

FINANCIAL RESULT – YEAR ENDED 30 JUNE 2015

Department: Finance

EXECUTIVE SUMMARY

1. This report provides the financial results for the year ended 30 June 2015 and the financial position as at that date.

\$ Million	Actual	Budget	Variance		Last Year
Revenue	252.542	250.518	2.024	F	254.994
Expenditure	264.016	249.590	(14.426)	U	253.130
Surplus/(Deficit) Council	(11.474)	0.928	(12.402)	U	1.864
Waipori Fund Net	9.886	3.420	6.466	F	4.591
Net Surplus/(Deficit) including Waipori	(1.588)	4.348	(5.936)	U	6.455
Capital Expenditure	45.669	51.990	6.321	F	39.074
Debt					
Current	-	-	-		-
Term	240.111	245.451	5.340	F	221.527
Total Debt	240.111	245.451	5.340	F	221.527

RECOMMENDATIONS

That the Finance Committee:

- a) **Notes** the financial performance for the year ended 30 June 2015 and the financial position as at 30 June 2015.
- b) **Notes** that the result is subject to external audit.

BACKGROUND

2. This report provides a commentary of the financial performance of Council for the year ended 30 June 2015 and the financial position as at that date.

DISCUSSION

3. The operating deficit for the twelve months to June was \$1.588 million or \$5.936 million worse than budget.
4. The unfavourable variance against budget was due to the following:
 - \$16.107 million – higher than expected other expenses due primarily to a write-down of non-property investments of \$6.417 million (Dunedin Venues Management Limited), as well as fair value losses on Investment property of \$8.558 million. Also included in this variance was a loss on the disposal of a property (held for re-sale) at Dukes Road (\$677k). Note that the investment write-downs are non-cash;
 - \$1.985 million – personnel costs for the year were greater than budgeted due to higher than expected uptake of superannuation by staff, costs associated with various organisational restructures, additional salaries recovered by external income and the impact of SP10 grade changes being higher than anticipated.
 - \$1.580 million - lower than budgeted grants revenue due primarily to NZTA subsidies being later than predicted as a result of the delayed timing of the associated capital expenditure programme; and
 - \$1.564 million – higher than expected consultant costs including work associated with various process reviews across council along with outsourcing of some regulatory work to other territorial authorities.
 - \$604k – lower than expected development contributions primarily related to the Mosgiel plan change area.
5. These unfavourable variances were partially offset by:
 - \$6.466 million - Waipori fund gains resulting from favourable movements in equity values and exchange rates associated with equities held in a foreign currency;
 - \$4.392 million - unbudgeted other operating revenue including insurance claims, project and events revenue, management fee charged to Dunedin City Treasury Limited and several bequests to the Art Gallery. Property revenue was also ahead of expectations due to fair value gains on a number of investment properties and improved occupancy across the residential portfolio;
 - \$3.023 million - lower than expected interest expense due to debt levels being less than budget and lower interest costs;
 - \$1.989 million - savings in asset maintenance costs, largely in the Parks and Three Waters areas; and
 - \$424k - lower than expected depreciation expenditure resulting from the delayed timing of the capital expenditure programme.
6. Capital expenditure was less than budget by \$6.321 million, primarily due to delayed roading and three waters projects.

FINANCE COMMITTEE

7 September 2015

7. Total Council debt as at 30 June 2015 was \$240.111 million or \$5.340 million lower than budget. The debt included \$30.000 million transferred from DVL which was not budgeted to occur in this financial year.

OPTIONS

8. Not applicable.

NEXT STEPS

9. Not applicable.

Signatories

Author:	Lawrie Warwood, Financial Analyst
Authoriser:	Gavin Logie, Financial Controller Grant McKenzie, Group Chief Financial Officer

Attachments

	Title
A	One Page Financial Summary
B	Statement of Financial Performance
C	Statement of Financial Position
D	Statement of Cashflows
E	Capital Expenditure Summary by Activity
F	Borrowing and Investment Policy
G	Statement of Public Debt
H	Summary of Operating Variances
I	Financial Review

SUMMARY OF CONSIDERATIONS***Fit with purpose of Local Government***

The financial expenditure reported in this report relates to providing local infrastructure, public services and regulatory functions for the community.

Fit with strategic framework

	Contributes	Detracts	Not applicable
Social Wellbeing Strategy	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Economic Development Strategy	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Environment Strategy	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Arts and Culture Strategy	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
3 Waters Strategy	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Spatial Plan	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Integrated Transport Strategy	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Parks and Recreation Strategy	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Other strategic projects/policies/plans	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

This report has no direct contribution to the Strategic Framework, although the financial expenditure reported in this report has contributed to all of the strategies.

Māori Impact Statement

There are no known impacts for tangata whenua.

Sustainability

There are no known implications for sustainability.

LTP/Annual Plan / Financial Strategy

This report fulfils the internal financial reporting requirements for Council.

Financial considerations

Not applicable – reporting only.

Significance

Not applicable – reporting only.

Engagement - external

There has been no external engagement.

Engagement – internal

The report is prepared as a summary for the individual department financial reports.

Risks: Legal / Health and Safety / Conflict of Interest etc.

There are no known risks.

