

COUNCIL REPORT

1st Ordinary Council Meeting

AGENDA ITEM:	13.1.3
REPORT TITLE:	2023-24 Year End Surplus Analysis Report
MEETING DATE:	Tuesday 10 December 2024
AUTHOR:	Finance Manager, Jeffrey Guilas
APPROVER:	General Manager Finance and Governance, Wati Kerta

COMMUNITY PLAN

Governance: Council is trusted by the community and invests in things that the public value.

PURPOSE

This Report seeks Council approval to apply the 2023/24 surplus to Council's financial reserves.

KEY MESSAGES

- As part of the end-of-year preparation, various reconciliations are conducted, including the reconciliation of the Financial Reserves.
- The reconciliation includes the capital roll-over that was approved by Council in August 2024.
- The approved 2023-24 capital rollover of \$5,574,538 was transferred into the Unexpended Capital Works Reserve and was based on the anticipated end of year position.
- In November the 2023-24 End of Financial Year process and audit was finalised.
- The surplus for the 2023-24 financial year for the waste budget is \$313,471, this is due to additional waste income of \$147,762 and expenditure savings of \$175,560.
- The surplus (excluding waste) for the 2023-24 financial year is \$1,119,127.
- The prior commitments or decisions to allocate back to the reserves identified as part of the 2023-24 budget development process, amounts to \$747,459.
- Following the end of year requirements and in alignment with budgetary policies Council is left with a \$371,668 surplus.
- In accordance with the Financial Reserves Policy, Financial Reserves must be backed by cash and be no greater than current assets less current liabilities.

RECOMMENDATION

1. THAT Report entitled 2023-24 Year End Surplus Analysis Report be received and noted.
2. THAT Council adopts the end of financial year reserve movements for 2022/23 of:
Transfers to Reserve:
 - a. \$313,471 to Waste Reserves
 - b. \$338,970 to FILOC Reserve – Making the Switch Loan
 - b. \$50,000 transfer to Election Reserve
 - c. \$80,000 to FILOC Reserve - SWELL Loan
 - d. \$278,489 for Developer Contributions FILOC
 - e. THAT Council transfer the remaining \$371,668 surplus to the Working Capital Reserve for future use.

BACKGROUND

Section 11 of the *Local Government (General Regulations)* provides the ability for Council during the development of the annual Budget, and at each budget review throughout the year, to allocate and draw funds to and from reserves to fund priorities, or to quarantine the cash for future use. Transfers to and from reserves are subject to a Council Resolution. Further to this Council Policy *Fin 19 – Financial Reserves Policy* states that transfers of reserves shall be assessed during the preparation of the annual budget and the annual financial statements.

The Policy allows for the net operational surplus identified at the end of the financial year to be transferred to the working capital reserve or to a specific purpose reserve, to be utilised against future projects.

Surplus funds of the waste service charge under Section 157 *Local Government Act* are to be transferred to the Waste Management Reserve. Surpluses are calculated as income from waste charges less waste management related expenditure.

The Policy requires that these reserves are backed by cash, that is, that the reserves must be committed by the funds which are available to Council, in the form of cash and cash equivalents.

The Policy requires that the total of all reserves shall not exceed Council's net working capital. Council's calculation of the net working capital provides an indicator of whether the reserves are sufficiently backed by cash.

At the 2nd Ordinary Council Meeting on 20 August 2024, Council considered capital rollovers. These rollovers enabled works underway to continue as part of 2024/25 capital programs and moved anticipated savings into the Unexpended Capital Works Reserve for use when required in the future (subject to further Council decisions). The total transfer to the Unexpended Capital Works Reserve was \$5,574,538.

