

**Audit, Finance & Risk Committee
4 October 2018**

Report for Agenda Item 1

Department: Finance. Legal & Regulatory

2018:19 Quarter 1 Actual to Quarter 1 Budget Financial Overview

Purpose

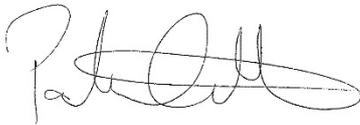
- 1 To present the 2018:19 Quarter 1 Actual to Budget financial results and to report on any significant transactions and/or variances to budget.

Recommendation

That the Audit, Finance & Risk Committee:

1. **Note** the contents of this report.

Prepared by:



Paddy Cribb
Financial Advisory Manager

30/11/2018

Reviewed and Authorised by:



Stewart Burns
GM Finance, Legal &
Regulatory

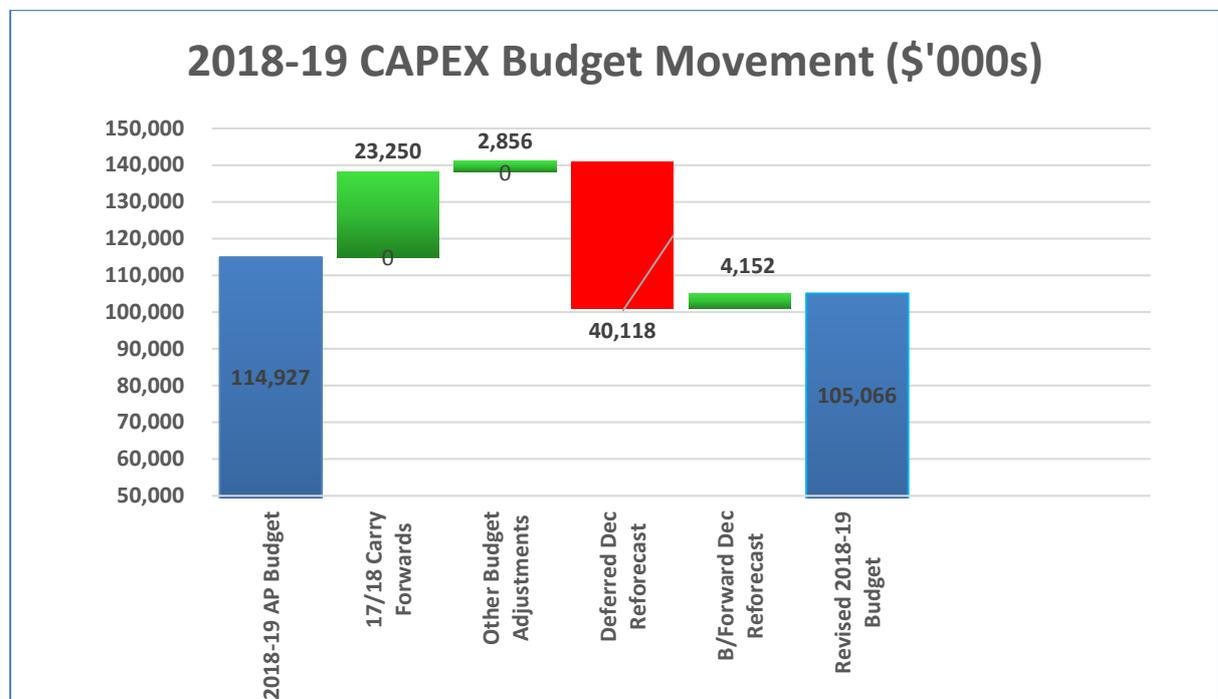
30/11/2018

Background

- 2 The main objective of this report is to give the Committee an overview of how the Council is performing from a financial perspective. The approach taken is one of management by exception, whereby officials are required to provide explanations when actual expenditure or revenue does not match the budget.

2018:19 Quarter 1 Actuals to Quarter 1 Budget:

- 3 The Quarter 1 (Q1) actuals has a \$5.1m net operating surplus which is \$3.3m favourable to the Q1 Budget net operating surplus of \$1.8m.
- 4 The Q1 actuals shows additional revenue of \$1.6m which is predominately within Operational Income \$1.7m.
- 5 The FY actuals has additional expenses within Infrastructure Maintenance \$0.5m, which is offset by lower net personnel expenditure (\$0.6m) and lower Interest expense charge of (\$0.9m).
- 6 To note: Full Year Budget – Operational Income includes \$24.8m net proceeds for Commonage Land sale.
- 7 To note: The first capex re-forecast for 2018:19 will be put forward to the December 2018 Council meeting. This has \$40.1m deferred to the 2019:20 financial year which is predominately within the 3 water package of works getting re-programmed post market engagement \$18.1m and also within Transport projects getting deferred \$13.1m.



