

Financial and rating analysis for Turangi-Tongariro ward

A look back at the last 10 years

Anthony Byett, Economist & Chair TDC Risk & Audit Committee, Taupo

John Dixon, Managing Partner - Hawkes Bay, PwC, Napier

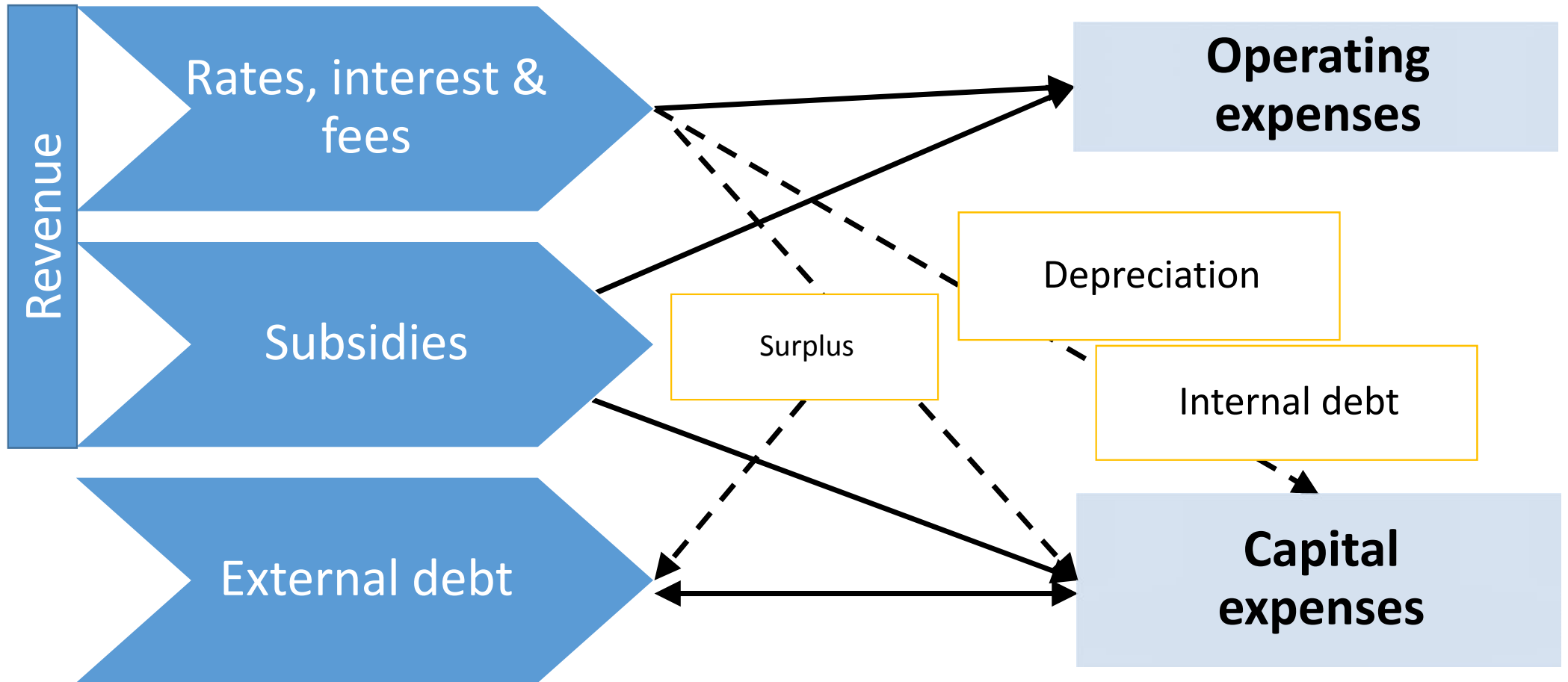
Outline

- Introduction and credentials
- Background to study
- PwC overview of revenue and spending split by ward
- Byett perspective on wider picture
- Questions & answers

