

Notice is given that an additional meeting of the Tasman District Council will be held on:

Date: Thursday 7 November 2024
Time: 1.00 pm
Meeting Room: Tasman Council Chamber
Venue: 189 Queen Street, Richmond
Zoom conference link: <https://us02web.zoom.us/j/83732229138?>
Meeting ID: 837 3222 9138
Meeting Passcode: 397128

Tasman District Council

Kaunihera Katoa

AGENDA

MEMBERSHIP

Mayor	Mayor T King	
Deputy Mayor	Deputy Mayor S Bryant	
Councillors	Councillor C Butler	Councillor M Kininmonth
	Councillor G Daikee	Councillor C Mackenzie
	Councillor B Dowler	Councillor K Maling
	Councillor J Ellis	Councillor B Maru
	Councillor M Greening	Councillor D Shallcrass
	Councillor C Hill	Councillor T Walker

(Quorum 7 members)

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AGENDA

1 OPENING, WELCOME, KARAKIA

2 APOLOGIES AND LEAVE OF ABSENCE

Recommendation

That apologies be accepted.

3 DECLARATIONS OF INTEREST

4 LATE ITEMS

5 REPORTS

5.1 Quarterly Financial Report 4

6 CONFIDENTIAL SESSION

Nil

7 CLOSING KARAKIA

5 REPORTS

5.1 QUARTERLY FINANCIAL REPORT

Information Only - No Decision Required

Report To:	Tasman District Council
Meeting Date:	7 November 2024
Report Author:	Paul Egan, Management Accounting Manager
Report Authorisers:	Mike Drummond, Chief Financial Officer
Report Number:	RCN24-11-1

1. Summary / Te Tuhinga Whakarāpoto

- 1.1 This three-monthly financial report provides an update on key financial information as at the end of September 2024.
- 1.2 This report updates actual revenues, expenditure, and the financial position for year to date, 30 September 2024.
- 1.3 In the three months to September 2024, material financial pressures on the Council for this financial year are becoming clear. The tight budgeting included in the 2024-34 Long Term plan carried a higher risk of adverse variances as it limited any discretionary spending that could be sacrificed to ensure the overall financial performance remained within budget.
- 1.4 While a full reforecast has not been able to be undertaken due to constraints with resourcing and reporting on the prior financial year, trends have been identified to bring to the Council's attention.
- 1.5 The year-to-date operating deficit on the statement of comprehensive financial performance is \$2.4 million worse than expected at this point. The controllable deficit is \$1.6 million favourable to budget year to date September 2024.
- 1.6 Financial pressures are coming from macro level factors that impact the whole organisation, and issues in particular areas. These pressures are elaborated upon in sections six and seven.
- 1.7 Treasury Policy Net debt at 30 September was \$261.7 million, compared to the target of \$279.7 million at June 2025.
- 1.8 Capital expenditure excluding Joint Ventures is \$16.4 million; 21% of revised full year budget of \$80.5 million.
- 1.9 Some expenditure, especially insurance and rates occurs and is budgeted for mainly in the first quarter of the financial year.
- 1.10 **Table 1** below provides a reconciliation of the accounting result compared to the operational position. The operational position strips out non-cash items and items that can only be used to fund capital expenditure e.g. swap revaluations, vested assets, and capital subsidies. This is then a proxy for running a balanced budget where operational expenditure is covered by operational income.

Table 1

Accounting Surplus v Operating Surplus, \$000's				
	YTD Actual Sep 2024	YTD Budget Sep 2024	Variance YTD \$000	Budget 2024/25
Accounting Surplus/(Deficit)	(5,515)	(3,139)	(2,376)	29,605
Less Non Controllable				
Development and financial contributions	2,317	3,685	(1,368)	14,739
Revaluation of Swaps (non cash)	0	0	(0)	1,132
Vested Assets (non cash)	0	0	0	24,720
Capital subsidies	1,708	2,984	(1,276)	11,936
Share of Associates	(586)	788	(1,374)	(3,523)
Total	3,439	7,457	(4,018)	49,004
Controllable Operational Surplus/(Deficit)	(8,954)	(10,596)	1,642	(19,399)
Explained by				
Income	48,624	43,537	5,087	168,862
Expenditure	57,578	54,133	(3,445)	188,261
Total	(8,954)	(10,596)	1,642	(19,399)

