

**Mayor and Councillors**  
CORPORATE BUSINESS COMMITTEE

21 NOVEMBER 2013

Meeting Status: **Public**

Purpose of Report: For Information

## **FINANCIAL REPORTS TO 30 SEPTEMBER 2013**

### **PURPOSE OF REPORT**

- 1 This report sets out Council's financial results and financial position at 30 September 2013. Financial exceptions are noted in the report together with explanations for any significant variations from the budgets.

### **SIGNIFICANCE OF DECISION**

- 2 This report does not trigger Council's Significance Policy.

### **BACKGROUND**

- 3 The financial reports to 30 September 2013 show the Council's financial performance against budgets and highlight any financial exceptions and include some financial performance and analysis indicators.

- 4 The Council is provided with information on seven broad areas of financial performance at each quarter and these are:

**Part A: Statement of Comprehensive Income (Financial Performance)**

**Part B: Statement of Financial Position**

**Part C: Statement of Rating Position**

**Part D: Revenue/Expenditure by Activity with Explanations on Variances and Trends**

**Part E: Explanation of Capital Works Programme Performance**

**Part F: Outstanding Rates Debt as at 30 September 2013**

**Part G: Statement of Performance against Treasury Policy Limits**

Full explanations are provided under each part.

## Part A: Statement of Comprehensive Income (Financial Performance)

- 5 The Statement of Comprehensive Income covers all of Council's revenue and expenditure from all funding sources not just rates funding. The net position of revenue less expenditure provides the operating surplus or deficit. In addition to the operating revenue, there are other comprehensive income items such as the revaluation increase on the value of Council's infrastructural assets. Table 1 summarises Council's Statement of Comprehensive Income as at 30 September 2013. Explanations of key components and variances follow.

**Table 1: Statement of Comprehensive Income**

2012/13 Actual \$000		30/9/2013 Actual \$000	2013/14 Budget \$000
	<b>Operating Revenue</b>		
9,345	General Rates	2,601	10,334
32,064	Targeted Rates (Excluding Water)	8,329	32,481
7,115	Targeted Water Rates	1,966	7,612
12,709	Other Revenue	1,900	9,527
1,344	Other Revenue - Capital Subsidy NZTA	-	1,526
2,032	Development Contributions	200	1,299
1,189	Trust Fund Revenue (Aquatic)	-	125
482	Vested Assets	-	1,082
<b>66,280</b>	<b>Total Operating Revenue</b>	<b>14,996</b>	<b>63,986</b>
	<b>Operating Expenditure</b>		
22,762	Other Expenditure	4,273	23,203
18,118	Payments to Employees	5,106	20,559
6,323	Finance Costs	1,723	8,696
13,847	Depreciation/Amortisation	3,564	14,150
<b>61,050</b>	<b>Total Operating Expenditure</b>	<b>14,666</b>	<b>66,608</b>
<b>5,230</b>	<b>Net Surplus / (Deficit)*</b>	<b>330</b>	<b>(2,622)</b>
	<b>Other Comprehensive Income</b>		
(13,625)	Revaluation of Assets	-	60,831
<b>(13,625)</b>	<b>Total Other Comprehensive Income</b>	<b>-</b>	<b>60,831</b>
<b>(8,395)</b>	<b>Total Comprehensive Income</b>	<b>330</b>	<b>58,209</b>

### **Operating Revenue**

- 6 This consists of the following components:
- Rates Revenue
  - Other Revenue (key components):
    - Fees and Charges
    - Financial Contributions/Development Contributions
    - Vested Assets
    - New Zealand Transport Agency Revenue

### **Rates Revenue**

- 7 The rates revenue is the total Council rates levied of \$13.022 million less Council's rates on its own properties to give a net rates revenue of \$12.896 million.
- 8 The rates levied in the first three months reflect 25% of the total annual rates and also includes rates penalties which are in addition to the total rates levied.

### **Other Revenue**

- 9 The key component of Other Revenue is fees and charges.

### Fees and Charges

- 10 Overall fees and charges are below the budget due to low levels of NZTA subsidies claimed in the first quarter. This reflects a lower spend in the roading area.

### Financial Contributions/Development Contributions

- 11 Financial Contributions are levied under the Resource Management Act and cover Reserves Contributions levied on developers at the time of subdivision in accordance with Council's Development Contributions Policy in the Long Term Plan.
- 12 Development Contributions are levied under the Local Government Act 2002 and cover all key activities except Parks and Open Space and are levied on developers at the time of subdivision in accordance with Council's Development Contributions Policy in the Long Term Plan.
- 13 Accounting Standards require that Development Contributions and Financial Contributions are not recognised as revenue until they are utilised to fund capital works. The reason for this is that until the contributions are spent on the capital works for which they are collected they are required to be recognised as a current liability. As the Contributions are spent on capital works they are recognised as revenue.

### Vested Assets

- 14 These are the roading, water, wastewater and stormwater assets that are vested in Council at the time of subdivision. For the first three months there were no assets vested in Council by Developers. These are non-cash assets but the value of these vested assets needs to be recognised as revenue in the Statement of Comprehensive Income.