Background

- Request for “Forensic Accountant” to identify
 - All income streams last 10 years
 - Benchmark analysis of Capital Investment relative to similar sized districts
- Discussions with TDC and other contacts suggested such a study would also require analysis of spending and would take >6 months, costing \$100,000s
- I agreed to:
 - TDC using Rates Requirement model used at start of each year to produce ward breakdown where readily available
 - PwC to assess methods and sources, and recommend reporting of results
- Cost \$15,000 + GST, delivered late May
 - More than 1 factor led to report being presented late to ARC 19th August

The major flows of funds



To use: Cash or accrual? Before or after?

Reports*	Look forward at 1 July Annual Plans	Look back at 30 June Annual Report
Accrual accounts	All except capital spending	Capital spending only
Cash accounts	x	x

* All four sets of accounts are:

- as per International Financial Reporting Standards
- as per NZ Local Government (Financial Reporting and Prudence) Regulations 2014
- audited by the NZ Office of the Auditor-General

Not all revenue & spending is recorded by ward

All revenue and expenditure within TDC accounts is one of 3 forms:

1. Occurring within a ward and recorded as such
 - E.g. All rates, wastewater maintenance
2. Occurring within a ward, specifically relating to ward activity, but not identified by ward
 - E.g. Road maintenance, pool fees
3. Occurring for the general benefit of all district ratepayers
 - E.g. IT systems, interest

Report results

- Rates form majority of revenue
- Spending for Turangi-Tongariro has exceeded revenue collected in the ward for each of the last 7 years
 - This includes spending on unallocated and district-wide items
 - District wide costs are allocated to Turangi-Tongariro on a 20% basis
 - Allocations are used as not all costs are captured by ward
- Turangi-Tongariro identified capital expenditure has ranged from \$0.5-\$1.8 million in the last 10 years
 - Other capital expenditure also occurred but is not identified by ward in the accounting records

2017/18 and 2018/19 ward revenue and operating expenses

	2017/18			2018/19		
	Turangi Direct	Share of District 20%	Turangi Total	Turangi Direct	Share of District 20%	Turangi Total
Revenue (\$'000)						
Rates Revenue	10,680		10,680	11,060		11,060
Subsidies and grants	0	1,065	1,065	0	836	836
Development and financial contributions	0	50	50	34	115	149
Fees and charges	277	772	1,049	275	872	1,147
Finance revenue	0	626	626	0	758	758
Other revenue	0	347	347	0	950	950
Total Revenue	10,957	2,860	13,817	11,369	3,531	14,899
Expenses (\$'000)						
Personnel costs	341	3,193	3,534	371	3,357	3,728
Depreciation and amortisation expense	1,802	2,103	3,906	1,907	2,279	4,186
Finance costs	581	483	1,064	618	457	1,076
Other expenses	3,412	2,840	6,252	3,742	2,992	6,734
Total Operating Expenses	6,137	8,620	14,757	6,638	9,086	15,724
Net Surplus/(Deficit)	4,820	(5,760)	(940)	4,730	(5,555)	(825)

