

5.3.3 LATE ITEM: Financial Statements as at 31 July 2015

Ward:	Both	Date:	14 Aug 2015
Precinct:	All	File Ref:	SC357
Attachments:	1 – Financial Reports		
Reporting Officers:	N Makwana, Accounting Officer B Wong, Accountant		
Responsible Officer:	G Garside, A/Director Corporate Services		

OFFICER RECOMMENDATION:

That Council **RECEIVES** the Financial Statements for the month ended 31 July 2015 as shown in Attachment 1.

PURPOSE OF REPORT:

To present the Financial Statements for the period ended 31 July 2015.

BACKGROUND:

Regulation 34 (1) of the Local Government (Financial Management) Regulations 1996 requires a local government to prepare each month a statement of financial activity reporting on the sources and applications of funds, as set out in the budget.

Financial reports as presented are an estimate of the July month end position. There are still a number of transactions and adjustments that need to be prepared before the accounts can be finalised for the 2014-15 financial year. Some of these adjustments will have a follow-on impact on 2015-16 results.

A Statement of financial activity report is to be in a form that sets out:

- the annual budget estimates;
- budget estimates for the end of the month to which the statement relates;
- actual amounts of expenditure, revenue and income for the end of the month to which the statement relates;
- material variances between the year-to-date income and expenditure; and
- includes other supporting notes and other information that the local government considers will assist in the interpretation of the report.

In addition to the above, under *Regulation 34 (5) of the Local Government (Financial Management) Regulations 1996*, each financial year a local government is to adopt a percentage of value, calculated in accordance with AAS 5, to be used in statements of financial activity for reporting material variances.

DETAILS:

As stated earlier, this report gives an estimate of the July position as it uses some provisional figures. Once the 2014/15 financial year end process is completed, some July 2015 opening balances will change.

There are also some July transactions that are not able to be processed until the prior year year-end processing is complete. The most significant of these is depreciation. If depreciation had been processed, expenditure would have increased by approximately \$950,000. This would also have reduced our closing surplus by the same amount. However, as depreciation is a non-cash item this would not have affected the City's cash position, but would have reduced the net value of fixed assets.

The following documents, included as **Attachment 1** represent the Statement of Financial Activity for the period ending 31 July 2015:

Note	Description	Page
1.	Summary of Income and Expenditure by Service Areas	1-30
2.	Statement of Financial Activity by Programme Report and Graph	31-32
3.	Statement of Comprehensive Income by Nature and Type Report	33
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The following table provides a summary view of the year to date actual, compared to the Original and Year to date Budget.

Summary of Financial Activity By Programme as at 31 July 2015

	Original Budget \$	Year to date Budget \$	Year to Date Actual \$	Year to Date Variance \$	Year to Date Variance %
Operating Revenue	29,470,806	4,433,887	4,708,079	274,192	6%
Operating Expenditure	(55,853,974)	(4,787,857)	(3,116,537)	1,671,320	-35%
Add Deferred Rates Adjustment	0	0	4,254	4,254	0%
Add Back Depreciation (Profit)/Loss on Asset Disposal	11,058,555 (3,716,718)	921,526 (1,828,354)	0 (2,617,650)	(921,526) (789,296)	-100% 43%
Net Operating Excluding Rates	(19,041,331)	(1,260,798)	(1,021,855)	238,943	-19%
Proceeds from Disposal of Assets	4,662,151	2,605,818	2,617,650	11,832	0%
Transfer from Reserves	2,391,223	331,550	5,246	(326,304)	-98%
	7,053,374	2,937,368	2,622,896	(314,472)	-11%
Capital Expenditure	(12,657,347)	(1,112,289)	(222,071)	890,218	-80%
Repayments Loan Capital	(760,288)	(61,161)	(61,160)	1	0%
Transfers to Reserve	(4,568,059)	(258,102)	(254,897)	3,205	-1%
	(17,985,694)	(1,431,552)	(538,128)	893,424	-62%
Net Capital	(10,932,320)	1,505,816	2,084,768	578,952	38%
Total Net Operating and Capital	(29,973,651)	245,018	1,062,913	817,895	334%
Rates	29,396,786	29,174,027	29,173,862	(165)	0%
Opening Funding Surplus/ (Deficit)	576,865	576,865	3,364,999	2,788,135	483%
Closing Surplus/(Deficit)	0	29,995,910	33,601,775	3,605,864	12%

**Summary totals has rounding difference.*

Comments on Summary of Financial Activity by Programme:

Operating Revenue

Operating Revenue in programme reporting includes Non-operating Grants, Subsidies and Contributions. In view of this, Operating Revenue is reflecting a positive variance of 6% which is primarily due to the proceeds from the sale of 291-295 Vincent Street. The full proceeds from the sale are currently included as profit. However, after the completion of 2014-15 year end, this will be reduced by the carrying value of the assets to reflect the true profit from the sale.

