

31 October 2014 - Financial Results for Four Month Period

TO	Thames Coromandel District Council
FROM	Steve Baker - Chief Financial Officer
DATE	28 October 2014
SUBJECT	30 November 2014 - Financial results for four month period and Balanced budget requirement

1 Purpose of report

This report provides the Council with cumulative financial information for the year to date to enable it to monitor the financial performance of the organisation and a request to make a resolution to meet the balanced budget requirement within the Local Government Act 2002.

2 Background

Financial monitoring

A local authority board must manage its revenues, expenses, assets, liabilities, investments, and general dealings prudently and in a manner that promotes the current and future interests of the community.

Balanced budget requirement

Section 100 of the Local Government Act 2002 requires the Council to ensure that each year's projected operating revenues are set at a level sufficient to meet that year's projected operating expenses. The intent of this provision is to ensure that local authorities make adequate and effective provision for the ongoing maintenance of service levels.

Despite this, section 100(2) provides that a Council may set projected operating revenues at a different level from the projected operating expenses if the Council considers that to be financially prudent, having regard to the following factors:

- a) the estimated expenses of achieving and maintaining the predicted levels of service provision set out in the long-term plan, including the estimated expenses associated with maintaining the service capacity and integrity of assets throughout their useful life; and
- b) the projected revenue available to fund the estimated expenses associated with maintaining the service capacity and integrity of assets throughout their useful life; and
- c) the equitable allocation of responsibility for funding the provision and maintenance of assets and facilities throughout their useful life; and
- d) the Council's funding and financial policies.

3 Issue

Financial monitoring

To enable the Council to fulfil the above requirements, financial performance must be monitored on a regular basis.

Balanced budget requirement

The Council's adopted 2014/15 Annual Plan provides for operating expenses to exceed operating revenue for the 2014/15 financial year. The staff report in June 2014 relating to

the adoption of the Annual Plan should have included a recommendation that noted the unbalanced budget was financially prudent in the circumstances. Our audit director, Mr Ben Halford, has indicated that Council should make this resolution at the earliest opportunity. The background to the balanced budget requirement and reasons for the unbalanced budget in the Council's 2014/15 Annual Plan are described below.

4 Discussion

Financial monitoring

Comment on the financial performance is discussed in detail in the attached report **Attachment A**.

Funding of Depreciation and the Balanced Budget Requirement

We are required to ensure that we raise sufficient revenue to cover our forecast operating expenses unless we consider it prudent not to do so.

In the 2012-2022 Ten Year Plan (and the 2009-2019) we have determined that we will not fully fund from rates the depreciation on the subsidised portion of roading works, as we expect to continue receiving central government subsidy (from the New Zealand Transport Agency) at the time that these assets need to be replaced. As a result the net cost to the ratepayer will be less than the full replacement cost.

We also resolved that we would not fund through rates the depreciation on the additional capacity component of the Eastern Seaboard Wastewater Plants that have been constructed in Tairua-Pauanui, Whitianga, and Whangamata out to and including the 2014/15 financial year so as to allow time for a portion of the growth for which this capacity is being provided to eventuate.

This decision is based upon the premise that it would not be equitable for the existing ratepayer to fund the depreciation on the portion of these wastewater plants that was constructed for the benefit of future ratepayers.

These wastewater plants have a life expectancy of around 50 years. It was considered that the non-funding of the depreciation on the growth component of these plants for the next three years will not create an undue burden when the time comes to replace them.

The Council sought specific feedback on this proposal in the draft 2009-2019 Ten Year Plan consultation process. The feedback received at that time was overwhelmingly in support of the proposal.

In addition to the non-funding of depreciation above we determined that in the 2014/15 Annual Plan we would fund the shortfall in interest payments for additional capacity loans. From 2009 interest on additional capacity loans was to be picked up by the development contributions levied on growth. We consulted widely on this issue as part of the annual plan consultation process. We also indicated that it would be prudent use of wastewater retained earnings to cushion the impact on the ratepayer resulting from this decision. The use of financial reserves are spelt out on pages 174-176 of the Annual plan with the budget deficit highlighted as part of the Statement of Comprehensive Income on page 169

Council has given regard to whether the funding available provides for the ability to maintain level of service provision, including maintaining service capacity and integrity of assets through their useful life as outlined in the Long Term Plan. Council has also had regard to the Council's funding and financial policies, particularly the financial strategy, and the equitable allocation of funding responsibility.

The Annual Plan 2014/15 provides for operating expenses to exceed operating revenue for the 2014/15 financial year. Council considers that this is financially prudent in the circumstances, having regard to the factors set out in section 100(2) of the Local

Government Act 2002.

5 Suggested Resolution(s)

That the Thames Coromandel District Council:

1. Receives the report.
2. Notes that the 2014/15 Annual Plan provides for operating expenses to exceed operating revenue for the 2014/15 financial year, and agrees that this is financially prudent in the circumstances, having regard to the factors set out in section 100(2) of the Local Government Act 2002.

References-Tabled/Agenda Attachments

Attachment A - *October 2014 - Financial Report for the four Month Period - to be distributed separately*

Attachment B - *CAPEX 31 October 2014 - to be distributed separately*

