

Audit, Finance & Risk Committee
22 February 2018

Report for Agenda Item 1

Department: Finance & Regulatory

Quarterly Financial Overview – December 2017

Purpose

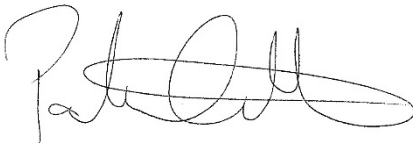
The purpose of this report is to present the quarterly results and to report on any significant transactions and/or variances to budget.

Recommendation

That the Audit, Finance & Risk Committee:

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

Prepared by:



Paddy Cribb
Financial Advisory Manager
8 February 2018

Reviewed and Authorised by:



Stewart Burns
General Manager, Regulatory & Finance
12 February 2018

Background

- 1 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.

Options

- 2 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:
- 3 Option 1 The report is for noting, therefore no options are discussed.

Significance and Engagement

- 4 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

- 5 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

- 6 The following Council policies, strategies and bylaws were considered:
 - Long Term Plan 2015 – 2025
 - Annual Plan 2017/2018
- 7 The recommended option is consistent with the principles set out in the named policies.

Local Government Act 2002 Purpose Provisions

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

Consultation: Community Views and Preferences

- 9 Consultation is not required.

Legal Considerations and Statutory Responsibilities

- 10 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 Management Report
- B Statement of Financial Position
- C Debtors Analysis

Finance Management Report

For the Quarter Ended 31 December 2017

Operating Expenditure and Revenue

% of Year Completed 50%

Description	QTR 2 Actual	QTR 2 Budget	Variance to Budget
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Year to date Actual	Year to date Budget	Year to date Variance	Full Year Budget	YTD Actuals to Full Year Budget
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REVENUE

Operating Revenue

Income - Rates	16,785,500	16,767,682	17,818	33,570,867	33,535,364	35,503	67,070,729	50%
Income - Grants & Subsidies	1,549,565	1,512,420	37,144	3,206,465	2,639,927	566,538	5,884,347	54% 1*
Income - NZTA External Cost Recoveries	477,994	494,124	(16,130)	840,182	988,248	(148,066)	1,976,496	43%
Income - Consents	2,277,760	2,237,674	40,086	4,444,110	4,623,750	(179,641)	9,188,400	48%
Income - External Cost Recovery	734,248	180,887	553,361	1,336,292	373,460	962,832	738,155	181% 2*
Income - Regulatory	1,079,363	856,509	222,854	2,405,839	1,811,014	594,825	3,868,855	62% 3*
Income - Operational	7,242,184	5,184,126	2,058,058	17,658,534	13,443,897	4,214,637	27,608,944	64% 4*
Total Operating Revenue	30,146,614	27,233,422	2,913,192	63,462,289	57,415,661	6,046,628	116,335,926	55%

EXPENDITURE

Personnel Expenditure

Expenditure - Salaries & Wages	5,993,077	6,016,207	23,129	11,575,670	12,126,314	550,644	24,380,971	47% 5*
Expenditure - Salaries & Wages Contract	864,658	102,712	(761,947)	1,648,035	210,090	(1,437,945)	406,720	405% 5*
Expenditure - Health Insurance	81,846	46,200	(35,646)	112,056	92,400	(19,656)	184,800	61%
Total Personnel Expenditure	6,939,581	6,165,118	(774,463)	13,335,760	12,428,803	(906,957)	24,972,491	53%

Operating Expenditure

Expenditure - Professional Services	1,445,343	997,537	(447,806)	2,457,899	1,992,851	(465,048)	3,937,417	62% 6*
Expenditure - Legal	495,103	435,136	(59,967)	1,097,420	870,271	(227,149)	1,796,542	61% 7*
Expenditure - Stationery	98,620	98,303	(317)	167,877	196,605	28,728	393,211	43%
Expenditure - IT & Phones	145,082	176,506	31,424	325,748	353,012	27,264	706,024	46%
Expenditure - Commercial Rent	555,176	542,473	(12,703)	1,003,309	1,084,945	81,636	2,169,891	46%
Expenditure - Vehicle	131,491	142,004	10,512	230,812	284,007	53,195	568,014	41%
Expenditure - Power	582,703	662,639	79,937	1,352,132	1,414,985	62,852	3,024,716	45%
Expenditure - Insurance	227,179	175,375	(51,804)	427,081	350,749	(76,331)	701,498	61%
Expenditure - Infrastructure Maintenance	6,010,272	5,297,260	(713,012)	11,892,514	11,144,519	(747,994)	21,929,039	54% 8*
Expenditure - Parks & Reserves Maintenance	1,449,579	1,347,648	(101,931)	2,564,226	2,709,350	145,124	8,751,723	29% 9*
Expense - External Cost On Chargeable	718,086	173,600	(544,486)	1,341,367	358,584	(982,783)	708,630	189% 2*
Expenditure - Grants	1,207,427	1,222,080	14,654	3,057,664	2,937,841	(119,823)	6,134,995	50%
Expenditure - Other	2,957,137	2,704,566	(252,571)	6,013,621	5,757,029	(256,593)	11,735,515	51% 10*
Total Operating Expenditure	16,023,196	13,975,124	(2,048,072)	31,931,670	29,454,750	(2,476,920)	62,557,214	51%

