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## Comhairle Chontae na Gaillimhe Galway County Council

To: THE CATHAOIRLEACH AND EACH ELECTED MEMBER OF GALWAY COUNTY  
COUNCIL

### RE: Capital Account

#### Introduction and current position

The Members will be aware that the Capital Account is dealt with in the Annual Financial Statement (AFS) which is adopted by the Members each year. The Draft AFS is first approved by the Members before it is submitted to the Department and is then put before the Members again after the Audit of same is completed. The Auditors report normally contains some commentary on the capital account position and movements on same.

The capital account is comprised of both negative balances (funded and unfunded) and positive balances. A funded balance is one which has a source of income to offset the debit balance either now or in the future. Unfunded balances have no determined source of income and must generally be provided for from our revenue account as part of our normal budgetary process.

Typically, the monies contained in the Capital Account are comprised of income from grants, Housing Internal Capital Receipts, transfers from the revenue account and Development Contributions. The position in respect of the capital account at the end of each year can vary especially when significant projects are underway as there may be a timing issue between income and expenditure.

Hereunder I outline some information from various Annual Financial Statements which shows the overall situation with our Capital Account in addition to the extent of changes on same over recent years.

#### Annual Financial Statement

In 2014 the Auditor determined that there was a nett surplus of €19.8m in the capital account.

At the end of 2015 the Local Government Auditor determined that there was a net surplus of €16.6m in the capital account.



At the end of 2018 the credit balance on the capital account was determined to be €21.3m.

The overall balance on the Capital account is derived from the credit balances of reserves and grants received in advance and the debit balances of current ongoing projects and balances to be funded internally.

The Auditor typically refers to the fact that a significant proportion of the credit balance on the capital account relates to Development Contributions and in 2017 the figure for Development Contributions was approximately €17m.

#### **Unfunded Projects in the Annual Financial Statement**

The Auditor regularly draws attention to the balance in the AFS that relates to projects that will need to be funded internally including balances on projects that need to be funded from the Councils Revenue Account as an alternative source of funding has not been identified. In 2018 the figure for unfunded balances on the capital account was €10.1m.

On an annual basis the Auditor raises the need to provide funding in the revenue budget for these unfunded balances but we have been limited in our capacity to do this in recent years. While budgeted transfers to the capital account have not been possible in recent years the conclusion of the loan repayments on County Buildings provided an opportunity to address this by using the €500k previously required for the loan repayments on County Hall to address unfunded balances in the capital account starting with Galway 2020 and then addressing other balances thereafter. Without adding further to our unfunded balances this provision would still take 20 years to defray the unfunded €10m currently identified.

Some examples of projects that have not yet been funded and on which there are negative capital balances are

Car park at Oranmore Train Station	€1.6m
Kilronan Harbour	€0.9m
Galway Airport Site	€0.63m
Tuam Regional Office	€1.9m
Galway 2020	€1.75m



### Future Capital Requirements

In addition to works that have already been completed there are a number of Projects and Schemes which are underway or to which there is a current or anticipated future commitment whether as a result of the project being funded directly by Galway County Council or through a co-funding requirement.

These include projects such as:

- Ballinasloe Town Enhancement
- Athenry Ring Road
- Town and Village Renewal Projects
- Current RRDF Projects -Dunmore , Tuam , Kinvara , Loughrea, Portumna , Clifden
- Future RRDF Projects in other towns
- URDF - Garraun
- Outdoor Recreation and Infrastructure Scheme
- Greenways
- Car-parking
- OPW Flood Relief Schemes
- Failte Ireland Destination Towns
- Footpath rehabilitation
- Piers and Harbours
- Sites for Fire Stations
- Climate Adaptation / Mitigation projects
- Council Vehicle Fleet replacement
- Bia Innovator Athenry
- Recreation and Amenity Projects including walking routes

It should be highlighted that in many local authorities co-funding requirements are met from provisions made in the revenue account through the annual budgetary process but our co-funding for any substantial capital projects has, of necessity, been drawn from our capital account. Given the increased funding streams that are now available through national programmes, the likelihood of these programmes continuing in future years and the need for Galway County Council to co-fund these capital projects future certainty in relation to availability of funds in our capital account is essential. In areas such as Town and Village Renewal ( TVR )and the Outdoor Recreation and Infrastructure Scheme ( ORIS ) the recourse to the capital account has been limited to date but with increased funding under these schemes and greater pressure on our revenue account that is likely to change in the coming period.

It might be informative to give a couple of examples that might illustrate the fact that the capital account as it stands has insufficient funds to meet the expected co-funding and other requirements in the coming years.



The RRDF Category 1 and 2 funding applications which were successful in respect of Loughrea ( €1,629,000 ), Portumna (€1,193,000) and Clifden (€792,000) requires Galway County Council to provide co-funding of €543,000 , €398,000 and €264,000 respectively. When these projects and additional projects in other towns move on to Category 1 proposals for substantive works the co-funding requirement will be significant if our applications are successful. Therefore current financial commitments on the RRDF projects alone require co-funding of €1.5m at this early stage of these funding streams with significant co-funding required in the future if grant applications for project proposals across a range of towns are successful. In addition there are current and future requirements in respect of Greenways and programmes such as Failte Ireland's Destination Towns which has approved a grant of €500,000 for Clifden but we must provide co-funding of €166,000.

