

6.2 DRAFT FINANCIAL REPORT AND CARRY FORWARDS FOR THE 2019/20 FINANCIAL YEAR

File Number: COU1-1400
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Attachments: Nil

PURPOSE

The matter for consideration by the Council is the draft financial results for 2019/2020 and for Council to approve the proposed allocations to carry forwards, special funds, and between activities for the 2019/2020 Financial Year.

RECOMMENDATION FOR CONSIDERATION

That having considered all matters raised in the report:

- a) That Council receives the report entitled Draft Financial Report and Carry Forwards for the 2019/2020 Financial Year.
- b) Council approve the proposed allocations to carry forwards and special funds for the 2019/2020 Financial Year.
- c) Council approve that the 2019/2020 activity surpluses in the general rate funded activities be used to fund the deficits in the general rate funded activities as proposed.

EXECUTIVE SUMMARY

This report brings to Council the draft unaudited Financial Statements for the Council for the year ended 30 June 2020.

Contained in the report is a list of movements in Special Funds/Carry Forwards that are proposed to be funded from this year's activities, and a proposal that where a general rate funded activity has a surplus, that this surplus be applied to those general rate rated activities that have deficits.

BACKGROUND

Council is reported to quarterly on Council Finances. This report brings to Council the draft unaudited financial results for the year ended 30 June 2020, and the funding impact statement for both the whole of Council and each group of activities undertaken by Council.

DISCUSSION

Set out below is a summary of the draft unaudited financial results for the 2019/20 financial year:

Comprehensive Income and Expenditure Report						
	YTD Actuals	YTD Budget	Bud Var	2019 Actuals	2019 Var	% Change
Operating Income						
General rates, uniform annual general charges and rates penalties	13,380	13,435	(55)	12,643	737	5.8%
Targeted rates	7,413	7,256	157	7,187	226	3.1%
Subsidies and Grants (Operating and Capital)	10,004	9,422	582	11,167	(1,163)	-10.4%
Fees, charges	3,781	3,262	519	3,416	365	10.7%
Interest and dividends from investments	215	140	75	189	26	13.7%
Development Contributions	92	22	70	364	(272)	-74.7%
Other Income	513	229	284	788	(275)	-34.9%
TOTAL	35,398	33,766	1,632	35,754	(356)	-1.0%
Applications of Operating						
Payments to staff	5,567	5,322	(245)	5,147	(420)	-8.2%
Payments to suppliers	17,490	15,392	(2,098)	17,037	(453)	-2.7%
Depreciation and Amortisation	12,397	12,102	(295)	11,946	(451)	-3.8%
Finance costs	429	593	164	173	(256)	-148.2%
TOTAL	35,883	33,408	(2,474)	34,303	(1,580)	-4.6%
Operating Surplus/(Deficit)	(485)	358	(843)	1,451	(1,936)	
Gain/(Loss) on Asset Revaluations	4,683	0	(4,683)	47,265	42,582	90.1%
Asset Impairments	(1,082)	0	1,082	0	1,082	
Operating Surplus/(Deficit)	3,116	358	2,758	48,716	(45,600)	

It is important to note that this is based on traditional accounting presentation requirements and is more akin to how a "For Profit" entity would report. It is quite different to the Funding Impact Statement that the Local Government Act requires which looks at all sources of income and then how it has been applied/spent.

What this shows is that while Council has earned \$1.6m more in revenue than budgeted, this is \$0.4m less than last year. The bulk of this decline is in subsidies and grants which is despite Council receiving PGF money that wasn't available in the previous year. This is because Council has received \$1.5m less in NZTA subsidies than in the previous year. NZTA subsidies are received as a reimbursement of works undertaken. Council is planning a significant bridge strengthening program in 2020/21 which will see a higher level of spend and therefore a higher NZTA subsidy.

Costs are \$2.5m ahead of budget, but only \$1.6m (4.6%) ahead of last year. The change year on year is driven by additional staffing resources, higher financing costs reflecting higher debt levels, undertaking the PGF work which was unbudgeted, and inflation.

Below the line are Council's asset revaluations. This year Council has revalued roading and 3 water assets (last year was land and buildings and 3 waters). In addition this year Council has an impairment on the holding values of the Waipukurau Library and Memorial Hall due to seismic issues.