Community Boards

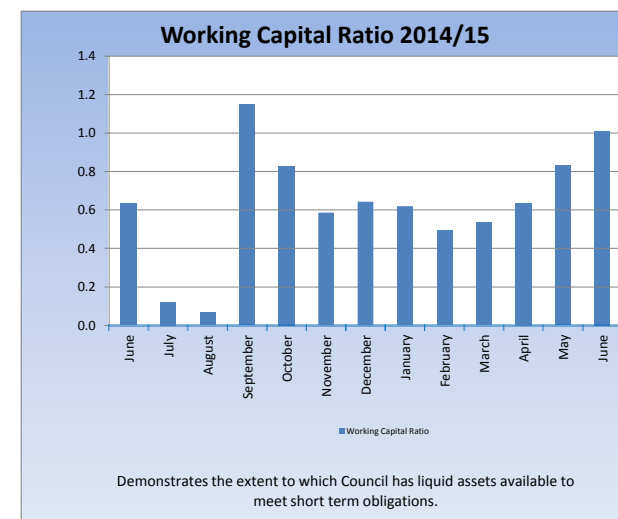
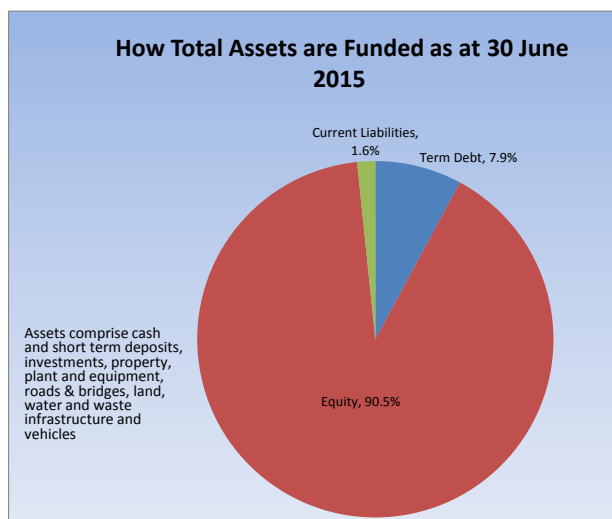
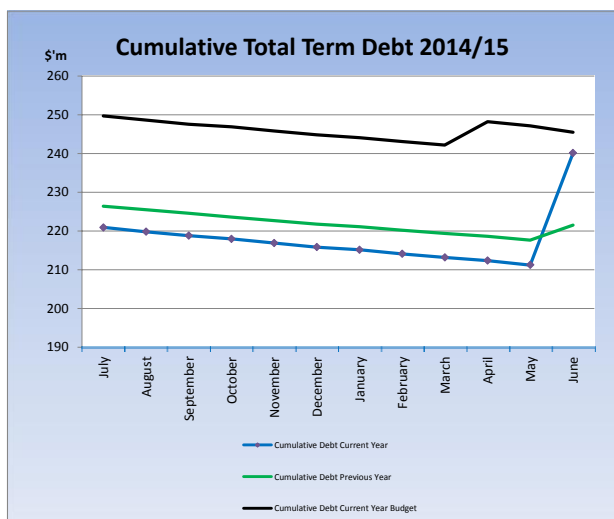
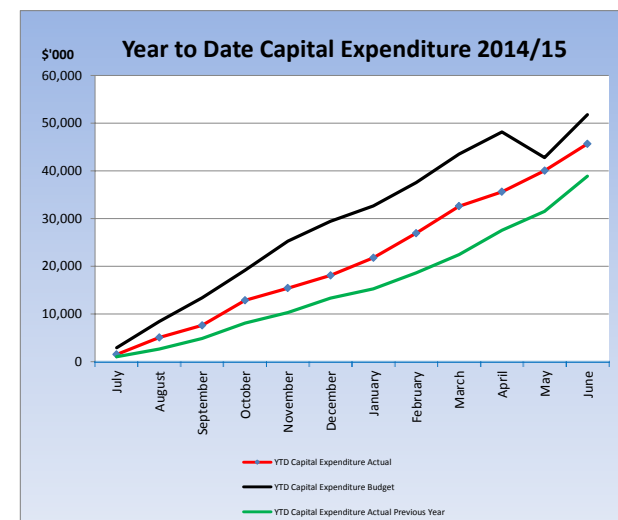
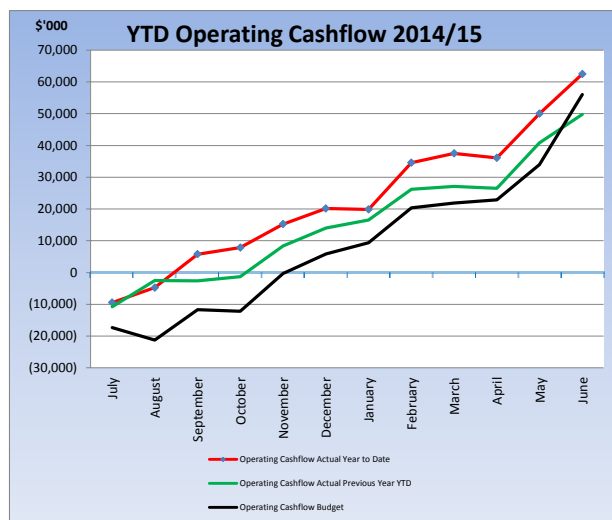
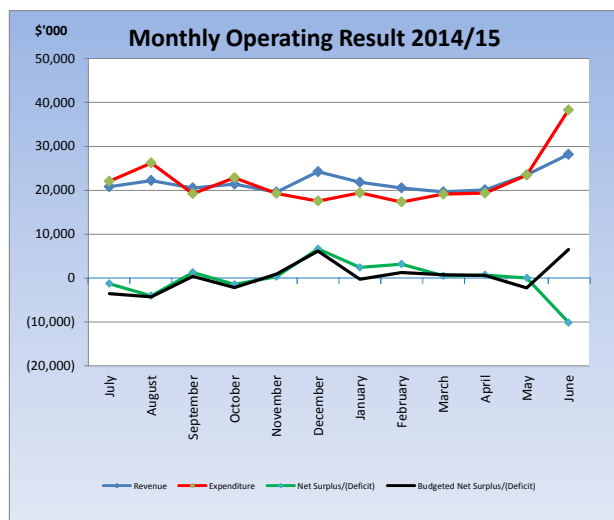
There are no known implications for Community Boards.

DUNEDIN CITY COUNCIL

SUMMARY FINANCIAL INFORMATION AS AT 30 JUNE 2015



Attachment A




DUNEDIN CITY COUNCIL
Statement of Financial Performance
For the Year Ending 30 June 2015
Amount : \$'000



Mth Actual	Mth Budget	Mth Variance			Full Year Actual	Full Year Budget	Full Year Variance		LY Full Actual	Full Year Budget
REVENUE										
10,435	10,473	38	U	Rates Revenue	125,397	125,228	169	F	121,829	125,228
93	45	48	F	Rates Penalties	633	650	17	U	589	650
11,823	10,066	1,757	F	Other Operating Revenue	68,856	64,464	4,392	F	70,178	64,464
3,600	2,861	739	F	Grants	21,351	22,931	1,580	U	16,108	22,931
36	66	30	U	Contributions	232	836	604	U	2,968	836
2,316	2,878	562	U	Internal Revenue	36,073	36,409	336	U	43,322	36,409
28,303	26,389	1,914	F	TOTAL REVENUE	252,542	250,518	2,024	F	254,994	250,518
EXPENDITURE										
5,085	3,555	1,530	U	Personnel Costs	48,300	46,315	1,985	U	46,347	46,315
5,300	4,796	504	U	Asset Ops & Mtce	42,207	44,196	1,989	F	42,579	44,196
1,616	727	889	U	Materials, Supplies, Services	9,791	9,010	781	U	9,815	9,010
121	(70)	191	U	Elected Members Costs	1,362	1,356	6	U	1,274	1,356
627	623	4	U	Energy Costs	5,814	5,940	126	F	5,553	5,940
451	275	176	U	Premises Costs	12,159	12,009	150	U	14,584	12,009
31	28	3	U	Cost of Sales	428	488	60	F	451	488
-	3	3	F	Insurance	2,315	2,344	29	F	2,072	2,344
1,538	909	629	U	Fees & Levies	9,455	7,891	1,564	U	8,633	7,891
552	471	81	U	General Administration Expense	4,875	5,669	794	F	5,849	5,669
157	73	84	U	Grants & Subsidies	6,852	7,044	192	F	8,228	7,044
14,993	66	14,927	U	Other Expenses	16,903	796	16,107	U	3,791	796
2,271	2,751	480	F	Internal Charges	35,371	34,901	470	U	35,804	34,901
5,074	4,472	602	U	Depreciation	53,248	53,672	424	F	52,158	53,672
469	1,494	1,025	F	Interest	14,936	17,959	3,023	F	15,992	17,959
38,285	20,173	18,112	F	TOTAL EXPENDITURE	264,016	249,590	14,426	U	253,130	249,590
(9,982)	6,216	16,198	U	NET SURPLUS (DEFICIT) EXCLUDING WAIPORI	(11,474)	928	12,402	U	1,864	928
Add										
(141)	285	426	U	Waipori Fund Net Operating Result	9,886	3,420	6,466	F	4,591	3,420
(10,123)	6,501	16,624	U	NET SURPLUS (DEFICIT) INCLUDING WAIPORI	(1,588)	4,348	5,936	U	6,455	4,348

