

Notice is given that an ordinary meeting of the Nelson Regional Sewerage Business Unit will be held on:

Date:	Friday 15 September 2017
Time:	2.30 pm
Meeting Room:	Ruma Marama
Venue:	Nelson City Council

Nelson Regional Sewerage Business Unit

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LATE ITEMS

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A REPORTS

A.1 NRSBU - ANNUAL FINANCIAL STATEMENTS

Decision Required

Report To: Nelson Regional Sewerage Business Unit

Meeting Date: 15 September 2017

Report Author: Richard Kirby, Engineering Services Manager

Report Number:

1 Summary

- 1.1 The annual financial statements are attached and require approval by the NRSBU Committee.

2 Draft Resolution

That the Nelson Regional Sewerage Business Unit

- 1. receives the NRSBU - Annual Financial Statements report; and**
- 2. approves the NRSBU – Annual Financial Statements**

3 Purpose of the Report

- 3.1 To approve the annual financial statements of the Nelson Regional Sewerage Business Unit.

4 Attachments

1. NRSBU - Annual Financial Statements

7

NELSON REGIONAL SEWERAGE BUSINESS UNIT

ANNUAL FINANCIAL STATEMENTS

For the Year ended 30 June 2017

NELSON REGIONAL SEWERAGE BUSINESS UNIT**Representatives for year ended 30 June 2017**

Representing Tasman District Council
Mr M Higgins
Cr B Dowler (until October 2016)
Cr C Maling (from October 2016)

Representing Nelson City Council
Cr T Skinner (from October 2016)
Cr S. Walker from October 2016)
Cr R Copeland (until October 2016)
Mr D Shaw (until October 2016)

Principal Administration Office

C/- Nelson City Council
110 Trafalgar St
Nelson

Auditor

Audit New Zealand on behalf of the office of the Auditor-General

Bankers

Westpac New Zealand Ltd
Queen St
Richmond

Solicitors

Duncan Cotterill
197 Bridge St
Nelson

NELSON REGIONAL SEWERAGE BUSINESS UNIT

Statement of Accounting policies
For the year ended 30 June 2017

Reporting Entity

The Nelson Regional Sewerage Business Unit (the Business Unit) is a Joint Committee (the Committee) of Nelson City Council and Tasman District Council, under Section 48 of the Local Government Act 2002.

The primary purpose of the Business Unit is to manage the treatment facilities and network in a cost efficient and environmentally sustainable manner rather than making a financial return. Accordingly, the Business Unit has designated itself as a public benefit entity for the purposes of financial reporting.

The financial statements of the Business Unit are for the year ended 30 June 2017. The financial statements were authorised for issue by the Committee on the XXth September 2017.

Basis of Preparation

The financial statements have been prepared on the going concern basis, and the accounting policies set out below have been consistently applied to all periods presented in the financial statements.

Statement of compliance

The financial statements of the Business Unit have been prepared in accordance with the requirements of the Local Government Act 2002, which includes the requirement to comply with New Zealand generally accepted accounting practice (NZ GAAP).

The financial statements of the Business Unit have been prepared in accordance with Tier 2 PBE standards on the basis that the Business Unit does not have public accountability (as defined) and has total annual expenditure of less than \$30 million.

These financial statements comply with Tier 2 PBE standards.

Measurement base

The financial statements have been prepared on a historical cost basis, modified by the revaluation of land, infrastructural assets and biological assets.

Functional and presentation currency

The financial statements have been prepared in New Zealand dollars and all values are rounded to the nearest dollar. The functional currency of the Business Unit is New Zealand dollars.

Accounting Policies

The following particular accounting policies which materially affect the measurement of results and financial position have been applied:

a) Revenue

Revenue is measured at the fair value.

Interest income is recognised using the effective value method.

Exchange and non-exchange transactions

An exchange transaction is one in which Council receives assets or services, or has liabilities extinguished, and directly gives approximately equal value in exchange. Non-exchange transactions are where Council receives value from another entity without giving approximately equal value in exchange

Sales and other recoveries

Revenue from the rendering of services is recognised by reference to the stage of completion of the transaction at balance date, based on the actual service provided as a percentage of the total services to be provided. These are exchange transactions and include rents.

b) Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

c) Cash and Cash equivalents

Cash and Cash equivalents includes cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Bank overdrafts are shown within borrowings as a current liability in the statement of financial position.

d) Trade and other receivables

Trade and other receivables are initially measured at face value and subsequently measured less any provision for impairment.