2. Recommendation/s / Ngā Tūtohunga

That the Tasman District Council

1. receives the Quarterly Financial Report for the three months to 30 September 2024; and
2. notes that there are significant cost pressures on the Council this financial year, and that Council staff are working on a mitigation plan for this, and the 2025/26 financial year.

3. Background and Discussion

- 3.1 This is the first financial report for the 2024/2025 financial year and covers financial performance for the three months to 30 September 2024.
- 3.2 Controllable operating income for September 2024 YTD is \$48.6 million. This is a YTD favourable variance of \$5 million against a September 2024 YTD budget of \$43.5 million. Receipt of the Infrastructure Holdings Limited (IHL) dividend which was declared too late for inclusion in the 2023/24 financial year results, and higher Operating Subsidies are the key drivers.
- 3.3 Controllable operating expenditure for September 2024 YTD is \$57.6 million. This is an unfavourable variance of \$3.4 million on the September 2024 YTD budget of \$54.1 million.
- 3.4 There are considerable financial pressures that will be discussed in Sections seven and eight.

4. Statement of Comprehensive Revenue and Expense

Table 2

Statement of Comprehensive Revenue and Expense, \$000's For the year to September 2024						
	YTD Actual Sep 2024	YTD Budget Sep 2024	Variance YTD	YTD Actual % of FY Budget	Annual Plan Budget 2024/25	Total Budget 2024/25
REVENUE						
General rates	14,636	14,688	(52)	25%	58,752	58,752
Targeted rates	12,963	12,706	257	25%	51,573	51,573
Development and financial contributions	2,317	3,685	(1,368)	16%	14,739	14,739
Operating subsidies and grants	4,507	2,814	1,693	40%	12,183	11,280
Capital subsidies and grants	1,708	2,984	(1,276)	14%	11,403	11,936
Fees and charges	6,555	5,706	849	28%	23,217	23,217
Other revenue	9,243	7,291	1,952	20%	47,288	47,288
Fair value gain on revaluation	0	0	0	0%	1,132	1,132
Other gains	0	100	(100)	0%	400	400
Finance income	720	232	488	67%	1,036	1,072
Revenue of joint operations	0	0	0	0%	7,128	7,128
Revenue of joint ventures	0	0	0	0%	0	0
Share of associates surplus/deficit	0	(788)	(788)	0%	3,150	3,150
Total revenue	52,649	50,994	1,655	23%	232,001	231,667
EXPENSE						
Finance expense	4,644	3,174	(1,470)	37%	11,003	12,696
Employee related expense	10,548	10,736	188	26%	41,131	41,131
Other expenses	20,279	21,723	1,444	33%	58,657	61,386
Maintenance	10,241	7,271	(2,970)	38%	27,163	27,163
Depreciation and amortisation	11,866	11,229	(637)	26%	45,885	45,885
Expenditure of joint operations	586	0	(586)	4%	(15,458)	(13,801)
Total expense	58,164	54,133	(4,031)	29%	(199,297)	(202,062)
Surplus/(deficit) before taxation	(5,515)	(3,139)	(2,376)	-19%	32,704	29,605
Income tax expense	0	0	0		0	0
Surplus/(deficit) after tax	(5,515)	(3,139)	(2,376)	-19%	32,704	29,605
Total other comprehensive revenue and expense	0	0	0		0	0
Total comprehensive revenue and expense	(5,515)	(3,139)	(2,376)	-19%	32,704	29,605
TOTAL OPERATING SURPLUS (as above)	(5,515)	(3,139)	(2,376)	-19%	32,704	29,605
Less Non-Controllable Activities						
Development and financial contributions	2,317	3,685	(1,368)	16%	14,739	14,739
Capital subsidies	1,708	2,984	(1,276)	14%	11,403	11,936
Vested assets	0	0	0	0%	24,720	24,720
Fair value movement on revaluation	0	0	0	0%	1,132	1,132
Share of JV & associates surplus/deficit	(586)	788	(1,374)	17%	(5,180)	(3,523)
Total Non-Controllable Activities	3,439	7,457	(4,018)	7%	46,814	49,004
Total controllable surplus/deficit	(8,954)	(10,596)	1,642	46%	(14,110)	(19,399)
Explained by						
Income	48,624	43,537	5,087	29%	169,729	168,862
Expenditure	57,578	54,133	(3,445)	31%	183,839	188,261
Total	(8,954)	(10,596)	1,642	46%	(14,110)	(19,399)