Operating Revenue as presented on the 'Nature and Type' report (Page 33 of **Attachment 1**) has a negative variance of 1%.

Operating Expenditure

The positive variance is currently at 35%.

Transfer from Reserves

This is in a favourable position as the Transfer from Reserves is aligned to the timing of commencement for Capital Works projects that are Reserves funded.

Capital Expenditure

The variance is attributed to the budget phasing of projects within the Capital Works Program. For further detail, refer to Note 7 on **Attachment 1**.

Transfer to Reserves

Monthly transfer to Asset Sustainability Reserve has commenced based on budget phasing. This will be reviewed quarterly and transfers based on actuals will be adjusted after the review.

From July 2015, interest earned on Reserve Investment is transferred to Reserves and re-invested.

Opening Funding Surplus/(Deficit)

The surplus Opening Balance is currently estimated at \$3,364,999 which when compared to the budgeted opening surplus balance of \$576,865, results in a positive variance of \$2,788,134. The actual balance will change once the 2014/15 end of year process is completed.

Closing Surplus/(Deficit)

There is currently a surplus of \$33,601,775 compared to the year to date budget surplus of \$29,995,910. This is substantially attributed to the increased opening balance, the positive variance in operating expenditure (due to lack of depreciation and the proceeds from the sale of 291-295 Vincent Street) and the current level of capital expenditure.

Please note that the July closing balance does not represent cash on hand (please see the Net Current Asset on page 36 of the attachment). Rates Notices (including Emergency Services Levy) were issued on 27 July 2015. As at 31 July 2015 the City had collected a total of \$2,089,880 in Rates and ESL. This left \$33,178,947 still to be received.

Comments on the financial performance as set out in the Statement of Financial Activity (**Attachment 1**) and an explanation of each report is detailed below:

1. Summary of Income and Expenditure by Service Areas (Page 1 – 30)

This statement shows a summary of Operating Revenue and Expenditure by Service Unit.

2. Statement of Financial Activity by Programme Report (Note 2 Page 31)

This statement of Financial Activity shows operating revenue and expenditure classified by Programme.

3. Statement of Comprehensive Income by Nature and Type Report (Note 3 Page 33)

This statement of Financial Activity shows operating revenue and expenditure classified by nature and type.

4. Statement of Financial Position (Note 4 Page 34)

The statement shows the current assets of \$52,471,148 and non-current assets of \$240,910,368 for total assets of \$293,381,515.

The current liabilities amount to \$11,630,166 and non-current liabilities of \$16,854,763 for the total liabilities of \$28,484,930.

The net asset of the City or Equity is \$264,896,586.

5. Statement of Changes in Equity (Note 5 Page 35)

6. Net Current Funding Position (Note 6 Page 36)

Net Current Asset is the difference between the current asset and current liabilities less committed assets and restricted assets. This amount indicates how much capital is used up by day to day activities.

The net current funding position as at 31 July 2015 is \$33,601,775.

7. Capital Expenditure and Funding Summary (Note 7 Page 37 - 43)

The following table is a Summary of the 2015/2016 Capital Expenditure Budget by programme, which compares Year to date Budget with actual expenditure to date. The full Capital Works Programme is listed in detail in Note 7 of Attachment 1.

	Original Budget \$	Year to date Budget \$	Year to Date Actual \$	Full Year Budget Remaining %
Furniture & Equipment	469,300	157,800	0	100%
Plant & Equipment	1,831,650	142,650	92,683	95%
Land & Building	2,858,272	323,370	131	100%
Infrastructure	7,498,125	433,469	129,257	98%
Total	12,657,347	1,057,289	222,071	98%

	Original Budget \$	Year to date Budget \$	Year to Date Actual \$	Full Year Budget Remaining %
Capital Grant and Contribution	1,741,180	178,975	62,000	96%
Cash Backed Reserves	2,391,223	10,000	5,246	100%
Other (Disposal/Trade In)	135,000	42,000	15,832	88%
Own Source Funding – Municipal	8,389,944	826,314	138,992	98%
Total	12,657,347	1,057,289	222,071	98%

Note: Detailed analysis are included on page 37 – 43 of **Attachment 1**.