External Debt/ Investments/ Asset Creation

During 2019/20 Council's external debt has gone from \$2m to \$20m. This money was used in part to fund the creation of new assets and in part to create investments.

Council's weighted average cost of funds is 2.28% (2019: 3.85%), and the maturities are as the table below:

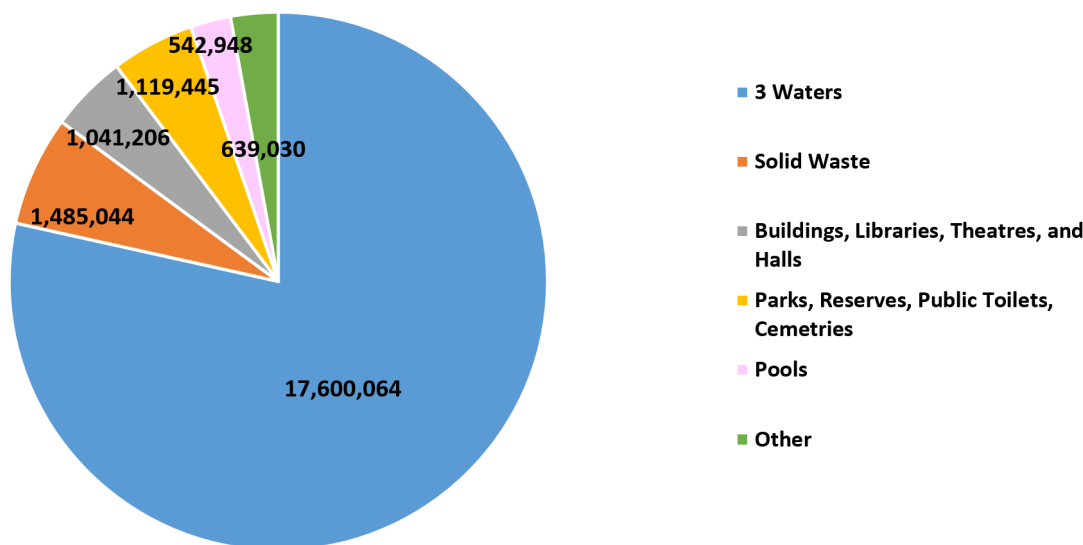
Debt Position	Draw Date	Maturity Date	Interest Rate	Amount		Movement
				30/06/2019	Amount Now	
LGFA - Fixed Rate	28/08/2017	25/08/2025	3.85%	2,000,000	2,000,000	-
LGFA - Fixed Rate	22/07/2019	15/04/2024	2.19%	-	10,000,000	10,000,000
LGFA - Fixed Rate	16/12/2019	15/04/2023	1.96%	-	4,000,000	4,000,000
LGFA - Fixed Rate	16/03/2020	15/04/2027	2.03%	-	4,000,000	4,000,000
ANZ Seasonal Facility (\$1,500,000)				-	-	-
Total Debt			2.28%	2,000,000	20,000,000	18,000,000

During 2019/20 Council has spent \$19.8m on acquiring new assets or renewing existing assets.

In addition Council has found itself in the position that it could take out term deposits with a higher yield than its cost of borrowing (typically with a 0.5% net margin). Therefore, knowing that Council has a significant asset program planned it has borrowed early (enough to fund the next 6 months of this program) which means at year end Council was holding \$11m of term deposits (2019: \$2.5m) with an average yield of 2.6%, with a mix of maturities out to December 2020.

While Council has external debt of \$20m, it also has internal debt (i.e. borrowings from other Council reserves). Total debt at 30 June was \$22.4m which means in addition to the \$20m external debt, Council has used \$2.4m of Councils internal funds to fund its infrastructure assets. The pie chart below shows how this debt is allocated to the various Council activities.

Total Debt by Division @ 30/06/20



Special Funds

Special Funds and Trust Accounts are funded held for a specific purpose and are allocated interest annually from Councils investments/internal borrowings. During the year \$150k of interest was added to Councils special funds which represented a 2.5% return.