5. Statement of Financial Position

Table 3

Statement of Financial Position For the year to September 2024, \$'000's			
	YTD Actual Sep 2024	Total Budget 2024/25	Commentary
CURRENT ASSETS			
Cash and cash equivalents	5,999	17,888	
Trade and other receivables	24,791	16,426	Rates receivables \$2.45m, similar to LYTD
Other financial assets	30,228	4,972	Pre-funding Term deposits \$30.1m
Non current assets held for resale	0	0	
Total current assets	61,018	39,286	
CURRENT LIABILITIES			
Trade and other payables	36,649	27,646	Rates in Advance \$17m
Employee benefit liabilities	4,829	4,352	Annual Leave \$3.8m vs 3.6m LYTD
Current portion of borrowings	21,503	34,003	
Current portion of derivative financial instruments	0	(573)	
Total current liabilities	62,981	65,428	
Working capital	(1,963)	(26,142)	
NON CURRENT ASSETS			
Investments in associates	211,303	205,576	Includes IHL, TBHT
Other financial assets	63,425	52,454	Include WWL, NRSBU, NTRLBU
Intangible assets	5,078	4,994	ETS credits
Forestry assets	22,859	32,229	Lower due to harvesting, ETS, and prices
Investment property	6,190	6,846	Includes Mapua precinct, 183 Queen St
Property, plant and equipment	2,355,382	2,490,500	
Total non current assets	2,664,237	2,792,599	
NON CURRENT LIABILITIES			
Term borrowings	340,185	328,936	
Derivative financial instruments	1,843	(702)	Interest rate swaps
Employee benefit liabilities	0	0	
Provisions	3,233	3,429	Landfill closure provisions
Total non current liabilities	345,261	331,663	
Total net assets	2,317,013	2,434,794	
EQUITY			
Accumulated equity	894,387	930,711	
Restricted reserves	37,214	20,121	
Revaluation reserves	1,385,412	1,483,962	
Total equity	2,317,013	2,434,794	

6. Financial Pressures

- 6.1 The Council is facing several significant financial pressures that are a result of both macroeconomic and others, particular to the Council.
- 6.2 Net finance expenses (interest costs) are \$982,000 over budget for the quarter, 34% of the full year budget. If this continues then Net Finance expenses are likely to be approximately \$3.1 million over budget for the year. Part of this is influenced by declines in interest rates being less, and later than expected. Work is continuing with our Treasury Advisors, PWC, to understand the drivers of the variance.

- 6.3 Sector inflation has been higher for some items than allowed for in the budget modelling assumptions. Accepted practice has been to use inflation rates obtained from an economic consultancy that provides a specialist set of inflation rates for local government. These have not been sufficient for some categories of cost, especially maintenance and operations contracting costs.
- 6.4 Insurance costs are higher this year, and while not all costs have been advised yet, they are expected to be approximately 17% higher this year, drivers include the increasing value of the assets and difficulties obtaining full cover for public liability and professional indemnity.
- 6.5 Maintenance costs are tracking at 38% of full year budget 25% of the way into the year. This is a result of a combination of some seasonal work that occurred predominately in the first quarter but is mainly due to insufficient budget to cover higher cost escalations, and growth. Additionally, some items were inadvertently reduced/removed in the budget prioritisation process. New Zealand Transport Agency (NZTA) funding notified August 2024 is less than the LTP budget which was approved in June 2024.