A provision for impairment of receivables is established when there is objective evidence that the Board will not be able to collect all amounts due according to the original terms of the receivables.

e) Trade and other payables

Short term creditors and other payables are recorded at their face value.

f) Borrowings

Borrowings are initially recognised at their face value plus transaction costs. After initial recognition, all borrowings are measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Business Unit has an unconditional right to defer settlement of the liability for at least 12 months after balance date.

g) Income tax

As a Joint Committee of Nelson City Council and Tasman District Council the Business Unit is taxable in the two Councils. However, the Business Unit operations are a non-taxable activity for each Council.

h) Goods and Services Tax

The financial statements have been prepared exclusive of goods and services tax (GST) with the exception of trade receivables and payables, which are stated with GST included.

i) Distribution Policy

Any Net Surplus Income before extraordinary items over budget, as decided by the Committee, is returned to the Councils on an equal share basis. These are exchange transactions.

j) Property, Plant and Equipment

There are three categories of Property, Plant and Equipment:

- Freehold land
- The Infrastructural Network – incorporates pipelines, pump stations, ponds, aerators, clarifiers, odour control unit, power supply and buildings
- Work in Progress

Revaluation of property plant and equipment.

- Land is reviewed annually and revalued at market value every five years or if there is a material movement. The latest valuation was conducted as at 30 June 2017 by QV Valuations.

- Infrastructural assets are valued annually internally at depreciated replacement cost by Council engineers as at 30 June 2017 based on a Valuation By OPUS International Consultants Ltd as at 31 March 2017 plus additions at cost less depreciation. Work in progress is recognised at cost less impairment and is not depreciated.

Vested infrastructure assets have been valued based on the actual quantities of infrastructure components vested and the current 'in the ground' cost of providing identical services

The net revaluation results are credited or debited to other comprehensive revenue or expense and are accumulated to an asset revaluation reserve in equity each class of asset.

Additions

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits will flow to the Business Unit and the cost can be measured reliably.

Work in progress is measured at cost less impairment and is not depreciated.

New Business Unit assets are added between valuations are recorded at cost except when acquired through a non-exchange transaction. Where an asset is acquired through a non-exchange transaction, such as vested assets it is recognised at fair value as at the date of acquisition.

k) Depreciation

Depreciation is provided on a straight line basis on all PPE other than Land at rates which will write off the cost/valuation of the assets over their useful lives. The useful lives of the major classes of infrastructural assets have been estimated as follows:

Buildings	50 years
Ponds and Channels	
- earthworks	999 years
- wave bands	90 years
- electromechanical	25 years
- pipelines, chambers, aeration basin outfall	50 – 80 years
Aerators	25 years
Power Supply	25 years
Clarifier	
- earthworks	999 years
- civil works	50 years
- pipes	50 – 60 years
- pumps	10 – 25 years
- other	10 – 25 years
Odour Control Unit	10 – 50 years
Pump Stations	
- pumps	15 - 25 years
- variable speed drive units	10 - 20 years
- pipes and civil works	50 years
- other	25 years
Pipelines	
- pipes	45 – 80 years
- air valves	25 years

The Business Unit has implemented an activity management plan for the continuing replacement and refurbishment of components to ensure that conveying, treatment and disposal systems are maintained to provide a satisfactory service on an ongoing basis.

iii) Work in progress is valued at cost of construction. Depreciation is applied at time of commissioning.

l) Biological Assets

Forestry consisting of 18 hectares planted on Bell Island adjacent to the ponds is revalued annually by P F Olsen and Company Ltd to Market Value. The latest valuation available is at 30 June 2017.

The movement in the Forestry valuation is recorded in the Surplus or Deficit.

m) Revaluation Reserves

The results of revaluing land and infrastructural assets are credited or debited to other comprehensive revenue and expense and are accumulated to an asset revaluation reserve in equity for that class of asset. Where this results in a debit balance in the asset revaluation reserve for any class of asset, this is expensed in the Surplus or Deficit. To the extent that increases in value offset previous decreases debited to the Surplus or Deficit, the increase is credited to the Surplus or Deficit.

n) Statement of Cash Flows

Cash means cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which the Business Unit would invest as part of its day to day cash management.

Operating activities include cash received from participants and all other sources and records the cash payments made for the supply of goods and services.

Investment activities are those activities relating to the acquisition and disposal of non current assets.

Financing activities comprise the change in equity and debt capital structure of the Business Unit.

o) Budget figures

The budget figures are those approved by the Committee at the beginning of the year in the Business Plan. The budget figures have been using accounting policies that are consistent with those adopted by the Committee for the preparation of financial statements.

p) Critical accounting estimates and assumptions

In preparing these financial statements the Business Unit has made estimates and assumptions concerning the future. The key assumptions relate to the valuation of the Business Unit's property, plant and equipment. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including estimates and expectations of future events that are believed to be reasonable under the circumstances.