- 8 To note: A capital expenditure report will be made available to the Finance, Audit & Risk Committee for the February 2019 meeting.

Options

- 9 This report identifies and assesses the following reasonably practicable options for assessing the matter as required by section 77 of the Local Government Act 2002:
- 10 Option 1 The report is for noting, therefore no options are discussed.

Significance and Engagement

- 11 This matter is of low significance, as determined by reference to the Council's Significance and Engagement Policy because the report is for noting only.

Financial Implications

- 12 As the review of the financial results is an administrative matter, there are no budget or cost implications arising from this report. No anomalies have been identified and it is not proposed to make any significant changes to any internal practices or procedures.

Council Policies, Strategies and Bylaws

- 13 The following Council policies, strategies and bylaws were considered:
- Ten Year Plan 2018 – 2028
 - Annual Plan 2017/2018
- 14 The recommended option is consistent with the principles set out in the named policy/policies.

Local Government Act 2002 Purpose Provisions

- 15 The recommended option is consistent with the Council's plans and policies.

Consultation: Community Views and Preferences

- 16 Consultation is not required.

Legal Considerations and Statutory Responsibilities

- 17 This report achieves the purpose of the Local Government Act 2002 by ensuring that Council activities are conducted in a cost-effective manner.

Attachments

- A Finance Management Report – 2018:19 Quarter 1 Actuals to Quarter 1 Budget.
- B Statement of Financial Position.
- C Debtors Analysis.

Finance Management Report

For the Quarter Ended 30 September 2018

Operating Expenditure and Revenue

Description	QTR 1		Variance to Budget
	Actual	Adjusted Budget	
REVENUE			
<u>Operating Revenue</u>			
Income - Rates	18,477,526	18,549,215	(71,689)
Income - Grants & Subsidies	1,634,196	1,443,280	190,915
Income - NZTA External Cost Recoveries	557,094	559,571	(2,477)
Income - Consents	3,501,576	3,431,802	69,774
Income - External Cost Recovery	255,550	534,551	(279,001)
Income - Regulatory	1,515,929	1,594,320	(78,392)
Income - Operational	11,722,524	9,987,829	1,734,695
Total Operating Revenue	37,664,395	36,100,570	1,563,824

Year to date Actual	Year to date Adjusted Budget	% of Year Completed		YTD Actuals to Full Year Budget
		Year to date Variance	Full Year Adjusted Budget	
18,477,526	18,549,215	(71,689)	74,196,862	25%
1,634,196	1,443,280	190,915	5,372,665	30% 1*
557,094	559,571	(2,477)	2,238,284	25%
3,501,576	3,431,802	69,774	13,358,187	26%
255,550	534,551	(279,001)	2,083,262	12% 2*
1,515,929	1,594,320	(78,392)	6,377,282	24%
11,722,524	9,987,829	1,734,695	56,989,550	21% 3*
37,664,395	36,100,570	1,563,824	160,616,092	23%

EXPENDITURE

<u>Personnel Expenditure</u>			
Expenditure - Salaries & Wages	6,995,362	7,861,536	866,174
Expenditure - Salaries & Wages Contract	1,471,086	1,200,036	(271,050)
Expenditure - Health Insurance	33,668	66,875	(33,207)
Total Personnel Expenditure	8,500,116	9,128,447	628,331

6,995,362	7,861,536	866,174	30,375,378	23% 4*
1,471,086	1,200,036	(271,050)	4,718,366	31% 5*
33,668	66,875	(33,207)	267,500	13%
8,500,116	9,128,447	628,331	35,361,245	24%

Operating Expenditure

Expenditure - Professional Services	1,148,484	1,270,624	122,139
Expenditure - Legal	620,414	743,432	123,019
Expenditure - Stationery	80,281	98,325	18,044
Expenditure - IT & Phones	213,158	188,246	(24,912)
Expenditure - Commercial Rent	468,398	558,130	89,732
Expenditure - Vehicle	103,567	155,325	51,758
Expenditure - Power	849,875	832,968	(16,907)
Expenditure - Insurance	183,154	180,004	(3,150)
Expenditure - Infrastructure Maintenance	7,039,486	6,522,003	(517,483)
Expenditure - Parks & Reserves Maintenance	1,327,872	1,495,035	167,163
Expense - External Cost On Chargeable	292,829	534,551	241,722
Expenditure - Grants	1,548,110	1,529,730	(18,380)
Expenditure - Other	3,056,699	3,018,382	(38,317)
Total Operating Expenditure	16,932,326	17,126,754	194,428

