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**PALMERSTON NORTH CITY COUNCIL**

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**AGENDA**  
**COMMITTEE OF COUNCIL**  
**LATE ITEM**

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**9AM, MONDAY 10 JUNE 2019**  
COUNCIL CHAMBER, FIRST FLOOR, CIVIC ADMINISTRATION BUILDING  
32 THE SQUARE, PALMERSTON NORTH

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## MEMBERSHIP

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**Grant Smith (Chairperson)**

**Tangi Utikere (Deputy Chairperson)**

**Brent Barrett**

**Susan Baty**

**Rachel Bowen**

**Adrian Broad**

**Gabrielle Bundy-Cooke**

**Vaughan Dennison**

**Lew Findlay QSM**

**Leonie Hapeta**

**Jim Jefferies**

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**Duncan McCann**

**Karen Naylor**

**Bruno Petrenas**

**Aleisha Rutherford**

**Agenda items, if not attached, can be viewed at:**

[pncc.govt.nz](http://pncc.govt.nz) | Civic Administration Building, 32 The Square  
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**Heather Shotter**

**Chief Executive, Palmerston North City Council**

**Palmerston North City Council**

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## **COMMITTEE OF COUNCIL MEETING**

10 June 2019

### **LATE ITEM**

**9. Finalising the Annual Budget (Plan) 2019/20 - Amendments**

Page 5

Memorandum, dated 5 June 2019 presented by the Strategy Manager Finance, Steve Paterson.



## MEMORANDUM

**TO:** Committee of Council

**MEETING DATE:** 10 June 2019

**TITLE:** Finalising the Annual Budget (Plan) 2019/20 - Amendments

**DATE:** 5 June 2019

**PRESENTED BY:** Steve Paterson, Strategy Manager Finance, Finance

**APPROVED BY:** Grant Elliott, Chief Financial Officer

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### RECOMMENDATION(S) TO COMMITTEE

1. That the recommendations to the Council as outlined in the memorandum dated 27 May 2019 be revised as follows:
  - a. Recommendation 1 be replaced with “That the Annual Budget 2019/20 as circulated with the memorandum titled “Finalising the Annual Budget (Plan) 2019/20” dated 27 May 2019 and amended through the incorporation of the replacement pages circulated with the memorandum titled “Finalising the Annual Budget (Plan) 2019/20 - Amendments” dated 5 June 2019 be adopted.
  - b. Recommendation 2 be replaced with “That the Council acknowledge that although the Prospective Statement of Comprehensive Revenue and Expense for the Annual Budget shows a budgeted surplus of \$1.437m for the 2019/20 year, using the calculation required by the Local Government (Financial Reporting and Prudence) Regulations 2014, projects a deficit of \$2.04m. For the reasons outlined in the memorandum the Council resolves this outcome is financially prudent having regard for the matters contained in Section 100 of the Local Government Act 2002.”

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### 1. ISSUE

Item 7 on the Committee’s agenda relates to finalising the Annual Budget for 2019/20. It contains a memorandum dated 27 May 2019 and a draft of the Annual Budget document.

Since their preparation we have further reviewed the assumptions underlying them and now believe a change is required to them to reflect a more correct accounting treatment of the Council’s subdivision in Whakarongo.

## 2. BACKGROUND

At the Committee's February meeting we explained that there had been a change to the way the Whakarongo subdivision was being accounted for by comparison with what had been done in the preparation of the 10 Year Plan.

As the subdivision is proposed to be actively developed and sold the land is now recorded as inventory and is revalued each year. The accounting treatment is that sales revenue will be recorded in the year of sale and the expenses will be those that relate to the specific sections that have been sold in that year.

In the 10 Year Plan it was assumed the total project would generate a cash surplus of approx. \$10m (ie an operating surplus of approx. \$6m over the present \$4m value of the undeveloped land).

The present draft of the Annual Budget for 2019/20 assumes sales revenue of \$4m for the year but also assumes \$4m of costs to generate this revenue. On reflection this is an unrealistically conservative assumption. Based on the original assessment of the total costs for the project it would be more reasonable to allocate \$2m of the costs to the 2019/20 year.

It is proposed this changed assumption be incorporated in the Annual Budget document and a series of consequential changes be made.