ATTACHMENT C

DUNEDIN CITY COUNCIL				
Core Council Statement of Financial Position				
As at 30 June 2015				
Amount : \$'000				
As at 30-Jun-14		As at 30-Jun-15	Budget 30-Jun-15	As at 30-Jun-14
	Current Assets			
1,063	Cash and Deposits	5,419	22,891	1,063
15,636	Sundry Debtors	18,170	16,257	15,636
-	Short Term Investments	10,019	19,641	-
1,502	Inventories	348	817	1,502
18,201	Total Current Assets	33,956	59,606	18,201
	Non Current Assets			
277,321	Investments	299,968	285,015	277,321
2,785,047	Fixed Assets	2,717,821	2,869,319	2,785,047
3,062,368	Total Non Current Assets	3,017,789	3,154,334	3,062,368
<u>3,080,569</u>	TOTAL ASSETS	<u>3,051,745</u>	<u>3,213,940</u>	<u>3,080,569</u>
	Current Liabilities			
18,761	Sundry Creditors	21,461	27,559	18,761
9,311	Accrued Expenditure	12,152	9,120	9,311
-	Short Term Borrowings	-	-	-
12,403	Derivative Financial Instruments	16,402	18,574	12,403
40,475	Total Current Liabilities	50,015	55,253	40,475
	Non Current Liabilities			
221,527	Term Loans	240,111	245,451	221,527
7,130	Other Non-Current Liabilities	7,230	8,953	7,130
228,657	Total Non Current Liabilities	247,341	254,404	228,657
269,132	TOTAL LIABILITIES	297,356	309,657	269,132
2,811,437	COUNCIL EQUITY	2,754,389	2,904,283	2,811,437
<u>3,080,569</u>		<u>3,051,745</u>	<u>3,213,940</u>	<u>3,080,569</u>
	Statement of Change in Equity			
2,809,683	Opening Balance	2,811,437	2,878,931	2,809,683
6,455	Operating Surplus (Deficit)	(1,588)	4,348	6,455
(4,701)	Movements in Reserves	(55,460)	21,004	(4,701)
<u>2,811,437</u>		<u>2,754,389</u>	<u>2,904,283</u>	<u>2,811,437</u>

ATTACHMENT D

DUNEDIN CITY COUNCIL
Statement of Cashflows
For the Year Ending 30 June 2015
Amount : \$'000



	Full Year Actual	Full Year Budget	Full Year Budget	LY Full Actual
Cash Flow from Operating Activities				
<i>Cash was provided from operating activities</i>				
Rates Received	126,030	125,878	125,878	122,418
Other Revenue	83,442	76,622	76,622	79,807
Interest Received	8,110	9,196	9,196	8,807
Dividend Received	6,424	5,580	5,580	5,349
<i>Cash was applied to</i>				
Suppliers and Employees	(147,854)	(142,877)	(142,877)	(150,645)
Interest Paid	(13,726)	(17,959)	(17,959)	(15,992)
Net Cash Inflow (Outflow) from Operations	62,426	56,440	56,440	49,744
Cash Flow from Investing Activities				
<i>Cash was provided from investing activities:</i>				
Sale of Assets	223	2,249	2,249	1,693
Reduction in Loans & Advances	-	-	-	-
Reduction in Investments	-	-	-	-
<i>Cash was applied to:</i>				
Increase in Investments	(32,306)	(3,440)	(3,440)	(4,174)
Capital Expenditure	(44,572)	(51,990)	(51,990)	(38,734)
Net Cash Inflow (Outflow) from Investing Activity	(76,655)	(53,181)	(53,181)	(41,215)
Cash Flow from Financing Activities				
<i>Cash was provided from financing activities:</i>				
Loans Raised	30,000	7,415	7,415	4,900
Increase in Short Term Borrowings	23,200	-	-	-
<i>Cash was applied to:</i>				
Loans Repaid	(11,415)	(12,272)	(12,272)	(10,386)
Decrease in Short Term Borrowings	(23,200)	-	-	(3,000)
Net Cash Inflow (Outflow) from Financing Activity	18,585	(4,857)	(4,857)	(8,486)
Total Increase/(Decrease) in Cash	4,356	(1,598)	(1,598)	43
Opening Cash and Deposits	1,063	24,489	24,489	1,020
Closing Cash and Deposits	5,419	22,891	22,891	1,063

ATTACHMENT E

DUNEDIN CITY COUNCIL
Capital Expenditure Summary by Activity
For the Year Ending 30 June 2015
Amount : \$'000



Description	Full Year Actual	Full Year Budget	Full Year Variance	% of Budget	Full Year Budget
Finance	39	40	1	97.5%	40
BIS	865	1,582	717	54.7%	1,582
Civic	49	-	(49)	0.0%	-
Civil Defence/Rural Fire	38	48	10	79.2%	48
City Development	25	25	-	100.0%	25
CCM	17	16	(1)	106.3%	16
Parks	881	1,038	157	84.9%	1,038
Transportation Operations	21,102	25,190	4,088	83.8%	25,190
Libraries	1,133	1,340	207	84.6%	1,340
Botanic Garden	1,228	1,422	194	86.4%	1,422
Dunedin Centre	48	64	16	75.0%	64
Regulatory Services	2	-	(2)	0.0%	-
Cemeteries & Crematorium	274	255	(19)	107.5%	255
Art Gallery	416	468	52	88.9%	468
Toitu Otago Settlers Museum	30	70	40	42.9%	70
Customer Services	-	-	-	0.0%	-
Visitor Centre	-	90	90	0.0%	90
Water & Waste Services	14,131	16,092	1,961	87.8%	16,092
Aquatic Services	176	252	76	69.8%	252
Citipark	49	200	151	24.5%	200
Citifleet	228	169	(59)	134.9%	169
Property	4,938	3,629	(1,309)	136.1%	3,629
	<u>45,669</u>	<u>51,990</u>	<u>6,321</u>	<u>87.8%</u>	<u>51,990</u>

ATTACHMENT F

<p style="text-align: center;">DUNEDIN CITY COUNCIL Borrowing and Investment Policy As at 30 June 2015 Amount : \$'000</p>			
	Policy	Actual	Budget
Gross Interest Expense/Total Rates Revenue	< 20%	11.9%	14.3%
Gross Interest Expense/Total Operating Revenues	< 8%	6.9%	8.4%
Operating Funds Flow/Interest Expense	> 2.5	5.1	3.1
Coverage of Interest-rate-sensitive debt by hedges (thousands)			
<u>Source of Debt</u>			
Debt advanced from DCTL (excluding short term debt)			238,116
Debt ex Waipori Fund			1,522
Debt ex Other Institutions			473
Total DCC Debt			240,111
<u>Less Interest Rate Protection</u>			
Waipori short term investments natural hedge			10,769
Fixed Rate Funding			20,000
Debt protected with derivatives			165,400
Fixed Rate debt from other institutions			473
Total Debt Protection			196,642
Interest-sensitive debt not covered			
			43,469
Non-covered debt/Total Debt			18.1%
<u>Debt Maturity Profile</u>			
Debt to be repaid 2014/15			-
Debt to be repaid next 1-2 years			17,540
Debt to be repaid next 3-5 years			40,282
Debt to be repaid next 5 years plus			182,289
Term Debt Balance			240,111