### NZTA Capital Funding

- 15 Low levels of subsidised roading expenditure generally occur in the first quarter which results in lower levels of subsidy being claimed.

**Explanation of Operating Expenditure**

16 Total Operating Expenditure consists of operating costs, depreciation and finance costs. Overall Operating Expenditure is below the budget for the first three months. Variances in operating costs and finance costs are summarised briefly below.

**Operating Costs**

17 Operating costs both direct and indirect are below the budget for the first three months. This is due to lower operating costs as at 30 September 2013 across a number of activities which are explained in Part D.

**Finance Costs**

18 Council's finance costs or debt servicing costs are below budget for the first three months. This reflects the lower average interest rates achieved for existing debt through the management of Council's interest rate swaps. It also reflects lower capital spend against budget in the first three months of the year. See Part E for a full explanation.

**Operating Net Surplus**

19 Total operating revenue is below the budgeted revenue for the first three months, although operating expenditure is even lower than the budget for the same period, resulting in an operating surplus of \$0.330 million as at 30 September 2013 which is above budget.

**Revaluation of Assets**

20 This adjustment occurs every three years with the revaluation of all of Council's assets. This occurred last as at 30 June 2011 and will occur at the end of the current financial year.

## Part B: Statement of Financial Position as at 30 September 2013

- 21 The Statement of Financial Position as at 30 September 2013 is set out in Table 2, followed by an overview of the key components.

**Table 2: Statement of Financial Position**

<b>2012/13 Actual \$000</b>		<b>30/9/2013 Actual \$000</b>	<b>2013/14 Budget \$000</b>
<b>Current Assets</b>			
5,939	Cash and Cash Equivalents	5,798	2,154
5,882	Trade and Other Receivables	4,120	6,147
92	Inventories	33	139
39	Derivative Financial Instruments	39	2
24	Loan Receivables	24	-
3,650	Non-Current Assets Held for Sale	3,650	-
<b>15,626</b>	<b>Total Current Assets</b>	<b>13,664</b>	<b>8,442</b>
<b>Non-Current Assets</b>			
858,754	Property, Plant and Equipment	858,456	950,518
525	Forestry Assets	525	268
431	Intangible Assets	385	350
232	Derivative Financial Instruments	232	228
1,766	Other Financial Assets	1,766	-
220	Loan Receivables	239	-
<b>861,928</b>	<b>Total Non-Current Assets</b>	<b>861,603</b>	<b>951,364</b>
<b>877,554</b>	<b>Total Assets</b>	<b>875,267</b>	<b>959,806</b>
<b>Liabilities and Public Equity</b>			
<b>Current Liabilities</b>			
14,693	Trade and Other Payables	7,219	15,897
1,809	Employee Benefit Liabilities	1,516	1,643
996	Deposits	1,015	1,218
1,342	Derivative Financial Instruments	1,342	1,668
10,077	Public Debt	15,208	20,059
1,463	Development Contributions	1,463	1,615
<b>30,380</b>	<b>Total Current Liabilities</b>	<b>27,763</b>	<b>42,100</b>
<b>Long Term Liabilities</b>			
115,147	Public Debt	115,147	129,118
5,147	Derivative Financial Instruments	5,147	8,716
187	Employee Benefit Liabilities	187	460
563	Provisions	563	39
<b>121,044</b>	<b>Total Long Term Liabilities</b>	<b>121,044</b>	<b>138,333</b>
<b>151,424</b>	<b>Total Liabilities</b>	<b>148,807</b>	<b>180,433</b>

2012/13 Actual \$000		30/9/2013 Actual \$000	2013/14 Budget \$000
	<b>Public Equity</b>		
577,171	Retained Earnings	577,501	557,299
145,713	Revaluation Reserve	145,713	220,169
3,246	Reserves & Special Funds	3,246	1,905
<b>726,130</b>	<b>Total Public Equity</b>	<b>726,460</b>	<b>779,373</b>
<b>877,554</b>	<b>Total Liabilities and Equity</b>	<b>875,267</b>	<b>959,806</b>

## Explanation of Table 2

22 The budgets for the 2013/14 year are the budgets for the end-of-year position i.e. as at 30 June 2014. These budgets were established as part of the 2013/14 Annual Plan process and set on 27 June 2013. The budgets were set twelve months in advance projecting the Council's financial position as at 30 June 2014. It is more realistic to compare Council's financial position as at 30 September 2013 with the position as at 30 June 2013, as it reflects three months of financial activity since 30 June 2013.

### Current Assets

23 The lower level of current assets since 30 June 2013 occurs due to the decrease in cash and trade receivables as at 30 September 2013 compared to 30 June 2013. The decrease reflects that Council had not fully borrowed for the capital expenditure for the first three months. This was covered by working capital and credit facilities.

### Non-Current Assets

24 Council's Property Plant and Equipment Assets are Council's infrastructural assets of Roading, Water, Wastewater and Stormwater, Land and Buildings, Parks and Reserves, Improvements and Community Facilities. The lower value of Council's assets as at 30 September 2013 compared to 30 June 2013 reflects three months of capital expenditure less depreciation of Council's Assets.

