6. 2006/07 SURPLUS

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PURPOSE OF REPORT

1. The purpose of this report is for the Council to consider how it treats the better than budgeted cash portion of the 2006/07 surplus.

EXECUTIVE SUMMARY

2. Councillors will be aware from the various seminars held as part of the 2006/16 LTCCP, that the Council needs to operate from a fiscal perspective in terms of Sections 100 and 101 of the LGA 2002. These sections require the Council to in effect produce a "balanced budget". The seminars also highlighted the fact that for legal (and accounting convention purposes), we are required to use the word "surplus" but from a local government perspective a surplus is not a "profit", as is the case for traditional corporates.

3. Councillors will also be aware that the surplus is not what is left over after taking off costs from revenue. The surplus is in fact a calculated figure and reflects the fact that we receive within our operating revenue, monies from organisations such as LTNZ and indeed from developers (DCs) which are in fact monies for capital expenditure. There are also activities that the Council operates that are deemed as not being rates funded, eg housing and dogs. These activities, particularly housing, are budgeted to make a cash surplus – to enable the fund to grow for future capital needs, and these cash surpluses are also included in the overall surplus. Attached as Appendix 1 is a copy of the financial overview of the LTCCP which clearly sets out the major components of our operating surplus calculation.

4. Because the surplus is a calculated figure, in effect the balancing "item" is what is required from rates.

5. The audited result for 2006/07 sees us with a better than budgeted surplus of $8.7m.

6. It is important to realise that our surplus does not necessarily represent cash. It is also important to recognise that our better than budgeted surplus results from a number of factors, some of which are of the same nature as described above in paragraph 3. This means that while we have a better than budgeted surplus, not all of it is technically available, and adjustments are required to determine the available cash surplus.

7. The table below shows how the surplus has arisen. The table shows the amount of "cash" which is the important figure as unless it is a cash amount it will not reduce rates in future years or be available for capital expenditure.

Operational Surplus 2006/07 ($m)		38.9
Less plan		-30.2
Available surplus		8.7
Remove Non Cash variances		13.4
Vested Asset revenue under plan	10.6	
Landfill Liability reduction	-0.8	
Depreciation expense over plan	3.4	
Endeavour I-Cap investment write down	0.2	
Remove Cash not available		-9.1
Housing & Dogs result under plan	-0.3	
Special Fund interest revenue over plan	-1.5	
Capital revenues over plan	-2.6	
Special Fund (CEF) expenditure under plan	-1.4	
Funding for late 05/06 opex carry forwards	0.4	
6/07 opex carry forwards to be funded	-3.7	
Available Cash Surplus		13.0

FINANCIAL IMPLICATIONS

8. There are basically two reserve accounts that the better than budgeted cash surplus could be applied to. These are the income equalisation reserve and the debt repayment reserve.

9. Monies applied to the debt repayment reserve will see these monies being used immediately in the 2007/08 financial year by reducing the amount that we are required to borrow to fund our capital programme. This will have a permanent benefit for all ratepayers as the amount of interest that we pay will be reduced.

10. The second reserve account is the income equalisation reserve. This reserve has traditionally been the area where surpluses have tended to go and indeed the Council has used as a smoothing impact for its rates. The problem with the income equalisation reserve and its application is that it only provides temporary rate relief, ie because it is only a one-off impact in the year in which it is applied, it reduces the rates for that year only.

11. The impact of using the income equalisation reserve is that in the subsequent year the reduction immediately reverses. For example reducing rates in year 1 by say $6m from income equalisation reserve funds will see rates 3% lower than they otherwise would be. However, this means that without injecting another $6m into the subsequent year, the subsequent year's rates will automatically start 3% higher.

12. To have an ongoing permanent benefit for all ratepayers it is recommended that any cash surplus be transferred to the debt repayment reserve.

STAFF RECOMMENDATION

It is recommended that the Council approve the transfer of $13.0m to the debt repayment reserve.