DUNEDIN CITY COUNCIL
Statement of Public Debt
As at 30 June 2015

Amount : \$'000



	<i>BALANCE</i> <i>AT 01/07/2014</i>	<i>Principal Paid</i> <i>to date</i> <i>30/06/2015</i>	<i>Advanced</i> <i>30/06/2015</i>	<i>BALANCE</i> <i>30/06/2015</i>	<i>INTEREST Paid</i> <i>to</i> <i>30/06/2015</i>
ECONOMIC DEVELOPMENT & CITY PROMOTION					
DUNEDIN CENTRE	26,184	906	-	25,278	1,678
INVESTMENT ACCOUNT	1,258	53	-	1,205	81
DUNEDIN VENUES LIMITED	-	-	30,000	30,000	-
PROPERTY					
PROPERTY INVESTMENT					
GREAT KING STREET-CARPARK	1,790	603	-	1,187	100
BUNNINGS	1,079	89	-	990	68
TIMARU STREET	669	47	-	622	42
YMCA	2,321	-	-	2,321	90
ROSEBANK ROAD	5,000	-	-	5,000	196
PARRY STREET	3,200	-	-	3,200	232
INVESTMENT (Wall St)	-	-	-	-	-
PROPERTY MISCELLANEOUS					
DUNEDIN ICE STADIUM	621	39	-	582	39
EDGAR CENTRE	4,325	265	-	4,060	272
RAILWAY STATION	87	8	-	79	5
REGENT THEATRE	5,898	211	-	5,687	377
ATHENEUM	-	-	-	-	-
CARISBROOK	3,289	189	-	3,100	130
HIGH PERFORMANCE SPORT BUILDING	3,000	69	-	2,931	177
PROPERTY OPERATIONAL					
HEALTH	39	12	-	27	2
MUNICIPAL CHAMBERS	49	15	-	34	3
PORT CHALMERS HALL	224	13	-	211	14
WAIKOUAITI HALL REPLACEMENT	1,367	54	-	1,313	87
CIVIC CENTRE	2,261	75	-	2,186	145
TOILETS	134	5	-	129	9
HOUSING					
RENTAL PROPERTIES	-	-	-	-	-
86-92 PRINCE ALBERT ROAD COMPLEX	473	-	-	473	-
TRANSPORT NETWORK					
TRANSPORT OPERATIONS	16,747	715	-	16,032	1,068
CITIPARK	1,801	290	-	1,511	107
PUBLIC HEALTH					
WATER DEPARTMENT	22,712	1,530	-	21,182	126
WASTEWATER - TAHUNA	68,792	2,796	-	65,996	4,398
SOLID WASTE	3,561	235	-	3,326	223
NETWORK MANAGEMENT - Stormwater	453	15	-	438	29
NETWORK MANAGEMENT - Waste	9,839	1,082	-	8,757	1,873
CITY DEVELOPMENT					
CITY DEVELOPMENT	2,872	142	-	2,730	183
MUSEUMS, LIBRARIES & ART GALLERY					
CHINESE GARDENS	794	384	-	410	37
OTAGO SETTLERS MUSEUM	14,684	484	-	14,200	940
DUNEDIN PUBLIC ART GALLERY	371	12	-	359	24
SPORT, RECREATION & LEISURE					
COMMUNITY & RECREATION PLANNING	7,245	327	-	6,918	461
AQUATIC SERVICES	4,278	335	-	3,943	267
BOTANIC GARDENS	383	12	-	371	25
CORPORATE SUPPORT					
BUSINESS SOLUTIONS	1,190	201	-	989	70
NETWORKS SERVICES	-	-	-	-	-
INFORMATION SOLUTIONS	636	60	-	576	39
DEBT BEFORE WARM DUNEDIN	219,626	11,273	30,000	238,353	13,617
WARM DUNEDIN					
Warm Dunedin 2012-2013	700	57	-	643	40
Warm Dunedin 2013-2014	1,200	85	-	1,115	69
TOTAL DEBT	221,526	11,415	30,000	240,111	13,726

Source of Debt

Housing New Zealand 473
Dunedin City Treasury Ltd 238,116
Waipori Fund 1,522

Total **240,111**

DUNEDIN CITY COUNCIL
Summary of Operating Variances
For the Year Ending 30 June 2015

Amount : \$'000



Full Year Surplus(Deficit)

Full Year Variance Favourable (Unfavourable)