### Current Liabilities

25 The lower level of current liabilities since 30 June 2013 reflects the lower level of trade payables as at 30 September 2013. As at 30 September 2013 further \$5.0 million of debt had been raised to fund the capital expenditure incurred up until 30 June 2013 but paid out in July 2013.

### Long Term Liabilities

26 There has been no change since 30 June 2013 for the long term debt. The other items have not been updated since 30 June 2013 as it involves significant work and cost to assess on a quarterly basis. Market indicators would suggest the liability would reduce rather than increase. These will be updated annually as part of the Annual Report unless there are significant variances in the market.

### Public Equity

27 Public Equity = Total Assets minus Total Liabilities. The total public equity has increased by the net surplus for the three months.

## Part C: Statement of Rates Position

- 28 The Rates Surplus/(Deficit) is different to the operating surplus as follows.
- Operating Surplus/(Deficit) covers all of Council's operating revenue and expenditure from all funding sources, including vested assets.
  - Rates Surplus/(Deficit) only covers Council's revenue and expenditure that is rates funded. Any Surplus/(Deficit) effects the rates required for the 2014/15 year.
- 29 The overall rates position to 30 September 2013 is shown in the following table.

**Table 3: Overall Rates Position**

	Net Rate Requirement Actual to 30 September 2013 \$000	Net Rate Requirement 2013/14 Annual Budget \$000	Actual/Annual Budget %
<b><u>Districtwide</u></b>			
Districtwide General <sup>1</sup>	2,481	10,400	24
Community Facilities <sup>2</sup>	2,471	11,375	22
Regulatory <sup>3</sup>	540	5,627	10
Roading <sup>4</sup>	1,702	5,318	32
<b>Total Districtwide</b>	<b>7,194</b>	<b>32,720</b>	<b>22</b>
<b><u>Community</u></b>			
Paekākāriki	137	444	31
Paraparaumu/Raumati	1,335	6,430	21
Waikanae	550	2,243	25
Joint Water	1,253	6,271	20
Ōtaki	686	2,696	25
<b>TOTAL</b>	<b>11,155</b>	<b>50,804</b>	<b>22</b>

<sup>1</sup> Districtwide General Expenses: including emergency management, civil defence, public toilets and cemeteries. Supporting Social Wellbeing, Supporting Environmental Sustainability, District Strategic Development Projects, Districtwide Coastal Protection of the Council's Infrastructure and Districtwide Strategic Flood Protection.

<sup>2</sup> Libraries, Parks and Reserves, Swimming Pools, Public Halls and Community Centres

<sup>3</sup> Public contribution towards the following Regulatory Services which are not met by user charges: Resource Consents, Building Consents, Development Management, Environmental Health, Liquor Licensing, Hazardous Substances, Environmental Monitoring and Animal Control

<sup>4</sup> All Roothing Expenditure except for historic debt servicing costs

**Explanation of Table 3**

- 30 The Council has levied total annual rates of \$50.804 million for the 2013/14 year and the analysis of the total rates allocated across Districtwide and local Community rates is included in the 2nd column titled 'Net Rate Requirement 2013/14 Annual Budget'.

The net rate requirement is as follows:

