

5.9 YEAR END FINANCIAL FORECAST 2019/2020**File Number:****Author:** Brent Chamberlain, Chief Financial Officer**Authoriser:** Monique Davidson, Chief Executive**Attachments:** Nil**RECOMMENDATION****That, having considered all matters raised in the report, the report be noted.****PURPOSE**

The purpose of this report is to update Councillors on the outcome of the recent year end forecast undertaken by Officers.

SIGNIFICANCE AND ENGAGEMENT

This report is provided for information purposes only and has been assessed as not significant.

BACKGROUND

The Risk and Assurance Committee recently asked Officers to forecast Council's expected year end position, and the impact of recent drought and Covid-19 events.

Officers have built the forecasts in the attached tables using actuals for July 2019 to March 2020, and forecasts for April-June 2020 based on the best data they have to hand.

The true impact of Covid-19 won't fully be felt until the government wage subsidies cease, and the impact of the drought will be realised next spring when those farms that destocked won't have the breeding stock they normally carry.

DISCUSSION

The table below sets out the Council's forecast year end position (in a Funding Impact Statement format) compared to the original adopted budget, and the operating budget (which is the adopted budget plus unspent items agreed to be carried forward from last year).

FIS Level 3	Full Year Actuals 2018/19	Adopted Annual Plan Budget 2019/20	Operating Budget Total 2019/20	Forecast 2019/2020	Forecast Variance to Op Budget
Grand Total	0	2	2	5	-1
Sources of Operating	-28,663,644	-26,986,818	-27,682,308	-29,622,779	-1,940,471
General rates, uniform annual general charges and rates per	-12,897,185	-13,435,029	-13,435,029	-13,376,774	58,255
Targeted rates	-6,933,195	-7,255,748	-7,255,748	-7,318,116	-62,368
Subsidies and Grants for Operating Purposes	-4,466,082	-2,744,263	-3,394,933	-4,696,417	-1,301,484
Fees, charges	-3,415,520	-3,215,654	-3,260,474	-3,599,280	-338,806
Interest and dividends from investments	-189,481	-139,835	-139,835	-95,082	44,753
Local authorities fuel tax, fines, infringement fees and other	-762,180	-196,289	-196,289	-537,110	-340,821
Applications of Operating	22,291,193	19,881,481	21,288,581	22,165,805	877,224
Payments to staff and suppliers	22,183,724	19,502,731	20,756,638	22,022,546	1,265,908
Employee Costs	5,146,771	5,288,904	5,321,904	5,415,684	93,780
Operational & Maintenance	15,620,096	12,690,453	13,859,238	14,989,214	1,129,976
Grants	488,893	532,039	584,161	522,654	-61,507
Uncontrollable	927,965	991,335	991,335	1,094,994	103,659
Finance costs	107,468	558,426	568,636	178,888	-389,748
Other operating funding applications	0	-179,676	-36,693	-35,629	1,064
OPERATING (SURPLUS)/DEFICIT	-6,372,451	-7,105,337	-6,393,727	-7,456,974	-1,063,247
Sources of Capital	-6,380,816	-14,254,040	-18,372,741	-22,225,728	-3,852,987
Subsidies and grants for capital expenditure	-6,700,649	-4,976,575	-6,027,458	-4,390,110	1,637,348
Gross proceeds from sale of assets	0	-34,661	-34,661	-47,532	-12,871
Development and financial contributions	-364,166	-21,972	-21,972	-96,612	-74,640
Increase (decrease) in debt	684,000	-9,220,832	-12,288,650	-17,691,474	-5,402,824
Applications of Capital	12,753,267	21,359,383	24,766,474	29,682,707	4,916,233
to meet additional demand	0	0	0	0	0
to improve the level of service	3,635,515	12,663,916	17,238,353	12,887,706	-4,350,647
to replace existing assets	11,342,554	9,537,899	11,648,344	7,069,000	-4,579,344
Increase (decrease) in reserves	-1,948,610	0	-3,277,791	-544,059	2,733,732
Increase (decrease) of investments	-276,192	-842,432	-842,432	10,270,060	11,112,492

What this shows is that Council expects to collect \$1.94m more in operating income than it budgeted for. Most of this is grants for Provincial Growth Fund projects, additional fees and charges relating to higher levels of consenting and solid waste being dumped, as well as donations for the Waipawa pool and a warranty claim.

Operational costs are expected to be over budget by \$1.1m. Much of this relates to outsourcing of consents (due to the volume exceeding what our own staff can process), additional carbon credits needed to match the solid waste volumes, and additional roading work.

