

VOTE 25. - DEPARTMENT OF THE ENVIRONMENT

24. Controls over Local Authority Finances

The charge to this Vote in 1996 includes payments to Local Authorities (LAs) totalling £851m from the following subheads

	£m
B.1. Local Authority and Social Housing Programme	159.9
C. Roads (including payments to the National Roads Authority)	375.2
D.1. Water Supply and Sewerage Schemes	122.4
E. Rate Support Grants	193.8

The Local Government Audit (LGA) Service is responsible for the audit of the accounts of all LAs. The LGA Reports are submitted to the Department and to the LAs and form part of the controls exercised by the Department in ensuring that the procedures for the spending of public moneys are satisfactory. Copies of the Reports on such audits are made available to me and, at 30 May 1997, I had received copies of all the LGA Reports for 1994 and copies of 26 of the 1995 Reports.

Certain critical comments made by LGAs which were common to a number of LAs were noted from a review of the Reports as follows

- Expenditure in excess of the Estimates on various programmes was incurred prior to the approval of the LA which was invariably given in the following year. These approvals should, where possible, be obtained prior to such over-expenditure or liability being incurred.
- Year end deficits are not included in the following year's estimates as required by the Public Bodies Order 1946-1993^a. Proposals should be formulated for the elimination of these adverse balances so as to avoid cash flow problems and overdraft interest.
- There were substantial amounts owed to the LAs at year end^b
- Collection yields for commercial rates, housing rents and loan repayments and water and service charges were unsatisfactory.
- There were numerous unfunded balances on capital works which needed to be addressed.
- Proceeds from redemptions of housing loans were not being applied to redeem high fixed interest LA borrowings from the Local Loans Fund but instead were retained for cash flow purposes or used for new loans. This practice could result in the cost of servicing the relevant capital debt to exceed the LA's income from housing loans.
- State grants were claimed from and paid by the Department in advance of requirements.
- Internal audit functions were not in place or were restricted.

^a The revenue deficits were estimated at £107m at 31 December 1996 (£110m at 31 December 1995).

^b Latest figures indicate that a total of £250m was owed to LAs at 31 December 1996 (£243m at 31 December 1995).

In addition, the LGAs also drew attention in many of their Reports to other weaknesses in internal controls and practices, specific to particular LAs, which could result in waste or loss of public funds or lead to the build up of deficits.

In the light of the substantial annual moneys disbursed from the Vote to LAs and as the Department had also made special debt reduction payments totalling £5,150,000 to them in 1994, I sought the views of the Accounting Officer on the LGA findings and on any measures which he considered would lead to improvements in financial management practices and controls.

The Accounting Officer informed me that

- it is not his function nor would it be appropriate for him to comment in detail on the points, specific to the internal fiscal practices and procedures of LAs, arising in individual audit reports. This view took account of the following factors:
 - The exercise by the Department of fiscal and policy influence, along with certain administrative controls, over LAs must be looked at in the context of the stated objective of successive Governments to devolve as much discretion and as many functions as possible to LAs. This is based, at least in part, on the subsidiarity principle which holds that functions are best discharged at the lowest appropriate organisational level. A large measure of consensus now exists, both in Ireland and abroad, that this principle should guide the division of functions between central and local government.
 - There has been significant change over the years in the relationship between the Department and LAs in the light of the policy of successive Governments to widen the discretion of local authorities, to remove a wide range of restrictive controls, and to concentrate Departmental staffing resources on essential policy development and programme management work, rather than on detailed control of activity on a case by case basis. LAs are the only directly elected democratic bodies outside of Dáil Éireann and it is the objective that they should have as much autonomy as possible. The changes already made and proposed aim to bring Irish local government more into line with European norms and with the European Charter of Local Self Government which it is intended to ratify.
 - Any attempt to require detailed accountability by LAs to central government would cut across the general thrust of government policy and would have significant staffing implications for both the Department and LAs. Accountability for expenditure undertaken by LAs is properly due to the locally elected representatives, following due scrutiny by the LGA.
 - At the same time, the Department of the Environment accepts fully that it has obligations to ensure that moneys voted by the Dáil are used for the purpose for which they were intended and, more generally, to promote value for money in the delivery of services by LAs. It has to be acknowledged that there can be an inherent tension between these obligations on the one hand and the practical application of the subsidiarity principle on the other. In the last analysis, the nature of a particular service will influence the extent to which the exercise of controls by central government is appropriate.
 - A primary function of the Department is to satisfy itself that there is a proper framework in place to audit the accounts of LAs and to secure value for money in the local government sector generally. The LGA discharges this function. Reports of the LGAs are, where

appropriate, circulated within the Department so that the relevant sections are aware of their contents and take whatever action at central level that may be necessary to address points raised by the auditors. There is internal liaison between LGA and line sections in the Department in this context.