7. Activity Commentary

Transportation

- 7.1 As mentioned above, transportation is impacted by higher maintenance costs than budgeted together with lower NZTA funding. Additionally, insufficient allowance was made for some items through the budget prioritisation process, which will necessitate further prioritisation this year.
- 7.2 The major cost pressure in this area year to date is maintenance which is tracking at 35.6% for full year budget 25% of the way through the year – some of this is seasonal, some has other causes.
- 7.3 Routine Drainage Maintenance is at 53% of full year budget – mostly programmed early in the year, this work will drop back and is expected to end the year on budget.
- 7.4 General Road Maintenance works at 32% of full year budget have been a programme focus early in the year and are expected to end the year on budget.
- 7.5 Environmental Maintenance including landslips and protecting against them is at 44% of full year budget. Current management estimates expect this budget to be overspent at year end.
- 7.6 Inflation related pressures lead to contract escalations for maintenance and operations contracts being higher than allowed for in the budget.
- 7.7 Insufficient allowance was made in this year's budget for several items including:
 - 7.7.1 Database and Asset Management is 130% over full year budget in the first quarter but will be offset by under-expenditure elsewhere.
 - 7.7.2 Landscape maintenance was under budgeted by \$150,000 for the full year.
 - 7.7.3 Street cleaning and litter bin servicing costs were under budgeted \$230,000.
- 7.8 NZTA funding budgets for Tasman District Council determined by NZTA in August 2024, were less than budgeted in the LTP by \$716,000. This was presented to the Council at the meeting on 24 October 2024, with direction that the locally funded share of expenditure budgeted can continue, but the portion of expenditure not funded by NZTA should not occur.

7.9 Responses being considered to higher than budgeted maintenance costs are to:

7.9.1 Revise the growth in asset network to be included in 2025/26 annual plan.

7.9.2 Revise the timing of contractual escalations to better align with budget approval timing.

7.9.3 Prioritise work and expenditure commitments where contractual flexibility allow.

Water Supply

7.10 The major cost pressure in this area year to date is maintenance expense which is tracking at 39% for full year budget 25% of the way through the year. Routine maintenance costs, in particular sampling and monitoring, were not fully funded and a deliberate decision was made to reduce reactive maintenance budgets to reduce rates. Other Operations' expenses had issues, but not to the same extent.

7.11 Some of these pressures are seasonal, with work being undertaken early in the financial year, some are inflation related, and some are where insufficient allowance was made in the budget. Through the Council LTP process some budgets especially in reactive maintenance were reduced. This position carried with it an element of risk in being able to stay within budget.

7.12 Impacted areas (excluding Waimea Community Dam) related costs include:

7.12.1 Reactive Maintenance at 39% of full year budget – there is a higher incidence of this in the winter months and is expected to end the year on budget. Pipe failures – asbestos cement and “blue brute” PVC pipes continue to be high due to a lagging renewal programme. New requirements to comply with the water regulator Taumata Arowai standards are leading to an increase in reactive work for water quality issues and reservoirs.

7.12.2 Routine Maintenance works at 41% of full year budget have not been sufficiently allowed for in the budget and are expected to end the year approximately \$400,000 over budget. A significant part of these unbudgeted costs is for mandatory sampling and monitoring to meet the new drinking water standards.

7.12.3 The Drinking Water Quality Assurance Rules 2022 were implemented from 1 January 2023. These replaced the previous Drinking Water Standards for New Zealand. The Rules introduced a range of increased minimum monitoring requirements and at the same time, the Water Services Act (replacing the Health Act) has elevated the expectations on water suppliers to manage risk. The combined result has been the need to increase monitoring and risk management effort.