13.1.3 2023-24 Capital Rollover

1. THAT Report entitled 2023-24 Capital Rollover be received and noted.
2. THAT Council adopts the capital works rollover movements of \$5,555,650.51 as identified in Attachment 13.1.3.1 contained in the Report entitled 2023-24 Capital Rollover, from the 2023-24 financial year to the 2024-25 financial year.
3. THAT Council adopts the capital works rollover movements effective as at 30 June 2024
\$3,900,158.19 transferred to Unexpended Capital Works Reserve
\$1,655,492.32 will remain in Grants Liability
4. THAT Council adopts the capital works rollover movements and associated expenditure effective as at 1 July 2024 of:
 - a. \$3,900,158.19 transferred from Unexpended Capital Works Reserve
 - b. \$1,655,492.32 recognised as Capital income, reducing the Unexpended Grants Liability
5. THAT Council adopts the following transfers of funds back into the Reserves effective 30 June 2024
\$205,795.70 transferred to Developers Funds In Lieu of Construction \$1,468,583.83 transferred to Unexpended Capital Works Reserve and funding allocation to be reassessed for allocation through 2024-25 budget reviews as relevant to each project
6. THAT Council notes that the capital works rollover movements and associated income and expenditure as of 1 July 2024 will be included in the First Budget Review 2024-25 and amendment of the Long-Term Financial Plan for 2025-2034 and will be presented to council for adoption.

7. THAT Council adopts the transfer of \$498,968.45 from Unexpended Capital Works Reserve on the award of TS2024-06 Playground Refurbishment at Marlow Lagoon and Sanctuary Lakes.

CARRIED 10/1476 - 20/08/2024

Further to the above requirements, there are a number of Council decisions and Policy requirements that are required to be met as part of the surplus analysis. These include;

1. Making the Switch - The project was funded via an internal loan from the Funds in Lieu of Construction (FILOC) Reserve over a 10 year period (Decision 9/0243 - 21/8/2018)
2. SWELL Project - Reserve to be drawn from the FILOC Reserve to a total value of \$400,000 for the Swimming, Wellness, Events, Leisure, and Lifestyle (SWELL) project, with a repayment period of 5 years of principal only repayments commencing in the 2023/24 budget (Decision 10/1071 - 17/10/2023)
3. As per Council's Financial Reserve Policy, developer contributions relating to works not completed by developers (not including bonded works) are to be held in the Developer Contribution Reserve (known as FILOC)
4. As per Council's Financial Reserve Policy, the Election Expense Reserve is to be increased annually to a total reserve balance of \$150,000.

This report provides details the surplus for 2023/24.

DISCUSSION

The 2023-24 Surplus Analysis, can only be assessed once the preparation of 2023/24 Financial Statements has occurred, taking into account accruals and other year-end transactions. The 2023/24 Financial Statements was subject to an audit and is now complete.

Waste Budget Surplus

To enable the net cash surplus to be considered, the waste budget surplus is required to be determined first. This is due to the Waste Management Reserve being a restricted reserve and therefore any waste budget surplus can only be transferred to the Waste Management Reserve. For the 2023-24 financial year the waste budget surplus is \$313,471, contributing factors include additional income of \$147,762 and expenditure savings of \$175,560, largely due to unspent anticipated Contractor costs from delays of upgrade works, and is less than 2.5% of the expenditure budget.

Table 1: Waste Surplus

	Revised Budget(RB) 2023-24	Actuals (A) 2023-24	A - RB Variance
Operating Revenue	7,534,269	7,682,031	147,762
Less: Operating Expenditure	-7,296,038	-7,120,478	175,560
Operating Surplus / (Deficit)	238,231	561,553	323,322
Add Grant Income	348,265	176,450	-171,815
Less Capital Expenditure	-210,420	-544,691	-334,271
Less Repayment of Borrowings	-238,231	-248,082	9,851
Reserve Movement	-137,845	368,241	506,086
Net Surplus/(Deficit)	-	-313,471	-313,471

2023-24 Budget Surplus

The Table 2: Surplus excluding Waste, provides the net cash surplus

The following should be taken into consideration when reviewing Table 2:

- The budget takes into account the capital rollovers that occurred in August 2024, to enable better comparative analysis.
- Non-cash expenditure items are adjusted to calculate the true cash surplus, these items include depreciation and amortisation, asset revaluation, valuation of landfill restoration, book value of assets disposed and total \$12,480,815.
- While the table below shows that there is a capital overspend, this is due to resourcing and staffing issues, there was a requirement to engage contractors to project manage construction projects which is offset by savings in employee expenses.
- Overall Council has managed to operate within its 2023-24 budget
- The surplus for the 2023-24 financial year (excluding Waste) is \$1,119,127. Whilst this does show cash surplus, there are a number of budget movements required to be funded by this surplus, including commitments made through Council decisions and policies, which are further explained later in this report.
- The available surplus after all the adjustments is \$371,668, equivalent to approximately 0.6% of Council's budgeted operating and capital expenditure.