Interest and Depreciation

Expenditure - Interest	1,302,399	2,153,295	850,896	2,595,522	4,306,590	1,711,067	8,613,179	30% 11*
Expenditure - Depreciation	6,028,306	6,028,306	0	12,324,371	12,324,371	0	24,369,187	51%
Total Interest and Depreciation	7,330,705	8,181,601	850,896	14,919,894	16,630,961	1,711,067	32,982,367	45%

Total Expenditure

30,293,482	28,321,844	(1,971,639)	60,187,324	58,514,514	(1,672,810)	120,512,072	50%
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NET OPERATING SURPLUS/(DEFICIT)

(146,868)	(1,088,422)	941,553	3,274,965	(1,098,853)	4,373,818	(4,176,146)
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Commentary - Operational

*1 Income - Grants & Subsidies - NZTA opex subsidy income is \$488k favourable year to date due to increased environmental maintenance work (which offsets in Infrastructure maintenance expenditure). There is also a \$80k favourable variance due to funds received from a developer on 30 September for an affordable housing contribution which was passed on to the Community Lakes Housing Trust in November.
*2 Income - External Cost Recovery - This is the income received from on-charging external consultant costs in relation to resource consents. The expense matching this income is below in the expense line - external cost on chargeable. The difference between income and expense is due to timing of raising the invoice for on-charging.
*3 Income - Regulatory - Growth and increased enforcement from additional FTE's compared to the previous year has driven the increases above budget for regulatory. The favourable variances come from higher traffic, parking and campervan infringements issued totalling \$267k and \$244k for higher parking fees collected due to increased occupancy from public car parks. Environmental Health also has a \$60k timing variance due to receiving annual fees earlier than budgeted.
*4 Income - Operational - The Queenstown Airport dividend has been received for \$4.6m which is \$0.8m above Full Year budget (\$1.6m YTD). Turnover rents totalling \$544k and Lakeview cabin income \$210k has also created a favourable timing variance. \$789k was invoiced to QAC and DOC for their contributions to the Airport's park and ride facility and Roys Peak car park. Rates penalties is up \$176k on budget as is net interest received of \$818k.
*5 Expenditure - Salaries and Wages and Contract Staff - The favourable year to date variance of \$551k for salaries and wages is due to carrying vacancies through the year in Planning and Development \$351k, Legal and Regulatory \$63k, Community Services \$63k and Infrastructure \$78k. Contract staff are being used to cover vacant positions particularly within building inspections team for addressing volume increases. The year to date spend on building inspection contract staff of \$1,373k is partly offset by additional revenue from building inspection invoicing. Infrastructure has unbudgeted contract staff costs of \$165k for corridor access management, 3 waters BBC support services to guide the LTP capital planning, developer engineer secondment and contract administration.
*6 Expenditure - Professional Services - Variance to budget is due to additional \$312k for both the consultancy work on the central government business case and the HIF related professional services costs and \$151k higher than budgeted consultant costs within the District Plan.
*7 Expenditure - Legal - \$98k Additional legal expenses is required within Planning & Development to support the District Plan and Resource Consent teams workloads and \$117k is for on-going legal advice for Development Contributions and Wanaka Airport restructure advice.
*8 Expenditure - Infrastructure Maintenance - \$602k additional spend for roading direct costs includes emergency re-instatement \$140k and minor events \$40k which were not budgeted along with the timing of environmental maintenance work and internal time recoveries \$170k. (Offset in income - grants and subsidies see note. 1). Refuse is \$239k unfavourable variance due to increased waste to landfill \$137k and \$64k recycling costs. 3 Waters is (\$90k) favourable YTD budget despite a \$120k overspend in Wakatipu stormwater due to mud tank cleaning added into the Veoila contract scope of work at \$22k per month.
*9 Expenditure - Parks and Reserves Maintenance - The Parks and Reserves maintenance contracts is \$199k favourable year to date due to timing of the budget phasing this is expected to be caught up over the summer months particularly with the new contracts and levels of service taking effect. Property maintenance \$77k favourable variance includes a \$60k overspend in council offices maintenance due to additional office space which is offset with savings across buildings, halls and camp grounds. This is offset with a (\$99k) unfavourable variance for maintenance work at the Queenstown Events Centre.
*10 Expenditure - Other - There is additional \$211k commissioner costs required within Planning & Development predominately due to the District Plan process.
*11 Expenditure - Interest - Interest costs is favourable due to lower than expected interest rates and timing of capex spend.

