

Meeting	Audit, Risk and Finance Committee
Date	Wednesday 12 December 2018
Time	10.00 am
Venue	Meeting Room, Mangawhai Club – Molesworth Drive, Mangawhai

Supplementary Agenda

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Membership

Chair:	Stana Pezic
Members:	Councillor del la Varis-Woodcock
	Councillor Geange
	Councillor Larsen
	Councillor Wade
	Deputy Mayor Wethey

File number: 2304.15/ARF 2018.19 Dec **Approved for agenda**

Report to: Audit, Risk and Finance Committee

Meeting date: 12 December 2018

Subject: Forecast One 2018/2019

Date of report: 11 December 2018

From: Sue Davidson, General Manager Risk, IT and Finance

Report purpose **Decision** **Recommendation** **Information**

Assessment of significance **Significant** **Non-significant**

Summary

The starting point for Forecast One 2018/2019 is the Annual Plan 2018/2019.

Council's current financial policy stance over the term of the Long Term Plan (LTP) is to have a prudent and sustainable long term financial management position, in particular to fund current operating costs out of current income, reduce debt, and increase financial resilience and improve the way Council delivers services over time. Decreasing debt each year has been a particular focus. The key financial ratios are well within the treasury policy. Only the percentage of fixed to floating rates of interest on debt, and the length of the debt does not meet policy. Part of this is caused by the early repayment of debt in the previous year due to asset sales and increased financial and development contributions received.

This first forecast for 2018/2019 (Forecast One) year incorporates the actual results of the Annual Report 2018 and includes a review of the budgets and actual revenue and expenditure for the year to 30 September 2018. The NZ Transport Agency 2018/19 roading budget was also finalised subsequent to the setting of the Annual Plan 2018/2019 and this informed the update of this forecast.

The forecast Operating Surplus (before depreciation) of \$8.9 million is \$0.2 million lower than the Annual Plan 2018//2019 budgeted surplus of \$9.1 million.

Key movements in planned operating performance are:

- Rates revenues are tracking close to budget. Penalties however, have been forecast to increase by \$120,000 in the year. Outstanding debts have grown but active collection has commenced against ratepayers who are overdue and Council will see improved statistics in the months ahead.
- Increased financial and development contributions of \$1m have been provided for as increased development in the east of the district is occurring.
- As a result of increased roading works of \$345,000 there is additional operating subsidies of \$210,000. This is a net cost of \$135,000.
- An increase in consultant / planning costs of \$851,000 as more subdivision consents are lodged. This is offset by additional resource consent income of \$681,000. Recruitment of qualified resource management planners is still a challenge and Council is having to use consultants.

Capital expenditure has also increased by additional capital works provided for.

The amount approved by Council was \$23.5m.	
plus carry forwards of	\$3.0m
plus brought forwards of	\$ 0.7m for Quail Way (2020,2021)
plus newly brought forward	\$ 2.3m Bridges (2020,2021)
less IT expenditure not required	(\$0.5m)
Total for 2018/2019	29.0m

The reduction adjustment of \$500,000 for IT expenditure was made as there is adequate provision for delivery of projects in the 2019 year.

Recommendation

That the Audit, Risk and Finance Committee:

- 1 *Receives the report from the General Manager, Risk IT and Finance, 'Forecast One 2018/2019' dated 11 December 2018 and its Attachments 1-4; and*
- 2 *Believes it has complied with the decision-making provisions of the Local Government Act 2002 to the extent necessary in relation to this decision; and in accordance with the provisions of s79 of the Act determines that it does not require further information prior to making a decision on this matter; and*
- 3 *Recommends to Council, the forecast as set out in the forecast documents attached to the aforementioned report, and determines that no further action is required at this point in time; and*
- 4 *Notes that the revised forecast shows increased operating revenues of \$1.1m but also increased costs of \$1.3m. Notes that forecast debt is currently projected in the order of \$49.6million which is greater than the 30 June Long Term Plan 2018/2028 Year 1 of \$46.3m; and*
- 5 *Notes that the capital expenditure forecast has been increased by \$5.5m; and*
- 6 *Notes that a second forecast is planned for the second half of the financial year.*

Reason for the recommendation

It is prudent financial management for both Council and the Audit, Risk and Finance Committee to monitor and update financial projections as new information comes to hand and to take remedial action as required.

Reason for the Report

This report outlines the results of Forecast One and requests that the Audit, Risk and Finance Committee to approve the forecast.

Background

The starting point for 2018/2019 forecasts is the Annual Plan 2018/2019.

Council's policy stance over the at term of the LTP is to progressively move towards a more prudent and sustainable long term financial management position, in particular to fund current operating costs out of current income, reduce debt, increase financial resilience and improve the way Council delivers services over time. Council is moving towards this as the external debt is reducing at a greater rate than was initially predicted. This Forecast One increases capital expenditure by bringing forward projects from future years.

Although this will have an impact on cash flow, this will not be problematic as there is greater income being received from development and financial contributions. In the case of roading we will obviously receive the subsidy for roading of 61% from the NZTA. Note that projects brought forward cannot be rated for in this reforecast year but will be rated for in the years of 2019/2020. These will be loan funded to keep the Annual Plan 2019/2020 increase in line with that predicted in the LTP.