1,148,484	1,270,624	122,139	5,056,990	23% 6*
620,414	743,432	123,019	2,973,730	21% 7*
80,281	98,325	18,044	393,299	20%
213,158	188,246	(24,912)	752,983	28%
468,398	558,130	89,732	2,244,021	21%
103,567	155,325	51,758	621,300	17%
849,875	832,968	(16,907)	3,331,870	26%
183,154	180,004	(3,150)	720,017	25%
7,039,486	6,522,003	(517,483)	25,118,496	28% 8*
1,327,872	1,495,035	167,163	10,369,038	13% 9*
292,829	534,551	241,722	2,083,262	14% 2*
1,548,110	1,529,730	(18,380)	6,580,280	24%
3,056,699	3,018,382	(38,317)	13,016,187	23%
16,932,326	17,126,754	194,428	73,261,473	23%

Interest and Depreciation

Expenditure - Interest	1,446,248	2,322,440	876,192
Expenditure - Depreciation	5,701,590	5,701,590	0
Total Interest and Depreciation	7,147,838	8,024,030	876,192

1,446,248	2,322,440	876,192	9,289,761	16% 10*
5,701,590	5,701,590	0	25,148,122	23%
7,147,838	8,024,030	876,192	34,437,884	21%

Total Expenditure 32,580,280 34,279,232 1,698,951

32,580,280 34,279,232 1,698,951 143,060,602 23%

NET OPERATING SURPLUS/(DEFICIT) 5,084,114 1,821,339 3,262,776

5,084,114 1,821,339 3,262,776 17,555,490

Capital Revenue and Expenditure

Description	QTR 1		Variance to Budget
	Actual	Adjusted Budget	
<u>Capital Revenue</u>			
Income - Development Contributions	2,711,159	4,059,794	(1,348,635)
Income - Vested Assets	0	0	0
Income - Grants & Subsidies Capex	914,354	1,396,274	(481,919)
Total Capital Revenue	3,625,514	5,456,068	(1,830,554)

2,711,159	4,059,794	(1,348,635)	16,239,175	17% 11*
0	0	0	10,733,077	0%
914,354	1,396,274	(481,919)	12,785,095	7% 12*
3,625,514	5,456,068	(1,830,554)	39,757,347	9%

Capital Expenditure

Projects/Asset Purchases	9,011,037	10,199,075	1,188,038
Debt Repayment	0	0	0
Total Capital Expenditure	9,011,037	10,199,075	1,188,038

9,011,037	10,199,075	1,188,038	138,759,025	6% 13*
0	0	0	16,890,000	
9,011,037	10,199,075	1,188,038	155,649,025	

NET CAPITAL FUNDING REQUIRED 5,385,523 4,743,007 (642,516)

5,385,523 4,743,007 (642,516) 115,891,678

External Borrowing

Loans	0		0
Bonds	95,000,000		187,082,000
Total Borrowing	95,000,000		187,082,000

0		0
95,000,000		187,082,000
95,000,000		187,082,000

Commentary - Operational

***1 Income - Grants & Subsidies** - NZTA opex subsidy income is \$190k favourable year to date due to timing of environmental maintenance work (which offsets in Infrastructure maintenance costs - See Note. 8 below) along with increased funding by NZTA towards this activity. For noting: NZTA Funding Assistant Rates (FAR) for Glenorchy and Crown Range SPRs are to stay at 100% and 90% for 2018:19 (Budgeted at 92% and 84%)

***2 Income - External Cost Recovery** - This is the income received from on-charging external consultant costs mostly in relation to consent applications. The expense matching this income is below in the expense line - external cost on chargeable.

***3 Income - Operational** - The Queenstown Airport final 2017:18 dividend has been received for \$5.4m which is \$430k above Full Year budget. Turnover rents are \$291k favourable as is net interest by \$411k. Rates penalties are up on budget by \$287k.

***4 Expenditure - Salaries and Wages** - There is currently a net vacancy of 45.2 FTE's which is the main reason for the Salary and Wage underspend which is partly offset by overspend in Contract staff.

