

**Audit, Finance & Risk Committee
8 June 2017**

Report for Agenda Item 5

Department: Finance & Regulatory

Quarterly Financial Overview – March 2017

Purpose

- 1 To present the quarterly results and to report on any significant transactions and/or variances to budget.

Recommendation

- 2 That the Audit, Finance & Risk Committee:
 1. **Note** the contents of this report.

Prepared by:



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25/05/2017

Reviewed and Authorised by:



Lyn Zeederberg
Financial Controller

25/05/2017

Background

- 3 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

- 4 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:
- 5 Option 1 The report is for noting, therefore no options are discussed.

Significance and Engagement

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

Financial Implications

- 7 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

- 8 The following Council policies, strategies and bylaws were considered:
- Long Term Plan 2015 – 2025
 - Annual Plan 2016/2017
- 9 The recommended option is consistent with the principles set out in the named policy/policies.

Local Government Act 2002 Purpose Provisions

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

Consultation: Community Views and Preferences

- 11 Consultation is not required.

Legal Considerations and Statutory Responsibilities

- 12 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 March 2017

Operating Expenditure and Revenue

Description	QTR 3 Actual	QTR 3 Adjusted Budget	Variance to Budget
REVENUE			
<u>Operating Revenue</u>			
Income - Rates	15,604,746	15,631,092	(26,346)
Income - Grants & Subsidies	2,480,115	1,161,077	1,319,038
Income - NZTA External Cost Recoveries	390,353	399,638	(9,284)
Income - Consents	1,934,406	1,808,253	126,153
Income - External Cost Recovery	521,673	186,190	335,483
Income - Regulatory	1,352,398	769,898	582,501
Income - Operational	6,438,690	4,911,531	1,527,160
Total Operating Revenue	28,722,382	24,867,677	3,854,704
EXPENDITURE			
<u>Personnel Expenditure</u>			
Expenditure - Salaries & Wages	4,879,880	4,870,661	(9,219)
Expenditure - Salaries & Wages Contract	527,656	85,385	(442,271)
Expenditure - Health Insurance	47,790	43,750	(4,040)
Total Personnel Expenditure	5,455,326	4,999,796	(455,530)
<u>Operating Expenditure</u>			
Expenditure - Professional Services	872,931	829,265	(43,666)
Expenditure - Legal	1,877,575	257,696	(1,619,879)
Expenditure - Stationery	84,618	107,663	23,045
Expenditure - IT & Phones	169,019	123,933	(45,086)
Expenditure - Commercial Rent	453,465	476,598	23,132
Expenditure - Vehicle	128,750	137,230	8,480
Expenditure - Power	689,710	683,388	(6,321)
Expenditure - Insurance	228,515	219,158	(9,357)
Expenditure - Infrastructure Maintenance	5,662,483	4,857,177	(805,306)
Expenditure - Parks & Reserves Maintenance	1,091,489	1,246,970	155,481
Expense - External Cost On Chargeable	610,034	181,183	(428,851)
Expenditure - Grants	2,188,254	1,165,587	(1,022,667)
Expenditure - Other	2,285,919	2,432,104	146,184
Total Operating Expenditure	16,342,762	12,717,950	(3,624,812)
<u>Interest and Depreciation</u>			
Expenditure - Interest	1,195,521	2,295,545	1,100,024
Expenditure - Depreciation	5,796,983	5,796,983	0
Total Interest and Depreciation	6,992,504	8,092,528	1,100,024
Total Expenditure	28,790,591	25,810,274	(2,980,318)
NET OPERATING SURPLUS/(DEFICIT)	(68,210)	(942,596)	874,387

