

<b>Meeting</b>	Council
<b>Date</b>	Thursday 20 December 2018
<b>Time</b>	9.30am
<b>Venue</b>	Northern Wairoa War Memorial Hall – 37 Hokianga Road, Dargaville

---

## Supplementary Agenda

---

<b>4.3 Forecast One 2018/2019 .....</b>	<b>1</b>
Attachment 1: Statements of Financial Performance and Capital Performance .....	7
Attachment 2: Statement of Financial Position .....	9
Attachment 3: Statements of Cash Flows .....	11
Attachment 4: Capital Expenditure Summary .....	13
Attachment 5: Contracts and Professional Services detailed analysis .....	15
<b>4.4 Draft Annual Plan 2019/2020 .....</b>	<b>17</b>
Attachment 1: Capital expenditure update .....	23
Attachment 2: Financial summary FY2019/20 .....	25

#### **4.5 Fees and Charges 2019/2020: Annual Review\***

\* Item deferred

## Membership

Chair: Mayor Jason Smith

Members: Deputy Mayor Peter Wethey  
Councillor Anna Curnow  
Councillor Victoria del la Varis-Woodcock  
Councillor Julie Geange  
Councillor Libby Jones  
Councillor Karen Joyce-Paki  
Councillor Jonathan Larsen  
Councillor Andrew Wade

**File number:** 2303.25 **Approved for agenda**   
**Report to:** Council  
**Meeting date:** 20 December 2018  
**Subject:** Forecast One 2018/2019  
**Date of report:** 14 December 2018  
**From:** Sue Davidson, General Manager Risk, IT and Finance  
**Report purpose**  **Decision**  **Information**  
**Assessment of significance**  **Significant**  **Non-significant**

### Summary

The starting point for Forecast One 2018/2019 is the Annual Plan 2018/2019.

Council's current financial policy stance over the term of the Long Term Plan (LTP) is to have a prudent and sustainable long term financial management position, in particular to fund current operating costs out of current income, reduce debt, and increase financial resilience and improve the way Council delivers services over time. Decreasing debt each year has been a particular focus. The key financial ratios are well within the treasury policy. Only the percentage of fixed to floating rates of interest on debt, and the length of the debt does not meet policy. Part of this is caused by the early repayment of debt in the previous year due to asset sales and increased financial and development contributions received.

This first forecast for 2018/2019 (Forecast One) year incorporates the actual results of the Annual Report 2017/2018 and includes a review of the budgets and actual revenue and expenditure for the year to 30 September 2018. The NZ Transport Agency (NZTA) 2018/2019 roading budget was also finalised subsequent to the setting of the Annual Plan 2018/2019 and this informed the update of this forecast.

The forecast Operating Surplus (before depreciation) of \$8.9 million is \$0.2 million lower than the Annual Plan 2018/2019 budgeted surplus of \$9.1 million.

Key movements in planned operating performance are:

- Rates revenues are tracking close to budget. Penalties however, have been forecast to increase by \$120,000 in the year. Outstanding debts have grown but active collection has commenced against ratepayers who are overdue and Council will see improved statistics in the months ahead.
- Increased financial and development contributions of \$1m have been provided for as increased development in the east of the district is occurring.
- As a result of increased roading works of \$345,000 there is additional operating subsidies of \$210,000. This is a net cost of \$135,000.
- An increase in consultant / planning costs of \$851,000 as more subdivision consents are lodged. This is offset by additional resource consent income of \$681,000. Recruitment of qualified resource management planners is still a challenge and Council is having to use consultants.

Capital expenditure has also increased by additional capital works provided for.

The amount approved by Council was	\$23.5m.
plus carry forwards of	\$3.0m
plus brought forwards of	\$ 0.7m for Quail Way (2020,2021)
plus newly brought forward	\$ 2.3m Bridges (2020,2021)
less IT expenditure not required	(\$0.5m)
Total for 2018/2019	29.0m

The reduction adjustment of \$500,000 for IT expenditure was made as there is adequate provision for delivery of projects in the 2019 year.

### **Recommendation**

*That the Kaipara District Council:*

- 1 *Receives the report from the General Manager, Risk IT and Finance, 'Forecast One 2018/2019' dated 14 December 2018 and its Attachments 1-5; and*
- 2 *Believes it has complied with the decision-making provisions of the Local Government Act 2002 to the extent necessary in relation to this decision; and in accordance with the provisions of s79 of the Act determines that it does not require further information prior to making a decision on this matter; and*
- 3 *Approves the forecast as set out in the forecast documents attached to the aforementioned report, and determines that no further action is required at this point in time; and*
- 4 *Notes that the revised forecast shows increased operating revenues of \$1.1million but also increased costs of \$1.3million; and*
- 5 *Notes that forecast debt is currently projected in the order of \$49.6million which is greater than the 30 June Long Term Plan 2018/2028 Year 1 of \$46.3 million; and*
- 6 *Notes that the capital expenditure forecast has been increased by \$5.5million; and*
- 7 *Notes that a second forecast is planned for the second half of the financial year.*

### **Reason for the recommendation**

It is prudent financial management for Council to monitor and update financial projections as new information comes to hand and to take remedial action as required.