***5 Expenditure - Salaries and Wages Contract Staff** - There is additional \$156k of contract staff processing costs within Planning & Development which is partially offset by additional revenue within Consenting income. Property and Infrastructure and Finance have combined \$95k of unbudgeted contract staff spend to cover vacancies.

***6 Expenditure - Professional Services** - There is currently an underspend within Property and Infrastructure for \$173k which is expected to be caught up during the year. To note also \$315k of year to date HIF related costs has been transferred to Capital Work in Progress within the Balance Sheet due to the expectation that a proportion of the HIF related costs will be capitalised.

***7 Expenditure - Legal** - There was additional legal spend during September for District Plan and Appeals and Settlements in Resource Management of \$63k which is reducing the YTD favourable variance.

***8 Expenditure - Infrastructure Maintenance** - The unfavourable year to date variance of \$517k includes \$255k of emergency reinstatement costs (Funding has been requested from NZTA) along with \$347k unfavourable spend within Environmental Maintenance due to timing of expenditure (65% of annual budget spent). This is partially offset with favourable variances across a number of other activities (See Income - Grants and subsidies Note. 1).

***9 Expenditure - Parks and Reserves Maintenance** - The favourable YTD variance is predominantly due to timing of the Park's contracts expenditure (\$215k) which is expected to be caught up over the Summer months.

***10 Expenditure - Interest** - Interest expense is favourable due to lower than expected interest rates and timing of capex spend which is mainly within Property & Infrastructure space where the interest budget is phased straight line.

Commentary - Capital Revenue and Expenditure

***11 Income - Development Contributions** - 179 Development contribution invoices across the District have been generated YTD for Waste Water \$767k, Parks and Reserves \$711k, Transport \$674k, Water Supply \$447k and Storm Water \$112k.

***12 Income - Grants & Subsidies Capex** - For Noting: NZTA released their initial NLTP (National Land Transport Programme) budgets for 2018:19 through to 2020:21 at the end of August which Council has reviewed. The first capex reforecast will now be in December which will include deferring some projects to Years 2 and 3 of the Long Term Plan and this subsidy line will need to be reduced to match revised timing of delivery.

***13 Project Expenditure** - The full capital programme budget is now phased for 2018:19. There is a substantial re-forecast process which is now to be completed in December in line with the 3 Waters bundles revised procurement plan which will re-phase the construction of major projects to Years 2 and 3 of the Long Term Plan. The largest spends for the Quarter were: Project Shotover Disposal Field \$1.4m, Arrowtown Community and Sports Centre Fund \$857k, Bathhouse Playground \$641, Kawarau Bridge Waste Water Rising Main \$356k and LTP Strategic Procurement Plan \$334k.

As at 30 September 2018	Actual Sep-18 \$'000	Actual Sep-17 \$'000	Actual Variance \$'000	Annual Plan Jun-19 \$'000	Actual Jun-18 \$'000
Current assets					
Cash and cash equivalents	15,495	13,098	2,397	336	10,028
Trade and other receivables from non-exchange transactions	8,870	8,045	825	9,435	5,957
Trade and other receivables from exchange transactions	6,397	4,852	1,545	3,865	9,222
Inventories	42	55	(13)	46	46
Current tax refundable	-	-	-	-	-
Other financial assets	20,013	10,013	10,000 *1	15	9,513
Other current assets	1,807	982	825	797	1,214
Development property	-	-	-	17,127	-
Total current assets	52,624	37,045	15,579	31,621	35,980
Non-current assets					
Investment in subsidiaries	6,250	5,412	838	8,385	6,250
Other financial assets	1,867	2,972	(1,105)	-	1,707
Property, plant and equipment	1,241,254	1,128,552	112,702 *2	1,314,519	1,231,645
Intangible assets	1,699	996	703	-	1,607
Investment property	53,162	110,205	(57,043) *3	58,345	53,162
Development property	12,503	-	12,503 *4	-	12,503
Total non-current assets	1,316,735	1,248,137	68,598	1,381,249	1,306,874
Total assets	1,369,359	1,285,182	84,177	1,412,870	1,342,854
Current liabilities					
Trade and other payables from exchange transactions	28,196	18,968	9,228 *5	23,924	27,071
Borrowings	20,203	10,223	9,980 *6	47,000	30,203
Other financial liabilities	96	-	96	-	96
Other current liabilities	15,221	13,424	1,797	8,548	10,686
Employee entitlements	2,974	1,824	1,150	-	1,490
Total current liabilities	66,690	44,439	22,251	79,472	69,546
Non-current liabilities					
Borrowings	75,263	85,466	(10,203) *6	111,118	55,263
Other financial liabilities	2,106	1,298	808	-	2,106
Other non-current liabilities	11,159	-	11,159 *7	-	11,159
Total non-current liabilities	88,528	86,764	1,764	111,118	68,528
Total liabilities	155,218	131,203	24,015	190,590	138,074
Net assets	1,214,141	1,153,979	60,162	1,222,280	1,204,780
Equity					
Reserves	566,925	555,374	11,551	573,444	566,925
Accumulated funds	647,216	598,605	48,611	648,836	637,855
Total equity attributable to Council	1,214,141	1,153,979	60,162	1,222,280	1,204,780