% of Year Completed				75%
Year to date Actual	Year to date Adjusted Budget	Year to date Variance	Full Year Adjusted Budget	YTD Actuals to Full Year Budget
46,917,014	46,893,275	23,739	62,524,366	75%
5,327,049	3,698,716	1,628,332	5,798,125	92% *1
1,179,975	1,198,913	(18,938)	1,598,551	74%
6,084,531	5,424,758	659,773	7,233,011	84% *2
1,391,835	558,570	833,264	744,761	187% *3
3,286,926	2,309,693	977,233	3,079,591	107% *4
21,065,261	15,870,080	5,195,181	20,550,337	103% *5
85,252,590	75,954,006	9,298,584	101,528,741	84%
14,867,944	15,050,015	182,071	20,316,369	73% *6
1,474,143	256,155	(1,217,988)	341,540	432% *6
122,154	131,250	9,096	175,000	70%
16,464,241	15,437,420	(1,026,822)	20,832,909	79%
2,005,917	2,259,375	253,458	3,152,639	64%
2,834,177	743,088	(2,091,089)	1,067,795	265% *7
246,740	322,988	76,247	430,650	57%
444,512	380,799	(63,713)	507,692	88%
1,242,707	1,428,381	185,673	1,903,566	65% *8
361,630	411,690	50,060	548,920	66%
2,015,145	2,049,690	34,545	2,784,511	72%
603,409	649,135	45,726	868,293	69%
15,649,325	14,289,480	(1,359,845)	19,158,538	82% *9
3,243,324	3,704,656	461,333	5,133,396	63% *10
1,460,077	543,549	(916,528)	724,732	201% *3
5,203,507	4,087,644	(1,115,863)	5,280,583	99% *11
7,293,332	7,844,490	551,158	10,874,254	67% *12
42,603,802	38,714,964	(3,888,839)	52,435,569	81%
3,772,257	7,014,352	3,242,096	9,437,613	40% *13
17,199,950	17,199,950	0	23,006,523	75%
20,972,207	24,214,303	3,242,096	32,444,136	65%
80,040,251	78,366,686	(1,673,565)	105,712,615	76%
5,212,340	(2,412,680)	7,625,019	(4,183,874)	

Capital Revenue and Expenditure

Description	QTR 3 Actual	QTR 3 Adjusted Budget	Variance to Budget	Year to date Actual	Year to date Adjusted Budget	Year to date Variance	Full Year Adjusted Budget	YTD Actuals to Full Year Budget
Capital Revenue								
Income - Development Contributions	5,104,509	1,671,980	3,432,529	9,559,631	5,015,941	4,543,690	6,687,921	143% *14
Income - Vested Assets	0	0	0	0	0	0	10,500,200	0%
Income - Grants & Subsidies Capex	2,427,130	1,703,989	723,141	4,507,620	4,436,968	70,652	9,030,645	50% *15
Total Capital Revenue	7,531,639	3,375,970	4,155,670	14,067,251	9,452,909	4,614,342	26,218,766	54%
Capital Expenditure								
Projects/Asset Purchases	13,126,107	17,245,313	4,119,206	29,260,087	43,527,229	14,267,142	62,087,872	47% *16
Debt Repayment	0	0	0	0	0	0	16,890,000	
Total Capital Expenditure	13,126,107	17,245,313	4,119,206	29,260,087	43,527,229	14,267,142	78,977,872	
NET CAPITAL FUNDING REQUIRED	5,594,468	13,869,343	8,274,876	15,192,836	34,074,320	18,881,484	52,759,106	
External Borrowing								
Loans							11,783,000	
Bonds	92,000,000						150,000,000	
Total Borrowing	92,000,000						161,783,000	