- As regards matters of general interest raised in many of the LGA reports
 - Unforeseen events can give rise, at short notice, to large expenditure commitments in excess of levels provided in the Estimates and for which it is not possible to obtain prior approval from the elected members. For these reasons, retrospective approval is often unavoidable.
 - At regular intervals, the Department follows up the issues arising in respect of collection yields and debtors both generally and arising out of audit reports. LAs are reminded of the need to maximise their income and to pursue outstanding moneys legally due to them. It often happens that collection of debt can be adversely affected by social, legal and political factors which delay or prevent settlement. The Department reminds LAs on a regular basis of the need to keep tight control on home loan repayments and to follow up arrears promptly. Forthcoming revisions in local authority accounting policies will improve reporting practices generally and lead to a more efficient system of debt control than has been possible up to now.
 - The issue of unfunded capital account balances is being examined by the Department at present in conjunction with the LGA service, with a view to quantifying and aging all unfunded balances. It is intended to classify and disaggregate such balances, depending on whether they are subject to reimbursement from State or other sources or have to be funded by LAs themselves. The resulting analysis will provide a clearer picture of the nature and extent of the problem and the action needed to address it.
 - Prior to February 1989, early redemption of Local Loans Fund borrowings by LAs attracted a penalty. As a result, it became normal practice for LAs to re-lend receipts realised from persons redeeming their high fixed interest loans. However, re-lending such receipts at a lower interest rate involved LAs incurring losses. Following approaches to the Department of Finance, LAs were permitted to redeem fixed rate Local Loans Fund loans from February 1989 without penalty. LAs have been advised that the use of high rate fixed money, redeemed by mortgagors, to finance new variable rate mortgages, carries a risk of serious loss to LAs.
 - Departmental guidelines stipulate that grants should not be claimed in advance of requirements. Where such cases come to light they are pursued with individual LAs.
 - The Department is actively promoting the introduction of internal audit throughout the LA sector. The allocation of staff to the various LA areas including internal audit and the creation of additional posts, where considered necessary, is a matter for the LAs concerned in the first instance. Under a major relaxation of staffing controls introduced last year, LAs are generally free, within broad parameters, to decide their own staffing levels.
- As regards financial controls in general
 - Extensive re-evaluation and development of financial management practice in the local authority sector is under way at a number of levels. A value for money unit was established

within the LGA service in 1993 to assist LAs in providing services in the most efficient and effective manner. The intention is to encourage all authorities to adopt best practices generally by identifying areas where worthwhile improvements can be made and by appropriate follow-up. In addition, value for money concepts and practices will be introduced into the broader management programme to be developed by the Local Government Management Services Board established in January 1997.

- The policy document "Better Local Government - A Programme for Change", the thrust of which has been accepted by the incoming Government insofar as it addresses financial management, sets out future developments in relation to fiscal management and performance indicators for the local government sector as follows
 - ▶ The first priority in establishing the new efficiency approach is to have financial systems which will better inform management and the public as to how the local authority is performing.
 - ▶ A need for a discernable modernisation of the system based on best accountancy practice has been identified and the system should be developed to provide more transparent information on the real cost of providing services.
- A project team has been set up to support and lead the process of designing and developing a new financial management system. A code of practice setting out the accounting concepts, policies and statements of accounts is being prepared.
- Financial management and control systems utilised by the Department, the National Roads Authority and LAs generally for EU funded projects will be reviewed in detail during the current study of the ERDF/Cohesion Fund financial control network. The study, which was commissioned by the Department of Finance in co-operation with the EU is designed to examine and make recommendations on the financial management and control system in place to meet regulatory and other requirements at EU and national level. It should establish the extent to which changes may be required in current systems and procedures and its recommendations will be acted upon as appropriate.
- By August 1997, all of the 1995 and some of the 1996 audit reports in respect of LAs have been completed, and, arising from these, there is no cause for concern in relation to fraud or misuse of funds by the authorities, irrespective of the income from which individual spending programmes were sourced.

25. Cost overruns on Swimming Pools

Grants are issued to local authorities towards the costs of providing and renovating swimming pools. Funding of up to 100% of costs is available for the refurbishment of existing facilities while up to 80% funding is available for the provision of a new pool or ancillary features, such as a canteen or jacuzzi. In 1996, a total of £2m was paid in respect of 8 projects (1 new pool and 7 renovations).

Department of Finance contract guidelines emphasise the importance of ensuring that all aspects of design are finalised before a project goes to tender in order to avoid the possibility of increased costs once the project is under way.