NELSON REGIONAL SEWERAGE BUSINESS UNIT**Statement of Comprehensive Revenue and Expense
For the year ended 30 June 2017**

	Notes	Actual 2016/17 \$	Budget 2016/17 \$	Actual 2015/16 \$
Revenue				
Sales		7,001,574	7,752,000	7,387,763
Other Recoveries		155,844	156,000	136,394
Interest		245	1,000	1,147
Gain in Fair Value of Forestry	5	12,000	-	4,900
Total Revenue		<u>7,169,663</u>	<u>7,909,000</u>	<u>7,530,204</u>
Less Expenses				
Management		199,610	195,330	209,234
Audit Fees		16,700	17,340	15,450
Interest Paid		489,658	874,000	634,389
Insurance		47,360	63,000	58,749
Depreciation	6	1,791,017	1,821,000	1,768,271
Abandoned Assets		25,627	-	-
Electricity		743,407	824,600	717,652
Operations & Maintenance		1,358,552	1,139,751	1,259,534
Monitoring		205,134	101,641	142,164
Biosolids Disposal		583,671	548,760	677,442
Consultancy		82,111	75,000	55,551
Sundry		77,811	74,155	68,383
Total Expenses		<u>5,620,658</u>	<u>5,734,577</u>	<u>5,606,819</u>
Net Surplus		<u>1,549,005</u>	<u>2,174,423</u>	<u>1,923,385</u>
Other Comprehensive Revenue and Expense				
Gain on revaluation of Fixed Assets	1(b)	7,387,363		855,279
Total Comprehensive Revenue and Expense		<u>8,936,368</u>	<u>2,174,423</u>	<u>2,778,664</u>

**Statement of Changes in Equity
For the year ended 30 June 2017**

	Actual 2016/17	Actual 2015/16
Equity at the start of Year	\$	\$
Opening Equity	39,705,045	38,849,766
Plus Total Comprehensive Revenue and Expense for the year	8,936,368	2,778,664
Less Owners Distribution	1,574,632	1,923,385
Equity at the end of Year	<u>47,066,781</u>	<u>39,705,045</u>

Explanations of major variances against budget are found in note 10.

The attached notes form part of and should be read in conjunction with these financial statements.

NELSON REGIONAL SEWERAGE BUSINESS UNIT**Statement of Financial Position
as at 30 June 2017**

	Notes	Actual 2017 \$	Actual 2016 \$
Equity			
Accumulated Funds	1(a)	15,819,055	15,763,734
Contingency reserve		100,000	100,000
Revaluation reserve	1(b)	31,147,726	23,841,311
Total Equity		<u>47,066,781</u>	<u>39,705,045</u>
This was represented by:			
Current Assets			
Cash and cash equivalents		21,345	344,874
Trade receivables from exchange transactions		167,912	51,358
Inter-entity receivables from exchange transactions		484,188	211,054
Total Current Assets		<u>673,445</u>	<u>607,286</u>
Current Liabilities			
Trade Payables from exchange transactions		542,689	478,602
Sundry Creditors and other payables from exchange transactions		16,700	101,639
Inter-entity payables from exchange transactions		1,574,632	1,923,385
Current portion Inter-Entity Borrowings		450,000	-
Total Current Liabilities		<u>2,584,021</u>	<u>2,503,626</u>
Net Working Capital		<u>(1,910,576)</u>	<u>(1,896,339)</u>
Non Current Assets			
Property, plant and equipment	6	62,948,957	55,584,984
Forestry assets	5	28,400	16,400
Total Non Current Assets		<u>62,977,357</u>	<u>55,601,384</u>
Non Current Liabilities			
Borrowings	2	14,000,000	14,000,000
Total Non Current Liabilities		<u>14,000,000</u>	<u>14,000,000</u>
Net Assets		<u>47,066,781</u>	<u>39,705,045</u>