During the year the following movements (excluding interest) occurred in special funds:

Special Fund	Activity	Movement	Notes
Capital Projects Fund	Overheads	(59,766)	Legal & Valuations preparing land for sale
Ruahine & Aramoana Wards	Public Toilets	(21,376)	Funding of new Te Paerahi Public Toilet
Esplanade Reserves Fund Acct	Parks & Reserves	(6,348)	Purchase of Esplandade Strip
Landfill Aftercare Reserve	Solid Waste	(333,000)	Funding of Leachate Project, to be repaid over next 10 years
Landfill Aftercare Reserve	Solid Waste	50,743	Funding of future landfill aftercare
Vehicle Depreciation Reserve	Overheads	85,257	Funding of Future Vehicle Fleet Replacements
LT Vehicle Depreciation Reserve	Land Transport	21,773	Funding of Future Land Transport Vehicle Fleet Replacements
Mayoral Fund	Leadership	2,420	Adding Covid Donations to fund, to be distributed next year
Adverse Events Fund	Solid Waste	(262,838)	Funding of June 2019 Flooding Repairs
Adverse Events Fund	Land Transport	8,683	Annual loan repayment of "Fire" funding
Stormwater Renewal Reserve	Stormwater	(132,366)	Funds used to create stormwater assets
Water Rates Smoothing Reserve	Water Supplies	125,000	Fund to smooth future water rates as per Long Term Plan
Wastewater Upgrade Reserve	Wastewater	436,284	Funds set aside to upgrade Wastewater treatment plants
Te Aute Drainage Scheme Reserve	Stormwater	(6,100)	Funds used to to fund activity in Te Aute Drainage Scheme
Bridge Replacement Funding	Land Transport	52,122	Funds set aside to upgrade Bridges
Waipawa Libraries Donations Res	Libraries	94,228	Bequest Received
District Landfill Levy Res	Solid Waste	(30,442)	Net movement in Waste Minimisation Funds Held
Housing Depreciation Reserve Acct	Retirement Housing	(51,379)	Funding capital works at Retirement Housing
		(27,105)	

Carry Forwards

Carry Forwards is the practice where Councils take projects that were budgeted to occur in a financial year, and therefore rated for but remain unspent at year end. These projects are expected to be completed in the following financial year so Council "Carries Forward" the rates funding to the following year to allow that project to be undertaken.

For the 2019/2020 below is a list of the Carry Forwards:

Carry Forwards	Activity	Carry Forward	Notes
Leadership Carry Fwd	Leadership	20,000	Maori Engagement Funds
District Planning	District Planning	16,679	Creation of District Planning Maps
Health Carry Fwd	Public Health	25,000	District Licensing Committee to be held in carry forwards until required
Solid Waste Carry Fwd	Solid Waste	9,794	Committed Solid Waste Capital Upgrade Projects
Water Carry Fwd	Water Supplies	1,703	Committed Water Capital Upgrade Projects
Waste Water Carry Fwd	Wastewater	49,536	Committed Waste Water Capital Upgrade Projects
Stormwater Carry Fwd	Stormwater	278,001	Committed Stormwater Capital Upgrade Projects
Parks Reserves Pools Carry Fwd	Parks & Reserves	20,962	Committed Parks & Reserves Capital Upgrade Projects
Theatres Halls Carry Fwd	Theatres & Halls	42,566	Committed Theatre Capital Upgrade Projects
Cemeteries Carry Fwd	Cemeteries	13,000	Committed Cemetery Capital Upgrade Projects
Properties Carry Fwd	Properties	67,787	Committed Property Capital Upgrade Projects
IT Carry Fwd	Overheads	133,222	Committed IT/Phone System Capital Upgrade Projects
Administration Carry Fwd	Overheads	155,081	Committed Document Scanning Back Capture/Audio Visual Capital Upgrade Projects
Chief Exec CFWD	Overheads	4,021	CE professional Development
Finance Services Carry Fwd	Overheads	9,199	Rates Doubtful Debt Allowance
Finance Services Carry Fwd	Overheads	45,000	Long Term Plan Audit Fees
Finance Services Carry Fwd	Overheads	18,284	Long Term Plan Resources
GIS Carry Fwd	Overheads	82,122	Aerial Mapping delayed due to Covid.
LT Sub Carry Fwd Renewal	Land Transport	1,447,146	Roading & Bridge Upgrades
		2,439,103	

Group Surplus and Deficits

Once you take into account the operating result of each Council Activity, and the movements in Special Funds and Carry Forwards above, Council is still left with a surplus/(deficit) in each activity.

Those activities that are funded by Targeted Rates (3 Waters and Roding) have had their surplus/(deficits) cleared into their specific Special Funds Account (for 3 Waters) and Carry Forwards (as disclosed in the tables above) to ensure that those targeted rates remain ring fenced for those activities.