***Attached are copies of the replacement pages of the document that will need to be changed.***

These changes do not impact on the thrust of the budget, the level of rates required or the sums required to be borrowed.

They do however impact of the test of whether or not the Council has a balanced budget – the matter that is addressed in section 3 of the memorandum of 27 May 2019. Rather than the \$561k deficit referred to in that memorandum, the revised Prospective Statement of Comprehensive Statement of Revenue and Expense projects a surplus of \$1.437m for the year.

The methodology required by the Local Government (Financial Reporting and Prudence) Regulations 2014 for the Disclosure Statement (see pages 48-49 of the agenda) excludes development contributions and vested assets from being considered as part of revenue for the balanced budget test. With these items excluded the deficit for the year will be \$2.04m (rather than the figure of \$4.04m previously advised). This means the Disclosure Statement shows a planned outcome for the year of 98.6% against a benchmark of 100%.

For the reasons outlined in the 27 May memorandum the Council's approach to funding the 2019/20 Annual budget is considered to be prudent. To be sure the Council has met the requirements of section 100 of the Local Government Act it is recommended a resolution be

passed acknowledging there is a projected deficit using the calculation required by the regulations.

### 3. NEXT STEPS

Assuming the proposed changes are incorporated in the document the next steps will be as outlined in the memorandum of 27 May.

### 4. COMPLIANCE AND ADMINISTRATION

Does the Committee have delegated authority to decide?	No
Are the decisions significant?	No
If they are significant do they affect land or a body of water?	No
Can this decision only be made through a 10 Year Plan?	No
Does this decision require consultation through the Special Consultative procedure?	No
Is there funding in the current Annual Plan for these actions?	Yes
Are the recommendations inconsistent with any of Council's policies or plans?	No
The recommendations contribute to Goal 5: A Driven and Enabling Council	
The recommendations contribute to the outcomes of the Driven and Enabling Council Strategy	
The recommendations contribute to the achievement of action/actions in Not Applicable	
Contribution to strategic direction	Refer to original memorandum dated 27 May 2019

### ATTACHMENTS

1. Amended pages for Annual Budget document [↓](#) 

The table below shows the key financial parameters for the Annual Budget compared with those for 2019/20 in the 10 Year Plan.

PARAMETER	10 YEAR PLAN	ANNUAL BUDGET	LIMIT
Increase in total rates	5.5%	4.5%	4.6% <sup>2</sup>
Net debt as a % of total assets	10.6%	9.8%	< 20%
Net debt as a % of total revenue	138%	126.6%	< 200%
Net interest as a % of total revenue	7.1%	5.8%	< 15%
Net interest as a % of annual rates income	9.5%	7.7%	< 20%

2. Based on September 2018 BEBL local government cost indicator of 2.3% plus 2% and a rating base growth assumption of 0.3%. The 10YP assumed a limit of 4.5% based on a cost indicator of 2.2% plus 2% and a rating growth assumption of 0.3%.

## FORECAST FINANCIAL STATEMENTS

The financial information contained in the Annual Budget is a forecast for the purposes of Public Benefit Entity (PBE) Financial Reporting Standard (FRS) 42. This information may not be appropriate for purposes other than those described. It has been prepared on the basis of assumptions (refer to Significant Forecasting Assumptions in section 2) as to future events that the Council reasonably expects to occur, associated with the actions it reasonably expects to take, as at the date the forecast was prepared. The actual results are likely to vary from the information presented and may vary materially depending upon the circumstances that arise during the period. The Annual Budget has been prepared in accordance with generally accepted accounting practice and the Council's accounting policies are outlined in section 3 of the 10 Year Plan. The policies incorporate the latest PBE accounting standards and the changes have had no material effect.

The Funding Impact Statements in section 2 have been prepared in accordance with the Local Government (Financial Reporting and Prudence) Regulations 2014. The regulations are not consistent with generally accepted accounting practice.

Rates revenue includes revenue from metered water and is included net of any remissions granted under the Council's Rates Remission Policy. Remissions of \$0.25 million pa have been assumed.

Legislation states that councils are required to operate a 'balanced budget' i.e. income must equal or exceed expenditure (and expenditure must include non-cash items such as depreciation).