For and on behalf of the Nelson Regional Sewerage Business Unit

Chairman

General Manager

Date XXth September 2017

The attached notes form part of these financial statements

NELSON REGIONAL SEWERAGE BUSINESS UNIT

Statement of Cash Flows
For the year ended 30 June 2017

	Notes	2016/17 \$	2015/16 \$
Cash Flows from Operating Activities			
Receipts from customers		6,767,729	8,153,517
Interest received		245	1,147
		<u>6,767,974</u>	<u>8,154,664</u>
Payments to suppliers		(3,361,922)	(2,818,852)
Interest paid		(550,561)	(573,476)
		<u>(3,912,483)</u>	<u>(3,392,328)</u>
Net Cash Flows from Operating Activities	3	<u>2,855,491</u>	<u>4,762,336</u>
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		(1,705,636)	(842,046)
Net Cash from Investing Activities		<u>(1,705,636)</u>	<u>(842,046)</u>
Cash Flows from Financing Activities			
Owners Distribution		(1,923,385)	(1,934,722)
Loan repayment		(700,000)	(3,150,000)
Loan raised		1,150,000	1,150,000
Net Cash from Financing Activities		<u>(1,473,385)</u>	<u>(3,934,722)</u>
Net Increase/(Decrease) in cash and cash equivalents		(323,530)	(14,433)
Cash and cash equivalents at beginning of the year		344,875	359,307
Cash and cash equivalents at the end of year		<u>21,345</u>	<u>344,875</u>

The attached notes form part of these financial statements

NELSON REGIONAL SEWERAGE BUSINESS UNIT

Notes to and forming part of the Financial Statements
for the year ended 30 June 2017

	2016/17 \$	2015/16 \$
1 Equity		
The Business Unit is jointly owned by the Nelson City Council and the Tasman District Council.		
1(a) Accumulated Funds		
Opening Balance	15,763,734	15,763,734
Net Surplus	1,549,005	1,923,385
Disposal of Property, plant and equipment	80,948	0
Distribution to Owners	(1,574,632)	(1,923,385)
Closing Balance	<u>15,819,055</u>	<u>15,763,734</u>
1(b) Revaluation Reserve		
Opening Balance	23,841,311	22,986,032
Revaluation Movements		
Land revaluation	465,800	0
Buildings revaluation	107,021	17,461
Sewerage network revaluation	6,740,852	812,101
Plant & Equipment revaluation	73,690	25,717
Total Revaluation Movement	<u>7,387,363</u>	<u>855,279</u>
Transfer to accumulated funds on disposal of property	(80,948)	0
Closing Balance	<u>31,147,726</u>	<u>23,841,311</u>
Balance held as follows:-		
Land	2,123,657	1,657,857
Buildings	335,735	228,714
Sewerage network	28,497,261	21,837,357
Plant & Equipment	191,073	117,383
Total Revaluation Reserve	<u>31,147,726</u>	<u>23,841,311</u>

2 Term Loans

A core funding facility exists with Tasman District and Nelson City for 110% of the current funding with a constant maturity of no less than five years.

Interest rates payable range was 3.42% to 3.42% with a weighted average of 3.42%. (For 2015/16 the range was 4.38% to 3.49% with a weighted average of 4.23%).

Total Loans	14,000,000	14,000,000
Less Current Portion	-	-
Term Portion	<u>14,000,000</u>	<u>14,000,000</u>
1 to 2 years	-	-
2 to 5 years	<u>14,000,000</u>	<u>14,000,000</u>
	<u>14,000,000</u>	<u>14,000,000</u>

The interest rate on the borrowings from the two Councils is set at the three year swap rate (NZDSM3NB3Y) plus a margin equivalent to charged by Westpac bank to Nelson City Council. As at 30 June 2017 this rate was 3.745% which will be used to calculate the Capital Charge in the Trade Waste charges to customers for 2017/18. (June 2016 3.42%)

3 Reconciliation of Net Surplus with Net Cash Flow from Operating Activities

	2017 \$	2016 \$
Net Surplus	1,549,005	1,923,385
Add back non cash items		
Depreciation	1,791,017	1,768,271
Abandoned Assets	25,627	0
Gain (Loss) in fair value of forestry	(12,000)	(4,900)
Movements in Working Capital		
(Increase)/Decrease in receivables	(389,688)	629,360
(Increase)/Decrease in fixed asset related payables	(87,618)	(91,769)
Increase/(Decrease) in payables	(369,604)	526,652
Items classified as financing activities		
(Increase)/Decrease in owner distribution accrual	348,753	11,337
	<u>2,855,491</u>	<u>4,762,336</u>

4 Related party transactions

Related party disclosures have not been made for transactions with related parties that are within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those it is reasonable to expect the Business Unit would have adopted in dealing with the party at arm's length in the same circumstances.

5 Forestry Assets

The Biological Assets are valued at Market Value. Any movement in the valuation is recorded in the Profit and Loss Account.