Commentary - Operational

<p>*1 Income - Grants & Subsidies - The significant budget within this category is the operational roading subsidy received from NZTA (full year \$4,008,617), the mid year position is a positive variance of 5.9% from budget. This positive variance will reduce over the cooler months as the roading programme declines. Excluding roading, significant transactions within quarter three were; the receipt of affordable housing funds of \$895,542, these receipts are passed on to the Housing Trust, and a \$500,000 grant for the new Wanaka Pool received from the Otago Community Trust. The year to date positive variance is driven by four factors, an estate settlement of \$113,461 and \$300,000 grant for the Wanaka Recreation Centre from the first half of the year, \$947,936 positive variance for the Affordable Housing development agreement and roading NZTA subsidy of \$175,709.</p>
<p>*2 Income - Consents - the majority of this budget (full year \$6,090,069) is generated by the internal time recovered via the building and resource consent process. Year to date at 105% of budget, a positive variance of \$250,683. Quarter 3 has continued at the same lift on budget as the first half of the year for consenting. Other positive variances for the year to date position being \$286,739 for the building consent process, additional revenue for both administration fees (\$57,893) and LIMs (\$31,506), both of which are volume driven.</p>
<p>*3 Income - External Cost Recovery - The vacancies in the Resource Consenting Department has driven outsourcing to external consultants for the processing of Resource Consents. This management reporting line shows the income received from on-charging these costs. 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.</p>
<p>*4 Income - Regulatory - A very strong quarter, inclusive of the Christmas period, for regulatory income \$582,501 or 75.6% above budget. This is a result of growth and additional contracted resource. The largest revenue streams within this category (inclusive of debt provision movement and waivers) are detailed below:</p> <p>Parking facilities - parking machines and rentals -full year budget of \$951,000 - year to date \$217,659 or 24% ahead of budget.</p> <p>Parking enforcement - full year budget of \$803,910 - year to date \$393,170 or 65% ahead of budget</p> <p>Liquor licensing - full year budget of \$560,000 - year to date \$55,552 or 13% above budget</p> <p>Freedom Camping - full year budget of \$166,880 - year to date \$316,808 or 226% ahead of budget</p>
<p>*5 Income - Operational - The larger budgets within this category are:</p> <p>Refuse -full year budget \$4,590,361 - year to date \$991,327 or 29% above budget. This is due to increased volume and is offset by a corresponding lift in expense of \$1,295,480, of which \$721,338 is related to the accrual of carbon credits.</p> <p>Property - full year budget \$3,959,635 - year to date \$807,692 or 32% above budget. This positive variance is driven by ongoing lakeview cabin income \$406,737, rent reviews for the camping grounds \$318,438 and other lease reviews \$102,705.</p> <p>Governance - full year budget \$3,851,763 - year to date a positive variance of \$875,089 or 22% above budget. This is the Queenstown Airport final dividend from 2015/16. A further interim fixed dividend of \$750,700 was paid in February.</p> <p>Sport & Recreation - a full year budget of \$3,217,614 - year to date a positive variance of \$371,089 or 15% above budget. 59% of this positive variance is driven by growth in usage of both Alpine Aqualand and the health and fitness centre, \$220,593. The balance of the lift is through growth in volume and margin for the retail arm of QEC \$55,292 and increases in volume for Swim School of \$52,535.</p> <p>Parks & Reserves - full year budget \$1,821,064 - year to date \$973,587 or 71% above budget. This is due to increased turnover based rents totalling \$1,736,941 year to date which is \$661,441 or 62% above budget.</p>

Commentary - Operational (cont'd)