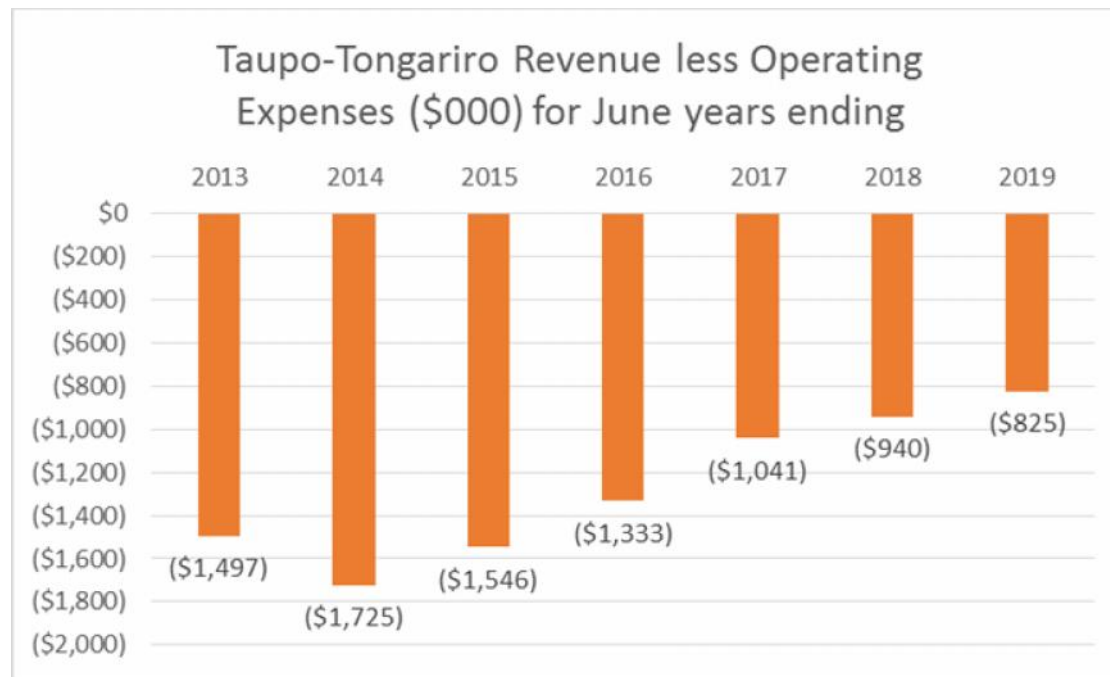
Annual rates revenue

- Turangi-Tongariro rates revenue compared to Taupo District

Year	Turangi %	Turangi \$'000	Taupo %	Taupo \$'000
2009/10	20.6%	8,490	79.4%	32,726
2010/11	20.4%	9,075	79.6%	35,385
2011/12	19.8%	9,399	80.2%	38,087
2012/13	19.8%	10,135	80.2%	41,083
2013/14	19.2%	10,429	80.8%	43,998
2014/15	18.4%	10,618	81.6%	47,128
2015/16	18.0%	10,769	82.0%	48,922
2016/17	18.0%	10,803	82.0%	49,223
2017/18	17.4%	10,680	82.6%	50,737
2018/19	17.2%	11,060	82.8%	53,215

- Turangi-Tongariro rates collected dollars (\$000) has declined in proportion to Taupo
- Turangi-Tongariro rate payers by number (rate payers) in 2018/19 represented 23% (other 2 Taupo wards 77%)

Ward revenue less operating expenses for last 7 years



Annual ward capital expenditure (\$000s) – as reported in Annual Plans

	TKMP	TT	District	Total
2009/10	82,539	1,418	7,677	91,634
2010/11	27,818	561	5,934	34,313
2011/12	19,872	664	6,592	27,128
2012/13	18,779	1,104	6,997	26,880
2013/14	8,685	780	6,903	16,367
2014/15	3,806	870	6,821	11,496
2015/16	4,620	1,821	7,372	13,813
2016/17	8,205	1,563	7,368	17,136
2017/18	11,219	1,742	8,150	21,111
2018/19*	7,836	896	12,138	20,870