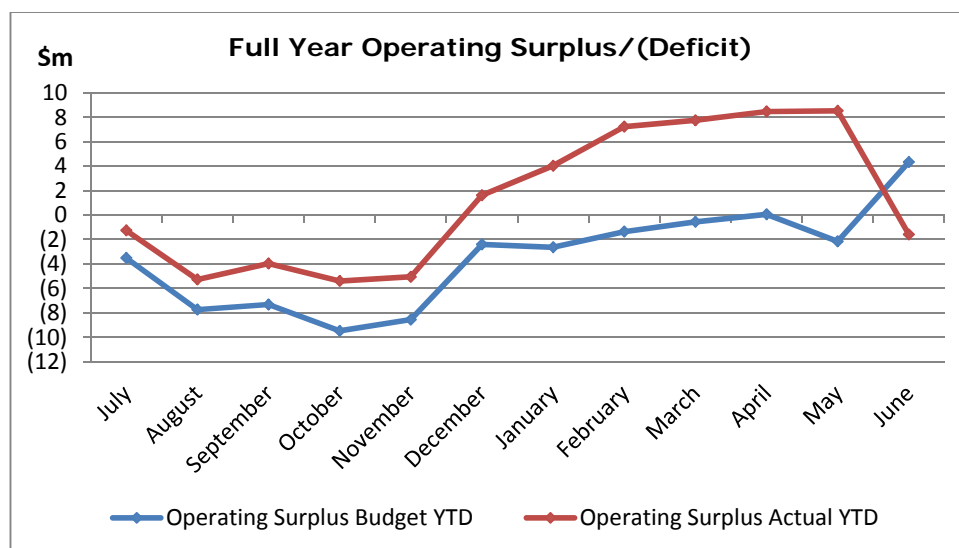
Department	Actual	Budget	Variance	Rates Revenue	Other Ext Revenue	Int Revenue	Staff	Ops & Other Exps	Internal Costs	Interest	Depr'n
Waipori Fund	9,886	3,420	6,466	-	6,510	-	-	(44)	-	-	-
Art Gallery	1,383	331	1,052	-	985	6	31	32	8	1	(11)
WWS Solid Waste	1,597	825	772	(1)	368	406	(39)	54	(111)	15	80
WWS Three Waters Management	16,211	15,530	681	(10)	(621)	-	(66)	124	(2)	999	257
Corporate Management	621	-	621	-	1,057	-	(130)	(295)	(11)	-	-
Toitu Otago Settlers Museum	340	(126)	466	-	2	10	(106)	69	(39)	693	(163)
Parks	(446)	(902)	456	-	(146)	(8)	(57)	694	(71)	(3)	47
WWS Plant Maintenance	(2,442)	(2,836)	394	-	-	-	13	408	(27)	-	-
Botanic Garden	47	(214)	261	-	6	-	4	(36)	9	192	86
WWS Asset and Commercial Services	(2,832)	(3,036)	204	-	-	-	109	121	(26)	-	-
City Development	269	96	173	-	68	-	(79)	171	(47)	60	-
Corporate Policy	137	(20)	157	-	1	3	12	166	(25)	-	-
Events & Community Development	124	(31)	155	-	468	(9)	22	(302)	(13)	-	(11)
Customer Services	134	(3)	137	-	-	(32)	147	22	-	-	-
Citifleet	344	219	125	-	67	(104)	53	142	3	-	(36)
Citipark	2,826	2,722	104	-	(97)	42	27	141	(53)	9	35
Civil Defence/Rural Fire	122	21	101	-	22	-	(9)	87	5	-	(4)
Dunedin Marketing	(33)	(104)	71	-	(21)	5	19	71	(1)	-	(2)
Cemeteries & Crematorium	(189)	(259)	70	-	129	-	(23)	(65)	(8)	-	37
Civic & Administration Services	501	436	65	-	20	(42)	(25)	89	16	8	(1)
Aquatic Services	(321)	(367)	46	-	(100)	1	(38)	182	(4)	16	(11)
Economic Development	31	-	31	-	295	-	(140)	(116)	(8)	-	-
Warm Dunedin	(8)	(28)	20	-	2	-	30	24	(31)	(5)	-
WWS Network Operations	(754)	(773)	19	-	-	-	(4)	30	(7)	-	-
PARS Planning	(313)	(319)	6	-	23	-	42	(53)	(6)	-	-
Dunedin Centre	6	-	6	-	-	-	-	(442)	504	-	(56)
Otago Museum Levy	-	-	-	-	-	-	-	-	-	-	-
WWS Network Contracts	(4,543)	(4,539)	(4)	-	-	-	(1)	-	(3)	-	-
Finance	(24)	-	(24)	-	312	(33)	(197)	(100)	(4)	-	(2)
CCM	(36)	5	(41)	-	6	33	(31)	(6)	(31)	-	(12)
Resource Consents	(51)	-	(51)	-	239	-	38	(329)	1	-	-
WWS Water Production	(3,941)	(3,887)	(54)	-	-	-	(27)	(1)	(26)	-	-
Human Resources	(57)	-	(57)	-	-	(88)	(56)	86	1	-	-
Visitor Centre	(80)	(4)	(76)	-	(110)	15	(25)	48	(8)	-	4
Regulatory Services	(111)	(27)	(84)	-	(80)	-	69	(39)	(34)	-	-
Parking Enforcement	332	434	(102)	-	(292)	-	46	182	(38)	-	-
WWS Waste Treatment	(5,251)	(4,850)	(401)	-	-	-	(24)	176	(553)	-	-
Libraries	(521)	(94)	(427)	-	(40)	10	(379)	(42)	191	36	(203)
Business Information Services	(324)	220	(544)	-	45	(186)	(502)	(195)	(15)	10	299
Transportation	4,581	5,680	(1,099)	-	(1,617)	319	24	(17)	1	56	135
Property	(2,125)	5,515	(7,640)	-	1,329	(684)	88	(9,258)	(7)	936	(44)
Investment	(16,678)	(8,687)	(7,991)	163	(112)	-	(801)	(7,241)	-	-	-
Total Council	(1,588)	4,348	(5,936)	152	8,718	(336)	(1,985)	(15,462)	(470)	3,023	424

FINANCIAL REVIEW

For The Year Ended 30 June 2015

This report provides a commentary on the Council's financial results for the twelve months ended 30 June 2015 and the financial position at that date.

OPERATING SURPLUS/(DEFICIT)



The operating deficit for the twelve months to June 2015 was \$1.588 million or \$5.936 million worse than budget.

The unfavourable variance against budget was due to the following:

- \$16.107 million – higher than expected other expenses due primarily to a write-down of non-property investments of \$6.417 million (Dunedin Venues Management Limited), as well as fair value losses on Investment property of \$8.558 million. Also included in this variance was a loss on the disposal of a property (held for re-sale) at Dukes Road (\$677k). Note that the investment write-downs are non-cash;
- \$1.985 million – personnel costs for the year were greater than budgeted due to higher than expected uptake of superannuation by staff, costs associated with various organisational restructures, additional salaries recovered by external income and the impact of SP10 grade changes being higher than anticipated.
- \$1.580 million - lower than budgeted grants revenue due primarily to NZTA subsidies being later than predicted as a result of the delayed timing of the associated capital expenditure programme; and
- \$1.564 million – higher than expected consultant costs including work associated with various process reviews across council along with outsourcing of some regulatory work to other territorial authorities.

- \$604k – lower than expected development contributions primarily related to the Mosgiel plan change area.

These unfavourable variances were partially offset by:

- \$6.466 million - Waipori fund gains resulting from favourable movements in equity values and exchange rates associated with equities held in a foreign currency;
- \$4.392 million - unbudgeted other operating revenue including insurance claims, project and events revenue, management fee charged to Dunedin City Treasury Limited and several bequests to the Art Gallery. Property revenue was also ahead of expectations due to fair value gains on a number of investment properties and improved occupancy across the residential portfolio;
- \$3.023 million - lower than expected interest expense due to debt levels being less than budget and lower interest costs;
- \$1.989 million - savings in asset maintenance costs, largely in the Parks and Three Waters areas; and
- \$424k - lower than expected depreciation expenditure resulting from the delayed timing of the capital expenditure programme.

REVENUE

The total revenue for the year was \$252.542 million or \$2.024 million greater than budget. The major income variances were as follows:

Other Operating Revenue

Actual \$68.856 million, Budget \$64.464 million, Favourable variance \$4.392 million

Property external revenue was favourable \$1.302 million. Fair value gains on Investment property totalled \$685k. In addition other favourable income lines included: Residential rentals due to better than expected occupancy, reclassification of Dunedin Centre rental from internal income and a higher level of operating expense recoveries across the portfolio.

Corporate Management revenue was favourable \$1.057 million mainly due to unbudgeted insurance claims totalling \$1.000 million.

Art Gallery revenue was favourable \$892k due to the receipt of two significant bequests.

Events and Community Development revenue was favourable \$468k due to unbudgeted revenue relating to the Cricket World Cup of \$412k and greater than expected recoveries from the Masters Games Trust of \$25k.

Transportation revenue was favourable \$549k with higher than expected income for corridor accessway, road stopping and community focused road safety.

Solid Waste revenue was favourable \$366k. Green Island Landfill revenue was favourable \$471k due to changes in the charging regime resulting in improved recoveries for waste processed. This was partially offset by an unfavourable variance in recycling rebate revenue of \$125k due to the high dollar driving commodity prices down.

Finance revenue was favourable \$312k primarily due to unbudgeted management fees charged to Dunedin City Treasury Limited (DCTL). This was partially offset by additional expenditure related to the Treasury operation.

Economic Development revenue was favourable \$295k. This was project funding for the Regional Partner Network and was offset by expenditure on this project.

Resource Consents revenue was favourable \$239k due to increased activity along with \$88k of prosecution fines being received.

Cemetery/Crematorium revenue was favourable \$129k mainly because the budgeted reduction in cremation services resulting from the anticipated new crematorium in Mosgiel has not eventuated yet.

