

# MEETING

of the

## Audit and Risk Committee

### AGENDA

## Supplementary Report

**Time:** 3:00 pm  
**Date:** Wednesday, 23 August 2023  
**Venue:** Waiata House, 27 Lincoln Road,  
Masterton

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### MEMBERSHIP

Chair Philip Jones (Chairperson)

Mayor Gary Caffell

Councillor Bex Johnson

Councillor Craig Bowyer

Councillor Brent Goodwin

Councillor David Holmes

Councillor Tom Hullena

Councillor Stella Lennox

Councillor Tim Nelson

Iwi Representative Ra Smith

Councillor Marama Tuuta



## **Order Of Business**

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## **6 REPORTS FOR INFORMATION**

### **6.8 INTERIM FINANCIAL RESULT FOR 2022/23**

**File Number:**

**Author:** David Paris, Manager Finance

**Authoriser:** Karen Yates, Interim Chief Executive

#### **PURPOSE**

To provide the Audit and Risk Committee with interim financial reporting for the twelve months to 30 June 2023.

#### **RECOMMENDATION**

That the Audit & Risk Committee receives the interim financial result and commentary for the 12 months to 30 June 2023.

#### **REPORT AND COMMENTARY**

The preparation of the Annual Report for 2022/23 has begun and the financial information remains draft until all reconciliations have been completed. The financial reporting and commentary set out below provides interim information for the Committee to consider. The audit of the Annual Report is scheduled to start on 25 September 2023.

The **Statement of Revenue & Expenditure** shows an accounting surplus of \$12.07 million. This is \$7.91 million better than the planned surplus of \$4.16 million. This better-than-planned result is due to the following major aspects:

- Roothing subsidies of \$17.55m are more than planned by \$7.1m or 68.3% as a result of the subsidy on higher than planned expenditure on storm damage response over the year. That unplanned expenditure has also attracted higher subsidy rates, some of which is at 97% or 77% instead of the FAR rate of 57%. Some of the expenditure incurred has been capitalised on roading asset components such as retaining walls. The capital expenditure is not included in this statement, so the unplanned revenue results in an accounting surplus.
- Revenue from financial contributions is \$3.66m, being 4.4% less than planned. The Plan allowed for Roothing contributions towards the Kitchener Street extension. These have yet to be realised as the development has been delayed. Financial contributions are 27.6% more than the prior year which reflects the continuing number of subdivisions which are reaching completion.

- Interest received of \$1.03m is \$0.67m ahead of the planned value. The Plan allowed for low interest rates on funds invested, but interest rates have risen over the last year. Also adding to the variance is the investment of pre-funding loan proceeds for 8 months prior to loan repayments in April.
- Fees, Charges and Other Revenue of \$12.1m is 11.3% more than planned which is largely due to the final allocation of Three Waters stimulus funding which wasn't budgeted and 'Better Off Funding' applied to wastewater renewals and a grant to Pūkaha. Also, unbudgeted revenue includes donations to Cyclone relief (Mayoral fund \$261k and MBIE funding for business relief grants \$250k)
- Personnel costs of \$13.16m are \$0.97m (6.8%) less than planned, due to carrying a number of vacancies during the year.
- Other Operating Expenditure is 4.1% more than budgeted. This number includes multiple unders and overs, including roading and other storm event response costs from events in July 2022 and Jan/Feb 2023. Unbudgeted costs include grant payments made from cyclone relief funds. There are numerous other unders and overs across all operating activities of Council. Many of these are described in the Rates Requirement commentary below.
- Interest expense of \$2.53m is \$0.82m (48.1%) more than planned. This arises from a combination of:
  - higher interest rates than planned,
  - the pre-funding borrowing undertaken earlier than planned and,
  - using the short term debt facility for three months in order to pay for the costs of cyclone road damage repairs and prior to Waka Kotahi deciding on and paying the subsidy on those costs.

Interim Statement of Revenue & Expenditure							
12 months 2021/22 Actual	12 Months Year to Date to 30 June 2023		12 months 2022/23 Actual	12 months 2022/23 Plan	Full Year Plan 2022/23		
	Revenue				Variance		
34,826,775	Rates Revenue*		37,803,408	37,729,721	73,687	0.2%	37,729,720
418,159	Interest Received (external)		1,027,397	357,250	670,147	187.6%	357,250
7,496,860	NZTA Roothing Subsidies		17,549,755	10,424,678	7,125,077	68.3%	10,434,841
2,866,901	Financial Contributions		3,663,910	3,831,498	-167,588	-4.4%	3,831,498
16,564,985	Fees, Charges & Other Revenue		12,072,505	10,848,416	1,224,089	11.3%	18,727,381
62,173,680	<b>Total Operating Revenue</b>		72,116,975	63,191,563	8,925,412	14.1%	71,080,690
	<b>Expenses</b>						
12,311,176	Personnel Costs		13,159,269	14,126,104	966,835	6.8%	14,126,104
26,930,509	Other Operating Expenditure		28,351,354	27,229,317	(1,122,037)	-4.1%	26,294,340
1,904,048	Interest Expense		2,530,665	1,708,613	(822,052)	-48.1%	1,708,613
14,527,220	Depreciation & amortisation		16,009,146	15,966,834	(42,312)	-0.3%	15,966,833
55,672,953	<b>Total Operating Expenses</b>		60,050,434	59,030,868	(1,019,566)	-1.7%	58,095,891
<b>\$6,500,727</b>	<b>Operating Surplus/(Deficit)</b>		<b>\$12,066,541</b>	<b>\$4,160,695</b>	<b>\$7,905,845</b>		<b>\$12,984,800</b>