Total operating expenditure (funded from Rates)	-	Total other operating revenue (associated with Rates funded expenditure)	=	Net Rate Requirement
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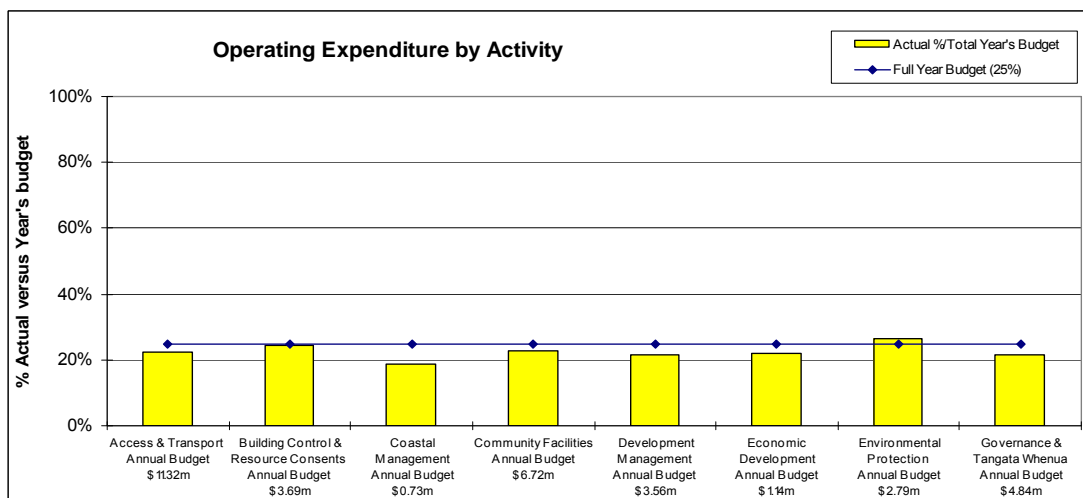
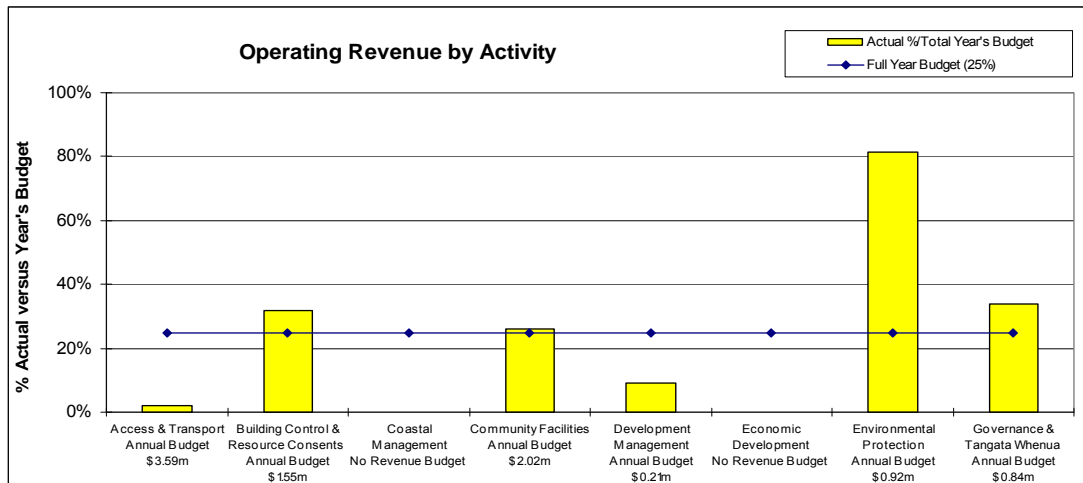
- 31 As at the 30 September 2013 there would be a general expectation that the net rate requirement would be around 25% of the annual rate requirement if the capital expenditure programme had been spent evenly throughout the financial year.
- 32 Due to seasonal patterns of revenue and expenditure and other trends and exceptions the average rate requirement as at 30 September 2013 is 22% of the annual rate requirement.
- 33 As this report covers the first three-month results it is not proposed to forecast the end of year rates position until the end of the second quarter i.e. 31 December 2013.



**Part D: Revenue/Operating Expenditure by Activity with Explanations on Variances and Trends.**

**Operating Revenue/Operating Expenditure**

34 The graphs below show actual other operating revenue and operating expenditure as at 30 September 2013 as a percentage of the Annual Budget for each Activity. Comments on general trends and exceptions are provided below.



**Explanations of key variances for operating revenue and expenditure for each activity**

Access and Transport

35 Operating revenue is lower than budget as at 30 September 2013 due to the lower level of expenditure incurred that was eligible for NZTA subsidy.

Coastal Management

36 The operating expenditure is lower due to the lower level of maintenance required to date. Planned maintenance is not undertaken until the final quarter to see what portion of the budget is required to fund storm event damage. A lower level of expenditure has been required for reactive maintenance to date.

Development Management

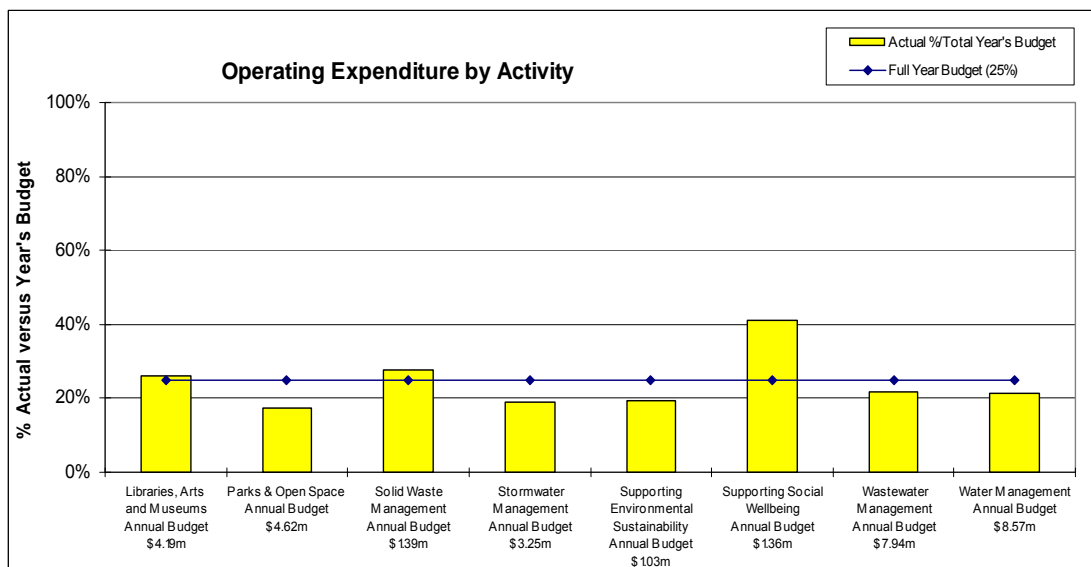
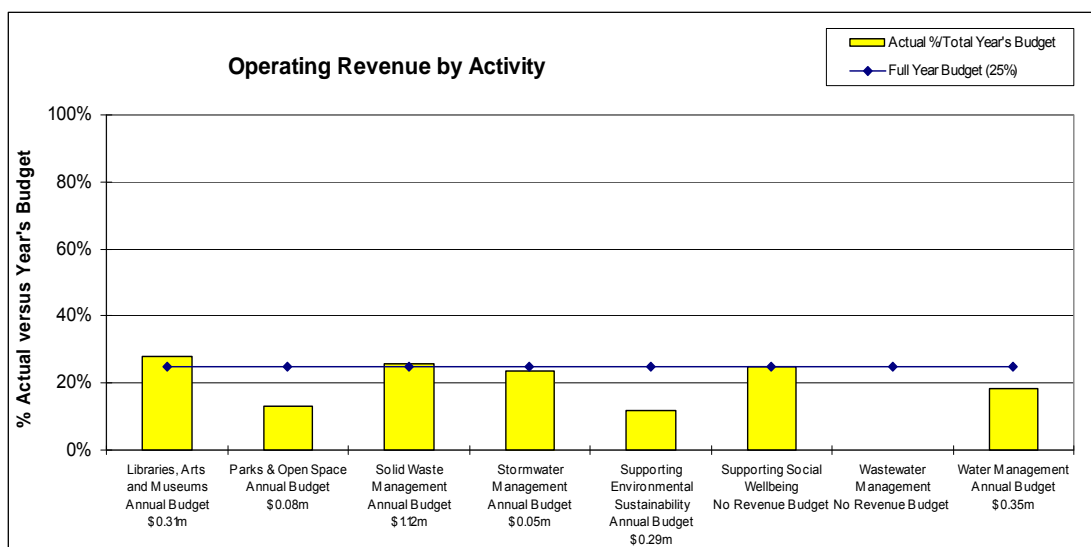
37 Both operating expenditure and revenue are lower due to the lower level of activity relating to private plan changes.