### **Reason for the report**

This report outlines the results of Forecast One and requests Council to consider and approve the forecast.

### **Background**

The starting point for 2018/2019 forecasts is the Annual Plan 2018/2019.

Council's policy stance over the term of the LTP is to progressively move towards a more prudent and sustainable long term financial management position, in particular to fund current operating costs out of current income, reduce debt, increase financial resilience and improve the way Council delivers services over time. Council is moving towards this as the external debt is reducing at a greater rate than was initially predicted. This Forecast One increases capital expenditure by bringing forward projects from future years. Although this will have an impact on cash flow, this will not be problematic as there is greater income being

received from development and financial contributions. In the case of roading we will obviously receive the subsidy for roading of 61% from the NZ Transport Agency (NZTA). Note that projects brought forward cannot be rated for in this reforecast year but will be rated for in the years of 2019/2020. These will be loan funded to keep the Annual Plan 2019/2020 increase in line with that predicted in the LTP.

There has been continued development in our district greater than has been budgeted which has increased both the resource processing revenue and costs.

The results of Forecast One are set out in the sections below.

### Forecast overview

Forecast One shows a surplus (before depreciation) of \$8.1 million at an operating level representing an unfavourable variance of \$0.2 million to the original Annual Plan 2018/2019. The surplus is to fund depreciation reserves which are used for renewals. Forecast debt is expected to be in the order of \$49.6 million which is higher than the LTP Year 1 (Annual Plan 2018/2019).

### Forecast variances

The variance is \$195,000 from the original LTP Year 1 (Annual Plan 2018/2019). An analysis of why this has occurred is set out below. The variance is a deficit which is 2.2% of the anticipated Annual Plan 2018/2019 surplus. This negative variance cannot be recouped through rates which have already been set but is proposed to be managed through retained earnings. A further update (Forecast Two) will be provide to Council in March 2019.

<b>Operating Revenues and Costs \$000's</b>		<b>Variance fav/(unfav) accounted for</b>
Rates penalties increased as increased debts		120
Activity Revenue - Roothing Footpath subsidy. First year of subsidy and was not included in Annual Plan		83
Activity Revenue - Roothing	211	
Less Roothing contractor costs	(346)	(135)
Additional work being proposed		
Water Income - Fonterra reduction in contribution to Capital		(72)
LGFA Guarantor - Riskpool costs		(25)
Insurance		(60)
Resource consents income net of planning costs employees and consultants		(170)
Additional lease costs Mangawhai		(25)
Audit fees increase as annual audit more demanding		(65)
Software licences (Kotui) unbudgeted		(50)
Finance costs - Less capital expenditure to date		179
<b>Total variance accounted for</b>		<b>(220)</b>

Overall, Council's net surplus is less than originally forecast by \$195k. This is not material given that the Council is still making an operating surplus. The Council can reduce the roading budget of \$135,000 if it wishes the Forecast One to be closer to the Annual Plan 2018/2019.

## **Notes:**

### ***Forecast One: Cash Impact and Risk***

The cash flow will be improved through the extra development and financial contributions.

The impact of this forecast is that debt will remain in the order of \$49.6 million.

### ***Cautionary note***

Forecast One is based on information correct at the time of presentation and may change as further information becomes available. The Council will undertake another reforecast (Forecast Two) in March 2019.

## **Factors to consider**

### ***Community views***

Council's financial position and the need for improvement is an issue in which the community has a clear interest.

### ***Policy implications***

This forecast indicates that Council is progressing in accordance with the direction set in the LTP 2018/2028.

### ***Financial implications***

Financial implications are discussed in the above Forecast sections.

### ***Legal/delegations implications***

The forecast is an operational practice that has not generated the requirement for a significant decision and as such is within the gambit of Council to approve.

## **Options**

The options available to Council are:

### ***Option 1: Accept Forecast One***

Under this option the Council would accept the Forecast One model which would then give staff authority to proceed on that basis.

This is the recommended option, given that the forecast represents the more accurate picture of Council's current position, the variances are explained and are not material. The additional roading (net \$135K) has been included to align budgets to those that were approved by NZTA.

### ***Option 2: Identify further savings***

The Council could reduce the roading budget by \$135k and/or request that staff complete a further review and come back with further cost reductions.

It is early days with only financial figures being collated for four months of the year.

### **Option 3: Reject Forecast One**

Under this option the Council would not endorse or adopt the Forecast. This approach is not recommended as it is important to factor in new data, agree on amended courses of action and to monitor Council's financial position from the most up to date knowledge base.

### **Assessment of significance**

Under the Council's Significance and Engagement Policy, a decision in accordance with the recommendation is not considered to have a high degree of significance. The forecast process is a routine business practice issue and the variances proposed are within significance limits.