8. Cash Backed Reserves (Note 8 Page 44)

The Cash Backed Reserves schedule details movements in the reserves including transfers and funds used, comparing actual results with the annual budget.

The balance as at 31 July 2015 is \$8,013,329. The balance as at 30 June 2015 was \$7,763,678.

9. Receivables (Note 9 Page 45)

Receivables of \$2,771,178 are outstanding at the end of July 2015, of which \$421,939 has been outstanding over 90 days. These comprise:

\$399,743 (14.4%) relates to Cash in Lieu Parking. The Cash in Lieu Parking debtors have special payment arrangements for more than one year.

\$22,196 (0.8%) relates to Other Receivables.

\$2,029,481 (73.2%) relates to infringement unpaid. Infringements are sent to Fines Enforcement Registry (FER). FER collect the outstanding balance and return the funds to the City for a fee. Currently we are unable to identify the age of infringement receivables. This will be addressed in future reports.

Finance has been following up outstanding items which relate to Other Receivables by issuing reminders when they are overdue and formal debt collection if reminders are ignored.

10. Rating Information (Note 10 Page 46 - 47)

The notices for rates and charges levied for 2015/16 were issued on 27 July 2015.

The Local Government Act 1995 provides for ratepayers to pay rates by four (4) instalments. The due dates for each instalment are:

First Instalment	31 August 2015
Second Instalment	2 November 2015
Third Instalment	5 January 2016
Fourth Instalment	8 March 2016

To cover the costs involved in providing the instalment programme the following charge and interest rates apply:

Instalment Administration Charge (to apply to second, third, and fourth instalment)	\$12.00 per instalment
Instalment Interest Rate	5.5% per annum
Late Payment Penalty Interest	11% per annum

Pensioners registered with the City for rate concessions do not incur the above interest or charge.

Rates debtors as at 31 July 2015 including deferred rates was \$26,918,096 which represents 89.39% of the outstanding collectable income compared to 86.12% at the same time last year.

11. Beatty Park Leisure Centre – Financial Position Report (Note 11 Page 48)

As at 31 July 2015 the operating surplus for the Centre was \$74,786 in comparison to the year to date budgeted deficit of \$128,700.

The July budget estimates for Beatty Park Leisure Centre were mostly under or less than the actual expenditure incurred or revenue received. This was due largely to depreciation not being charged in July 2015. Depreciation would have increased expenditure by around \$65,000. This has been detailed in the variance comments report in **Attachment 1**.

The cash position showed a current cash surplus of \$74,786 in comparison year to date budget estimate of a cash deficit of \$65,244.

12. Explanation of Material Variances (Note 12 Page 49 - 56)

The materiality threshold used for reporting variances is 10% on variances more than \$10,000. This threshold was adopted by Council as part of the Budget adoption for 2015-16 and is used in the preparation of the statements of financial activity when highlighting material variance in accordance with *Financial Management Regulation 34(1) (d)*.

CONSULTATION/ADVERTISING:

Not applicable.

LEGAL/POLICY:

Section 6.4 of the Local Government Act 1995 requires a local government to prepare an annual financial report for the preceding year and such other financial reports as are prescribed.

Regulation 34 (1) of the Local Government (Financial Management) Regulations 1996 requires the local government to prepare each month, a statement of financial activity reporting on the source and application of funds as set out in the adopted Annual Budget.

A statement of financial activity and any accompanying documents are to be presented at the next Ordinary Meeting of the Council following the end of the month to which the statement relates, or to the next Ordinary Meeting of Council after that meeting.

RISK MANAGEMENT IMPLICATIONS:

Low: In accordance with *Section 6.8 of the Local Government Act 1995*, a local government is not to incur expenditure from its Municipal Fund for an additional purpose except where the expenditure is authorised in advance by an absolute majority decision of Council.

STRATEGIC IMPLICATIONS:

Strategic Plan 2013-2023:

"4.1 Provide good strategic decision-making, governance, leadership and professional management:

4.1.2 Manage the organisation in a responsible, efficient and accountable manner;

(a) Continue to adopt best practice to ensure the financial resources and assets of the City are responsibly managed and the quality of services, performance procedures and processes is improved and enhanced."

SUSTAINABILITY IMPLICATIONS:

Expenditure has been incurred in accordance with the adopted Budget which has been structured on financial viability and sustainability principles.

FINANCIAL/BUDGET IMPLICATIONS:

Not applicable.

COMMENT:

All expenditure included in the Financial Statements is incurred in accordance with Council's adopted Annual Budget or has been authorised in advance by Council where applicable.