However if a council determines that it is prudent not to have a 'balanced budget' (i.e. an operating surplus is not required), it must make a formal decision to that effect. The decision must be a prudent one and have included consideration of levels of service and useful lifespan of assets. There are grounds for not having a surplus every year to avoid building up unnecessary cash reserves. Council's asset management plans ensure the Council is appropriately planning for renewals and its financial strategy is to make adequate financial provision to fund renewals from rates revenue. Council is making provision to fund from revenue \$199m for capital renewals during 2019/20.

Although the Council's Prospective Statement of Comprehensive Revenue and Expense (next page) shows that after including capital revenue of \$11.3m there will be a surplus of \$1,437m, the Disclosure Statement on page 20, (as required by the Local Government (Financial Reporting and Prudence) Regulations 2014), shows the Council will not meet the balanced budget benchmark of 100% - with a projected outcome of 98.6%. Using this test the Council would be deemed to not have a 'balanced budget' for the year. Despite this the Council believes its budget for the year is a prudent one.

These forecast financial statements were authorised for issue by Palmerston North City Council on 24 June 2019.

Palmerston North City Council is responsible for these forecast financial statements, including the appropriateness of the assumptions underlying the forecast financial statements and all other disclosures.

Because the figures are rounded to the nearest thousand dollars, it may appear that they do not add up, but the total represents the sum of the individual forecast amounts.



The following tables show the financial implications of providing all of the Council's services:

PROSPECTIVE STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

Budget 2018/19 \$ '000s	10YP 2019/20 \$ '000s	AB 2019/20 \$ '000s
<b>REVENUE</b>		
<b>OPERATING REVENUE</b>		
94,543 Rates	99,707	98,828
517 Interest & Dividends	567	567
3,207 Operating Subsidies & Grants	3,233	3,322
24,421 Other Operating Revenue	29,254	29,101
122,688	132,761	131,818

<b>CAPITAL REVENUE</b>		
13,373 Capital Subsidies & Grants	8,411	7,822
1,063 Development Contributions	1,476	1,476
2,000 Vested Assets	2,000	2,000
16,436	11,887	11,298
<b>139,125</b>	<b>144,648</b>	<b>143,116</b>
<b>EXPENSES</b>		
94,468 Expenses	95,559	98,444
7,284 Interest	9,451	7,616
34,627 Depreciation	36,081	35,619
<b>136,379</b>	<b>141,091</b>	<b>141,679</b>
<b>2,746</b>	<b>3,557</b>	<b>1,437</b>
<b>SURPLUS/(DEFICIT)</b>		
Other Comprehensive Revenue and Expense		
10,347 Gain on property revaluations	35,206	33,784
13,093	38,763	35,220

<b>5.3%</b>	<b>RATES INCREASE</b>	<b>5.5%</b>	<b>4.5%</b>
2,080	Rates revenue shown above includes the following amounts for metered water revenue	2,150	2,500

PROSPECTIVE STATEMENT OF CHANGES IN EQUITY

Budget 2018/19 \$ '000s	10YP 2019/20 \$ '000s	AB 2019/20 \$ '000s
1,454,165	1,467,238	1,470,815
13,093	38,763	35,220
1,467,258	1,506,021	1,506,035

## PROSPECTIVE STATEMENT OF FINANCIAL POSITION

Budget 2018/19 \$'000s	10YP 2019/20 \$'000s	AB 2019/20 \$'000s
8,240	8,422	10,005
<b>Current Assets</b>		
<b>NON-CURRENT ASSETS</b>		
12,941	13,052	13,052
5,770	5,659	5,871
1,615,977	1,692,825	1,681,257
<b>1,642,928</b>	<b>1,719,958</b>	<b>1,710,185</b>
<b>TOTAL ASSETS</b>		
27,258	27,411	33,793
<b>Current Liabilities</b>		
<b>NON-CURRENT LIABILITIES</b>		
1,311	1,340	1,368
144,856	182,942	166,833
2,244	2,244	2,156
<b>EQUITY</b>		
1,044,849	1,048,406	1,050,400
422,409	457,615	455,636
<b>1,642,928</b>	<b>1,719,958</b>	<b>1,710,185</b>
<b>TOTAL LIABILITIES/EQUITY</b>		