Environmental Protection

38 The higher level of operating revenue compared to the budgets mainly relates to the timing of the annual levying of regulatory fees and charges including Dog Registration and Health Licences.

Governance & Tangata Whenua

39 Revenue in this area is high because of rates penalties. This is revenue over and above the rate take as there is a 10% charge levied on late payments on the first instalment of 2013/14 rates levied in September. This revenue is used to fund the Contingency Fund.



**Explanations of key variances for operating revenue and expenditure for each activity**

Library, Arts and Museums

40 The operating revenue is higher for the first three months due to the recognition of the Creative Community Grant which is paid in half yearly instalments.

Parks and Open Space

- 41 The operating revenue is lower for the first three months due to the seasonal nature of fees and charges for Parks and Open Spaces. The Parks fees and charges are projected to match the budget for the 2013/14 year. The operating expenditure is lower for the first three months due to lower maintenance costs and lower debt servicing costs compared to the budget.

Stormwater Management

- 42 The operating expenditure is lower due to the lower level of maintenance required to date. Planned maintenance is not undertaken until the final quarter to ensure that there is sufficient budget to fund storm event damage during the year.

Supporting Environmental Sustainability

- 43 Revenue and expenditure associated with the Sustainable Home and Garden show occurs in the second half of the year so revenue and expenditure levels will increase as the year progresses.