<p>*6 Expenditure - Salaries & Wages and Contract - The favourable YTD variance for salaries and wages is due to carrying vacancies, particularly within Planning and Development (\$177,928) . Conversely, this has driven the requirement to use contract staff, particularly in the building control department for the processing of building consents. This has resulted in a negative variance on the contract staff line of \$1,217,988. This variance is offset by both the favourable variance in salary and wages and increased revenue on the internal recovery line above.</p>
<p>*7 Expenditure - Legal - the drivers for the variance in the legal budget are two factors. Firstly, the legal representation and settlement of legal claims with a month variance to budget of \$1,450,066 and year to date \$1,688,164. Secondly, the District Plan review is currently overspent by \$454,889 the drivers being, a change in timing of the District Plan review and increased costs.</p>
<p>*8 Expenditure - Commercial Rents - the larger budgets within commercial rents are the Council Offices budget, full year of \$593,870, year to date underspent by \$99,804 as a result of timing to secure additional accommodation space. Campground cabin leases \$344,621 is underspent by \$35,747 due to a new lease contract being signed directly with CCR for the onchargeable cabins.</p>
<p>*9 Expenditure - Infrastructure Maintenance - the larger budgets within this category are:</p> <p>Roading - full year budget of \$6,061,340 - year to date a negative variance of \$451,994 or 10% overspent on budget. This is a result of budget timing, with the roading programme reducing in the cooler months of April, May and June.</p> <p>Refuse - full year budget of \$6,128,438 - year to date a negative variance of \$1,295,480 or 29% overspent on budget. This is due to increased volume and provision for increased carbon credit expense of \$721,338.</p> <p>Three waters - full year combined budget of \$6,912,590 - year to date a positive variance of \$356,423 or 6.8% underspent on budget. An adjustment for Project Shotover February and March operational costs will be processed in May, which will reduce this positive variance.</p>
<p>*10 Expenditure - Parks & Reserves - The majority of this budget sits within Parks and Reserves (full year budget \$4,706,672), year to date position of a positive variance \$434,653 or 13% underspent. The majority of this positive variance is the timing of the Skyline tree clearing project of \$200,000, which was budgeted for the first half of the year and will now be carried forward into 17/18.</p>
<p>*11 Expenditure - Grants - Both the month and year to date negative position is the passing on of the Affordable Housing funds collected in note 1 above.</p>
<p>*12 Expenditure - Operational - the larger budgets within this category are:</p> <p>Policy - full year budget of \$1,382,234 - year to date a positive variance of \$28,438 or 3% underpent on budget. This is offset by negative variances in legal and professional services.</p> <p>Events Strategy - full year budget of \$872,507 - year to date a positive variance of \$150,587 or 30% underspent on budget. This is due to timing and is expected to correct April through June.</p> <p>Human Resources - full year budget of \$744,828 - year to date a positive variance of \$102,503 or 18% underspent on budget. Two areas are driving this underspend, recruitment fees \$87,951 and staff training \$31,121. Due to the volume of recruitment, an external consultant has been contracted to process all vacancies through May and June, which will fully utilise this recruitment budget.</p> <p>Knowledge Management - full year budget of \$728,665 - year to date on target with a small variance of less than 1% (\$7,745).</p> <p>Grants & Levies - full year budget of \$576,862 - year to date a positive variance of \$3,639 or 1% underspent on budget.</p> <p>Other positive variances within this category are resource consents \$225,080 due to the timing of budget for consent appeals, by-law enforcement \$93,114 this is due to the campervan patrol budget timing and a lower level than expected of court lodgements. Offset by negative variances of parking enforcement \$123,872 or 64% above budget which is due to increased patrolling, extended hours and offset by increased revenue, toilets \$72,449 or 39% above budget due to increased cleaning.</p>
<p>*13 Expenditure - Interest - the positive variance is a direct result of lower than expected borrowing as a result of changes to the capital programme as well continued low interest rates.</p>

Commentary - Capital Revenue and Expenditure

<p>*14 Income - Development Contributions - greater development than budgeted has driven this positive variance.</p>
<p>*15 Income - Grants & Subsidies Capex - The positive variance for quarter three is the increased programme of works for Hawthorne Drive, this has corrected the year to date position.</p>
<p>*16 - Project Expenditure - Year to date the biggest variances to budget in dollar terms are detailed below:</p> <p>Underspent on year to date budget:</p> <p>Wanaka Recreation Centre \$942,486 (26.6%) underspent, the project has been completed with the final account currently under preparation</p> <p>Mt Aspiring Rd Booster \$606,583 (98.8%) - project on hold pending re-evaluation by Asset Planning team.</p> <p>Crown Range Road Land Construction \$481,354 (96.9%) - due to budget timing with delays experienced for the resource consent application. This is expected to be lodged by the end of May.</p> <p>Overspent on budget:</p> <p>Frankton Flats Stormwater \$541,237 (38.9%) - due to budget timing. Project will come in within budget.</p> <p>Kawarau Trail Establishment \$320,000 (no budget) - previous Council resolution to contribute to this external project, was not budgeted for.</p> <p>QEC Main Oval Drainage upgrade \$318,116 - due to budget timing. Project will come in within budget.</p>

Statement of Financial Position (*Council only*)