Capital Revenue and Expenditure.

Description	QTR 2 Actual	QTR 2 Budget	Variance to Budget	Year to date Actual	Year to date Budget	Year to date Variance	Full Year Budget	YTD Actuals to Full Year Budget
Capital Revenue								
Income - Development Contributions	2,781,515	1,653,972	1,127,543	5,699,211	3,307,943	2,391,267	6,615,887	86% 12*
Income - Vested Assets	0	0	0	0	0	0	10,748,642	22%
Income - Grants & Subsidies Capex	1,950,976	1,712,445	238,530	3,312,936	3,424,890	(111,955)	6,849,781	48%
Total Capital Revenue	4,732,490	3,366,417	1,366,073	9,012,146	6,732,834	2,279,312	24,214,310	37%
Capital Expenditure								
Projects/Asset Purchases	15,277,363	18,815,249	3,537,886	25,149,987	32,296,381	7,146,394	72,273,902	35% 13*
Debt Repayment	0	0	0	0	0	0	16,890,000	
Total Capital Expenditure	15,277,363	18,815,249	3,537,886	25,149,987	32,296,381	7,146,394	89,163,902	
NET CAPITAL FUNDING REQUIRED	10,544,873	15,448,832	4,903,959	16,137,841	25,563,547	9,425,706	64,949,592	

Commentary - Capital Revenue and Expenditure.

*12 Income - Development Contributions: 88 development contribution invoices were generated in the 2017/18 Second Quarter totalling \$2.8m. The majority of these development contributions were for 83 residential subdivision allotments in Shotover Country and Luggate, subdivision and variation for allowing additional building at Glenorchy and also due to the outline plan being approved for Stage 2 of for the Three Parks Sports Facility.
*13 Project Expenditure: The largest spends for the 2017/18 Second Quarter were: Eastern Access Road - Hawthorne Drive \$2.6m, Wanaka Aquatic Centre \$2.5m, Kawarau Falls bridge crossing \$2.0m and Frankton Road water mains renewal \$0.6m.

Commentary - Quarter 3 Adjusted Budget.

An updated full year out-turn will be completed for the Quarter 3 financial report. Work priority has been given to the 2018-2028 Long Term Plan during the Quarter 2 period.

Statement of Financial Position (Council only)





	Actual Dec-17 \$'000	Actual Dec-16 \$'000	Actual Variance \$'000	Annual Plan Jun-18 \$'000	Actual Jun-17 \$'000
As at 31 December 2017					
Current assets					
Cash and cash equivalents	10,671	17,694	(7,023)	337	6,326
Trade and other receivables from non-exchange transactions	6,979	5,490	1,489	8,488	6,725
Trade and other receivables from exchange transactions	5,910	5,020	890	1,838	6,605
Inventories	58	62	(4)	24	46
Current tax refundable	-	1	(1)	-	-
Other financial assets	13	13	-	15	10,013
Other current assets	1,009	1,076	(67)	716	797
Development property	-	-	-	-	-
Total current assets	24,640	29,356	(4,716)	11,418	30,512
Non-current assets					
Investment in subsidiaries	5,412	5,412	-	5,412	6,250
Other financial assets	2,972	2,808	164	1,924	2,134
Property, plant and equipment	1,134,614	1,040,091	94,523 *1	1,215,830	1,122,806
Intangible assets	1,272	1,370	(98)	-	673
Investment property	110,205	75,525	34,680 *2	63,560	110,205
Total non-current assets	1,254,475	1,125,206	129,269	1,286,726	1,242,068
Total assets	1,279,115	1,154,562	124,553	1,298,144	1,272,580
Current liabilities					
Trade and other payables from exchange transactions	19,169	13,505	5,664 *3	14,637	22,618
Borrowings	10,223	223	10,000 *4	48,000	17,223
Other current liabilities	12,813	12,013	800	2,846	262
Employee entitlements	1,495	1,332	163	-	8,286
Total current liabilities	43,700	27,073	16,627	65,483	49,694
Non-current liabilities					
Borrowings	75,466	88,688	(13,222) *5	139,082	75,466
Other financial liabilities	1,298	2,458	(1,160)	-	1,298
Total non-current liabilities	76,764	91,146	(14,382)	139,082	76,764
Total liabilities	120,464	118,219	2,245	204,565	126,458
Net assets	1,158,651	1,036,343	122,308	1,093,579	1,146,122