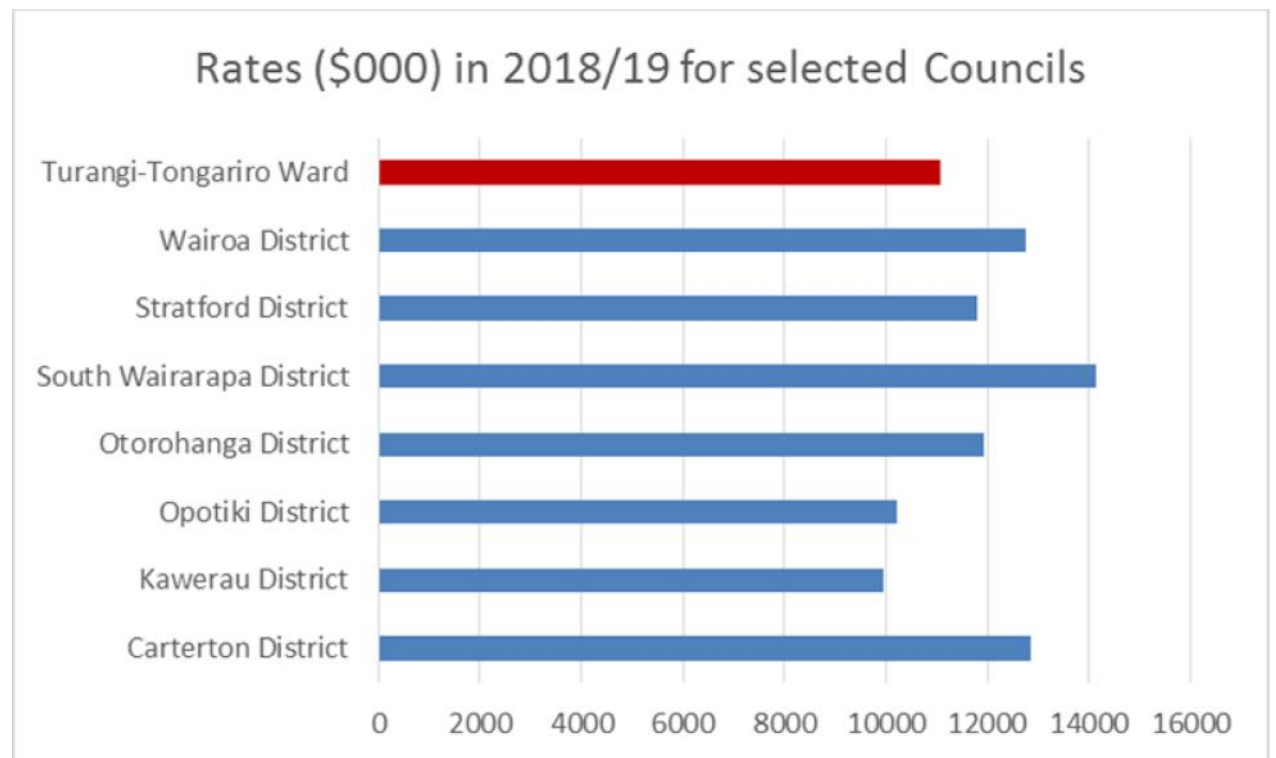
* 10 months to April 2019 only

Putting the report results into perspective

- Confirm TT deficit funding when capex less than depreciation
- Inter-relationship between capex, depreciation and debt
- Compare with councils with similar rates to Turangi-Tongariro ward

Districts* similar to Turangi-Tongariro ward As measured by rates revenue

* Group of 7 referred to as “Peer” in following slides



More on 2017/18 ward revenue and operating expenses

	2017/18		
	Turangi Direct	Share of District 20%	Turangi Total
Revenue (\$'000)			
Rates Revenue	10,680		10,680
Subsidies and grants	0	1,065	1,065
Development and financial contributions	0	50	50
Fees and charges	277	772	1,049
Finance revenue	0	626	626
Other revenue	0	347	347
Total Revenue	10,957	2,860	13,817
Expenses (\$'000)			
Personnel costs	341	3,193	3,534
Depreciation and amortisation expense	1,802	2,103	3,906
Finance costs	581	483	1,064
Other expenses	3,412	2,840	6,252
Total Operating Expenses	6,137	8,620	14,757
Net Surplus/(Deficit)	4,820	(5,760)	(940)

For TDC, 82% is NZTA subsidies:
 For Opex (26% of TDC subsidy total),
 And for Capex (55%)

As a % of TT rates collected:
 32% Personnel (v 39% Peer)
 37% Depreciation (v 35% Peer)
 4% net Finance (=1064-626)
 32% Other expenses (direct)
 3% net Other expenses
 =109% spending as % of rates