Council staff are satisfied that the decision-making requirements of the Local Government Act 2002 have been met.

### **Recommended option**

Option 1 Accept Forecast One is the recommended option.

### **Attachments**

- Attachment 1: Statements of Financial Performance and Capital Performance
- Attachment 2: Statement of Financial Position
- Attachment 3: Statement of Cash Flows
- Attachment 4: Capital Expenditure Summary
- Attachment 5: Contracts and Professional Services detailed analysis





# Statement of Operating and Capital Performance

## Whole of Council

	Full Year		Variance \$000's		Variance %
	Annual Plan \$000's	Forecast One \$000's			
Total Rates	35,029	35,150	121	●	0.3%
Operating Subsidies and Grants	4,584	4,861	277	●	5.7%
Activity Revenue and Other Income	5,544	6,272	728	●	11.6%
<b>Total Operating Income</b>	<b>45,156</b>	<b>46,283</b>	<b>1,127</b>	●	<b>2.4%</b>
Employee Benefits	10,819	10,892	(73)	●	-0.7%
Contractors	8,706	9,040	(334)	●	-3.7%
Professional Services	4,924	5,496	(573)	●	-10.4%
Repairs and Maintenance	3,348	3,333	15	●	0.5%
Finance Costs	2,950	2,771	179	●	6.4%
Other Operating Costs	5,317	5,852	(535)	●	-9.1%
<b>Total Operating Costs</b>	<b>36,063</b>	<b>37,385</b>	<b>(1,321)</b>	●	<b>-3.5%</b>
<b>Operating Surplus / (Deficit) before Depreciation</b>	<b>9,093</b>	<b>8,898</b>	<b>(195)</b>	●	<b>-2.2%</b>
Capital Subsidies	8,276	9,407	1,131	●	12.0%
Development Contributions	1,954	1,954	0	●	0.0%
Financial Contributions	540	1,598	1,058	●	66.2%
Other Capital revenue	175	291	116	●	39.9%
<b>Total Capital Revenue</b>	<b>10,945</b>	<b>13,250</b>	<b>2,305</b>	●	<b>17.4%</b>
Capital Expenditure	23,529	29,097	(5,568)	●	-19.1%
<b>Total Capital Expenditure</b>	<b>23,529</b>	<b>29,097</b>	<b>(5,568)</b>	●	<b>-19.1%</b>
<b>Subtotal Capital</b>	<b>(12,584)</b>	<b>(15,847)</b>	<b>(3,263)</b>	●	<b>20.6%</b>
<b>Surplus / (Deficit) before Loan Payments and Depreciation</b>	<b>(3,492)</b>	<b>(6,949)</b>	<b>(3,458)</b>	●	<b>49.8%</b>

### Key

- Within 5% of budget
- Over or under budget by 5 - 10%
- Over or under budget by more than 10%



Kaipara District Council  
**Statement of Financial Position**

As at 30 September 2018	Annual Plan 2018-2019 \$'000	Operative Budget 2018-2019 \$'000
Accumulated comprehensive revenue and expense	412,449	403,927
Asset revaluation reserves	238,230	231,773
Restricted reserves	5,427	5,291
Council created reserves	-17,019	-15,777
<b>Total net assets/equity</b>	<b>639,087</b>	<b>625,214</b>
<i>represented by</i>		
<b>Current assets</b>		
Cash and cash equivalents	500	500
Trade and other receivables	6,778	6,313
Accrued revenue	2,875	3,438
Other financial assets	115	115
Non current assets held for sale	186	186
<b>Total current assets</b>	<b>10,454</b>	<b>10,551</b>
<i>less</i>		
<b>Current liabilities</b>		
Trade and other payables	10,015	13,032
Provisions - Current	145	148
Employee entitlements	458	1,173
Public debt	226	452
<b>Total current liabilities</b>	<b>10,845</b>	<b>14,805</b>
<b>Working capital /(deficit)</b>	<b>-391</b>	<b>-4,253</b>
<i>plus</i>		
<b>Non current assets</b>		
Property, plant, equipment	693,086	685,763
Biological assets	500	1,017
Cash and cash equivalents - non current	643	672
Derivative financial assets	0	0
Other financial assets - non current	276	278
<b>Total non current assets</b>	<b>694,504</b>	<b>687,730</b>
<i>less</i>		
<b>Non current liabilities</b>		
Public debt	46,044	49,148
Derivative financial liabilities	4,196	4,427
Provisions - non current	4,786	4,688
<b>Total non current liabilities</b>	<b>55,026</b>	<b>58,263</b>
<b>Net assets</b>	<b>639,087</b>	<b>625,214</b>



For the year ended:	Annual Plan	Forecast One
30 September 2018	2018-2019	2018-2019
	\$'000	\$'000

## Cash Flow Statement

### Cash Flow from Operating Activities

#### Receipts:

Rates	35,029	35,150
Fees, charges and other	8,017	9,804
Grants and subsidies	12,860	14,268
Interest received	20	20
<i>sub total</i>	55,926	59,242