	2017 \$	2016 \$
Current Market Value	28,400	16,400
Current increase (decrease) in Market Value	12,000	4,900

6 Property, plant and equipment

Valuation / Cost	Land	Sewerage Network	Buildings	Plant & Equipment	Total
Balance June 2015					
Additions 2016	2,342,000	52,986,643	215,093	20,424	55,564,160
Abandoned Assets 2016		883,071	-	50,745	933,816
Revaluation 2016		705,001	17,461	132,817	855,279
Revaluation transfer 2016		(1,735,214)	(17,642)	(15,416)	(1,768,272)
Balance June 2016	2,342,000	52,839,501	214,912	188,570	55,584,983
Additions 2017		1,680,826	9,364	103,064	1,793,254
Abandoned Assets 2017		(25,627)			(25,627)
Revaluation 2017	465,800	6,740,852	107,022	73,690	7,387,364
Revaluation transfer 2017		(1,740,337)	(16,305)	(34,375)	(1,791,017)
Balance June 2017	2,807,800	59,495,215	314,993	330,949	62,948,957

Accumulated Depreciation

Balance June 2015	-	-	-	-	-
Depreciation charge 2016		1,735,214	17,642	15,416	1,768,272
Revaluation transfer 2016		(1,735,214)	(17,642)	(15,416)	(1,768,272)
Balance June 2016	-	-	-	-	-
Depreciation charge 2017		1,740,337	16,305	34,375	1,791,017
Revaluation transfer 2017		(1,740,337)	(16,305)	(34,375)	(1,791,017)
Balance June 2017	-	-	-	-	-

Carrying amounts

Balance June 2016	2,342,000	52,839,501	214,912	188,570	55,584,983
Balance June 2017	2,807,800	59,495,215	314,993	330,949	62,948,957

Work in Progress (included above)

Property, plant and equipment in the course of construction by class of assets is detailed below

Balance June 2016	-	69,317	-	-	69,317
Balance June 2017	-	267,668	-	-	267,668

There are a number of Estimates and Assumptions exercised when valuing the infrastructural assets using the depreciated replacement cost method. These include:

- Estimating any obsolescence or surplus capacity of the asset.
- Estimating the replacement cost of the assets.
- Estimating the remaining useful life over which assets are depreciated. To minimise this risk, infrastructural assets useful lives have been determined with reference to the NZ Infrastructural Asset Valuation and Depreciation Guidelines and have been adjusted for local conditions based on past experience. Asset inspections, deterioration, and condition modelling are also carried out regularly as part of the asset management planning activities, which provides further assurance over useful life estimates.

7 Financial Instruments

The Nelson Regional Sewerage Business Unit is party to financial instrument arrangements as part of its every day operations. These financial instruments include accounts receivable, accounts payable, loans and investments.

a) Credit Risk

Financial instruments which are potentially subject to credit risk consist of bank balances, accounts receivable and short term deposits.

	<u>2017</u>	<u>2016</u>
	\$	\$
Bank Balances	21,345	344,874
Accounts Receivable	652,100	237,131

No collateral is held on the above accounts

b) Concentration

Concentrations of credit risk with respect to accounts receivable are high, with Nelson City Council, Tasman District Council and three private users as major customers. However, all are considered high credit quality entities.

c) Currency Risk

Nelson Regional Sewerage Business Unit has no currency risk as any financial instruments it deals with are all in New Zealand dollars.

d) Financial instruments

The Business Unit is party to financial instrument arrangements as part of its everyday operations. These financial instruments include cash and cash equivalents, accounts receivable and payable, investments, and loans which have all been recognised in the financial statements. Revenues and expenses in relation to all financial instruments are recognised in the Statement of Comprehensive Revenue and Expense.

8 Statement of Contingent Assets and Contingent Liabilities

The Business Unit has no contingent asset or contingent liabilities as at 30 June 2017 (2016 Nil).

9 Statement of Commitments

The Business Unit has capital commitments of \$195,978 as at 30 June 2017. (2016 Nil).

	<u>2017</u>	<u>2016</u>
Operating Leases as lessor		
Less than one year	16,000	16,000
One to Five years	-	16,000
Over five years	-	-

10 Explanation of major variances against budget

Statement of Comprehensive Revenue and Expense

Total Income is \$739,337 less than budget due to lower interest rates reducing the rate of return on capital.

Total expenses are \$113,919 less than budget due to interest being \$384,342 less the increased operations and maintenance of \$218,801 largely in solid waste handling and pumpstations, and increased monitoring costs of \$103,493 due to increased contribution monitoring and timing of coastal permit monitoring.