borrowings from the Office of Public Works for the Fire Service.

Programme Group 6

**RECREATION AND AMENITY
CAITHEAMH AIMSIRE AGUS TAITNEAMHACHT**

Draft Budgeted Expenditure: €142,300

Draft Budgeted Income: €71,100

(Pages 17-19 of Blue Pages)

LOAN CHARGES

The Draft Budget for 2007 includes a provision of €142,300 in respect of Loan Charges for the Grianan Theatre (€104,700) 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: €1,017,700

Draft Budgeted Income: € Nil

(Pages 20-22 of Blue Pages)

LOAN CHARGES

The Draft Budget for 2007 includes a provision of €991,100 in respect of Loan Charges for Piers and Harbours improvement works.

CONTRIBUTION TO VOCATIONAL EDUCATION COMMITTEE

The Draft Budget for 2007 includes a provision of €26,600 in respect of the statutory contribution to the Vocational Education Committee.

**MISCELLANEOUS
ÉAGSÚIL**

Draft Budgeted Expenditure: €5,684,816

Draft Budgeted Income: €3,398,209

(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. As part of the continued improvement of the financial reporting systems the Council undertook in December 2006 the upgrade of the Agresso Financial System from Agresso 5.3 Service Pack 4 to Agresso 5.4 Service Pack 5 for its own and the Town Councils accounting mechanisms. This has been successfully implemented with minimal disruption achieved to the running of the Council business. There was a delay in the anticipated time frame for implementation due to necessary work that was required on the database and server platforms; this has led to significant performance improvements in the Agresso system for the end user.

The draft budget for 2007 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 2006 we continued progress in relation to Budgeting and Budgetary control. This involved reporting and systematically tabling at the Senior Management Team level issues in regard to Revenue income and expenditure for each quarter of the year with required follow up by each Directorate. In 2007 it is anticipated that a new costing system will be rolled out in time for the preparation of a draft budget for 2008. This new costing system it is anticipated will provide for greater accountability and comparability of costs in the provision of services.

WRITE DOWN OF THE ACCUMULATED REVENUE DEFICIT.

The Accumulated Revenue Deficit stood at €12,256,091 as at the 31st December 2005. In drafting the budget for 2007 it has not been possible given other requirements in drafting the budget for 2007 to provide for a further write down in 2007 of €800,000. It is hoped that we can resume this provision of €800,000 when the Draft Budget for 2008 is finalised later this year.

OVERDRAFT INTEREST

The Draft Budget for 2007 includes a provision for this heading of €350,000 which is the same as the 2006 provision.

We did not exceed our overdraft limit of €27m for the first 6 months or €40m for the latter 6 months at any stage in 2006.

We continue to make every effort to minimise overdraft requirements which averaged €8.7m throughout 2006. The need for all Directorates to ensure payments/recoupments 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 as well as problems with ongoing recoupments in the Capital/Fixed Asset Formation Account area.

BANK CHARGES

The 2007 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, 1st January 2005 - 31st December 2009. All Transaction costs, Merchant Banking costs, Bank Services including all 3rd party costs are included in this agreement. There are no further charges other than overdraft costs for Banking Services.

IRRECOVERABLE RATES

The 2007 Draft Budget includes a provision of €2,000,000 for this heading an increase of €803,700 which in effect is a provision for Bad and Doubtful Debts. This equates to about 10.3% of the rate warrant, which due to specific difficulties in certain areas of the county and general erosion of the Commercial Rates Database requires us to increase this provision in 2007.

Rates prove irrecoverable for a number of reasons including downturn in economic activity, closure of operations, availability 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 is 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

€319,100 is included in the Draft Budget 2007 under this heading.

The Unit provides the Internal Audit service to the Council and to the Town Councils. The Unit helps the Councils to accomplish their objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. The whole area of risk and risk management will form a major part of the unit's focus going forward in conducting systems and processes reviews. A fundamental part of good governance is the management of risks.

Internal audit looks at how the Councils are managing their risks. They provide management with information about whether risks have been identified, and how well they are being managed.

They are different to external auditors because they do not focus only on financial statements or financial risks: much of their work is looking at reputational, operational or strategic risks. They also give an independent opinion on whether internal controls - such as policies and procedures - put in place to manage these risks are actually working as intended.

They provide this information by, for example, checking that the assets of the organisation are being safeguarded; that operations are conducted effectively, efficiently and economically in accordance with the organisation's policies; that laws and regulations are complied with; 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. With the impending initiation of Audit Committees at the Local Authority level it is expected this independent unit will play a pivotal role through its reports and other evidential inputs.

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 15th March 1988 as revised by Circular No 15/2005 dated 6th May 2005.

The following table 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 31/12/05 shows this account to be in balance.

There is a 5% decrease on our Insurance Premia for 2007 in respect of Public Liability and the Council is self-insured for any one claim up to €6,500 (excess).

Given the 2006 pattern of invoicing - €564,000 - from our Insurers for excesses to be paid for finalised claims it is possible in the finalisation of figures in the 2007 Draft Budget to reduce the level of insurance costs - current Premia Excesses & Retro Rating from former years - by €1.2m. This is not without its difficulty and risk given information which we mentioned in the Unaudited Annual Financial Statement for 2005 that there may be a potential liability for excesses of €4.5m. At this stage we have, including the above provision for Insurance, in our accounts approximately €1.2m provided for excesses. Were the pattern of billing for excesses to accelerate then it is unlikely that this provision of €1.2m would be sufficient and it may be necessary to apply as an overhead charge up to 44% as allowed by Department Circular No 15/2005 dated 6th May 2005 to jobs funded 100% by Department Road Grant allocations which are notified in February of each year.

DETAILS OF DISBURSEMENT OF OVERHEAD FUND MONIES

		€
Programme Group 1	Holiday Pay and Sick Pay	57,800
Programme Group 2	Holiday Pay and Sick Pay	825,000
Programme Group 3	Holiday Pay and Sick Pay	350,000
Programme Group 7	Holiday Pay	18,000
Programme Group 8	Insurance	1,224,900
"	Postage	175,000
"	Telephone Bills	95,000
"	Recruitment Costs	115,000
"	Goods & Services General	25,000
"	Contribution to Payroll Costs in Stores	80,000
Programme Group 9	Contribution to IS Costs	200,000
"	Write Down of Capital cost of year 2000 and Euro transition costs	50,000
	TOTAL	3,215,700

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
SEIRBHÍSI TACAÍOCHTA**

Draft Budgeted Expenditure: € 1,369,400
Draft Budgeted Income: €63,218,307
(Pages 28-30 of Blue Pages)

FINANCE SECTION

Provision in the Draft Budget 2007 includes €1,567,900 expenditure in respect of administration costs in the Finance section.

INCOME

The Draft Budget for 2007 includes €63,257,491 made up of income from Local Government Fund, Rates and County Charge.