These favourable variances were partially offset by:

Three Waters Management revenue was unfavourable \$478k. Out of Zone connections revenue was unfavourable \$344k, offset by a favourable variance of \$350k in capital expenditure for this activity. Water consumption revenue was unfavourable \$384k.

Parking Enforcement revenue was unfavourable \$292k. Contributing factors included a position vacancy, reduced infringements being issued (improved compliance) and a lower percentage of cases being referred for Court collection.

Visitor Centre revenue was unfavourable \$110k with merchandise sales and commissions revenue below budget due to a reduction in ship visits in December and January compared to last year. Some re-booked ships cancelled their visits for the 2014/15 season after budgets were set.

Aquatic Services revenue was unfavourable \$100k due to lower than expected activity for Moana Pool and gymnasium. Learn to Swim revenue continued to exceed budget due to increased demand.

Grants

Actual \$21.351 million, Budget \$22.931 million, Unfavourable variance \$1.580 million

Transportation Operations grants and subsidy revenue was unfavourable by \$1.969 million. Most of this related to subsidies not received to fund capital expenditure projects and reflected the level of capital expenditure for the year which was well below budget.

Partially offsetting this variance were a number of unbudgeted grants and donations in City Planning, Art Gallery, Toitu Otago Settlers Museum, Regulatory Services, Community Development and Libraries.

Contributions

Actual \$232k, Budget \$836k, Unfavourable variance \$604k

Fewer development contributions were received for the year primarily related to the Mosgiel plan change area. Budgets were based on an expected level of development activity which hasn't occurred as anticipated (in particular the Variation 9B Industrial Development).

EXPENDITURE

The total expenditure for the year was \$264.016 million or \$14.426 million greater than budget. The major expenditure variances were as follows:

Personnel Costs

Actual \$48.300 million, Budget \$46.315 million, Unfavourable variance \$1.985 million

Business Information Services personnel costs were unfavourable \$502k due to unbudgeted restructuring costs.

Libraries personnel costs were unfavourable \$379k due to staff appointments at the new SP10 grades and end of service payments, both as a result of the implementation of the Libraries Review.

FBT costs were \$272k unfavourable mainly due to an unbudgeted allowance for costs associated with the private use of Council vehicles.

Finance's personnel costs were \$197k unfavourable due to the Dunedin City Treasury Limited (DCTL) staff now being recorded against this activity. The DCTL staff costs were recovered by a management fee charged to DCTL.

Economic Development personnel costs were \$140k unfavourable. This was mainly due to unbudgeted staff costs that were funded by EDU Strategy budget, as well as an end of service payment.

Corporate personnel costs were unfavourable \$130k mainly due to unbudgeted recruitment costs for two General Manager's positions.

Toitu Otago Settlers Museum personnel costs were unfavourable \$106k mainly due to additional staff required to meet minimums health and safety requirements.

These unfavourable variances were partially offset by staff training savings across most departments.

Asset Operations and Maintenance Costs

Actual \$42.207 million, Budget \$44.196 million, Favourable variance \$1.989 million

Parks Living Asset, Paving, Sportsfield and Reserves maintenance costs were favourable \$669k partly due to the timing of some work, and limited call on the budget for Ocean Beach Holding Pattern costs (\$417k).

Water and Waste Services (WWS) plant maintenance costs were \$438k favourable due to less maintenance activity during the year than expected. Favourable weather conditions resulted in less than anticipated unscheduled maintenance and a major overhaul project was deferred.

Property building maintenance costs were \$390k favourable across all property portfolios due to lower than expected reactive repairs and project deferrals resulting from the revision of the asset maintenance programme.

WWS network maintenance costs were favourable \$312k. The time taken for schedules of work to be developed with the network contractor resulted in work in some areas not occurring as anticipated. In addition expenditure was impacted by the delayed arrival of closed circuit television equipment needed to complete assessments along with the mild winter in 2014 resulting in less remedial work being required across the network.

Fees and Levies

Actual \$9.455 million, Budget \$7.891 million, Unfavourable variance \$1.564 million

Property consultancy costs unfavourable variance of \$310k attributed to an unbudgeted property valuation review, higher than budgeted legal fees associated with a number of projects, and consultancy costs for ongoing process reviews and system improvements.

Regulatory Services consultancy costs were \$375k unfavourable and primarily related to the cost of outsourcing building consent work to other authorities.

Resource consents legal fees and consultancy costs were \$288k unfavourable mainly due to a number of consent appeals and prosecutions.

Corporate legal fees and consultancy costs were \$282k unfavourable mainly due to higher than budgeted legal and consultant's costs incurred as part of the alleged fraud investigation.

Finance fees and levies expenditure was unfavourable \$232k primarily related to various unbudgeted process reviews across Council (e.g. Procurement, JDE health check, IPSAS, Internal Audit), unbudgeted expenditure on asset valuations (both insurance and accounting) and an under-accrual of audit fees for the year ended 30 June 2014.

Human Resources expenditure was \$144k unfavourable due primarily to the outsourcing of health and safety management pending permanent appointments being made in this area.

General Administration Expenses

Actual \$4.875 million, Budget \$5.669 million, Favourable variance \$794k

Sundry expenditure, including communications, copying and travel costs were favourable \$483k across most departments due to a combination of savings and the recoding of costs as internal costs.

Promotional costs were favourable \$261k across a number of departments, particularly in Council Communications and Marketing, Events and Community Development and Regulatory Services.

Other Expenses

Actual \$16.903 million, Budget \$796k, Unfavourable variance \$16.107 million

The unfavourable variance was primarily due to a write-down of non-property investments of \$6.417 million (Dunedin Venues Management Limited), as well as fair value adjustments to Investment property of \$8.558 million.

This variance was also partly the result of a \$677k loss on disposal of a property at Dukes Road. This was purchased as part of an agreement entered into by Council in 2004 to purchase properties adjacent to Variation 9B land.

Short-term interest expense was unfavourable \$219k due to short term borrowing being greater than budgeted.

Also contributing to the variance was unbudgeted expenditure of \$154k related to voluntary tax disclosures.

Internal Costs

Actual \$35.371, Budget \$34.901 million, Unfavourable variance \$470k

WWS Waste Treatment internal costs were \$553k unfavourable mainly due to higher than budgeted internal landfill charges for the disposal of sludge at the Green Island landfill. This was due to the incinerator at the Tahuna Wastewater Treatment Plant being out of action while maintenance was being undertaken.

Depreciation

Actual \$53.248 million, Budget \$53.672 million, Favourable variance \$424k

The variance was mainly due to the delayed timing associated with the capital expenditure programme.

Interest

Actual \$14.936 million, Budget \$17.959 million, Favourable variance \$3.023 million

Interest expense was favourable due to the debt level being less than budget.

WAIPORI FUND NET OPERATING RESULT

Actual \$9.886 million, Budget \$3.420 million, Favourable variance \$6.466 million

The Waipori Fund net operating result was favourable for the year, made up of exchange rate gains of \$4.001 million related to investments held in a foreign currency, and a \$2.496 million favourable variance in net fair value gains on equities.

STATEMENT OF FINANCIAL POSITION

A Statement of Financial Position is provided as Attachment C.