Supporting Social Wellbeing

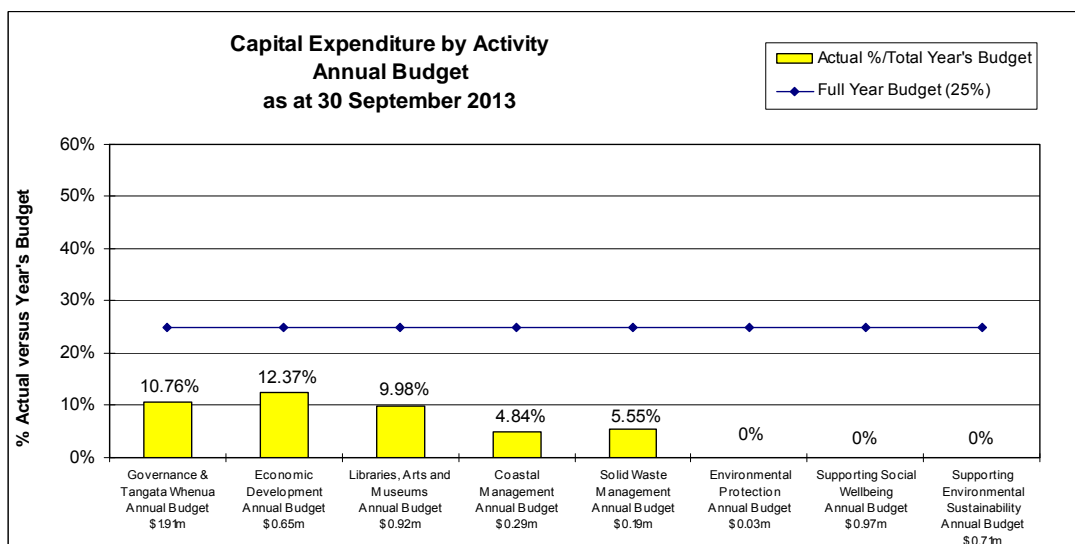
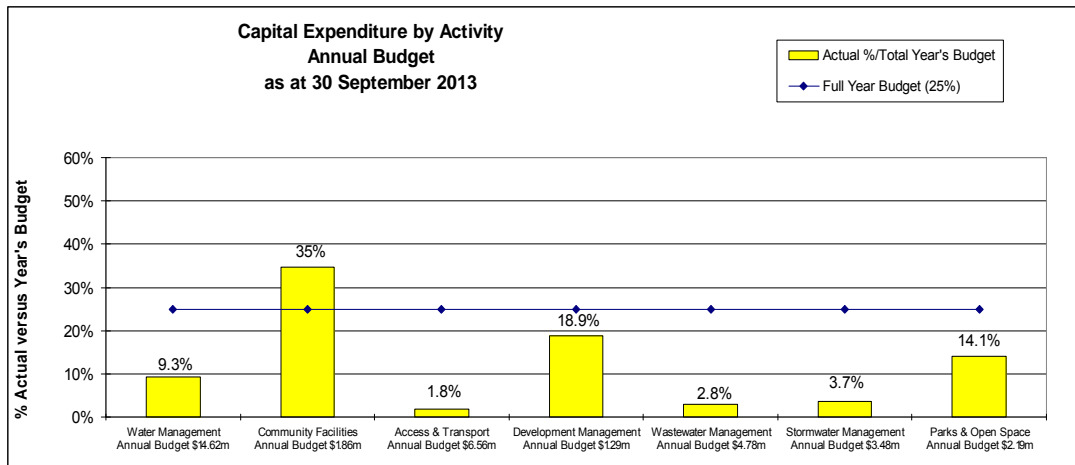
- 44 Grants in this area are generally paid out at the start of the financial year causing the overspend. An example is funds paid to the Citizens Advice Bureau.

Water Management

- 45 The operating revenue was lower compared to the expected level of 25% due to the lower level of water consumption relating to extraordinary water charges during the first three months of the financial year.

## PART E: EXPLANATION OF CAPITAL EXPENDITURE

46 A summary of the capital expenditure, set out below, shows the actual expenditure to 30 September 2013 against annual budgets.

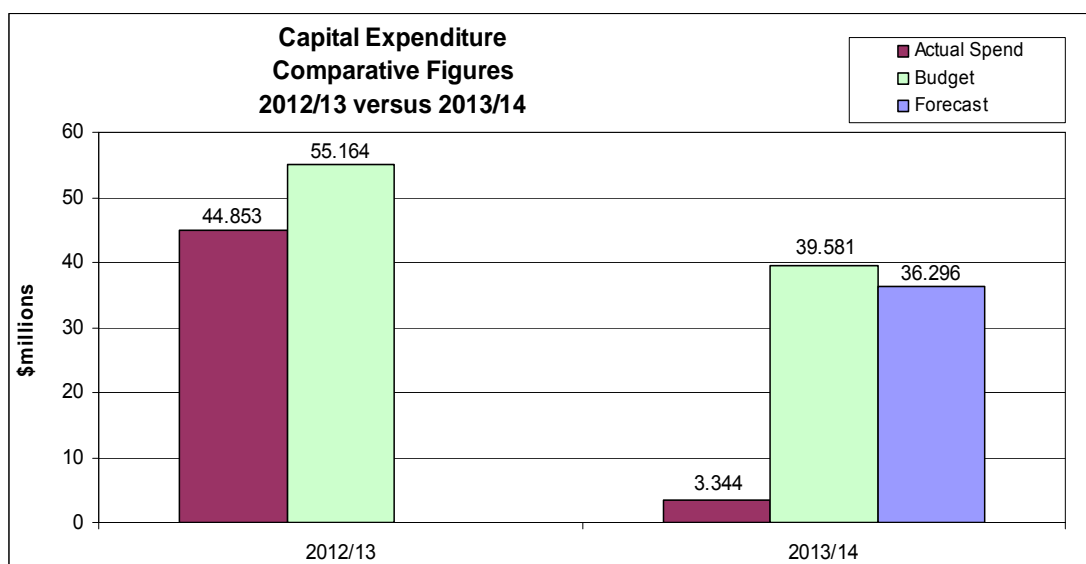


- 47 There is one activity which has no capital expenditure: Building and Resource Consents.
- 48 Net capital expenditure for the three months amounted to \$3.344 million compared to the capital expenditure budget for the year of \$39.581 million.
- 49 Although the capital expenditure for some of the other activities are low for the first three months, the level of capital expenditure is in line with expectations given that the tendering work and awarding of contracts occurs in the first three months with the physical works taking place in the last nine months.