#### Payments:

Suppliers and employees	33,055	34,627
Taxes (including the net effect of GST)	0	0
Interest expense	2,950	2,771
<i>sub total</i>	36,005	37,398

<b><i>Net Cash Flow from/(to) Operating Activities</i></b>	<b>19,922</b>	<b>21,844</b>
--	---------------	---------------

### Cash Flow from Investing Activities

#### Receipts:

Sale of Property, plant and equipment	175	291
<i>sub total</i>	175	291

#### Payments:

LGFA Borrower notes	0	0
Property, plant and equipment purchases	23,529	29,097
<i>sub total</i>	23,529	29,097

<b><i>Net Cash Flow from/(to) Investing Activities</i></b>	<b>-23,354</b>	<b>-28,806</b>
--	----------------	----------------

### Cash Flow from Financing Activities

#### Receipts:

Loans raised (Net)	0	3,821
--------------------	---	-------

#### Payments:

Loans repayment (Net)	-1,969	0
-----------------------	--------	---

<b><i>Net Cash Flow from/(to) Financing Activities</i></b>	<b>-1,969</b>	<b>3,821</b>
--	---------------	--------------

<b><i>Net Increase/(Decrease) in cash and cash equivalents</i></b>	<b>-5,401</b>	<b>-3,141</b>
--	---------------	---------------

<b>Cash and cash equivalents at beginning of period</b>	5,902	3,641
<b>Cash and cash equivalents at end of period</b>	500	500



#### Attachment 4: Capital Expenditure Summary

The overall Capital Expenditure budget is forecast to increase by \$1.7m to \$29.1m.

Council roading staff have said they are confident that their programme can be completed this year. The only projects at risk could be the Tomarata Bridge and part of the Mangawhai Community projects. All of the roading projects added will be funded 61% by NZTA.

	<b>Forecast One 2018/2019 \$</b>
<b>Activity - Work in Progress Capital Projects</b>	
Community Activities	1,957,217
District Leadership, Finance and Internal Services	815,000
Flood Protection and Control Works	158,500
Regulatory Management	
Sewerage and the Treatment and Disposal of Sewage	3,703,500
Solid Waste	800,000
Stormwater Drainage	170,000
The Provision of Roads and Footpaths	13,547,131
Water Supply	1,878,000
<b>Grand Total LTP Year 1</b>	<b>23,029,348</b>
Add carry forwards from 2017/2018 approved by Council	3,042,765
Add bought forward from 2020 Quail Way stormwater approved by Council	704,000
<b>Total approved by Council to date</b>	<b>26,776,113</b>
Proposed to add bridges structures/components from 2020 and 2021	1,500,000
Proposed to add bridge replacements from 2020 and 2021	442,751
Proposed to add Maungaturoto wastewater scheme	380,000
Proposed to add Kaiwaka wastewater scheme	60,000
Proposed to add Raupo land drainage	269,272
Proposed to add Road sealing	873,000
Proposed to take out Heavy Metalling	(873,000)
Proposed to take out Beach road watermain renewal	(270,000)
Proposed to take out drainage renewals	(60,000)
<b>Total Capital Expenditure Forecast One</b>	<b>\$29,098,136</b>





# Kaipara District Council

## Forecast 1 - Contractor cost analysis

Subaccount	2017/18 Total Actuals	2018/19 Total Budget	2018/19 Operative Budget	Forecast 1 Change from AP \$
<b>Grand Total</b>	<b>9,370,138</b>	<b>8,705,765</b>	<b>9,039,843</b>	<b>334,078</b>
<b>Expenditure</b>	<b>9,370,138</b>	<b>8,705,765</b>	<b>9,039,843</b>	<b>334,078</b>
Activity Costs	9,370,138	8,705,765	9,039,843	334,078
2001 - Cleaning Costs	423,848	454,103	403,534	(50,569)
200150 - Cleaning Costs 50	0	0	0	0
200160 - Cleaning Costs 60	0	0	0	0
2006 - Security Services	3,229	15,554	11,250	(4,304)
2016 - Database Management	64,777	91,335	83,978	(7,357)
2017 - Connections Costs	0	0	66	66
2021 - Noise Control Services	44,541	69,996	70,323	327
2049 - Leachate Removal	191,248	181,300	181,299	(1)
2059 - Refuse Collection Costs	341,874	333,532	342,043	8,511
2060 - Inspections/Monitoring Service	28,032	104,192	95,675	(8,517)
2061 - Emergency Management Serv.	51,574	57,996	57,931	(65)
2073 - Animal Control Services	168,454	154,000	152,317	(1,683)
2074 - Repairs & Maint-Roads & F/path	6,654,157	5,822,989	6,179,465	356,476
207401 - Repairs & Maint-Roads & F/path 01	0	0	0	0
207402 - Repairs & Maint-Roads & F/path 02	0	0	0	0
2082 - Illegal Dumping	30,768	54,024	92,717	38,693
2084 - Plant Operations	1,283,441	1,297,992	1,299,090	1,098
2085 - Chemicals	84,194	68,752	70,155	1,403