The remaining activities are funded from general rates also have surplus/(deficit) positions. It is proposed that these be cleared by "activity transfers" between these activities to ensure that they are balanced at a top level.

At an individual activity level the surplus/(deficit) were:

Activity	Surplus/(Deficit)
Community Leadership	73,706
Planning & Regulatory	(171,316)
Solid Waste	78,967
Recreation & Community Facilities	18,643
	0

Having done all done all this Council has a balanced Funding Impact Statement (as per the table below):

Funding Impact Statement Report			
	YTD Actuals	YTD Budget	Bud Var
Sources of Operating			
General rates, uniform annual general charges and rates penalties	13,379,846	13,435,029	(55,183)
Targeted rates	7,413,116	7,255,748	157,368
Subsidies and Grants for Operating Purposes	4,496,855	3,394,933	1,101,922
Fees, charges	3,781,277	3,260,474	520,803
Interest and dividends from investments	214,937	139,835	75,102
Local authorities fuel tax, fines, infringement fees and other receipts	491,666	196,289	295,377
TOTAL	29,777,697	27,682,308	2,095,389
Applications of Operating			
Payments to staff	5,567,072	5,321,904	(245,168)
Payments to suppliers	17,320,029	15,428,292	(1,891,737)
Finance costs	364,078	568,636	204,558
Other operating funding applications	0	(36,693)	(36,693)
TOTAL	23,251,180	21,282,139	(1,969,041)
Net Operating Cash Flows	6,526,517	6,400,169	126,348
Sources of Capital			
Subsidies and grants for capital expenditure	5,507,054	6,027,458	(520,404)
Gross proceeds from sale of assets	18,811	34,661	(15,850)
Development and financial contributions	92,097	21,972	70,125
Increase (decrease) in debt	18,000,000	12,288,650	5,711,350
TOTAL	23,617,962	18,372,741	5,245,221
Applications of Capital			
to meet additional demand	0	0	0
to improve the level of service	12,439,478	17,238,353	4,798,875
to replace existing assets	7,324,211	11,654,786	4,330,575
Increase (decrease) in reserves	(468,641)	(3,277,791)	(2,809,150)
Increase (decrease) of investments	10,849,431	(842,432)	(11,691,863)
TOTAL	30,144,479	24,772,916	(5,371,563)
Net Capital Cash Flows	(6,526,517)	(6,400,175)	(126,342)
Grand Total	0	(6)	6

RISK ASSESSMENT AND MITIGATION

The proposed actions ensure that the targeted rates remain ring fenced for the use of 3 waters and roading, and that the general rate funds are only applied to those activities that are to be funded by general rates under Council's Revenue and Financing Policy.

FOUR WELLBEINGS

This report delivers an update on Council's finances, and shows that Council is acting in a transparent, fiscally prudent manner, with the best interests of Central Hawkes Bay District in mind.

DELEGATIONS OR AUTHORITY

While much of the movements in special funds and carry forwards reflect previous Council resolutions, how to deal with the residual activity surplus (deficits) needs to be decided.

SIGNIFICANCE AND ENGAGEMENT

In accordance with the Council's Significance and Engagement Policy, this matter has been assessed as of some importance.

OPTIONS ANALYSIS

Council as the ability to approve the proposed allocations to carry forwards and special funds for the 2019/2020 Financial Year and that the 2019/2020 activity surpluses in the general rate funded activities be used to fund the deficits in the general rate funded activities as proposed.

Or Council can chose not approve the proposed allocations, and provide officers with guidance how they wish to allocate the surplus/ (deficits) between special funds/carry forwards/and activities.

Recommended Option

This report recommends option number one, approving the proposed allocations for addressing the matter.

NEXT STEPS

Officers will action whatever decision is made, and proceed to have the Auditor General audit these financial statements.

RECOMMENDATION

That having considered all matters raised in the report:

- a) That Council receives the report entitled Draft Financial Report and Carry Forwards for the 2019/2020 Financial Year.**
- b) Council approve the proposed allocations to carry forwards and special funds for the 2019/2020 Financial Year.**
- c) Council approve that the 2019/2020 activity surpluses in the general rate funded activities be used to fund the deficits in the general rate funded activities as proposed.**