During the course of audit, an examination of departmental papers supporting grants paid to local authorities towards the costs of swimming pool projects in Cavan, Ballyshannon, Fermoy and Mallow, seemed to indicate that the control exercised by the Department over projects was inadequate. Even allowing for the effects of inflation, material cost overruns occurred on all four projects as follows:

Project	Original Estimated Cost £	Date of Estimate	Date of Commencement of Work	Final Cost £
Ballyshannon	483,400	May 1989	October 1994	1,838,000 ^a
Cavan	700,000	May 1988	October 1993	2,253,888
Fermoy	297,750	February 1988	January 1994	1,738,592
Mallow	300,000	March 1988	October 1995	1,851,266

^a Cost to date.

Although all four projects were completed by 1996, the final accounts for Ballyshannon and Mallow had not been received by May 1997.

Unsatisfactory features common to all four projects included

- The design briefs that were prepared were inadequate.
- The Department was ignored at the construction stage with the result that there was a considerable increase in the scope of the works and associated costs. Prior sanction of the Department was not sought for these works.
- The cost of site supervision on all of the projects appeared to be excessive in the context of their size and nature.
- The Department's 'Guideline Specification for Swimming Pools' appears to be inadequate. It takes no account of the ancillary features that the Department is prepared to fund and it fails to provide a comprehensive set of procedures that applicants for funding will be required to adhere to. It also fails to set cost limits for individual projects.

I sought the views of the Accounting Officer on the audit findings and I also requested information on any measures proposed to remedy the apparent deficiencies. The Accounting Officer informed me that:

- In regard to inadequate cost control and design briefs
 - Proposals are initiated by the bodies i.e. local authorities or voluntary bodies in co-operation with local authorities, undertaking projects. The local authorities appoint the consultant architects or engineers for project design, invite and award tenders, enter into the contracts for project construction, exercise cost control and supervision and are responsible for primary certification of payments due and for the preparation of final accounts. The Department's primary duty is to thoroughly assess projects submitted for funding. As the

grant paying agency, the assessment ensures that there is a need for the project to the scale and standard proposed; the proposal is viable; the scheme is designed to meet reasonable construction and operational standards; the capital cost is reasonable having regard to scale and quality of project; moneys paid are properly due, through an examination of certificates drawn up by professional staff engaged by the project sponsors and by inspections carried out by the Department's own professional staff.

- It is extremely difficult to make reliable estimates of swimming pool costs. There is a relatively small number of swimming pools under construction or going to tender at any one time. Also, due to financial constraints, there are usually significant time gaps between the submission of the preliminary report, contract documents and tenders. Moreover, most projects take 18 months to 2 years to construct and additional payments will fall due under the standard condition of contract. A particular problem during reconstruction works is where the scale of refurbishment is difficult to accurately estimate before work commences on renewal of building or plant as the case may be.
- As in the case of all building projects there is generally a wide discrepancy between costs estimated at different stages. This is partly because initial estimates in preliminary reports are made on a minimum of information and later estimates reflect the detail of contract documents. In many cases refurbishment projects started off in response to obvious deterioration of structures of very basic pools in operation for up to 20 years. At tender stage the price will reflect not only the cost factors but also market conditions for tendering. In the early 1990s tendering was competitive due to the recession in the building industry. In more recent times the boom in the industry, particularly since 1994, has meant that tender prices are much higher than could have been foreseen on the basis of trends in costs alone.
- There is also the consideration that, in the period during which the projects in question were being progressed, local authorities, in response to public demand, moved beyond the basic swimming pool concept and into the area of amenity centres incorporating modest ancillary facilities in addition to the basic pool. The authorities were obviously conscious at that stage that they could no longer put in place a basic pool and expect that it would be viable. It was in that context that a policy decision was taken in 1993 that the Department should grant-aid modest ancillary facilities up to 80% of the costs involved. In all of these projects this decision had a major impact on the overall costs in that the local authorities concerned ultimately benefited from increased grant-aid as a result of that decision.
- It would be difficult for a local authority carrying out a once-off project to prepare a comprehensive design brief without specialist advice. By and large the consultant architect would prepare a design to the Department's guideline specification for swimming pools to service a known local population. The preliminary designs of the four projects each required substantial modification as work progressed.
- It is not the function of the Department to look for, examine, or approve the draft or actual contract between the sponsor and the contractor. These are matters solely between the parties to the contract and their legal/professional advisers.
- The Department was aware that additional facilities were being installed and funded from the local authorities' own resources at the complexes in question. Prior to 1993 the Department would have advised the project sponsors that funding would not be provided for these ancillary facilities. The Department is responsible for monitoring and reviewing

expenditure on all of the swimming pool projects which it grant aids. All project sponsors would be queried where increased expenditure is incurred. All project sponsors are also expected to notify the Department and secure prior sanction in relation to all changes in design or construction of swimming pools. It is felt that where this may not have happened, it has been by oversight rather than intent.