Finance Costs will come in under budget by \$390k due to lower than expected interest rates, and additional investment activities.

Capital Grants/Subsidies are expected to be under budget by \$1.6m. This is all NZTA subsidies relating to roading. Much of this is timing related, for example the bridge strengthening project has had the engineering assessments done but the physical work is now scheduled for July 2020. Likewise some resealing has been delayed to work in with 3 waters pipe work and UFB roll outs. NZTA works on a 3 year program so Council isn't at risk of losing this money.

Debt Funding will be \$5.4m ahead of plan, despite capital expenditure being behind plan. This is the cause of the \$11.1m increase in investments. Council has taken advantage of being able to borrow at 2.11% pa (average cost of funds for new loans taken in 2019/2020), and invest the surplus funds on term deposits at 2.54% pa (average return on term deposits held at 30/06/2020).

Capital projects will be \$8.9m behind plan. A number of capital projects are out of sync with the budgeted timelines. The 3 Waters projects are on track to be delivered on budget, but are being

done in a slightly different order and different timing to that signalled in the original LTP. The bulk of this variance is in the land transport area. Much of this is timing related, for example the bridge strengthening project has had the engineering assessments done but the physical work is now scheduled for July 2020. Likewise some resealing has been delayed to work in with 3 waters pipe work and UFB roll outs. NZTA works on a 3 year program so Council isn't at risk of losing this money.

Related to the additional debt and delay in some capital projects is the movement in reserves, in that we are forecasting to spend less of Councils reserves.

Let's look at the individual activities that make up this helicopter view:

FIS Level 3	Community Leadership			Planning & Regulatory			Land Transport			Solid Waste		
	Operating Budget Total 2019/20	Total Reforecast	Reforecast Variance	Operating Budget Total 2019/20	Total Reforecast	Reforecast Variance	Operating Budget Total 2019/20	Total Reforecast	Reforecast Variance	Operating Budget Total 2019/20	Total Reforecast	Reforecast Variance
Grand Total	0	0	0	1	0	-1	-1	0	1	2	0	-2
Sources of Operating	-1,456,516	-2,446,622	-990,106	-1,959,298	-2,059,939	-100,641	-9,810,069	-10,070,789	-260,720	-2,808,364	-3,095,328	-286,964
General rates, uniform annual general charges and rates pena	-1,314,458	-1,324,057	-9,599	-694,489	-698,874	-4,385	-6,568,106	-6,590,296	-22,190	-1,309,064	-1,317,417	-8,353
Targeted rates	0	0	0			0	0	0	0	-294,218	-297,066	-2,848
Subsidies and Grants for Operating Purposes	-97,238	-1,089,573	-992,335	0	0	0	-3,061,334	-3,276,796	-215,462	-53,164	-53,164	0
Fees, charges	-44,820	-32,992	11,828	-1,246,885	-1,349,785	-102,900	-18,764	-33,154	-14,390	-1,151,918	-1,427,681	-275,763
Interest and dividends from investments			0			0			0			0
Local authorities fuel tax, fines, infringement fees and other receipts			0	-17,924	-11,280	6,644	-161,865	-170,543	-8,678			0
Applications of Operating	1,495,539	1,503,326	7,787	2,217,391	2,456,693	239,302	6,495,622	6,847,097	351,475	2,528,508	2,956,736	428,228
Payments to staff and suppliers	1,190,291	1,203,468	13,177	1,674,719	1,934,035	259,316	5,069,061	5,445,962	376,901	2,026,364	2,459,816	433,452
Employee Costs	606,041	605,940	-101	991,243	1,033,541	42,298	279,790	281,284	1,494	141,591	141,591	0
Operational & Maintenance	484,538	495,477	10,939	607,050	834,679	227,629	4,779,367	5,154,700	375,333	1,763,295	2,196,170	432,875
Grants	99,712	97,276	-2,436	0	0	0	0	0	0			0
Uncontrollable	0	4,775	4,775	76,426	65,815	-10,611	9,904	9,978	74	121,478	122,055	577
Finance costs			0	19,388	8,615	-10,773	0	0	0	70,920	73,311	2,391
Other operating funding applications	305,248	299,858	-5,390	523,284	514,043	-9,241	1,426,561	1,401,135	-25,426	431,224	423,609	-7,615
OPERATING (SURPLUS)/DEFICIT	39,023	-943,296	-982,319	258,093	396,754	138,661	-3,314,447	-3,223,692	90,755	-279,856	-138,592	141,264
Sources of Capital	0	0	0	-680,092	-396,754	283,338	-5,767,327	-4,126,979	1,640,348	-87,294	-87,294	0
Subsidies and grants for capital expenditure			0			0	-5,764,327	-4,126,979	1,637,348			0
Gross proceeds from sale of assets			0			0	0	0	0			0
Development and financial contributions			0			0	-3,000	0	3,000			0
Increase (decrease) in debt	0	0	0	-680,092	-396,754	283,338	0	0	0	-87,294	-87,294	0
Applications of Capital	-39,023	943,296	982,319	422,000	0	-422,000	9,081,773	7,350,671	-1,731,102	367,152	225,886	-141,266
to meet additional demand			0			0			0			0
to improve the level of service	0	550,000	550,000	422,000	0	-422,000	1,632,181	1,298,521	-333,660	733,143	731,405	-1,738
to replace existing assets	0	0	0	0	0	0	8,195,502	5,523,016	-2,672,486	157,215	105,715	-51,500
Increase (decrease) in reserves	-39,023	393,296	432,319	0	0	0	-745,910	529,134	1,275,044	-523,206	-611,233	-88,027
Increase (decrease) of investments			0			0			0			0