Table 2: Surplus excluding Waste

Description	Revised Budget (excludes Waste and Capital Rollover)	2023-24 Actuals \$	Budget Vs Actual
Operating Income			
Rates	25,806,363	25,731,791	-74,572
Fees & Charges	933,318	1,004,794	71,476
Grants, Subsidies & Contributions	1,550,864	1,499,558	-51,306
Interest & Investment Revenue	1,671,202	1,878,447	207,245
Other Income	15,785	19,347	3,562
Total Operating Income	29,977,532	30,133,936	156,404
Operating Expenses			
Employee Costs	-11,985,233	-11,490,963	494,270
Materials & Contractors	-5,690,943	-5,390,937	300,006
Depreciation, Amortisation & Impairment	-11,270,000	-11,337,819	-67,819
Elected Members Allowances	-428,200	-428,238	-38
Elected Members Expenses	-39,745	-68,745	-29,000
Professional Services	-2,133,329	-2,193,834	-60,505
Auditor's Remuneration	-39,848	-84,712	-44,864
Utilities	-2,320,117	-2,468,729	-148,612
Legal Expenses	-315,700	-403,762	-88,062
Telephone & Other Communication Charges	-264,456	-217,594	46,862
Donations, Sponsorships & Grants	-230,000	-255,989	-25,989
Software, Hardware, Stationery, Subscriptions	-1,061,090	-1,027,466	33,624
Insurance	-615,083	-721,108	-106,025
Borrowing Costs	-146,054	-193,547	-47,493
Allowance for Doubtful Debts		-83,308	-83,308

Other Expenses	-2,194,335	-3,062,101	-867,766
Total Operating Expenditure	-38,734,133	-39,276,384	-542,251
OPERATING SURPLUS/(DEFICIT)	-8,756,601	-9,142,448	-385,847

Capital Income			
Net gain (loss) on disposal or revaluation of assets	299,737	-178,712	-478,449
Developer Contributions	200,000	278,489	78,489
Asset Income	3,000,000	8,668,710	5,668,710
Grants received	7,568,509	8,410,795	842,286
Capital Income	11,068,246	17,179,281	6,111,035
Net SURPLUS / (DEFICIT)	2,311,645	8,036,833	5,725,188

Capital Expenditure			
Asset Purchase	-2,661,020	-2,387,617	273,403
Asset Upgrade	-16,711,543	-17,432,467	-720,925
Total Capital Expenditure	-19,372,563	-19,820,084	-447,521
Less Non-Cash Expenditure Adjustments	-11,270,000	-12,480,815	-1,210,815
Plus Gifted Assets	3,000,000	8,668,710	5,668,710
NET CAPITAL SURPLUS/(DEFICIT)	-8,764,440	-7,971,145	793,295
Borrowings	5,000,000	5,000,000	0
Less Repayment of Borrowings	-278,769	-187,500	91,269
Reserve Movement	4,043,209	4,277,772	234,563
NET SURPLUS/(DEFICIT)	0	1,119,127	1,119,127
After Capital and Borrowings			

Surplus Commitments - Reserve

As part of the budget development for 2023-24, Council allowed for the required reserve movements at the end of year. Whilst these amounts have been allowed for within budgets, the movement of these reserves occurs following the surplus analysis and therefore is allocated from the final available surplus.

The prior commitments or decisions to allocate back to the reserves are as follows:

1. FILOC (Developer Contributions) Reserve - \$278,489
2. Making the Switch FILOC Repayment - \$338,970
3. SWELL Loan FILOC Repayment - \$80,000
4. Election Expense Reserve - \$50,000

The total of these movements is \$747,459.

It is noted that all of these movements are required as part of Council's decisions and policies and therefore, Council could determine to allocate funds differently if it chose to.