7.13 Inflation related pressures lead to contract escalations for maintenance and operations contracts being higher than allowed for in the budget. The work programme, total out-turn costs, and rate escalations are agreed with the alliance contractor after the budgets are set.

7.14 Insufficient allowance was made in this year's budget for a number of items including:

7.14.1 Reactive maintenance – reticulation (water leaks), treatment plant (aeration towers) and reservoirs, however the reservoirs cost (\$25,000) were a once off to remove trees threatening to fall onto the Stagecoach Rd reservoirs.

7.14.2 Routine maintenance - reticulation - sampling of network around \$400,000, sampling to new standards for treatment plants and reservoirs.

- 7.15 Responses being considered to higher than budgeted maintenance costs are to:
- 7.15.1 Revise the growth in asset network to be included in 2025/26 annual plan.
 - 7.15.2 Revise the timing of contractual escalations to better align with budget approval timing.
 - 7.15.3 Prioritise work and expenditure commitments where contractual flexibility allows.
 - 7.15.4 The Council to approve reductions to levels of service to cut costs. The Council needs to be specific as to what routine maintenance activities will be cut to reduce costs with the understanding that this will lead to non-compliance and possibly prosecutions and fines. Under the new legislation there is a personal liability for non-compliance and contamination events.

Wastewater

- 7.16 Wastewater is a District-wide activity. The major cost pressure in this area year to date is maintenance expense which is tracking at 32% for full year budget 25% of the way through the year. Other Operations expenses are tracking on budget YTD.
- 7.17 Some of these pressures are inflation related, and some are where insufficient allowance was made in the budget due to the risk position the Council took in accepting a reduction in reactive maintenance budgets.
- 7.18 Impacted areas costs include:
- 7.18.1 Reactive Maintenance at 28% of full year budget
 - 7.18.2 Routine Maintenance works at 34% of full year budget have not been sufficiently allowed for in the budget.
- 7.19 Routine maintenance work has had a year to date spend of \$364,000 versus a budget of \$183,000 an overspend of \$116,000.
- 7.19.1 Of that overspend, \$83,000 has been related to the Tākaka Wastewater Treatment Plant (WWTP), servicing pumps and replacing filter fabrics.
 - 7.19.2 Other areas of extra cost include higher sampling in Tākaka and maintaining the Motueka WWTP, in particular the membrane filtration.

Waste Management and Minimisation

- 7.20 Waste Management and Waste Minimisation are District-wide activities, each operating as closed accounts. Waste management is largely funded by fees and charges, local disposal levy from the landfill business unit and a smaller amount of general rate. Waste Minimisation is fully funded by the New Zealand Waste Disposal Levy.
- 7.21 The Kerbside activity provides recycling, and user pays rubbish collection services to 80% of properties in the District. The activity is funded by a targeted rate.
- 7.22 The major cost pressure in the Waste Management area year to date is operations and routine and reactive maintenance expenses, which are tracking 12% above budget. Landfill disposal and transport expenses are significantly below budget (70% of budget), but these expenses are accompanied by lower income, particularly at Richmond (57% of budget), with a net adverse variance. Illegal dumping activity is also tracking significantly above budget.
- 7.23 Waste Minimisation is tracking favourably against budget. Income from the New Zealand Waste Disposal Levy is tracking above forecast and net expenses are tracking below or on budget.

- 7.24 Expenses in the Kerbside recycling and rubbish collection activity are tracking 20% above budget, driven by contractual costs growing greater than inflation, property growth greater than forecast and an error in budgeting for operation of the Materials Recovery Facility (MRF).