Community Leadership:

Community Leadership includes the economic development activity which will be receiving a significant amount of PGF funding for the Ngā Ara Tipuna project. This will ultimately be developed into tourism assets, but won't be fully spent by year end hence the unspent portion of these funds being carried forward to 2020/21 through reserves.

Planning and Regulatory:

This activity includes consenting whose level of activities is running ahead of plan. This has led to additional consent fees, but has also seen Council needing to outsource some consenting as it has exceeded our ability to process all of these in house. Outsourcing comes at an increased cost, and has led to a small deficit in these activities.

In terms of capital, the \$422k for the dog pound build has been delayed as the original build site identified has fallen through.

Land Transport:

Operationally Land Transport will be slightly behind budget, but the major variance is in the capital expenditure area. Much of this is timing related, for example the bridge strengthening project has had the engineering assessments done but the physical work is now scheduled for July 2020. Likewise some resealing has been delayed to work in with 3 waters pipe work and UFB roll outs. NZTA works on a 3 year program so Council isn't at risk of losing this money.

Solid Waste:

Solid Waste is another area where volumes being delivered are running ahead of budget. This has led to additional Fees, but also additional costs particularly in terms of the level of carbon credits required to be purchased. This is also an activity where Covid-19 has led to additional costs due to the traffic management plans required at transfer stations to ensure social distancing and contact tracing.