## PROSPECTIVE STATEMENT OF CASH FLOWS

Budget 2018/19 \$'000s	10YP 2019/20 \$'000s	AB 2019/20 \$'000s
<b>OPERATING ACTIVITIES</b>		
<b>CASH PROVIDED</b>		
94,543	99,707	98,828
17	17	17
500	550	550
3,207	3,233	3,322
24,421	29,254	29,101
13,373	8,411	7,822
1,063	1,476	1,476
<b>CASH DISBURSED</b>		
(7,284)	(9,451)	(7,616)
(94,468)	(95,559)	(98,444)
35,373	37,638	35,056
<b>INVESTING ACTIVITIES</b>		
<b>CASH PROVIDED</b>		
-	-	-
-	402	402
<b>CASH DISBURSED</b>		
(74,076)	(76,125)	(81,813)
-	-	-
(74,076)	(75,723)	(81,411)
<b>FINANCING ACTIVITIES</b>		
<b>CASH PROVIDED</b>		
38,703	38,085	44,792
38,703	38,085	44,792
-	-	1,564
679	1,279	1,279
<b>679</b>	<b>1,279</b>	<b>2,843</b>
<b>CASH AT YEAR END</b>		

Because the figures on this page are rounded to the nearest thousand dollars, it sometimes appears that they do not add up, but the total represents the sum of the individual forecast amounts.

# Annual Budget (Plan) Disclosure Statement

FOR THE YEAR ENDING 30 JUNE 2020

## What is the purpose of this statement?

The purpose of this statement is to disclose the Council's planned financial performance in relation to various benchmarks to enable the assessment of whether the Council is prudently managing its revenues, expenses, assets, liabilities, and general financial dealings.

The Council is required to include this statement in its annual plan in accordance with the Local Government (Financial Reporting and Prudence) Regulations 2014 (the regulations). Refer to the regulations for more information, including definitions of some of the terms used in this statement.

BENCHMARK		PLANNED	MET
Rates affordability benchmark - income	Total rates will be no more than 2% of the City's rateable land value	1.0%	Yes
Rates affordability benchmark - increases	Total rates will increase by no more than the Local Government Cost Index plus the growth in the rating base plus 2% plus an allowance for accelerated debt repayment	4.5%	Yes
Debt affordability benchmark	Net external debt as a percentage of total assets will not exceed 20%	9.8%	Yes
Debt affordability benchmark	Net external debt as a percentage of total revenue will not exceed 175%	126.6%	Yes
Debt affordability benchmark	Net interest as a percentage of total revenue will not exceed 15%	5.8%	Yes
Debt affordability benchmark	Net interest as a percentage of annual rates income will not exceed 20%	7.7%	Yes
Debt affordability benchmark	Liquidity available will exceed 110% of existing external debt	118.8%	Yes
Balanced budget benchmark	100%	98.6%	No
Essential services benchmark	100%	210.7%	Yes
Debt servicing benchmark	10%	5.5%	Yes

# Activity Financial Statements

## WHOLE OF COUNCIL

	Budget 2018/19 \$'000s	10YP 2019/20 \$'000s	AB 2019/20 \$'000s		Budget 2018/19 \$'000s	10YP 2019/20 \$'000s	AB 2019/20 \$'000s
<b>REVENUE</b>				<b>EXPENSES</b>			
<b>Innovative &amp; Growing City</b>				<b>Innovative &amp; Growing City</b>			
3,932		4,045	4,045	6,756	6,876	7,348	
1,168		1,193	1,193	4,458	4,505	4,463	
<b>Creative &amp; Exciting City</b>				<b>Creative &amp; Exciting City</b>			
1,990		2,030	2,094	18,897	20,693	19,464	
45		46	46	2,506			
62		63	62	8,601			
<b>Connected &amp; Safe Community</b>				<b>Connected &amp; Safe Community</b>			
3,820		3,945	3,945	17,354			
1,219		1,244	1,224	2,848			
<b>Eco-City</b>				<b>Eco-City</b>			
-		-	-	756	836	773	
2,955		2,978	2,748	7,809	8,016	8,050	
<b>Transport</b>				<b>Transport</b>			
7,225		7,376	7,376	24,287	25,325	24,752	
167		170	207	4,092	4,485	4,450	
36		36	36	8,256	8,615	8,420	
1,152		1,298	1,298	10,992	11,278	11,178	
2		2	2	3,784	3,933	4,200	
<b>Driven &amp; Enabling Council</b>				<b>Driven &amp; Enabling Council</b>			
3,696		3,813	3,900	6,531	4,594	6,261	
505		515	515	188	18	203	
172		303	303	8,640	9,324	9,652	
28,145		29,058	28,995	136,379	141,091	141,679	
<b>TOTAL REVENUE</b>				<b>TOTAL EXPENSES</b>			
				<b>NET OPERATING COST OF ACTIVITY GROUPS</b>			
				<b>108,234</b>			
				<b>112,032</b>			
				<b>112,685</b>			