**Kaipara District Council**  
Forecast 1 - Professional services analysis

Subaccount	2017/18 Total Actuals	2018/19 Total Budget	2018/19 Operative Budget	Forecast 1 Change from AP \$
<b>Grand Total</b>	<b>5,373,914</b>	<b>4,923,582</b>	<b>5,496,355</b>	<b>572,773</b>
<b>Expenditure</b>	<b>5,373,914</b>	<b>4,923,582</b>	<b>5,496,355</b>	<b>572,773</b>
Activity Costs	5,373,914	4,923,582	5,496,355	572,773
2022 - Survey Services	19,730	30,000	28,500	(1,500)
2028 - Planning Services	917,418	792,960	1,296,128	503,168
2030 - Recruitment Services	225,396	50,000	47,218	(2,782)
2032 - Engineering Services	205,576	180,604	225,595	44,991
2040 - Management Services	2,936,391	2,699,132	2,675,457	(23,675)
204001 - Management Services 01	61,000	260,004	250,665	(9,339)
2055 - Legal Services	759,134	652,770	728,595	75,825
205501 - Legal Services 01	0	0	0	0
2078 - Valuation Services	249,270	258,112	244,197	(13,915)

**File number:** 2302.23.01

**Approved for agenda**

**Report to:** Council

**Meeting date:** 20 December 2018

**Subject:** Draft Annual Plan 2019/20

**Date of report:** 14 December 2018

**From:** Sue Davidson, GM IT, Risk and Finance

Jason Marris, GM Governance, Strategy and Democracy

**Report purpose**  **Decision**  **Information**

**Assessment of significance**  **Significant**  **Non-significant**

### Summary

Every year, councils are required to complete an Annual Plan, setting out the budget for the upcoming financial year. It is based on the approved budget for the preceding Long Term Plan and highlights any changes or alterations from that process.

This report discusses the approach for the Annual Plan 2019/2020, which commences on 01 July 2019 and forms Year Two of the Long Term Plan 2018/28 (LTP), which was approved in June 2018. Councils have flexibility in whether to consult with the community on the Annual Plan. If there are no material changes from the LTP, there is no need to consult. In this instance, a good approach is to engage with the community informally, with education being the aim.

The current LTP approved an average rates (excludes water supply rates) increase for the 2019/2020 financial year of 5.26% (after consideration for growth of 1%). For various reasons outlined in this report, operational savings of \$544,000 were found to ensure this increase can be met.

The increase does not include a response to the higher volume and complexity of resource consent work, and the addition of the Mangawhai Central development. Additional budget to address statutory obligations for processing resource consent applications is proposed. To minimise the impact on rates, some budgetary alterations have been made. This results in a recommendation to increase total rates by an additional 0.54% (\$169,000) in the draft Annual Plan, bringing the total rates increase to 5.8% (after consideration for growth of 1%). This will enable the resource consent work to be managed. Some options are provided to reduce the rates increase to LTP levels, but these come with some risk.

As the estimated increase (\$169,000) and other adjustments are not material, it is recommended that Council does not consult with the public on this increase. This option is legislatively compliant. It is recommended that Council conducts an engagement campaign with the community regarding the draft Annual Plan 2019/2020, the increase and the reasoning.

### Recommendation

*That Kaipara District Council:*

- 1 *Receives the GM IT, Risk and Finance's and GM Governance, Strategy and Democracy's report 'Draft Annual Plan 2019/2020' dated 14 December 2018; and*

- 2 *Believes it has complied with the decision-making provisions of the Local Government Act 2002 to the extent necessary in relation to this decision; and in accordance with the provision of s79 of the Act determines that it does not require further information prior to making a decision on this matter; and*
- 3 *Agrees that the Chief Executive prepares the draft Annual Plan 2019/2020 with an estimated average rates increase of 5.8% (after consideration for growth of 1% and exclusive of water supply rates), instead of the forecast 5.26% (after consideration for growth of 1% and exclusive of water supply rates); and*
- 4 *Agrees that the estimated total rates increase of 5.8% (after consideration for growth of 1% and exclusive of water supply rates) for the draft Annual Plan 2019/2020 is not material and that formal consultation on the rates increase is not required; and*
- 5 *Agrees that a comprehensive communication and engagement plan be delivered to inform and educate the community on the draft Annual Plan 2019/2020.*

**Reason for the recommendation**

To provide direction on the process for the draft Annual Plan 2019/2020 enabling staff to continue this work over January 2019.

**Reason for the report**

To provide direction for staff to prepare the draft Annual Plan 2019/2020, agree that consultation on the estimated rates increase is not required and that a comprehensive communication and engagement plan be delivered to inform and educate the community.