Reserves and Facilities

- 7.25 The Reserves area encompasses Parks and Reserves, Community Housing, Community Facilities, and Special Purposes Committees.
- 7.26 The major cost pressure in this area is maintenance expenses, particularly in Parks and Reserves and Community Facilities. Other expenses in these areas are tracking materially in line with budget.
- 7.27 Parks and Reserves has growth in the number of assets being maintained in the District, combined with rising cost inflation pressures on contractors that are passed through to the Council. These exceed the growth allowances made in the budget, with the quantum of contractual cost rate escalations not being confirmed until after the budget was approved.
- 7.28 Parks and Reserves maintenance expenditure is currently \$220,000 over YTD budget, 28% of full year expenditure. While there are some seasonal factors as to when work is done, such as turf renovations, maintenance expenditure is expected to end the financial year over budget by approximately \$440,000.
- 7.29 Community Facilities maintenance expenditure is also higher than expected at 36% of full year budget, \$271,000 over budget. This is expected to be over budget by this amount at year end.
- 7.30 Both Parks and Reserves and Community Facilities have significant rates and insurance costs early in the year forming a significant amount of their annual Other Expenditure.
- 7.31 Responses being considered to higher than budgeted maintenance costs are to:
- 7.31.1 Revise the growth in asset network to be included in 2025/26 annual plan.
 - 7.31.2 Revise the timing of contractual escalations to better align with budget approval timing.
 - 7.31.3 Prioritise work and expenditure commitments where contractual flexibility allows.

Building Assurance

- 7.32 Building Assurance activities ran at a deficit last financial year with the drop in new dwelling building consent applications contributing to a revenue drop that left the activity underfunded.
- 7.33 This September year to date the activity is in surplus, and if this continues will have it on track to navigate the lower revenue holiday period, make sufficient surplus to recover the budgeted portion of last year's deficit and finish on budget overall.
- 7.34 Reasons for this are an increase in volumes in the first quarter, the increase to fees and charges, and changes to the level of staffing in the activity.
- 7.35 New dwelling building consent applications (excluding amendments) are 78 for the YTD September, versus 59 for the same period last year

Service and Strategy

- 7.36 Services and Strategy have an unfavourable variance of \$114,000 YTD September in employee expenditure - due to higher than budgeted role occupancy.

- 7.37 The major expenditure item budgeted in Services and Strategy this year is the potential grant funding for the regional Museum storage facility. This is loan funded and including the \$1.032 million carry over from last year, has a full year budget of \$3.172 million.

Information Services

- 7.38 Information Services is at 28.5% of its Other Expenses full year budget. This is due to licencing fees expense for several core applications that are paid annually falling in the first quarter. Digital Innovation Programme costs are ramping up as the CRM project progresses – this expenditure is deemed operating expenditure under current financial reporting standards, and is loan funded. If the current level of DIP expenditure continues this expenditure will end the year over-budget, a turning point from prior years where there was a carry forward of unexpended budget.

8. Net Debt

- 8.1 Treasury Policy Net Debt is \$261.7 million as at 30 September 2024, compared to a full-year budget of \$279.7million. The increase from an opening Net Debt of \$247.8 million is due to the funding of capital expenditure during the first three months of the year. The quarterly rates' take impacts on cash flow movements and, therefore, Net Debt. (Net Debt is gross debt less cash on hand and other liquid financial assets).