FIS Level 3	Water Supplies			Wastewater			Storm Water			Recreation & Community		
	Operating Budget Total 2019/20	Total Reforecast	Reforecast Variance	Operating Budget Total 2019/20	Total Reforecast	Reforecast Variance	Operating Budget Total 2019/20	Total Reforecast	Reforecast Variance	Operating Budget Total 2019/20	Total Reforecast	Reforecast Variance
Grand Total	0	0	0	2	2	0	-2	-2	0	5	5	0
Sources of Operating	-3,038,706	-3,064,335	-25,629	-3,477,855	-3,694,091	-216,236	-685,282	-703,354	-18,072	-4,276,086	-4,492,348	-216,262
General rates, uniform annual general charges and rates penalties			0							-3,520,115	-3,545,022	-24,907
Targeted rates	-3,035,586	-3,060,798	-25,212	-3,240,662	-3,271,898	-31,236	-685,282	-688,354	-3,072			0
Subsidies and Grants for Operating Purposes			0			0				-183,197	-276,884	-93,687
Fees, charges	-3,120	-3,537	-417	-237,193	-237,193	0				-557,774	-515,171	42,603
Interest and dividends from investments			0			0						0
Local authorities fuel tax, fines, infringement fees and other receipts			0	0	-185,000	-185,000	0	-15,000	-15,000	-15,000	-155,271	-140,271
Applications of Operating	2,170,610	2,138,013	-32,597	2,709,739	2,677,734	-32,005	576,745	550,045	-26,700	3,654,309	3,692,330	38,021
Payments to staff and suppliers	1,291,031	1,915,604	624,573	1,675,247	1,301,126	-374,121	373,304	261,605	-111,699	2,675,411	2,738,663	63,252
Employee Costs	0	0	0	0	0	0	0	0	0	325,484	386,148	60,664
Operational & Maintenance	1,198,817	1,752,889	554,072	1,546,066	1,165,556	-380,510	339,566	236,204	-103,362	1,604,942	1,638,231	33,289
Grants			0			0			0	484,449	425,377	-59,072
Uncontrollable	92,214	162,715	70,501	129,181	135,570	6,389	33,738	25,400	-8,338	260,536	288,906	28,370
Finance costs	327,224	179,809	-147,415	482,137	434,007	-48,130	24,168	12,333	-11,835	140,674	130,248	-10,426
Other operating funding applications	552,355	42,601	-509,754	552,355	942,601	390,246	179,273	276,107	96,834	838,224	823,420	-14,804
OPERATING (SURPLUS)/DEFICIT	-868,096	-926,322	-58,226	-768,116	-1,016,357	-248,241	-108,537	-153,309	-44,772	-621,777	-800,017	-178,240
Sources of Capital	-8,857,267	-4,982,314	3,874,943	-3,186,193	-1,926,743	1,259,450	-431,781	-394,476	37,305	-419,526	-48,056	371,470
Subsidies and grants for capital expenditure	-263,131	-263,131	0			0						
Gross proceeds from sale of assets			0			0						
Development and financial contributions	-5,000	-83,208	-78,208	-10,000	-11,984	-1,984	0	-1,420	-1,420	-3,972	0	3,972
Increase (decrease) in debt	-8,589,126	-4,635,974	3,953,152	-3,176,193	-1,914,758	1,261,435	-431,781	-393,056	38,725	-415,554	-48,056	367,498
Applications of Capital	9,725,353	5,908,635	-3,816,718	3,954,311	2,943,102	-1,011,209	540,316	547,783	7,467	1,041,308	848,078	-193,230
to meet additional demand			0									
to improve the level of service	9,281,275	6,000,267	-3,281,008	3,864,878	3,286,765	-578,113	591,996	398,207	-193,789	542,764	372,542	-170,222
to replace existing assets	651,675	115,965	-535,710	626,534	193,438	-433,096	926,415	524,180	-402,235	667,236	386,877	-280,359
Increase (decrease) in reserves	-207,597	-207,597	0	-537,101	-537,101	0	-978,095	-374,605	603,490	-168,692	88,659	257,351
Increase (decrease) of investments												

3 Waters

At a top level 3 Waters will be on budget, but not at an individual activity level. A number of capital projects are out of sync with the budgeted timelines. The 3 Waters projects are on track to be delivered on budget, but are being done in a slightly different order and different timing to that signalled in the original LTP.

Water Supplies (Drinking Water)

This activity has been the worst impacted operationally this year, and reflects the higher compliance costs that continue to arise post the Havelock North water incident and the greater focus on plant upgrades and leak repairs.

Wastewater (Sewerage)

This activity has the largest capital program on the horizon (the 2021-2031 LTP) with the replacement of treatment plants being planned, however during the current year with the focus being on drinking water, and wastewater has had less of a focus and therefore has incurred a lower than budgeted spend.

Storm Water

Again with the focus on Drinking Water, storm water has had less of a focus and therefore has incurred a lower than budgeted spend.

Recreation and Community Facilities

Grants will be \$94k over plan due to a \$98k bequest to the library.

Other Income will be \$140k over plan due to \$121k of Waipawa Pool donations.

The shortfall in fees and charges relates mainly to the planned rental increases on the retirement housing being delayed.

Employee Costs are slightly over in the library area, but with the recent closure of the Waipukurau Library this should come in closer to budget.

In the capital area Recreation and Community Facilities will be \$450k unspent, which sees a corresponding savings in debt and reserve funding needed. This savings is really timing related, for example \$220k of it relates to a planned seating upgrade in the Municipal Theatre which is on hold while the theatre is closed due to Covid-19. The balance is upgrades across community halls, public toilets, and reserves and will be carried forward to future years as and when deferred maintenance is required.

IMPLICATIONS ASSESSMENT

This report confirms that the matter concerned has no particular implications and has been dealt with in accordance with the Local Government Act 2002. Specifically:

- Council staff have delegated authority for any decisions made;
- Council staff have identified and assessed all reasonably practicable options for addressing the matter and considered the views and preferences of any interested or affected persons (including Māori), in proportion to the significance of the matter;
- Any decisions made will help meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses;
- Unless stated above, any decisions made can be addressed through current funding under the Long-Term Plan and Annual Plan;
- Any decisions made are consistent with the Council's plans and policies; and
- No decisions have been made that would alter significantly the intended level of service provision for any significant activity undertaken by or on behalf of the Council, or would transfer the ownership or control of a strategic asset to or from the Council.

RECOMMENDATION

That, having considered all matters raised in the report, the report be noted.