Figures above exclude Other Gains & Losses on valuations and vested assets

\*Rates Revenue excludes rates on Council properties

### Commentary on significant variances

The **Rates Requirement Summary** to 30 June 2023 shows the Council's net spending of rates funding at \$38.93m compared to \$38.45m planned for the full year, 1.3% more. Overall, and after rates income variance, that result \$426,806 more rates required than planned. Rates are set at the beginning of the year and cannot be increased. That deficit of funding will need to be sourced from drawing on Council's reserve funds (as per suggestions below).

**Roothing** – overall this activity shows close to Planned spending of Rates revenue, but that is after applying additional Waka Kotahi roading subsidies resulting from storm and cyclone damage. The costs incurred as emergency response, repairs and restoration have been \$9.83m with Waka Kotahi subsidy of \$7.98m and the Council's share the costs \$1.85m.

This has been drawn from the Flood Damage fund, leaving that Fund now over-drawn by \$1.62m. The 2023/24 Annual Plan includes a provision to rate for \$500,000 to begin to return those funds.

The Colombo Road bridge was completed during the year, along with the Te Mara bridge at Kiriwhakapapa – a total cost of \$4.64m. Council share of the funding for these two projects (\$1.99m) has come from Bridge depreciation funds.

**2022/23 Interim 12 Months to 30 June 2023**

2021/22 Interim	Rates Requirement Summary	2022/23 Actual	2022/23 Plan	Variance	
\$		\$	\$	\$	%
	<b>RATES REQUIRED BY ACTIVITY</b>				
	<b>Transport</b>				
7,331,450	Roading	7,824,482	7,819,039	(5,443)	-0.1%
	<b>Water Services</b>				
3,587,872	Urban Water supply	4,716,800	4,209,307	(507,493)	-12.1%
116,124	Rural Water supplies & races	228,595	137,331	(91,264)	-66.5%
	<b>Wastewater Services</b>				
6,465,224	Urban Sewerage system	7,431,334	6,910,236	(521,098)	-7.5%
359,058	Rural Sewerage systems	437,151	398,739	(38,412)	-9.6%
	<b>Stormwater Services</b>				
665,927	Stormwater	877,017	842,040	(34,977)	-4.2%
	<b>Solid Waste Services</b>				
882,308	Solid Waste Services	1,309,302	1,284,733	(24,569)	-1.9%
	<b>Community Facilities/Activities</b>				
3,295,965	Parks, Reserves & Sportsfields	3,525,483	3,525,829	346	0.0%
1,355,351	Trust House Recreation Centre	1,439,952	1,432,479	(7,473)	-0.5%
153,867	Cemeteries	212,741	195,827	(16,914)	-8.6%
2,324,569	Library & Archive	2,671,738	2,630,878	(40,860)	-1.6%
471,728	District Building	601,510	544,872	(56,639)	-10.4%
131,502	Housing for Elderly	167,302	169,556	2,255	1.3%
942,482	Other Property	986,766	991,092	4,326	0.4%
322,625	Hood Airport	338,021	327,892	(10,129)	-3.1%
98,423	Mawley Holiday Park	101,973	163,893	61,920	37.8%
	<b>Regulatory Services</b>				
1,044,337	Resource Mgmt & Planning	1,171,667	1,170,205	(1,462)	-0.1%
640,778	Building Development	767,367	768,051	684	0.1%
572,026	Environmental Services	613,290	648,301	35,011	5.4%
3,259	Parking Control	27,377	3,320	(24,057)	
121,167	Animal Services	189,079	134,925	(54,154)	-40.1%
217,709	Emergency Management	263,361	272,944	9,583	3.5%
	<b>Leadership, Strategy &amp; Corporate Services</b>				
720,920	Representation	857,039	819,960	(37,079)	-4.5%
284,269	Internal Functions (net)	(817,193)	2	817,195	
1,127,091	Community Development	1,081,222	1,101,369	18,756	1.7%
544,519	Arts & Culture	558,016	564,990	6,974	1.2%
933,635	Economic Devlpmt	1,012,200	1,015,398	3,198	0.3%
313,262	Environmental Initiatives	338,008	368,158	30,150	8.2%
<b>\$ 35,027,446</b>	<b>Total Rates Requirement</b>	<b>\$ 38,931,600</b>	<b>\$ 38,451,366</b>	<b>(\$481,626)</b>	<b>-1.3%</b>
	<b>RATES INCOME</b>				
35,411,166	Masterton District Council rates	38,407,195	38,381,221	25,974	
238,220	Penalty Income	275,233	225,000	50,233	
(177,366)	Rates Remissions	(186,387)	(165,000)	(21,387)	
<b>35,472,020</b>	<b>Net Rates Income</b>	<b>\$ 38,496,041</b>	<b>\$ 38,441,221</b>	<b>\$ 54,820</b>	<b>0.1%</b>
<b>\$ 444,573</b>	<b>Surplus/(Deficit) of Rates Income</b>	<b>(\$435,560)</b>	<b>(\$10,144)</b>	<b>(\$426,806)</b>	<b>-1.1%</b>