There has been continued development in our district greater than has been budgeted which has increased both the resource processing revenue and costs.

The results of Forecast One are set out in the sections below.

Forecast Overview

Forecast One shows a surplus (before depreciation) of \$8.1 million at an operating level representing an unfavourable variance of \$0.2 million to the original Annual Plan 2018/2019. The surplus is to fund depreciation reserves which are used for renewals. Forecast debt is expected to be in the order of \$49.6million which is higher than the LTP Year 1 (Annual Plan 2018/2019).

Forecast Variances

The variance is \$195,000 from the original LTP Year 1 (Annual Plan 2018/2019). An analysis of why this has occurred is set out below. The variance is a deficit which is 2.2% of the anticipated Annual Plan 2018/2019 surplus. This negative variance cannot be recouped through rates which have already been set but is proposed to be managed through retained earnings. A further update (Forecast Two) will be provide to Council in March 2019.

Operating Revenues and Costs \$000's		Variance fav/(unfav) accounted for
Rates penalties increased as increased debts		120
Activity Revenue - Roothing Footpath subsidy. First year of subsidy and was not included in Annual Plan		83
Activity Revenue - Roothing	211	
Less Roothing contractor costs	(346)	(135)
Additional work being proposed		
Water Income - Fonterra reduction in contribution to Capital		(72)
LGFA Guarantor - Riskpool costs		(25)
Insurance		(60)
Resource consents income net of planning costs employees and consultants		(170)
Additional lease costs Mangawhai		(25)
Audit fees increase as annual audit more demanding		(65)
Software licences (Kotui) unbudgeted		(50)
Finance costs - Less capital expenditure to date		179
Total variance accounted for		220

Overall, Council's net surplus is less than originally forecast by \$195k. This is not material given that the Council is still making an operating surplus. The Committee can reduce the roading budget of \$135,000 if it wishes the Forecast One to be closer to the Annual Plan 2018/2019.

Notes:**Forecast One: Cash Impact and Risk**

The cashflow will be improved through the extra development and financial contributions.

The impact of this forecast is that debt will remain in the order of \$49.6million.

Cautionary note

Forecast One is based on information correct at the time of presentation and may change as further information becomes available. The Council will undertake another reforecast (Forecast Two) in March 2019.

Factors to consider***Community views***

Council's financial position and the need for improvement is an issue that the community has a clear interest in.

Policy implications

This forecast indicates that Council is progressing in accordance with the direction set in the LTP 2018/2028.

Financial implications

Financial implications are discussed in the above Forecast sections.

Legal/delegations implications

The Audit, Risk and Finance Terms of Reference require the Audit, Risk and Finance Committee to recommend the forecast to Council for adoption. The forecast is an operational practice that has not generated the requirement for a significant decision and as such is within the gambit of Council to approve.

Options

The options available to the Audit, Risk and Finance Committee are:

Option 1: Accept Forecast One

Under this option the Committee would accept the Forecast One model which would then give staff authority to proceed on that basis.

This is the recommended option, given that the forecast represents the more accurate picture of Council's current position, the variances are explained and are not material. The additional roading (net \$135K) has been included to align budgets to those that were approved by NZTA.

Option 2: Identify further savings

The Committee could reduce the roading budget by \$135k and/or request that staff complete a further review and come back with further cost reductions.

It is early days with only financial figures being collated for four months of the year.

Option 3: Reject Forecast One

Under this option the Committee would not endorse or adopt the Forecast. This approach is not recommended as it is important to factor in new data, agree on amended courses of action and to monitor Council's financial position from the most up to date knowledge base.

Assessment of significance

Under the Council's Significance and Engagement Policy, a decision in accordance with the recommendation is not considered to have a high degree of significance. The forecast process is a routine business practice issue and the variances proposed are within significance limits.

Council staff are satisfied that the decision-making requirements of the Local Government Act 2002 have been met.

Recommended option

Option 1 Accept Forecast One is the recommended option.

Attachments

- Attachment 1: Statements of Financial Performance and Capital Performance
- Attachment 2: Statement of Financial Position
- Attachment 3: Statement of Cash Flows
- Attachment 4 Capital Expenditure Summary

Statement of Operating and Capital Performance

Whole of Council

	Full Year			
	Annual Plan \$000's	Forecast One \$000's	Variance	
Total Rates	35,029	35,150	121	●
Operating Subsidies and Grants	4,584	4,861	277	●
Activity Revenue and Other Income	5,544	6,272	728	●
Total Operating Income	45,156	46,283	1,127	●
Employee Benefits	10,819	10,892	(73)	●
Contractors	8,706	9,040	(334)	●
Professional Services	4,924	5,496	(573)	●
Repairs and Maintenance	3,348	3,333	15	●
Finance Costs	2,950	2,771	179	●
Other Operating Costs	5,317	5,852	(535)	●
Total Operating Costs	36,063	37,385	(1,321)	●
Operating Surplus / (Deficit) before Depreciation	9,093	8,898	(195)	●
Capital Subsidies	8,276	9,407	1,131	●
Development Contributions	1,954	1,954	0	●
Financial Contributions	540	1,598	1,058	●
Other Capital revenue	175	291	116	●
Total Capital Revenue	10,945	13,250	2,305	●
Capital Expenditure	23,529	29,097	(5,568)	●
Total Capital Expenditure	23,529	29,097	(5,568)	●
Subtotal Capital	(12,584)	(15,847)	(3,263)	●
Surplus / (Deficit) before Loan Payments and Depreciation	(3,492)	(6,949)	(3,458)	●