**Background**

Council is required to deliver an Annual Plan each year. The approved LTP is used as the basis for the Annual Plan, and any adjustments that need to be made are included in the Annual Plan process for that year. This report discusses the Annual Plan 2019/2020 and process (from 01 July 2019 – 30 June 2020), which is based on Year Two of the LTP 2018/2028.

**Discussion**

***Increased operating costs***

Since the development of the LTP 2018/2028, additional costs have been required to be provided for, itemised at Table 1.

**Table 1: Additional costs to be incorporated in the draft Annual Plan 2019/2020**

<b>Expense</b>	<b>Amount</b>
Software Licences	\$150,000
Insurance - professional liability cost increase	\$60,000
Local Government Funding Agency additional guarantor costs of Riskpool	\$25,000
Elected member remuneration increase (set by the Remuneration Authority)	\$40,000
Extra cost of processing resource consents (net of revenue)	\$160,000
Additional office accommodation lease in Mangawhai	\$25,000

Human resource legal, training, and provision for mayoral car	\$84,000
<b>Total additional costs</b>	<b>\$544,000</b>

These additional costs were discussed at a public Council briefing on 06 December 2018 and direction provided by Council was to maintain the total rates increase to what was approved in the LTP, which is 5.26% (after consideration for growth of 1% and exclusive of water supply rates).

Staff consequently identified operational savings and altered budgets, identified at Table 2 including the impact of the change.

**Table 2: Operational savings in the draft Annual Plan 2019/2020**

<b>Expense</b>	<b>Amount</b>	<b>Impact of being deducted from Annual Plan</b>
Roading local share emergency works budget	\$200,000	If an emergency event occurs, an overspend of this budget line or deferral of projects may be required
District Plan Review	\$100,000	This will reduce budget from \$1m to \$900k and will mean a slightly slower review of the District Plan
IT projects (\$500k capital 2019)	\$100,000	Sufficient provision in future years budget
Consultant costs	\$76,000	
Other smaller budgets	\$68,000	Various budgets - no material impact
<b>Total</b>	<b>\$544,000</b>	

### **Resource consent issues**

It was signalled at the 06 December 2018 Council briefing that there is significant pressure in responding to an increasing resource consents workload. The draft Annual Plan 2019/2020 budget does not include sufficient resource to meet our statutory requirements in this area.

Currently, Council is not processing 100% of resource consents within the required 20 day timeframe. The current level of processing at October 2018 was 67%, and at November 2018 was 72%. Resource consents received have increased from 206 in 2013/2014 to 508 in 2017/2018, however, employed staff have remained the same, with additional work completed by consultants where available.

In addition, resource consents received are increasingly complex. Council received three applications that were notified in 2015 and 10 applications that are being notified in 2018, estimated to be 12 by year end. This complexity increases the demand on staff time.

The developers of Mangawhai Central have met with Council staff to discuss resource consent applications that will be presented to Council in 2019. This is anticipated to be a substantial increase in workload.

While Council is aiming to meet the resource consent legislative requirements, it is clear this will not be achieved with current resource. This report is recommending an increase in budget for staff resource which will allow this workload to be managed and meet legislative requirements. When managing this workload, 70% of staff time can be recouped from the applicant. The 30% difference is borne by the ratepayer. It is estimated an additional \$520,000 is required to meet the need and is summarised at Table 3.

**Table 3: Estimated additional cost to manage resource consent demand**

<b>Budget</b>	<b>Income/Cost</b>
Resource consent income	\$975,000
Employee costs	(\$935,000)
Consultants	(\$535,000)
Other	(\$25,000)
<b>Estimated additional funding</b>	<b>(\$520,000)</b>

**Additional budgetary changes to accommodate resource consent demand**

Following direction provided at the 06 December 2018 Council briefing, staff have investigated ways to accommodate costs without adversely impacting on rates.

Capital projects have been reviewed and it was discovered that more could be funded from depreciation reserves where relevant. In addition, bridges to be rated for in 2020 and 2021, and likely under construction in 2019, have now been budgeted to be funded by loan. These adjustments have resulted in a reduction of \$321,000 of the \$520,000 estimated increase in costs to manage the resource consent workload. This leaves a shortfall of \$169,000.

Some changes to capital expenditure have been made. A summary is provided in **Attachment 1**.

The \$169,000 shortfall converted to a percentage increase in rates, equates to an additional 0.54%, or an average of \$14 per ratepayer. If this is added to the original rates increase consulted on and approved in the LTP of 5.26%, the suggested overall average rates increase will be 5.8% (after taking into consideration 1% growth and exclusive of water supply rates). This situation is summarised in Table 4.

**Table 4: Impacts on Annual Plan 2019/2020 to respond to resource consent issues**

	<b>Annual Plan 2018/19</b>	<b>LTP 2019/20</b>	<b>Annual Plan 2019/2020</b>	<b>Variance</b>
<b>Rates General and Targeted</b>	31,197m	33,150m	33,319m	\$169,000
<b>% increase</b>		5.26% (after 1% growth)	5.8% (after 1% growth)	

Staff believe that budgets cannot be further adjusted to reduce the shortfall of \$169,000 and keep the total rates increase to 5.26% (after taking into consideration 1% growth and exclusive of water supply rates), without Council making the decision, due to the possible impacts. Table 5 provides two possible options to recover the budget shortfall.