8.1.1 Opening Net Debt 1 July 2024 \$247.8 million

8.1.2 Net Debt 30 September 2024 \$261.7 million

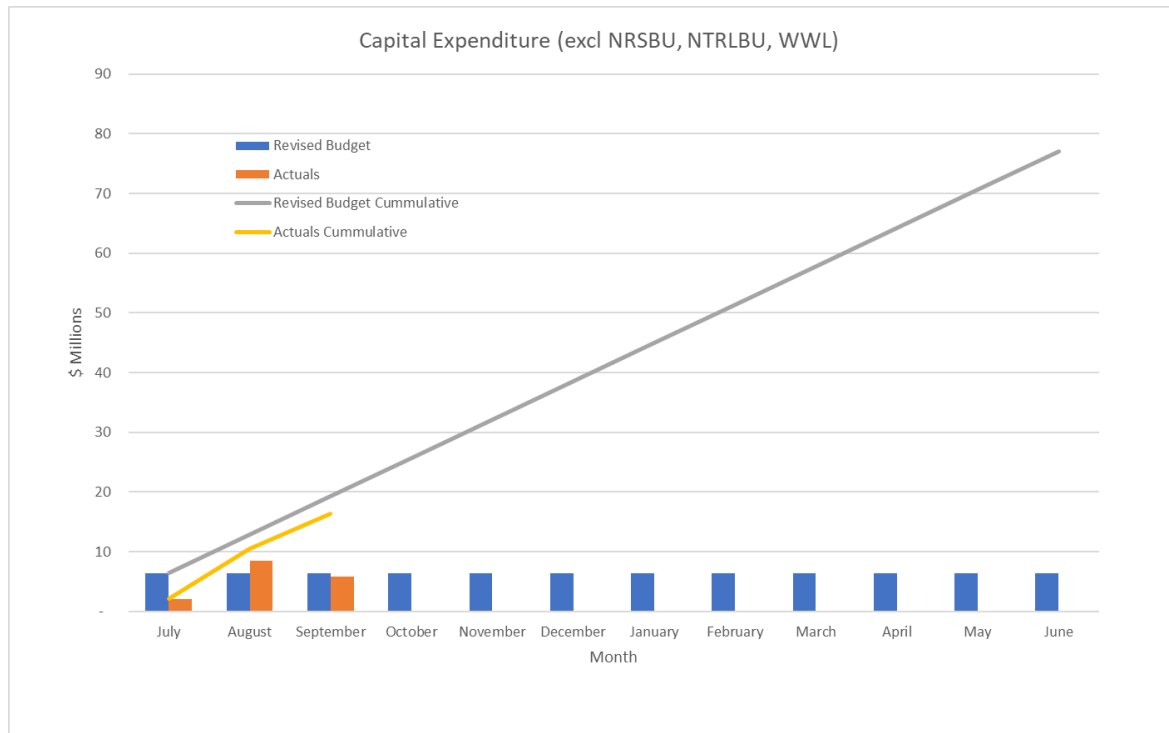
8.1.3 Net Debt June 2025 per 2024/25 Annual Plan \$279.7 million

9. Capital Expenditure Analysis

Table 4

Department	YTD Actuals	2024/25 Annual Plan Budget	Carry Forward from 2023/24	2024/25 Full Year Budget	Changes approved this year	Revised 2024/25 Full Year Budget	2023/24 Full Year Actuals
Environmental Assurance	169,969	263,777		263,777		263,777	15,686
Community Infrastructure	13,092,112	73,757,469	3,566,478	77,323,947	(7,354,221)	69,969,726	83,038,178
Service and Strategy	135,783	349,170		349,170		349,170	445,275
Information, Science & Technology	195,524	4,283,881		4,429,480		4,429,480	3,915,226
Enterprise Portfolio	2,459,743	7,964,338		8,318,509		8,318,509	13,433,592
Council Operations	0	0		0		0	52,998
Departmental Overheads	314,987	1,880,263	1,003,562	2,384,055		2,384,055	3,472,846
Total Including Joint Ventures	16,368,118	88,498,898	4,570,040	93,068,938	(7,354,221)	85,714,717	104,373,800
Joint Ventures	0	7,950,961	767,887	8,718,848		8,718,848	23,899,281
Total Excluding Joint Ventures	16,368,118	80,547,937	3,802,153	84,350,090	(7,354,221)	76,995,869	80,474,519

- 9.1 Overall, capital expenditure (including approved changes) is tracking at 19% of revised full year budget including Joint Ventures. Excluding Joint Ventures on a similar straight-line basis, the programme is tracking at 21% of revised full year budget.

Figure 1

- 9.2 At its meeting on 24 October 2024, the Council approved some changes to timing of capital expenditure in the Long-Term-Plan. These were that \$6.2 million of expenditure in future years of the Long-Term-Plan was approved to be brought forward into the 2024/25 financial year, while at the same time pushing out \$13.6 million from 2024/25 to future years. These changes are reflected in the revised budget in Table 4 above.

10. Attachments / Tuhinga tāpiri

Nil