Rollover Impact

The August 2024 rollover was based on the anticipated available funds at the end of year. A number of the projects were nearing completion at the end of the financial year and were part of the rollover calculations. Due to end of financial year processes, such as accruals, invoices were recognised in 2023-24 when they were anticipated to be in 2024-25. As funds were rolled over prior to this occurring, the amounts rolled over have been greater than what was required at end of year. These matters will be

addressed in the First Budget Review Council report which is presented at the 10 December 2024 ordinary meeting.

Reserve Balances

The Statement of Reserves is at found at **Attachment 13.1.3.1** and illustrates the impact of the reserve movements which shows a net balance of \$14,602,435

The Reserve Policy indicates that the Financial Reserve accounts must be backed by cash and must not be greater than the current ratio (current assets less current liabilities).

As at 1 July 2025

- the cash at bank plus cash investments (term deposits) is \$22.72 million.
- A transfer out of \$1.93 million has been recognised to fund the 2024-25 budget
- Current ratio is \$15.06 million (current assets of \$26,703 less current liability of \$11,637).

The \$313,471 Waste surplus is required to be transferred to the Waste Reserve in accordance with Section 157 Local Government Act.

On this basis the Reserve balance is compliant with the reserve policy.

Available Surplus

Following the movement of all necessary funds, there is a resultant available surplus of \$371,668

Council has the discretion to apply \$371,668 to the following options:

- a. Transfer to Working Capital Reserve for future use, such as the Community Benefit Fund,
- b. Transfer to major initiative reserve for a specific project, such as Zuccoli Community Hub, or
- c. Do nothing – do not transfer the surplus to the Financial Reserves

It is recommended that the surplus is transferred to the Working Capital Reserve for future use.

CONSULTATION AND MARKETING

There was no consultation required during the preparation of this Report.

POLICY IMPLICATIONS

All reserve movements require a decision of Council as per Council Policy *FIN19 – Reserves*.

BUDGET AND RESOURCE IMPLICATIONS

This report provides details the surplus for 2023/24 financial year.

RISK, LEGAL AND LEGISLATIVE IMPLICATIONS

This Report addresses the following City of Palmerston Strategic Risks:

2. Financial Sustainability
Failure of Council to be financially sustainable to deliver key services and infrastructure for the community.

STRATEGIES, FRAMEWORK AND PLANS IMPLICATIONS

This Report relates to the following City of Palmerston Strategies, Framework and Plans:

- Municipal Plan

- Long Term Financial Plan

Identifying surplus allows for strategic allocation of funds toward investments, capital projects, and debt reduction, ensuring resources are used efficiently.

COUNCIL OFFICER CONFLICT OF INTEREST DECLARATION

We the author and approving officer declare that we do not have a conflict of interest in relation to this matter.

ATTACHMENTS

1. 2024 - 25 Statement of Reserves [**13.1.3.1** - 1 page]

COUNCIL AGENDA Attachment 13.1.3.1

Projected Statement of Reserves as at 30 June 2025

2.2 - Statement of Reserves - Budget Movements 2024/25

OTHER RESERVES	Balance as at 1 July 2024	Surplus Analysis to Reserves \$	Original Budget 2024/25 to Reserves \$	Original Budget 2024/25 from Reserves \$	Proposed Balance as at 30 June 2025
Externally Restricted Reserves					
Unexpended Grants Reserve	-		-	-	-
Externally Restricted Reserves	-		-	-	-
Internally Restricted Reserves					
Election Expenses Reserve	100,000	50,000	50,000	-	200,000
Disaster Recovery Reserve	500,000		-	-	500,000
Unexpended Capital Works Reserve	4,103,508		-	-	4,103,508
Developer Funds In Lieu Of Construction	989,011	697,459	320,000	(200,000)	1,806,470
Waste Management Reserve	3,574,733	313,471	231	(50,000)	3,838,435
Asset Renewal Reserve	-			-	-
Major Initiatives Reserve	-				-
Internally Restricted Reserves	9,267,252	1,060,930	370,231	(250,000)	10,448,413
Unrestricted Reserves					
Working Capital Reserve	5,711,243	371,668	20,000	(1,948,888)	4,154,023
Unrestricted Reserves	5,711,243	371,668	20,000	(1,948,888)	4,154,023
Total Reserves	14,978,494	1,432,598	390,231	(2,198,888)	14,602,435



Prepared by: Finance Data & Systems Lead