- In regard to site supervision costs

- In the course of private contracts the design team will agree to undertake site supervision for the project and the cost of that will be included in their fee. For a design team of four the fee would normally be 14%-15% of the total final cost of construction. The design fees were higher than normal due to changes in requirements during the course of design. The level of supervision in respect of the four pools was considered adequate, but not excessive, having regard to the cost and extent of the works involved. In the case of Mallow and Fermoy pools, the site supervision provided for a resident engineer and a clerk of works as building projects which have a large siteworks and foundation content merit the supervision of an engineer to inspect work in progress and to measure work completed for payment purposes. The resident engineer for the Fermoy pool resigned after about six months to take up another appointment and he was not replaced as the works could be measured and monitored at that stage by the clerk of works. The level of supervision for the Cavan pool was agreed by the Department's technical adviser on the recommendation of the county engineer. The overall level of fees to be grant-aided for the Ballyshannon pool will be resolved at final accounts stage.

- In regard to formalised procedures and Departmental review

- Swimming pool grants are administered by a small unit in the Department who divide their time between work on swimming pools and other functions. On the technical side, inspectors assist in vetting proposals at various stages and in scrutinising payments certified by the project architect and already passed by the local authority. All this must be done in the context of the extremely heavy workload of the inspectors. Inevitably, while the Department makes every effort to monitor the programme as fully as possible, consistent with its functions, finite staff resources impact on the programme, especially in relation to completion of procedures which have evolved informally over the years.
- The absence of formalisation is partly due to the sporadic and small scale of the swimming pool programme. However, with the growth in the scale of the programme in recent years, due largely to National Lottery funding, there was a recognition in the Department of the need to compile formal procedures for guidance of project sponsors/local authority staff in the drawing up of proposals for new pools or the refurbishment of existing pools.
- Work on these new guidelines is at an advanced stage and an initial draft has been circulated internally. However, this work has not yet been brought to fruition due to pressure of other work/staff retirement/illness/transfers. It is now expected to finalise these procedures and to issue them by the end of October 1997. The priority objectives of the guidelines will be to
 - ▶ advise and set down procedures which will give a clear understanding of the different stages involved in the planning, execution, operation and maintenance of swimming pool projects and of the linkage between these stages

- ▶ address the importance of the preparation by project sponsors of comprehensive feasibility studies and adequate design briefs to determine the optimum approach to be adopted in respect of the design/costing of any proposal
- ▶ ensure realistic cost estimation and strict cost control at all stages of the project
- ▶ update the Department's 'Guideline Specification for Swimming Pools' which is now 10 years old. In that time the planning of pools has changed due to water treatment methods being updated together with modern arrangements for conserving and recycling heat.

The Accounting Officer concluded that it is difficult, and possibly counterproductive to impose from the centre unduly formal or rigid procedures on local authorities and particularly on local voluntary groups. He accepted that the costs of individual projects have escalated at different stages. This is due partly to difficulties of cost estimation and cost control and to the policy decision in 1993 to fund ancillary facilities. Once the moneys are lawfully due and properly certified, the Department has traditionally been disinclined to freeze grant allocations at the original level as this would create severe financial problems for the project sponsors. While there can be a significant gap between the initial grant allocation and the final grant allocation due to cost increases during actual construction, nonetheless, the Department is satisfied in each and every case that the outturn cost represents excellent value for money having regard to the size and standard of facilities provided and the impact the facilities have on the life and welfare of local communities involved.

26. Motor Vehicle Duties

Motor tax and driving licence fees are collected by local authorities in their capacity as licensing agents, lodged to local motor tax bank accounts and from there transferred to the central motor tax account in the Central Bank. The motor tax accounts of the local authorities are audited by the Local Government Auditors (LGAs) whose reports are made available to me.

The gross amount collected in 1996 in respect of motor tax and driving licence fees was £277m.

New arrangements were introduced with effect from 1 January 1996 to meet the costs incurred by licensing authorities in the operation of motor taxation offices. Previously these costs were recouped through the Department's vote. Under the new system, the licensing authorities deduct from the proceeds of motor taxation an amount in respect of expenses incurred in collecting and administering the tax. This figure is calculated in accordance with directions given by the Minister for the Environment and is deducted on a monthly basis. The total amount so deducted by the licensing authorities in 1996 was £17.5m. This included £3.48m arrears due to the licensing authorities from the final quarter of 1995.

Driving test fees of £3.98m were appropriated in aid of the Vote.

My audit of motor tax revenue is limited to a test check of the transactions on the central motor tax account. I rely on the LGAs' examination for assurance that proper procedures for assessment, collection and bringing to account of motor tax revenue are being operated by the local authorities.

I reviewed all the LGAs' reports for 1995 and those for 1996 available to me when I was compiling my Report (16 out of 29). In my opinion, there is nothing material on which I need to report to Dáil Éireann.

The Department of the Environment also carry out inspections at motor tax offices and, during 1996, inspections were carried out on all 30 offices. The results of the inspections were generally satisfactory.