MAHERE PŪTEA - BALANCED BUDGET

Council, when approving the Annual Plan and Budget/LTP, sets the rates and fees and charges at a level that is predicted to adequately fund the next year's activities. Council must have a balanced budget under section 100(1) of the Local Government Act 2002. Council is required to ensure that each year's projected operating revenues are set at a level sufficient to meet that year's projected operating expenses.

However, under section 100(2) a local authority may set projected operating revenues at a different level from that required by section 100(1) if the local authority resolves that it is financially prudent to do so, having regard to:

The estimated expenses of achieving and maintaining the expected levels of service provision set out in the LTP, including the estimated expenses associated with maintaining the service capacity and integrity of assets throughout their useful life.

- The projected revenue available to fund the estimated expenses associated with maintaining the service capacity and integrity of assets throughout their useful life.
- The equitable allocation of responsibility for funding the provision and maintenance of assets and facilities throughout their useful life.
- The funding and financial policies adopted under section 102.

Under section 101(1) a local authority must manage its revenues, expenses, assets, liabilities, investments and general financial dealings prudently and in a manner that promotes the current and future interests of the community. Council is required to ensure that the funding needs of Council are met from the sources of finance deemed appropriate, taking account of the distribution of benefits, the periods that benefits occur, the costs and benefits of funding the activities, and the community outcome, which the activity promotes. Also, Council is required to consider the impact on the social, economic, environmental, and cultural well-being of the community.

The LGA does allow the Council to budget for a deficit, if it resolves that it is financially prudent to do so. The Council acknowledges that it runs deficits from a balanced budget perspective because it does not fully rate fund depreciation. For this reason, the Council has defined its balanced budget target as the Local Government (Financial Reporting and Prudence) Regulations 2014 definition modified to exclude costs and gains from asset sales and the NZTA capital subsidies from the calculation of revenue, offset by the depreciation not funded. If the capital subsidies and full depreciation were included, then the budget would be balanced in all years. Using the modified definition, the Council expects to show a balanced budget by 2025, through increased efficiencies and increasing rate funding for depreciation of assets that the Council pays to replace.

Council has complied with section 100(1) of the Local Government Act 2002, to ensure that each year's projected operating revenues are set at a level sufficient to meet that year's projected operating expenses, as per the reconciliation below, taking account of the following adjustments to the forecast net surplus.

Over the 10 years of the LTP Council forecasts and accumulated net surplus of $43 million, comprising $85 million of non-operating revenue items and $42 million of expenses that are not funded by operating cashflows.

<u>Items creating a Surplus</u>

Capital Subsidies

This revenue is included in the forecast net surplus but is used to pay for capital expenditure. It relates primarily to funding received from Waka Kotahi (NZTA) for roading renewals and enhancements and in the first year of the plan includes $5 million relating to capital subsidies from DIA for the 3 Waters Reform Review Stimulus Package. Over the 10 years of the plan Capital Subsidies total $81 million, which is almost double the total of forecast net surpluses of $44 million.

Proceeds from Sale of Assets

This revenue is the expected return at auction of the sale of motor vehicles that reach the end of their serviceable lives. The proceeds will be used to contribute to the cost of replacement vehicles, supplementing accumulated depreciation reserves.

Rating for Loan Repayments

Loan repayments, as distinct from interest expenses, are not an operating expense and therefore rating for loan repayments is reported as part of the net surplus. As discussed in Council's financial strategy loans will be used for new assets and where insufficient reserves and subsidies are available. Council will then rate for the loan amounts over the lives of the corresponding assets, instead of depreciation, so that sufficient money is available to repay the loans when they come due.

<u>Items creating a Deficit (reducing the surplus)</u>

Depreciation not Rated

Council will not rate for depreciation where external funds for asset renewals are available. This relates to the Capital Subsidies and Rating for Loan Repayments sections above. In effect these items net off but the amounts in a given year will differ due to the long-term nature of the expenditure. Consequently, Council does not rate for 75% of depreciation on roads and bridges and has reduced the amount it will rate for depreciation on 3 waters assets by $0.2 million per year, due to the investment from the 3 Waters Reform Review Stimulus Package.

As a matter of policy Council does not rate for $3.4 million of depreciation on the following:

- the Community Centre or because the original asset was funded by borrowing
- the Māhia and Ōpoutama wastewater schemes because the amount that Council borrowed for the original assets is being recovered through lump sum payments and targeted rates
- Property assets that are used for residential, recreational, or communal purposes because the fee revenue and/or maintenance budgets is expected to be sufficient to cover ongoing renewals

In addition to these items, Council has reviewed its capital works forecasts and decided to reduce the amount it will rate for depreciation in the first 3 years of the plan. This is an affordability measure that reduces the rates increase to the minimum amount required to maintain a balanced budget. The total adjustment over the 3-year period is $1.8 million and is explained in the Financial Strategy.

Provisions

Council has included nominal amounts in its financial forecasts for increases in provisions for landfill aftercare and bad debts. These are estimates of uncertain future events and do not relate to day-to-day cash flows. They are correctly reflected as expenses but without associated revenue. The total amount of these over 10 years is $3 million.

Expenses and Operating Projects funded from Reserves and Loans

A small number of operating items will be funded from reserves and loans because they are long-term projects, or because a future cash inflow is anticipated. The largest of these is Council's contribution to the combined regional plan, which will supersede the District Plan review following Resource Management Act reforms. These items total $1.3 million over 10 years.

After adjusting for all of these items Council has adopted a budget that will deliver, on average, a funding surplus of $45,000 per year, and thus a balanced budget.

Balanced Budget Reconciliation	**30-Jun-22**	**30-Jun-23**	**30-Jun-24**	**30-Jun-25**	**30-Jun-26**	**30-Jun-27**	**30-Jun-28**	**30-Jun-29**	**30-Jun-30**	**30-Jun-31**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Net surplus / (deficit) for the year	9,596	1,256	2,564	8,581	3,805	3,437	3,563	3,419	4,066	3,311
Less:										
Capital Subsidies	(13,649)	(5,843)	(6,948)	(12,001)	(7,230)	(6,784)	(6,892)	(6,825)	(7,521)	(6,802)
Proceeds to Reserves	(9)	(9)	-	(19)	-	-	(21)	-	-	(22)
Rating for loan servicing	-	(166)	(239)	(297)	(420)	(555)	(636)	(682)	(757)	(819)
Add:										
Depreciation not Rated	3,614	4,255	4,092	3,399	3,488	3,577	3,668	3,759	3,872	3,983
Provisions	230	256	268	288	298	310	314	323	334	341
Expenses funded from Reserves / Loans	325	335	343	81	83	40	29	30	31	31
Balanced Budget Position	108	84	80	32	24	24	24	25	25	23