**Table 5: Possible options for reducing shortfall**

<b>Activity</b>	<b>Area</b>	<b>Saving</b>	<b>Comments</b>
a) Rooding	CapEx	\$169,000	Total budget cut would be \$433k foregoing \$203k worth of subsidy – equates to an overall 3.7% reduction in Rooding CapEx budget of \$11.46M. Likely to be unpopular with the public.

Activity	Area	Saving	Comments
b) District Leadership	OpEx	\$169,000	Reduction of Chief Executive's legal fees budget from \$325k to \$156k. May not be sufficient to respond to future legal issues.

### Options

Analysis of the budgets has resulted in three options.

**Option 1:** Direct the Chief Executive to prepare an Annual Plan with the total rates increase of 5.26% (after taking into consideration 1% growth and exclusive of water supply rates) in line with the LTP, and accept the performance of processing resource consents will continue at current levels, reducing further as the Mangawhai Central development commences.

This is not the recommended option. Customers will be disadvantaged and continuing to not meet statutory timeframes could have further ramifications.

**Option 2:** Direct the Chief Executive to prepare an Annual Plan with the total rates increase of 5.26% (after taking into consideration 1% growth and exclusive of water supply rates) in line with the LTP, and agree on one of the options below to reduce the shortfall of \$169,000:

- a) Reduce the Roding budget by \$433,000 to lessen the budget by a net of \$169,000, foregoing \$203,000 of NZ Transport Agency (NZTA) subsidy. Roding is one of the key issues for our community and foregoing the NZTA subsidy will not be popular.
- b) Reduce the Chief Executive's legal budget by \$169,000. This creates risk if this budget is expended and is required.

Option 2 would ensure resource consent workload would be managed to meet statutory timeframes (subject to recruitment of professional staff), and retain the LTP approved rates increase of 5.26% (after taking into consideration 1% growth and exclusive of water supply rates).

**Option 3:** Direct the Chief Executive to prepare an Annual Plan with a total rates increase of 5.8% (after taking into consideration 1% growth). This option is the recommended option and would ensure resource consent workload is managed to meet statutory timeframes and meet projected demand. This option would minimise risk of Option 2, but may prove unpopular with ratepayers.

A financial summary associated with this option is provided at **Attachment 2**.

### Recommended option

The recommended option is **Option 3**.

### Community views

The community was widely consulted in the creation of the LTP 2018/2028, which forms the basis for the draft Annual Plan 2019/2020.

### Policy implications

There are no policy implications associated with this report. Decisions will be used to draft the Annual Plan 2019/2020.

### ***Legal/delegation implications***

There are no legal or delegation implications associated with this report.

### **Assessment of significance**

The Local Government Act 2002 (LGA) allows Council to choose whether to consult on the draft Annual Plan or not. Consultation is not required if the Annual Plan does not include significant or material differences from the LTP. If material or significance is triggered, Council is required to undertake consultation as specified in sections 82 and 82a of the LGA. Such consultation requires a mechanism to obtain public feedback and ideas to inform decision-making.

The Significance and Engagement Policy provides various thresholds that can be used as a guide to determining whether to consult or not. The financial threshold for unbudgeted expense is \$300,000 per annum, budgeted expense is \$3,000,000 per annum, and an increase of more than 10% of rates is another threshold. None of the options or amendments presented in this report meet the threshold for consultation, as they are not considered significant or material.

Assuming approval, an engagement report will be prepared for the February 2019 Council Briefing outlining a proposed approach to sharing this information and educating the Kaipara community on the draft Annual Plan 2019/2020.

### **Next step**

An engagement plan will be presented to the February 2019 Council Briefing, and the draft Annual Plan 2019/2020 will be created for formal adoption in June 2019.

### **Attachments**

- Attachment 1: Capital expenditure update
- Attachment 2: Financial summary FY2019/20



### Capital Expenditure Update

Capital expenditure is proposed to be amended, primarily within the roading budget. Capital expenditure affects rates by way of depreciation and loan repayments.

The capital expenditure proposed in the draft Annual Plan 2019/2020 will be \$19,792,000, a reduction of \$452,000.

Some of the Mangawhai Community Plan intersections budget (primarily funded by subsidy and development contributions) will be delayed to 2019/2020 but this will be offset with the bridges budget brought forward to 2018/2019. The bridges were originally proposed to be funded by rates and subsidy, however to keep rates to that budgeted in the LTP, these are now proposed to be funded by subsidy and loan. This information is summarised in Table 1 below.