	Actual Mar-17 \$'000	Actual Mar-16 \$'000	Actual Variance \$'000	Annual Plan Jun-17 \$'000	Actual Jun-16 \$'000
As at 31 March 2017					
Current assets					
Cash and cash equivalents	16,441	21,161	(4,720)	336	5,009
Trade and other receivables from non-exchange transactions	7,796	6,915	881	8,408	4,193
Trade and other receivables from exchange transactions	4,129	4,600	(471)	1,838	5,787
Inventories	56	50	6	24	47
Current tax refundable	1	-	1	-	1
Other financial assets	10,013	13	10,000 *1	14	13
Other current assets	637	2,472	(1,835)	716	823
Development property	-	293	(293)	292	-
Total current assets	39,073	35,504	3,569	11,628	15,873
Non-current assets					
Investment in subsidiaries	5,412	5,412	-	5,412	5,412
Other financial assets	2,968	2,385	583	1,924	2,808
Property, plant and equipment	1,047,442	1,022,914	24,528 *2	1,159,502	1,035,751
Intangible assets	1,410	1,212	198	-	1,277
Investment property	75,525	66,200	9,325 *3	62,931	75,525
Total non-current assets	1,132,757	1,098,123	34,634	1,229,769	1,120,773
Total assets	1,171,830	1,133,627	38,203	1,241,397	1,136,646
Current liabilities					
Trade and other payables from exchange transactions	20,671	14,528	6,143 *4	14,848	23,994
Borrowings	223	10,223	(10,000) *5	48,000	223
Other current liabilities	10,325	5,722	4,603 *6	2,846	8,477
Employee entitlements	1,615	1,472	143	-	1,236
Total current liabilities	32,834	31,945	889	65,694	33,930
Non-current liabilities					
Borrowings	92,688	91,391	1,297	113,783	75,688
Other financial liabilities	2,458	932	1,526	-	2,458
Total non-current liabilities	95,146	92,323	2,823	113,783	78,146
Total liabilities	127,980	124,268	3,712	179,477	112,076
Net assets	1,043,850	1,009,359	34,491	1,061,920	1,024,570
Equity					
Reserves	465,989	446,632	19,357	461,760	465,989
Accumulated funds	577,861	562,727	15,134	600,160	558,581
Total equity attributable to Council	1,043,850	1,009,359	34,491	1,061,920	1,024,570

Commentary

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

*2 Increase in capital work in progress versus the prior year.

*3 Revaluation as at 30 June 2016.

*4 Increase is due to significant projects such as Eastern Access Road, Wanaka Aquatic Centre and Wanaka Recreation Centre (including retentions for these

*5 The prior year includes a \$10m bond which was repaid in June 2016.

*6 March 2017 includes a provision of \$4m for legal claims (Mar16: \$nil)

	Actual Mar-17	Annual Plan Jun-17	Borrowing Limit		Actual Jun-16	Actual Jun-15
Borrowing Limits (%)						
Interest Expense/Rates < 25%	8.0%	14.7%	25.0%	●	7.8%	10.2%
Interest Expense/Total Revenue < 15%	4.4%	7.3%	15.0%	●	3.8%	5.0%
Net Debt/Total Revenue < 200%	111.9%	129.0%	200.0%	●	65.1%	87.7%
Net Debt/Total Equity < 20%	9.1%	15.0%	20.0%	●	7.6%	10.4%

● 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 March 2017	Council		
	Mar-17 \$'000	Mar-16 \$'000	Variance \$'000
<u>From non-exchange transactions</u>			
Trade receivables	1,161	1,679	(518) *1
Infringement receivables	1,575	1,242	333 *2
Rates receivables	3,232	3,110	122
New Zealand Transport Agency	2,812	2,009	803 *3
Other	134	(115)	249
Allowance for doubtful debts	(1,118)	(1,010)	(108) *2
	7,796	6,915	881
<u>From exchange transactions</u>			
Trade receivables	2,327	2,598	(271)
Other	2,091	2,569	(478) *4
Allowance for doubtful debts	(289)	(567)	278
	4,129	4,600	(471)
	11,925	11,515	410

Age analysis

Trade and other receivables (excluding rates)	Council		
	Mar-17 \$'000	Mar-16 \$'000	Variance \$'000
Current (0-30 days)	6,892	7,241	(349) *1
31-60 days *	271	284	(13)
61-90 days *	628	327	301
90 days + *	2,309	2,131	178 *2
	10,100	9,983	117
Rates receivables			
Instalments 1, 2 & 3 (overdue) *	2,146	2,010	136
Previous years rates *	1,086	1,100	(14)
	3,232	3,110	122
Allowance for doubtful debts	(1,407)	(1,577)	170
Total receivables	11,925	11,516	409

* Amounts are considered past due.

Commentary

- *1 Trade receivables has seen a significant reduction with a continued focus on debt collection and a revision of the invoicing process for development contributions.
- *2 Infringement receivables continues to increase with \$1.3m in over 90 days relating to infringements. The allowance for doubtful debts includes \$1.1m for infringements.
- *3 Timing of Eastern Access Road construction and associated funding from NZTA.
- *4 Reduction in GST receivable due to timing of purchases and sales.