### **Commentary on significant variances (continued)**

**Urban Water** – is 12.1% more rates required than planned (+\$507,500). As reported through the year, there are a number of reasons that operating costs have exceeded the budgeted levels, in particular:

- maintenance and repair of water mains and connections has tracked well ahead of the budget provisions and prior year and has been in response to customer service requests and looking to maintain service levels;
- unplanned costs incurred clearing up storm damage at the Upper Plain reservoir;
- increased usage and price increases for water treatment chemicals resulting in over budget costs;
- higher interest costs than planned;
- unplanned expenditure has been incurred in tracking down water losses on trunk mains.

It is proposed that \$250,000 of funding for the operating cost over-runs come from the water supply reserve funds (depreciation funds).

**Rural Water** rates requirement has run above planned by \$91k due to higher costs of keeping the Opaki water race operational during the weather events and repairing damage on the Tinui water supply.

**Urban Wastewater** is 7.5% more than planned rates required (+\$521,000) with operating costs impacted by the series of weather events. Council's contractors have dealt with multiple issues during those events and that has resulted in expenditure totals exceeding the budget.

Wastewater accounts for a large proportion of Council's debt, so the increased interest costs also contribute to this activity's over-budget expenditure. Similar to the urban water supply above, it is proposed that depreciation reserve funding of some \$250,000 is used to offset the cost over-runs.

During the year, 3 Waters Stimulus funding of some \$279,000 was used to fund private lateral re-lining in French Street. This work has not impacted the rates requirement result.

**Rural Wastewater** is 9.6% more than planned rates required. Riversdale Beach, Castlepoint and Tinui schemes maintenance and operating costs were all higher than planned.



**Stormwater** net costs have been 4.2% more than planned, after 3 Waters Stimulus funding was able to be used to offset some \$175,000 of the cyclone response costs incurred during the year.

**Solid Waste** – rates required is \$24.5k (1.9%) more than planned. This is largely due to waste tonnes to Bonny Glen being less than budgeted. There was one month delay in implementing the waste gate fee increases following Bonny Glen’s price increase from 1<sup>st</sup> January. Also, the contract cost escalation from 1<sup>st</sup> July was higher than the level budgeted (Plan allowed +8.3%, actual +11.2%). The close to plan result is a good one, while reflecting reduced volumes of waste-to-landfill being received.

**Community Facilities** have an overall rates required of \$10.05m and that is 0.6% above the Plan. Cost savings include several vacant staff roles through part of the year. Additional costs have included paying rent on two premises for the Archive for part of the year and higher interest costs on debt associated with Waiata House. Mawley Park returned 37.8% less than the planned rates required due to better than planned revenue.

**Regulatory** functions – Resource Management & Planning rates required has run at close to planned level. Staff savings have been offset with the use of contracted resource to meet the continuing high levels of consent applications. External costs associated with the private plan change and other consent hearings have been recovered from the applicants.

The Building Services department has also run close to the planned rates required. This is after consent revenue of \$1.44m was \$0.2m less than planned and 11.8% less than the prior year. Cost savings have been achieved through staff vacancies and reallocation of staff resources to undertaking compliance activities.

Parking revenue exceeded plan by 8.6% but the contracted costs of monitoring compliance have exceeded the planned level resulting in a \$24k deficit.

Animal Control costs, as reported through the year, have run 7.6% over the planned level as more after hours call-outs and activity in this area have seen more staff resource required.

Emergency Management activity area costs reflect those costs incurred during the cyclone events, while recovery of event-specific costs from NEMA have been allowed for.

**Corporate & Asset Management** functions reflect the better than planned interest income described above and savings associated with staff vacancies and efficiencies identified through the year. Audit fees reflect the recently advised new fee that will be charged for the audit of the 2022/23 Annual Report (\$48.6k more than planned).

Acknowledgement is sought of the intention for the overall under-plan position across the corporate areas to be used to offset the areas where the rates required has exceeded the levels allowed in the Annual Plan (eg water, wastewater, Animal Control, etc).

**Summary Statement of Capital Expenditure** – a draft version of this report is not available for the Audit and Risk Committee meeting, due partly to staff resources to complete the asset reconciliations.

A revaluation of Council's infrastructural assets is underway (by engineering firm WSP) and an exercise to review the fair value assessment of land and buildings is also being undertaken by valuers Jones Lang Lasalle. Both of these asset valuations are required to comply with accounting standards.

## **ATTACHMENTS**

**Nil**