Commentary

*1 Includes \$10m term deposit to maximise return on temporary surplus funds.

*2 Movement includes reclassification of campground assets from Investment Property to Property, Plant and Equipment following the completion of the 2017/18 year end process (June 2018), the revaluation of Wanaka airport land following commencement of the 100 year lease to Queenstown Airport Corporation, and additional capital expenditure in the 12 months since Sep17.

*3 Refer comment 2 above and comment 4 below. Also includes revaluation of remaining investment property as at 30 June 2018.

*4 Certain portions of Lakeview site reclassified from Investment Property to Development Property as deemed available for sale.

*5 Increase due to timing of capital projects versus Sep17, including additional subdivision bonds, retentions and infrastructure accruals.

*6 Movement offset between current/non-current classification.

*7 Non-current portion of 100 year lease of Wanaka Airport land to Queenstown Airport Corporation.

Borrowing Limits (%)	Actual Sep-18	Annual Plan Jun-19	Borrowing Limit		Actual Jun-18	Actual Jun-17
Interest Expense/Rates < 30% (2017/18: < 25%)	7.8%	12.8%	25.0%	●	5.9%	6.1%
Interest Expense/Total Revenue < 20% (2017/18: < 15%)	3.8%	7.1%	15.0%	●	3.1%	3.2%
Net Debt/Total Revenue < 250% (2017/18: < 200%)	63.4%	154.6%	200.0%	●	67.4%	77.8%

● Measure is well within the borrowing limit

● Measure is within 5% of the borrowing limit

● Measure is outside of the borrowing limit

Debtors Analysis

As at 30 September 2018	Council		
	Sep-18 \$'000	Sep-17 \$'000	Variance \$'000
From non-exchange transactions			
Trade receivables	719	760	(41)
Infringement receivables	1,922	1,692	230 *1
Rates receivables	6,061	4,991	1,070 *2
New Zealand Transport Agency	1,426	1,838	(412)
Other	335	70	265
Allowance for doubtful debts	(1,593)	(1,306)	(287) *1
	8,870	8,045	825
From exchange transactions			
Trade receivables	3,741	2,663	1,078
Other	2,989	2,393	596 *3
Allowance for doubtful debts	(333)	(204)	(129)
	6,397	4,852	1,545
	15,267	12,897	2,370
Age analysis			
Trade and other receivables (excluding rates)			
	Council		
	Sep-18 \$'000	Sep-17 \$'000	Variance \$'000
Current (0-30 days)	7,040	6,422	618
31-60 days *	476	427	49
61-90 days *	558	344	214
90 days + *	3,058	2,223	835 *1
	11,132	9,416	1,716
Rates receivables			
Instalment 1 (overdue) *	3,614	3,258	356 *2
Previous years rates *	2,447	1,733	714 *2
	6,061	4,991	1,070
Allowance for doubtful debts	(1,926)	(1,510)	(416)
	15,267	12,897	2,370

* Amounts are considered past due.

Commentary

- *1 Infringement receivables continues to increase with \$1.7m in over 90 days relating to infringements. The allowance for doubtful debts includes \$1.5m for infringements.
- *2 Increase in rates receivable includes increase in 2018/19 rates and rateable properties, as well as increase in previous years' rates. The Local Government (Rating) Act has mechanisms available to recover overdue rates via a charge on the mortgage for mortgaged properties or via sale of the property for rates balances less than 6 years old.
- *3 The variance for Other receivables from exchange transactions relates to the inclusion of \$900k in grants receivable offset by a reduction in GST as the GST payable for the August 2018 return was only deducted by the IRD via direct debit on 1 October 2018.