- 50 The capital expenditure for the 2013/14 year has been reforecast to \$36.296 million. The underspend relates to the following projects:

Project	Budget \$000	Forecast \$000	Variance \$000
48409 - Waikanae Water Treatment Plant Renewals	4,292	3,096	1,196
48471 - Waikanae Water Treatment Plant Upgrade	736	544	192
484E1 - Waikanae/Paraparaumu/Raumati Water Supply	5,130	4,290	840
484E8 - Water Metering	3,510	3,210	300
48138 - Kakariki SH1 and Awanui	807	50	757
<b>Total</b>	<b>14,475</b>	<b>11,190</b>	<b>3,285</b>

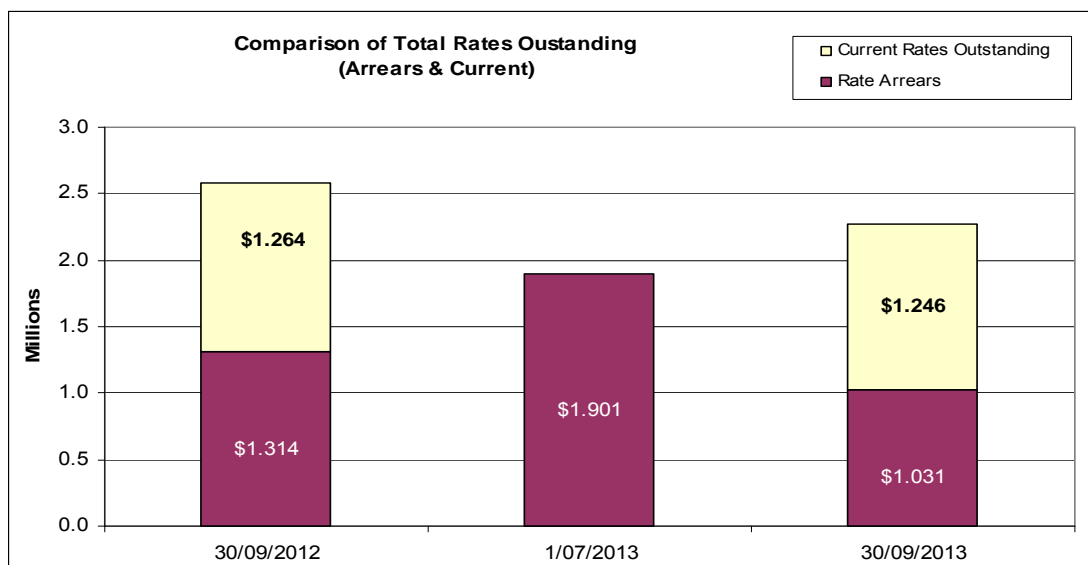
- 51 The capital expenditure at 30 September 2013 of \$3.344 million represents 9.2% of the total reforecast capital expenditure for the 2013/14 year.
- 52 Set out below is a comparison of the capital expenditure programme between the 2012/13 year and 2013/14 year and the actual spend as at 30 September.



## Part F: Outstanding Rates Debt as at 30 September 2013

### Rates Outstanding

- 53 The rates outstanding as at 30 September 2013 covering both current rates and rate arrears is \$2.277 million which is lower than the total rates of \$2.578 million outstanding at the same time last financial year i.e. 30 September 2012.
- 54 The current rates outstanding reduced from \$1.264 million as at 30 September 2012 to \$1.246 million as at 30 September 2013.



- 55 As the Council collects current year rates on behalf of the Greater Wellington Regional Council the total rates outstanding includes both Council's rates. The analysis of the 2013/14 year rates outstanding as at 30 September 2013 is as follows:

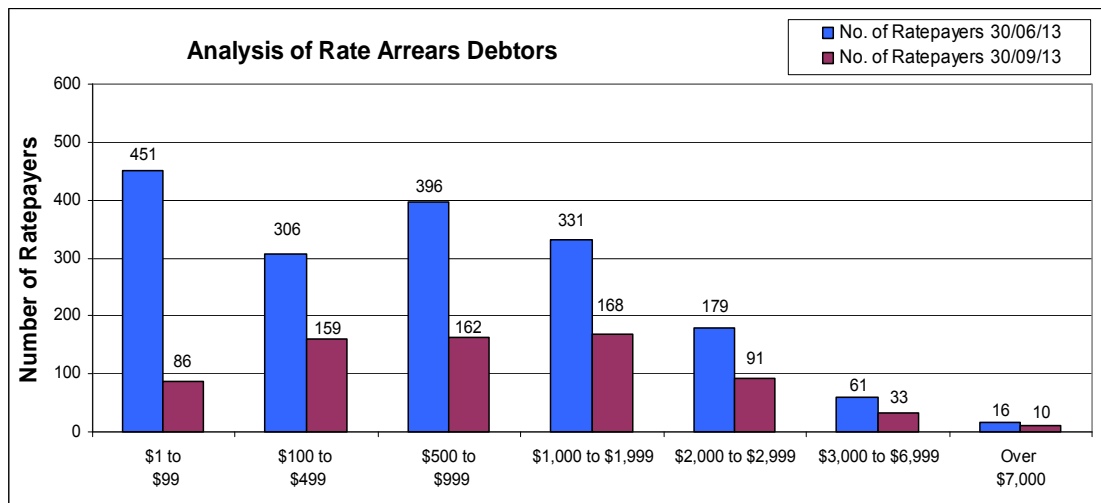
	\$000	\$000
Kāpiti Coast District Council rates	845	
Kāpiti Coast District Council penalties	221	
Total Kāpiti Coast District Council outstanding rates	1,066	1,066
Greater Wellington Regional Council rates	147	
Greater Wellington Regional Council penalties	33	
Total Greater Wellington Regional Council outstanding rates	180	180
Total 2013/14 rates outstanding as at 30 September 2013		1,246

- 56 The rates collection process involves regular follow up with outstanding debtors and updates to payment arrangements to ensure debts are cleared over a reasonable time period.