2017/18 ward table adjusted for capital spent

Item	TT Direct	TT 20% share	TT Total
Depreciation	1,802	2,103	3,906
Actual capital expenditure*	1,742	1,630	3,372
Underspend i.e. Set aside for future capex	60	473	534
Adjusted Net Surplus/(Deficit) i.e. current spending balance	4,880	(5,286)	(406)

Includes NZTA subsidies on:
 Operating expenditure (26% TDC total)
 Capital expenditure (55%)

As a % of TT rates collected:
 32% Personnel (v 39% Peer)
32% Capex (see later slide)
 4% net Finance (=1064-626)
 32% Other expenses (direct)
3% net Other expenses
=104%

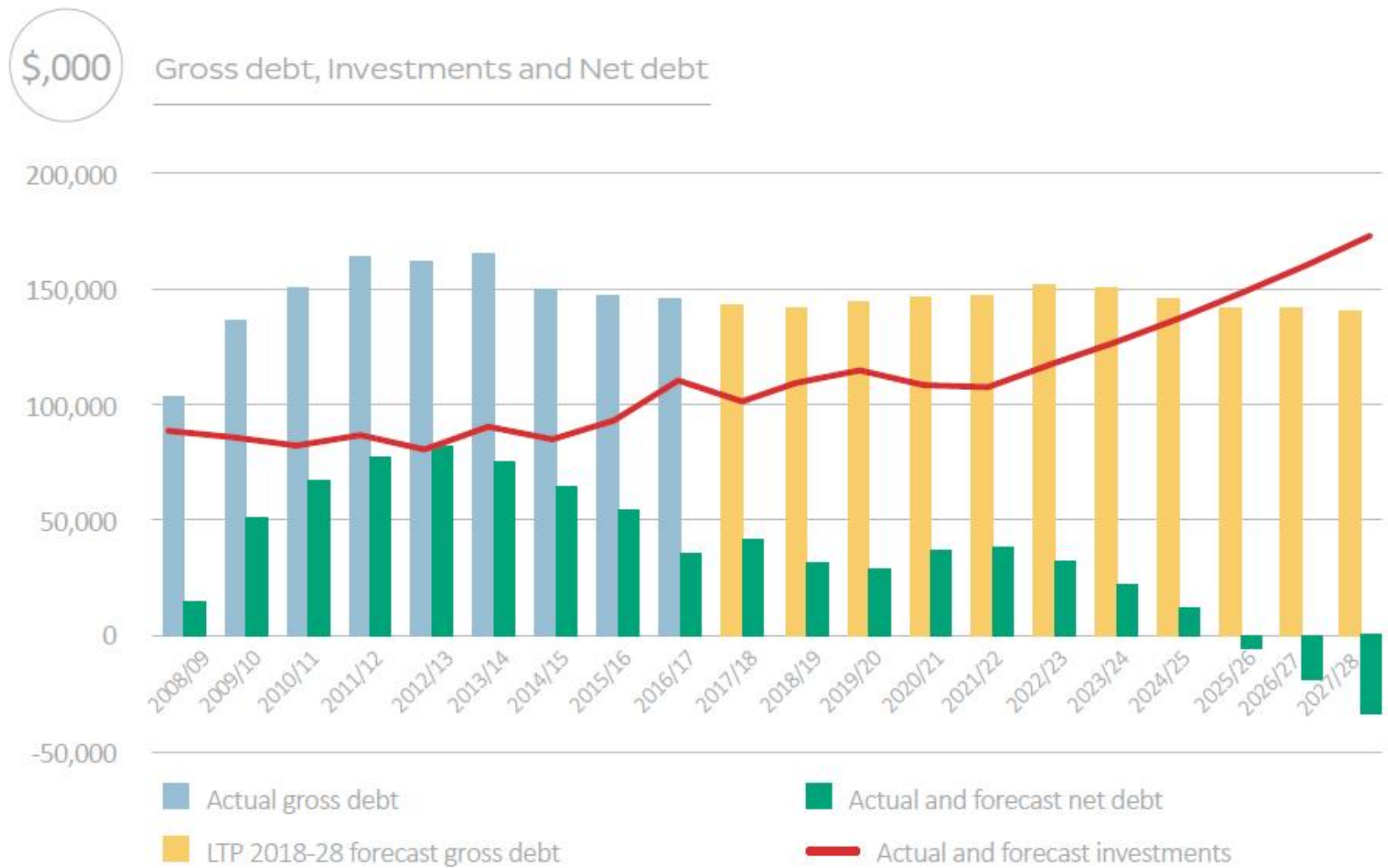
* TDC 2017/18 Annual Report

All TDC planned capital spend and funding 2017/18 (\$000)

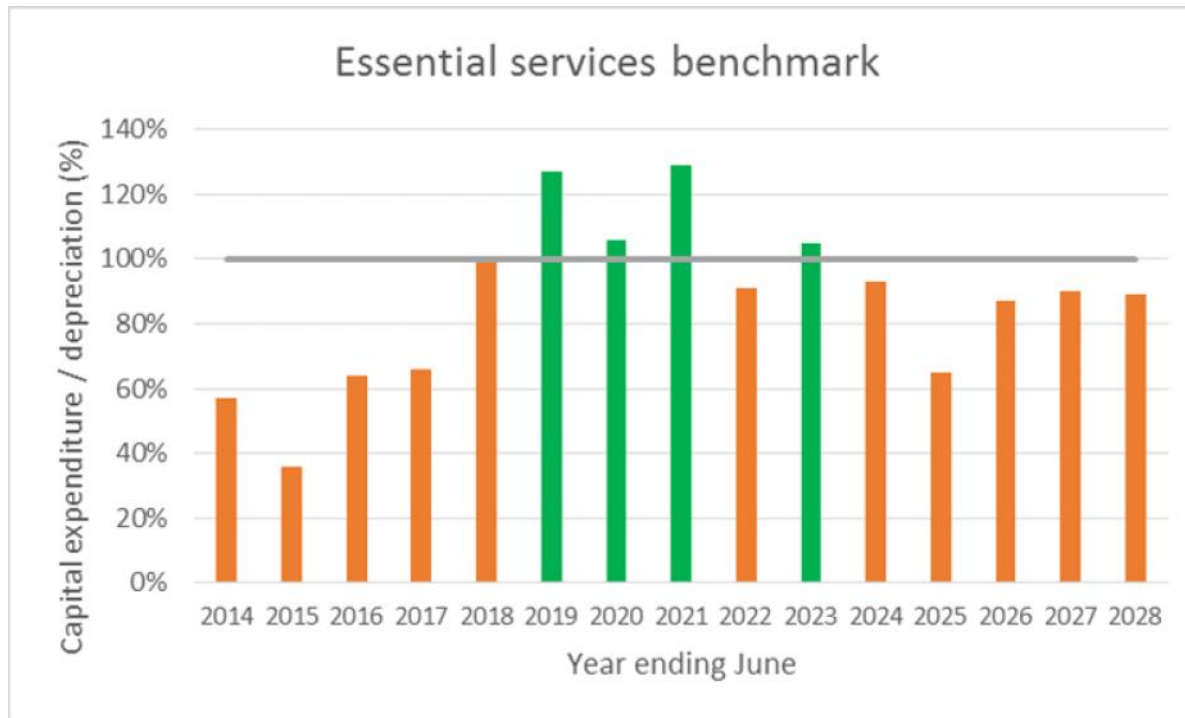
	Total	Renewals	New Demand/LoS
Capital expenditure	23,335	10,415	12,920
Subsidies	4,572		
Other funding (primarily rates)	21,304		
Sub-total	25,876		
Debt	-2,541		
Ratio of Capital expenditure to Depreciation	110%		
Ratio applied to Network infrastructure only for actual*	99%		