**Table 1: Capital expenditure update**

	<b>\$000s</b>
Capital Expenditure LTP 2018/2019	20,444
<b>Transferred to 2018/19</b>	
Bridge replacements	(267)
Bridge structures and components	(750)
Quail Way	(500)
<b>Transferred from 2018/19</b>	
MCP Intersection	500 Deferred as design will be delayed
MCP Intersection	500 Deferred as design will be delayed
Local Roads	(200)
Mayoral Car	Up to 65
<b>New Total Capital Expenditure</b>	<b>\$19,792</b>



## Annual Plan review

	Full Year			
	Annual Plan 2018/19	Long term plan year 2019/20 \$000's	Annual Plan 2019/20 \$000's	Variance
Rates (General & Targeted)	31,197	33,150	33,319	169
Water by Meter	3,157	3,315	3,106	(210)
Rates (Penalties)	675	689	675	(14)
<b>Total Rates</b>	<b>35,029</b>	<b>37,154</b>	<b>37,100</b>	<b>(54)</b>
Operating Subsidies and Grants	4,584	4,899	4,815	(84)
Activity Revenue and Other Income	5,544	5,665	6,839	1,173
<b>Total Operating Income</b>	<b>45,156</b>	<b>47,718</b>	<b>48,753</b>	<b>1,035</b>
Employee Benefits	10,819	11,013	12,225	(1,211)
Contractors + Repairs and Maintenance	12,054	13,255	13,009	246
Professional Services	4,924	5,746	6,239	(493)
Finance Costs	2,950	2,780	2,780	0
Other Operating Costs	5,317	5,130	5,779	(649)
<b>Total Operating Costs</b>	<b>36,063</b>	<b>37,924</b>	<b>40,032</b>	<b>(2,107)</b>
<b>Operating Surplus / (Deficit) before Depreciation</b>	<b>9,093</b>	<b>9,794</b>	<b>8,722</b>	<b>(1,072)</b>
Capital Subsidies	8,276	7,255	7,088	(167)
Development Contributions	1,954	1,980	1,979	(1)
Financial Contributions	540	551	540	(11)
Other Capital revenue	175	179	175	(4)
<b>Total Capital Revenue</b>	<b>10,945</b>	<b>9,964</b>	<b>9,781</b>	<b>(183)</b>
Capital Expenditure	23,529	20,904	19,792	1,112
<b>Total Capital Expenditure</b>	<b>23,529</b>	<b>20,904</b>	<b>19,792</b>	<b>1,112</b>
<b>Subtotal Capital</b>	<b>(12,584)</b>	<b>(10,940)</b>	<b>(10,011)</b>	<b>929</b>
<b>Surplus / (Deficit) before Loan Payments and Depreciation</b>	<b>(3,492)</b>	<b>(1,146)</b>	<b>(1,289)</b>	<b>(143)</b>

# Kaipara District Council

## Prospective financial statements

As at	LTP Budget	LTP Budget	AP Budget
30 June	2018-2019 \$'000	2019-2020 \$'000	2019-2020 \$'000

### Prospective Statement of Financial Position

#### Net assets/equity

Accumulated comprehensive revenue and expense	412,449	423,221	413,360
Asset revaluation reserves	238,230	251,542	245,084
Restricted reserves	5,427	5,525	5,389
Council created reserves	-17,019	-18,735	-17,836

#### **Total net assets/equity**

<b>639,087</b>	<b>661,553</b>	<b>645,998</b>
----------------	----------------	----------------

#### represented by

#### Current assets

Cash and cash equivalents	500	563	563
Trade and other receivables	6,778	7,012	6,548
Accrued revenue	2,875	2,875	3,438
Other financial assets	115	115	115
Non current assets held for sale	186	186	186

#### **Total current assets**

<b>10,454</b>	<b>10,751</b>	<b>10,849</b>
---------------	---------------	---------------

less

#### Current liabilities

Trade and other payables	10,016	10,313	13,329
Provisions	145	145	148
Employee entitlements	458	467	1,182
Public debt	226	606	595

#### **Total current liabilities**

<b>10,845</b>	<b>11,531</b>	<b>15,254</b>
---------------	---------------	---------------

#### **Working capital/(deficit)**

<b>-391</b>	<b>-780</b>	<b>-4,406</b>
-------------	-------------	---------------

plus

#### Non current assets

Property, plant, equipment	693,085	716,699	707,837
LGFA Borrower notes	643	643	672
Biological assets	500	500	1,017
Other financial assets	276	276	278

#### **Total non current assets**

<b>694,504</b>	<b>718,118</b>	<b>709,804</b>
----------------	----------------	----------------

less

#### Non current liabilities

Public debt	46,044	46,810	50,292
Provisions	4,786	4,779	4,681
Derivative financial liabilities	4,196	4,196	4,427

#### **Total non current liabilities**

<b>55,026</b>	<b>55,785</b>	<b>59,400</b>
---------------	---------------	---------------

#### **Net assets**

<b>639,087</b>	<b>661,553</b>	<b>645,998</b>
----------------	----------------	----------------