The value of fixed assets was less than budget as at 30 June 2015, due to lower capital expenditure during 2013/14, and 2014/15, a net write down of investment properties and infrastructural assets resulting for the annual revaluation performed effective 30 June 2015.

Terms loans were less than budget due to fewer loans being raised during the 2013/14 financial year than budgeted. Note that term loans includes an unbudgeted \$30.000 million transferred from Dunedin Venues Ltd effective 30 June 2015

STATEMENT OF CASHFLOWS

A Statement of Cashflows is provided as Attachment D.

Operating net cash inflow was ahead of budget reflecting the impact of the greater operating revenue along with the lower than expected interest expense.

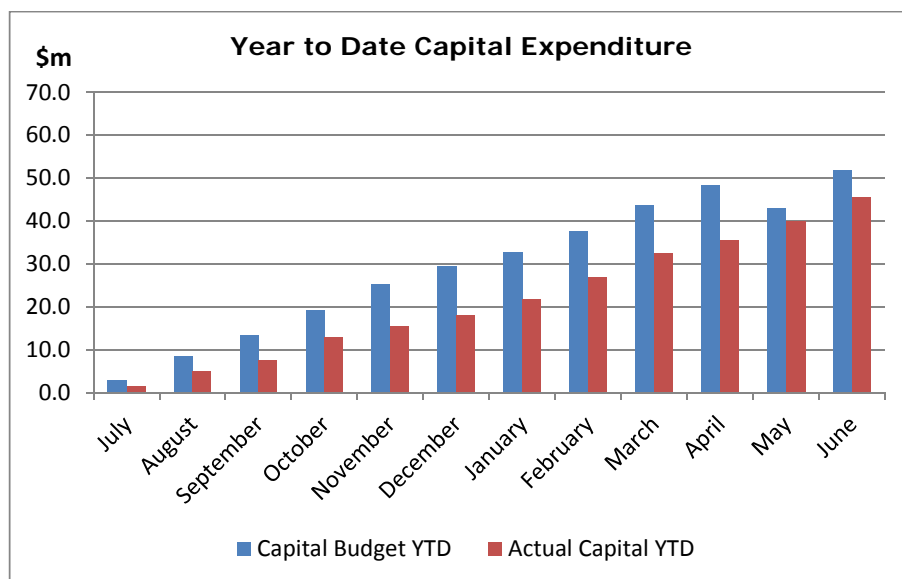
Cash inflows from the sale of assets was lower than expected with the disposal of property assets to fund the Wall St development yet to occur.

Increase in investments reflected the loan transfer from DVL to Council of \$30.000 million being funded by a matching equity injection into DVL.

CAPITAL EXPENDITURE

A summary of the capital expenditure programme by Activity is provided as Attachment E.

Total capital expenditure for the year to 30 June 2015 was \$45.669 million or 87.8% of the annual budget of \$51.990 million. Note that the annual budget was reduced to reflect capital carry forwards of \$10.038 million to 2015/16.



Business Information Services capital expenditure was \$717k favourable

This favourable variance reflected the deferral/delayed timing of a number of projects: Building Inspection Management, PARS mobility, ePlan, Server 2003, Core switch & unified communications, ECM upgrade and agenda management system.

ICT Infrastructure was favourable \$205k, with the savings used to fund in part the Infrastructure as a Service (IaaS) Project operating costs.

Parks capital expenditure was \$157k favourable

These savings resulted from the Seawall Renewals budget not required and deferral of the Unity Park paving renewal and Sawyers Bay war memorial relocation projects.

Transportation capital expenditure was \$4.088 million favourable

The 2014/15 new capital projects were not progressed as planned with consenting, consultation and project engagement together with contractor resources limiting the ability to deliver. The projects of South Dunedin Cycle Network, Harington Point Rd, Turnbolls Bay, and Sea Wall renewals at Weir Rd have continued, with a significant work load in June completed, however they were not progressed in accordance with the planned expenditures in the budget profile. South Dunedin Cycle Network remains as a project suspended and under review.

The capital renewals programme substantially delivered the planned outcomes with the notable works still to be completed being: bridge structure replacement, footpath resurfacing and CAA paver renewals.

Libraries capital expenditure was \$207k favourable

Collections and Heritage capital expenditure was favourable \$190k. These savings have been partially offset increased operating costs.

Botanic Garden capital expenditure was \$194k favourable

Construction for the Botanic Garden Redevelopment Project was completed however the project was delayed due to earlier disruptions and issues around commissioning of the plant and equipment and remedial works. The final demolition phase of the project is still to occur and the favourable budget variance will be requested as a carry forward to 2015/16 to fund that work.

A quotation received for the Winter Garden project indicated expenditure will be \$50k greater than budget to complete the work. Other options for the capital renewal of the Winter Garden are being investigated.

Water and Waste Services capital expenditure was \$1.961 million favourable

Network management capital was \$1.608 million favourable largely due to Fulton Hogan crews being reallocated to an emergency transportation project on Cannington Rd which had a knock-on for several pipeline renewal contracts. In addition expenditure on the Anderson Bay yellow project was lower than expected due to the contractor being behind program. The budgeted University of Otago Landscaping project which includes renewal of Council infrastructure has not yet commenced.

The Asset Management Information Systems (AMIS) project was favourable \$383k. Asset data testing has been deferred due to the availability of the contractor to perform the required work. Further integrations and system upgrades are being planned but the timing of this work is subject to the prioritisation of BIS resources.

City Property capital expenditure was \$1.309 million unfavourable

Investment property capital was \$2.108 million unfavourable, due to the unbudgeted purchase of a property at Dukes Road for \$1.876 million as well as unbudgeted expenditure on properties at School St and the Corstorphine subdivision.

Housing upgrades expenditure was favourable \$679k mainly due to plans for the upgrade of the Helensburgh Road complex being put on hold. Alternative options are being investigated for this project.

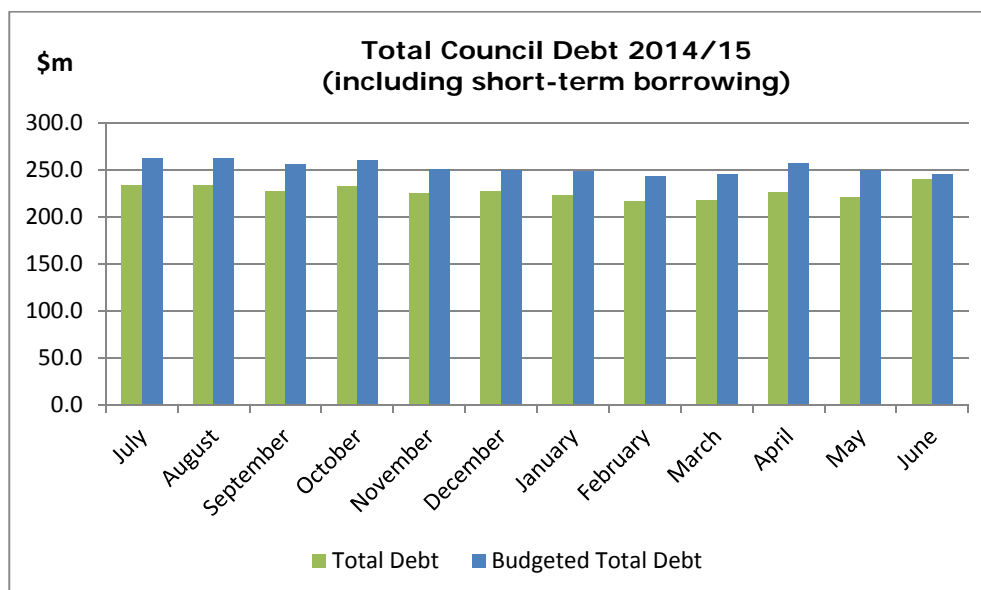
DEBT

Refer to Attachments F and G.