### **Ballinasloe Landfill Remediation Fund**

The Members will be aware that part of the credit balance on our capital account is due to the credit balance on the Pollboy Landfill Remediation Fund which is a specific reserve for future liability in respect of that facility.

The Pollboy Landfill Remediation Fund was established from the proceeds of waste deposits at the landfill prior to its closure. Prior to the dissolution of Ballinasloe Town Council the Members of the Town Council considered the landfill fund and the utilisation of part of the monies for other purposes. The assessment concluded the following:

Landfill Fund at 1/1/2013	€20,054,040.12
Projected Expenditure to 2035	€15,313,662.32
Add estimated Interest	€2,604,857.13
Balance	€7,345,234.93



The Members of Ballinasloe Town Council agreed to fund a number of capital projects which are outlined hereunder

Capital Grant Scheme	€1,100,000	Completed
Ballinasloe Library	€4,000,000	Completed
Townparks Relief Road	€1,750,000	Planning
Townparks Amenity Area	€500,000	Linked to Townspark Relief Road
	€7,350,000	

In the intervening period there have been a number of changes both in respect of the landfill itself where costs were maintained at a lower level than expected and also in respect of the projects where changes have occurred. The actual cost of the library building was €4.2m and the estimated cost of the Townparks Relief Road was revised to €2.5m. In addition during their consideration of the landfill fund the Members omitted the cost of the Town Enhancement Scheme ( currently estimated at a minimum of €6m ) so as to make provision for the Capital Grants Scheme. Therefore when the revised costs as outlined above and the cost of the Town Enhancement Scheme are included the total spend / commitments from the landfill fund will leave the remaining balance on the Ballinasloe Landfill Remediation Account at approximately €7m.

Irish Water are to commence charging for the treatment of leachate from the landfill site in January 2021. The level of the charge is estimated by IW at €45,000 for 2021 but leachate volumes vary and this charge could reach €100,000 based on recorded volumes without any increase in the charge itself which, no doubt, will increase in the coming years. A mitigation measure is the construction of an Integrated Wetlands to deal with the effluent from the landfill with development costs estimated at €2.3m and annual operating costs of €50,000. While planning approval has been obtained a decision to proceed with this project has not yet been made.

The Members will already be aware that part of the Ballinasloe landfill is engineered but part relates to the old unlined landfill. This has led to significant issues with leachate and the expectation that costs in respect of aftercare will be an issue long after what might be expected in respect of a fully engineered landfill. The period for which we remain responsible for the landfill site and during which additional costs will continue to accrue are indefinite at this point.



## General

As its name suggests the funds retained in the Capital Account are intended to be used for Capital purposes. Many Capital schemes are funded on a co-funding basis with financial input required at local level and recourse can be had to the capital account for such purpose when necessary.

Recent and anticipated demands on the Capital Account are outlined above. The capital account is the only avenue available to Galway County Council for co-funding grant applications as well as undertaking our own initiatives. It is vital that we can continue to advance projects and seek funding with certainty in respect of available capital resources in the coming period.

There are a number of key considerations that need to be highlighted in respect of any consideration of the Capital Account.


- Some of the funds are set aside for particular purposes with restrictions on their use.
- Funds may have an expenditure liability attached to them
- The Landfill Remediation Fund comes with the Council's responsibility to fund the management and maintenance of the landfill for whatever period is required.
- Project balances that have to be funded internally by Galway County Council and are currently unfunded were €10m at the end of 2018.
- The Local Government Auditor is dissatisfied with our progress in making provision in our revenue budget for unfunded balances.
- If we do not have capacity to increase income for our revenue account then any draw on our capital account would not be temporary but an ongoing transaction with no capacity to repay same.
- There are many commitments and funding requirements either existing or anticipated for which capital funding must be available.
- The consideration of projects of a capital nature into the future can only be considered in the context of certainty in respect of capital balances in the coming years.
- Funding revenue expenditure from capital would not be considered an appropriate action from an accounting perspective.
- A draw on the capital account to reduce a gap in revenue operational expenditure is likely to increase the required adjustment at a future date making a correction more difficult.
- In the absence of a clear change in financial circumstances an artificial boost of revenue expenditure from capital moves the organisation to a position of spending more than it can afford.



## Conclusion

In conclusion the funds within the capital account are limited and will be the subject of significant and perhaps competing demands in the coming years. It is therefore essential that the capital funds remain in place for capital projects. The use of capital funding to support current revenue spending, of any magnitude, is an unsustainable approach and I would recommend strongly against same. The Auditor has repeatedly raised the issue of the need to address the unfunded balances in the Capital account and regrettably the current transfer of €500k for this purpose will not happen in 2021 in order to maintain services to the public. However the effect of this means that there is already a loss of €500k to the capital account in 2021. In the event that our financial position improves in any way in the coming period it will be necessary to reinstate the transfer from revenue to capital as a priority.

Mise, le meas,



Kevin Kelly,  
Chief Executive (Interim)  
Galway County Council

November 2020