Small City Benefits. Big City Ambition

Budget 2018/19 \$'000s	10YP 2019/20 \$'000s	AB 2019/20 \$'000s	Budget 2018/19 \$'000s	10YP 2019/20 \$'000s	AB 2019/20 \$'000s
<b>RATING REQUIREMENT</b>					
(34,627)	(36,081)	(35,619)	-	-	-
Less Depreciation		(2,607)	7	54	54
Less Transfers To/(From) Reserves	(434)				
19,737	19,673	19,889			
Plus Net Capital Renewal (3 Year Average)	4,516	4,481			
3,999					
Plus Debt Repayment					
<b>94,543</b>	<b>99,707</b>	<b>98,828</b>			
5.2%	5.5%	4.5%			
<b>CAPITAL EXPENDITURE</b>					
<b>CAPITAL RENEWALS</b>					
<b>Innovative &amp; Growing City</b>					
-	-	-			
City Development					
330	262	262			
Economic Development					
<b>Creative &amp; Exciting City</b>	<b>4,193</b>	<b>7,119</b>			
4,187					
Active Community					
23	311	311			
Active Public Space					
320					
Arts, Culture & Heritage					
<b>Connected &amp; Safe Community</b>	<b>1,670</b>	<b>2,124</b>			
3,766	81	81			
Connected Communities					
36					
Safe Communities					
<b>Eco-City</b>	<b>325</b>	<b>498</b>			
362					
Biodiversity & Sustainable Practices					
Rubbish and Recycling					
<b>Transport</b>	<b>4,969</b>	<b>4,705</b>			
5,473	761	1,046			
Roads					
868	3,013	4,406			
Active and Public Transport					
<b>Water</b>	<b>2,578</b>	<b>3,079</b>			
3,415	677	677			
Wastewater					
4,112					
Stormwater					
635					
<b>Driven &amp; Enabling Council</b>	<b>1,320</b>	<b>1,960</b>			
1,332	1,314	2,030			
Commercial or Strategic Investments					
1,327					
Corporate Support					
-	-	-			
Leadership					
<b>26,186</b>	<b>21,475</b>	<b>28,297</b>			
<b>TOTAL CAPITAL RENEWALS</b>					
<b>CAPITAL NEW</b>					
<b>Innovative &amp; Growing City</b>					
City Development					
Economic Development					
<b>Creative &amp; Exciting City</b>	<b>9,141</b>	<b>12,875</b>			
10,404	403	403			
Active Community					
619	627	591			
Active Public Space					
219					
Arts, Culture & Heritage					
<b>Connected &amp; Safe Community</b>	<b>8,439</b>	<b>7,485</b>			
10,326	903	843			
Connected Communities					
80					
Safe Communities					
<b>Eco-City</b>	<b>82</b>	<b>142</b>			
80	399	457			
Biodiversity & Sustainable Practices					
Rubbish and Recycling					
<b>Transport</b>	<b>19,375</b>	<b>12,769</b>			
9,582	4,206	4,394			
Roads					
10,007	6,601	7,277			
Active and Public Transport					
<b>Water</b>	<b>2,813</b>	<b>4,159</b>			
3,011	1,191	1,371			
Wastewater					
1,183					
Stormwater					
1,013					
<b>Driven &amp; Enabling Council</b>	<b>310</b>	<b>309</b>			
309	106	311			
Commercial or Strategic Investments					
411					
Corporate Support					
75					
Leadership					
<b>47,890</b>	<b>54,650</b>	<b>53,516</b>			
<b>74,076</b>	<b>76,125</b>	<b>81,813</b>			
<b>TOTAL CAPITAL EXPENDITURE</b>					
(75)	-	-			
<b>FUNDED BY</b>					
External Revenue Renewal	2,524	2,614			
2,876					
External Revenue New	5,887	5,208			
10,497					
Development Contributions	1,476	1,476			
1,063					
Rates	19,673	19,889			
19,737					
New Borrowing / (Repayment)	46,163	52,224			
39,903					
<b>74,076</b>	<b>76,125</b>	<b>81,813</b>			
<b>TOTAL</b>					