Attachment F provides a summary of the debt servicing ratios. The ratios were within budget and policy limits.

Term debt was below budget due to less debt raised in the 2013/14 financial year than budgeted.

While no new debt was raised during the year, loans totalling \$30 million were transferred from Dunedin Venues Limited effective 30 June 2015.



DEBTORS AND RATES OUTSTANDING

Sundry debtors outstanding as at 30 June 2015 were \$18.170 million. This included long term debt of \$3.998 million, and debt associated with Warm Dunedin of \$2.782 million.

Of the \$3.998 million long term debt, \$3.100 million was for debt relating to the sale of Carisbrook.

Debtors outstanding for more than three months (excluding long term debt) totalled \$280k, compared with last year's total of \$329k as at 30 June 2014.

Rates arrears relating to prior year rates totalled \$198k. This was comparable to previous years. Of this total \$36k was being recovered under formal arrangements with Council, while the balance was being actively pursued.

Rates rebate applications totalled 3,530 for 2014/15, compared to 3,688 for 2013/14.

COMMENTS FROM ACTIVITIES

Attachment H, the Summary of Operating Variances, shows, by Activity, the overall net surplus or deficit variance for the year ended 30 June 2015. It also shows the variances by revenue and expenditure type.

The following comments have been provided by Activity Managers.

Art Gallery - \$1.052 million Favourable

External revenue was \$985k favourable mainly due to unbudgeted bequests of \$853k being received.

Water and Waste Services (Solid Waste) - \$772k Favourable

External disposal fees at the Green Island landfill were \$589k favourable. The changes to the charging regime at the transfer station have seen better recovery of the costs of waste processed.

Internal revenue was \$406k higher than budgeted caused mainly by additional disposal revenue for sludge material from the Tahuna Waste Treatment Plant. Once the incinerator at Tahuna is fully operational again this revenue will reduce to budgeted levels.

Recycling revenue was unfavourable \$125k with the high dollar driving commodity prices for recyclable material down.

Variable landfill costs were unfavourable \$270k due to the additional volumes of material being processed.

Internal costs were unfavourable \$111k due to some costs now being recorded as internal rather than external in nature. These variances were offset by favourable variances in operating expenditure.

Water and Waste Services (Three Waters Management) - \$681k Favourable

Loan interest costs were \$999k favourable. No new loans were raised during the year.

Depreciation costs were \$257k favourable, mainly due to the timing of capitalising work in progress, as well as changes in asset valuations.

The City Care contract contingency budget was not required, resulting in a favourable variance of \$98k.

Offsetting these favourable variances, other external revenue was unfavourable \$621k mainly due to fewer than expected development contributions being received to date and lower than budgeted revenue from water consumption charges.

Revenue from Out of Zone connections was \$350k unfavourable. This was offset by a favourable capital expenditure variance of the same amount.

Corporate Management – \$621k Favourable

Revenue was favourable \$1.057 million due to the unbudgeted Citifleet insurance claim of \$1 million.

Offsetting this, operating costs were \$295k unfavourable mainly due to higher than budgeted legal and consultants cost incurred as part of the alleged fraud investigation.

Staff costs were unfavourable \$130k mainly due to increased staff recruitment/relocation costs for General Manager's positions.

Toitu Otago Settlers Museum - \$466k Favourable

Interest costs were \$693k favourable as not all budgeted loans for the Redevelopment project were drawn down.

Depreciation was unfavourable \$163k, with all costs relating to capital redevelopment project now being capitalised.

Staff costs were unfavourable \$106k mainly due to additional staff required to meet health and safety requirement minimums.

Parks – \$456k Favourable

Operations expenditure was favourable \$694k partly due to the timing of work for sports field maintenance, monument maintenance, living assets maintenance and reserves work which were favourable \$373k. Living assets management work will be completed in 2015/16. A monument maintenance programme is also being developed for 2015/16.

The contingency for Ocean Beach Holding Pattern budget was largely unspent resulting in a favourable variance of \$417k.

External revenue was unfavourable \$146k mainly due to a lower amount of development contributions being received than forecast.

Water and Waste Services (Plant Maintenance) - \$394k Favourable

Operations expenditure was favourable \$408k due to a combination of maintenance underspends across a number of budget lines, especially Water Treatment. Programmed maintenance was significantly behind schedule due to the secondment of the Maintenance Planner into another role. Favourable weather conditions earlier in the year also resulted in reduced maintenance requirements across Wastewater and Stormwater plant.

Botanic Garden - \$261k Favourable

Interest payments were \$192k favourable as budgeted new loans were not raised.

Depreciation was \$86k favourable due to the delayed timing related to the commissioning of the new propagation house and associated assets.

Water and Waste Services (Waste Treatment) - \$401k Unfavourable

Expenditure was unfavourable mainly due to greater than budgeted sludge disposal costs caused by multiple incinerator failures which have delayed the incinerator re-start. A full recondition of the incinerator began in June.

Libraries - \$427k Unfavourable

Libraries staff costs were unfavourable \$379k due to staff appointments at the new SP10 grades and end of service payments, both as a result of the implementation of the Libraries Review.

Depreciation costs were \$203k unfavourable due to the timing of the completion of the RFID capital project.

Internal costs were favourable \$191k mainly due to insurance being less than budgeted.

Business Information Services - \$544k Unfavourable

Internal revenue was unfavourable \$186k due to lower than budgeted use of telecommunications, multi-function devices and recoverable IT services.

Personnel costs were unfavourable \$502k due to unbudgeted restructuring costs.

Consultant and legal fees were \$285k unfavourable due to the work on Unified Communications, Infrastructure as a Service programme, and the ICT Review.

Significant expenditure was incurred with external contractors engaged to support the Infrastructure as a Service programme and ICT transition.

Depreciation was favourable 299k due to delays in the completion or commencement of projects (mainly ICT Infrastructure projects).

Recoverable costs were favourable mainly due to telecommunications costs being less than budgeted. Multi-function device expenditure was \$95k favourable due to savings as a result of the revised contract.

Transportation - \$1.099 million Unfavourable

Transportation external revenue was unfavourable by \$1.617 million. Subsidy revenue to fund capital expenditure was unfavourable \$2.080 million and reflected the level of capital expenditure for the year which was well below budget.

Property – \$7.640 million Unfavourable

The unfavourable variance was largely due to a net fair value write down on Investment property (primarily Wall St) of \$7.873 million.

The variance was also impacted by a \$677k loss on disposal of a property at Dukes Road. This was purchased as part of an agreement entered into by Council in 2004 to purchase properties adjacent to Variation 9B land.

Offsetting these unfavourable variances was lower than expected interest costs due to budgeted new loans for the Dunedin Centre/Town Hall redevelopment, the Sargood Centre and the High Performance Sports Centre not being raised.