Kaipara District Council
Statement of Financial Position

As at 30 September 2018	Annual Plan 2018-2019 \$'000	Operative Budget 2018-2019 \$'000
Accumulated comprehensive revenue and expense	412,449	403,927
Asset revaluation reserves	238,230	231,773
Restricted reserves	5,427	5,291
Council created reserves	-17,019	-15,777
Total net assets/equity	639,087	625,214
<i>represented by</i>		
Current assets		
Cash and cash equivalents	500	500
Trade and other receivables	6,778	6,313
Accrued revenue	2,875	3,438
Other financial assets	115	115
Non current assets held for sale	186	186
Total current assets	10,454	10,551
<i>less</i>		
Current liabilities		
Trade and other payables	10,015	13,032
Provisions - Current	145	148
Employee entitlements	458	1,173
Public debt	226	452
Total current liabilities	10,845	14,805
Working capital /(deficit)	-391	-4,253
<i>plus</i>		
Non current assets		
Property, plant, equipment	693,086	685,763
Biological assets	500	1,017
Cash and cash equivalents - non current	643	672
Derivative financial assets	0	0
Other financial assets - non current	276	278
Total non current assets	694,504	687,730
<i>less</i>		
Non current liabilities		
Public debt	46,044	49,148
Derivative financial liabilities	4,196	4,427
Provisions - non current	4,786	4,688
Total non current liabilities	55,026	58,263
Net assets	639,087	625,214

For the year ended:	Annual Plan	Forecast One
30 September 2018	2018-2019	2018-2019
	\$'000	\$'000

Cash Flow Statement

Cash Flow from Operating Activities

Receipts:

Rates	35,029	35,150
Fees, charges and other	8,017	9,804
Grants and subsidies	12,860	14,268
Interest received	20	20
<i>sub total</i>	55,926	59,242

Payments:

Suppliers and employees	33,055	34,627
Taxes (including the net effect of GST)	0	0
Interest expense	2,950	2,771
<i>sub total</i>	36,005	37,398

<i>Net Cash Flow from/(to) Operating Activities</i>	19,922	21,844
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Cash Flow from Investing Activities

Receipts:

Sale of Property, plant and equipment	175	291
<i>sub total</i>	175	291

Payments:

LGFA Borrower notes	0	0
Property, plant and equipment purchases	23,529	29,097
<i>sub total</i>	23,529	29,097

<i>Net Cash Flow from/(to) Investing Activities</i>	-23,354	-28,806
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Cash Flow from Financing Activities

Receipts:

Loans raised (Net)	0	3,821
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Payments:

Loans repayment (Net)	-1,969	0
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<i>Net Cash Flow from/(to) Financing Activities</i>	-1,969	3,821
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<i>Net Increase/(Decrease) in cash and cash equivalents</i>	-5,401	-3,141
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Cash and cash equivalents at beginning of period	5,902	3,641
Cash and cash equivalents at end of period	500	500

Attachment 4: Capital Expenditure Summary

The overall Capital Expenditure budget is forecast to increase by \$1.7m to \$29.1m.

Council roading staff have said they are confident that their programme can be completed this year. The only projects at risk could be the Tomarata Bridge and part of the Mangawhai Community projects. All of the roading projects added will be funded 61% by NZTA.

	Annual Plan 2018/2019 \$
Activity - Work in Progress Capital Projects	
Community Activities	1,957,217
District Leadership, Finance and Internal Services	815,000
Flood Protection and Control Works	158,500
Regulatory Management	
Sewerage and the Treatment and Disposal of Sewage	3,703,500
Solid Waste	800,000
Stormwater Drainage	170,000
The Provision of Roads and Footpaths	13,547,131
Water Supply	1,878,000
Grand Total LTP Year 1	23,029,348
Add carry forwards from 2017/2018 approved by Council	3,042,765
Add bought forward from 2020 Quail Way stormwater approved by Council	704,000
Total approved by Council to date	26,776,113
Proposed to add bridges structures/components from 2020 and 2021	1,500,000
Proposed to add bridge replacements from 2020 and 2021	442,751
Proposed to add Maungaturoto wastewater scheme	380,000
Proposed to add Kaiwaka wastewater scheme	60,000
Proposed to add Raupo land drainage	269,272
Proposed to add Road sealing	873,000
Proposed to take out Heavy Metalling	(873,000)
Proposed to take out Beach road watermain renewal	(270,000)
Proposed to take out drainage renewals	(60,000)
Total Capital Expenditure Forecast One	\$29,098,136