Attachment B

As at 31 December 2017	Actual Dec-17 \$'000	Actual Dec-16 \$'000	Actual Variance \$'000	Annual Plan Jun-18 \$'000	Actual Jun-17 \$'000
Equity					
Reserves	555,374	465,989	89,385	459,430	555,374
Accumulated funds	603,277	570,354	32,923	634,149	590,748
Total equity attributable to Council	1,158,651	1,036,343	122,308	1,093,579	1,146,122

Commentary

- *1 Three yearly infrastructure revaluation processed during FY17 year end process effective 1 July 2016 offset by a reduction in capital work in progress versus the prior year.
- *2 Revaluation as at 30 June 2017.
- *3 Increase is due to significant projects such as Eastern Access Road and Wanaka Aquatic Centre (including retentions for these projects).
- *4 The current year includes a \$10m bond.
- *5 Slightly lower overall borrowings when combined with current borrowings due to reduction in capital work in progress versus the prior year.

Borrowing Limits (%)	Actual Dec-17	Annual Plan Jun-18	Borrowing Limit		Actual Jun-17	Actual Jun-16
Interest Expense/Rates < 25%	7.7%	12.8%	25.0%		6.1%	7.8%
Interest Expense/Total Revenue < 15%	4.1%	7.1%	15.0%		3.2%	3.8%
Net Debt/Total Revenue < 175%	67.5%	154.6%	175.0%		73.5%	65.1%
Net Debt/Total Equity < 20%	7.4%	17.1%	20.0%		8.0%	7.6%

-  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 31 December 2017	Council		
	Dec-17 \$'000	Dec-16 \$'000	Variance \$'000
From non-exchange transactions			
Trade receivables	1,146	557	589 *1
Infringement receivables	1,692	1,423	269 *2
Rates receivables	4,628	3,401	1,227 *4
New Zealand Transport Agency	852	1,124	(272)
Other	113	111	2
Allowance for doubtful debts	(1,453)	(1,126)	(327) *2
	6,978	5,490	1,488
From exchange transactions			
Trade receivables	3,596	2,543	1,053 *3
Other	2,585	2,780	(195)
Allowance for doubtful debts	(270)	(303)	33
	5,911	5,020	891
	12,889	10,510	2,379
Age analysis			
Trade and other receivables (excluding rates)			
	Council		
	Dec-17 \$'000	Dec-16 \$'000	Variance \$'000
Current (0-30 days)	6,754	5,818	936 *3
31-60 days *	453	177	276
61-90 days *	457	572	(115)
90 days + *	2,320	1,971	349 *2
	9,984	8,538	1,446
Rates receivables			
Current year rates (overdue) *	2,404	2,149	255 *4
Previous years rates *	2,224	1,252	972 *4
	4,628	3,401	1,227
Allowance for doubtful debts	(1,723)	(1,429)	(294)
	12,889	10,510	2,379

* Amounts are considered past due.

Commentary

- *1 Trade receivables has increased due to an increase in development contributions. There remains a continued focus on debt collection.
- *2 Infringement receivables continues to increase with \$1.5m in over 90 days relating to infringements. The allowance for doubtful debts includes \$1.4m for infringements.
- *3 The variance for Trade receivables from exchange transactions relates to an increase in consent debtors due to an increase in activity.
- *4 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. Late payment penalties of 10% are charged on all overdue rates balances relating to prior rating years as at 31 October and 31 March each year whilst 10% penalties are also applied to overdue rates instalments relating to the current rating year in accordance with legislation.