COMMERCIAL OR STRATEGIC INVESTMENTS - ACTIVITY FINANCIAL STATEMENTS

Budget 2018/19 \$'000s	10YP 2019/20 \$'000s	AB 2019/20 \$'000s	INFORMATION / MAIN REASON FOR CHANGE
<b>REVENUE</b>			
2,788 External Contracts	2,847	2,933	
281 Investment Property	287	287	
127 Investments (including Investment Fund)	130	130	
500 Investments in Companies (including Airport)	550	550	
3,696 TOTAL REVENUE	3,813	3,900	
<b>EXPENSES</b>			
2,663 External Contracts	2,766	3,059	
2,987 Investment Property	972	2,382	
385 Investments (including Investment Fund)	358	364	
497 Investments in Companies (including Airport)	497	456	
6,531 TOTAL EXPENSES	4,594	6,261	Change in accounting treatment for programme #1485-Whakarongo Council Subdivision Development - Layout 1
2,835 NET OPERATING COST OF ACTIVITY	780	2,361	
<b>RATING REQUIREMENT</b>			
(1,191) Less Depreciation	(1,200)	(1,376)	
(2,300) Less Transfers To/(From) Reserves	(434)	(1,998)	
1,339 Plus Net Capital Renewal (3 Year Average)	1,263	1,589	
44 Plus Debt Repayment	69	47	
727 RATES REQUIREMENT	479	623	
<b>CAPITAL EXPENDITURE</b>			
1,332 Renewal	1,320	1,960	
309 New	310	309	
1,640 TOTAL CAPITAL EXPENDITURE	1,630	2,269	
<b>FUNDED BY</b>			
1,339 Rates	1,263	1,589	
302 New Borrowing / (Repayment)	367	680	
1,640 TOTAL	1,630	2,269	

**COMMERCIAL OR STRATEGIC INVESTMENTS - OPERATIONAL**

STATUS	ID-NAME	10YP 2019/20 \$'000s	AB 2019/20 \$'000s	INFORMATION / MAIN REASON FOR CHANGE
✓	1485-Whakarongo Council Subdivision Development - Layout 1	(3,532)	(2,090)	Change in accounting assumptions.
	<b>TOTAL</b>	<b>(3,532)</b>	<b>(2,090)</b>	-

**COMMERCIAL OR STRATEGIC INVESTMENTS - CAPITAL RENEWAL**

STATUS	ID-NAME	10YP 2019/20 \$'000s	AB 2019/20 \$'000s	INFORMATION / MAIN REASON FOR CHANGE
✓	63-Council's Plant and Vehicles - Replacements	1,098	1,748	Plan to purchase rather than lease some new trucks.
✓	80-Council's Plant and Equipment - Replacement	170	170	
✓	85-Council's Depot Buildings and Structures	42	42	
✓	86-Council Wide - Furniture Replacements	10	-	Transferred to the Corporate Support Activity.
	<b>TOTAL</b>	<b>1,320</b>	<b>1,960</b>	-

**COMMERCIAL OR STRATEGIC INVESTMENTS - CAPITAL NEW**

STATUS	ID-NAME	10YP 2019/20 \$'000s	AB 2019/20 \$'000s	INFORMATION / MAIN REASON FOR CHANGE
✓	99-Council's Service Development - New Technology and Programmes	295	295	
✓	245-Gordon Kear Forest - Development of Internal Roading	14	14	
	<b>TOTAL</b>	<b>310</b>	<b>309</b>	-