- Actual **capex** was slightly lower at \$21,111,000
- Rates funded for “**renewals**” applied to “**new demand and/or Levels of Service**” capital expenditure currently
- “Surplus rates” funding used for debt repayment
- “**Essential services benchmark**” was **99%**

TDC Debt



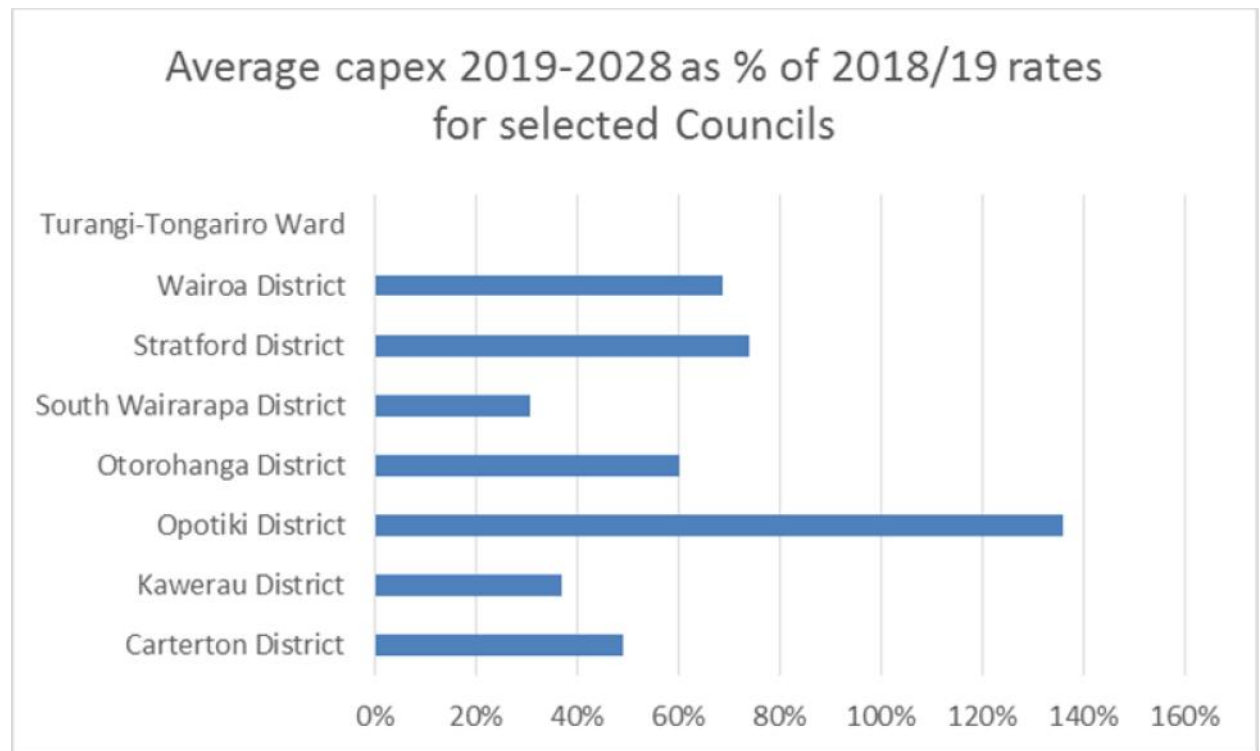
TDC capital expenditure v depreciation for network infrastructure



- 15 year average = 87% (unweighted)
- Near-term above-average spend on:
 - Water
 - Transport
 - Wastewater
- Other major non-network capex
 - Community facilities
 - Council admin building, IT

Benchmarking Turangi-Tongariro Capital expenditure

- Recall TT capex 32% of rates 2017/18
- Wide range of capex planned for Peer group
- Generally above Depreciation (recall Peer 35% average 2018/19)



Questions

- What do you have to say?
- What questions have been answered? Not answered?