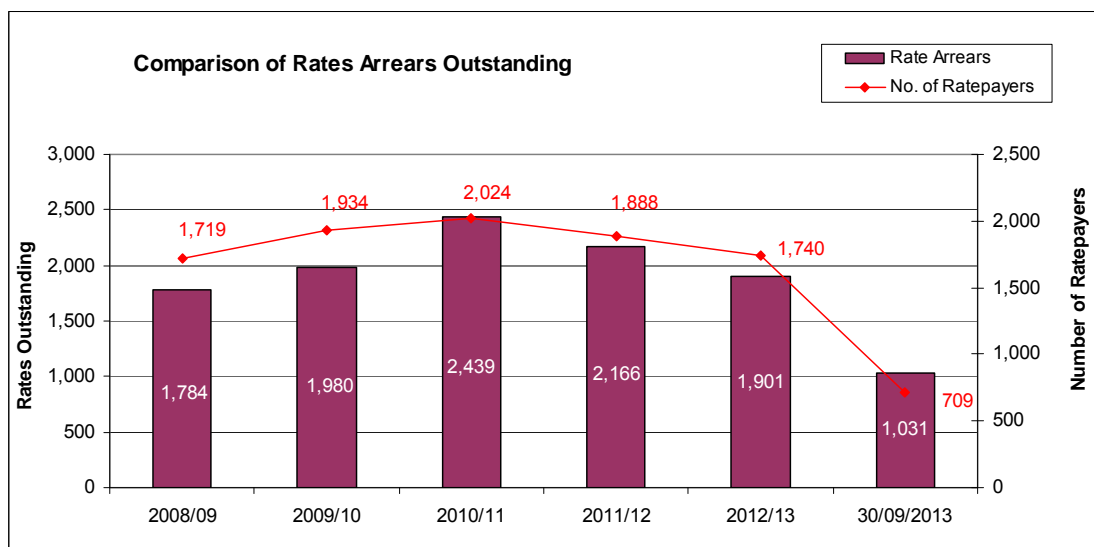
### Analysis of Rate Arrears

- 57 The rate arrears as at 30 June 2013 of \$1.901 million has been reduced to \$1.031 million as at 30 September 2013 and the number of rate debtors with outstanding rate arrears as at 30 June 2013 has reduced from 1,740 ratepayers to 709 ratepayers as at 30 September 2013.

- 58 In the graph below the blue column shows the number of “rates debtors” grouped by their level of rates debt as at 30 June 2013. The maroon column shows the number of those rates debtors with rate arrears as at 30 September 2013 for each range of rates debt. It shows a substantial decrease in the number of rates debtors with rate debt after the first three months.

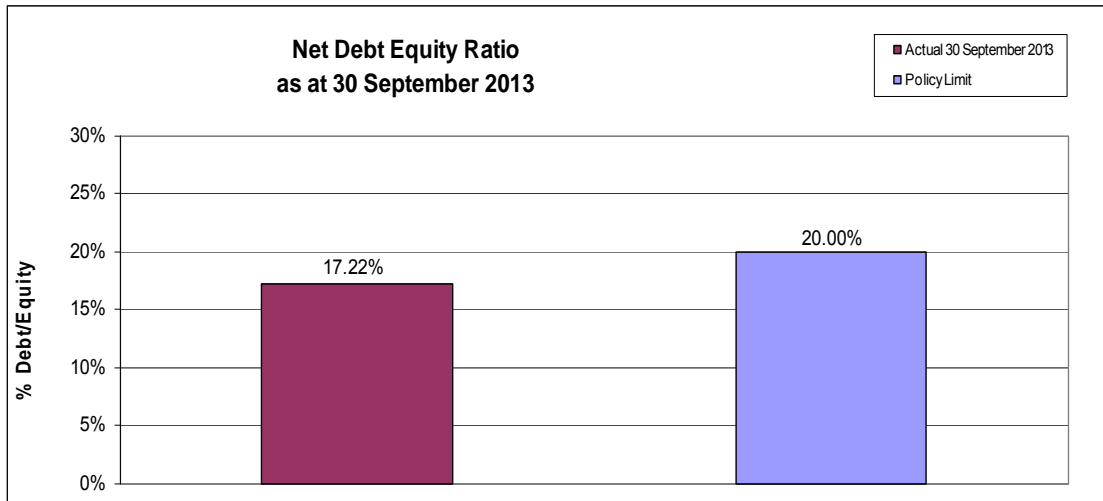


- 59 The graph below shows a comparison of the rate arrears outstanding at the end of June each year over the past five years and the rate arrears outstanding as at 30 June 2013 which are still outstanding as at 30 September 2013.

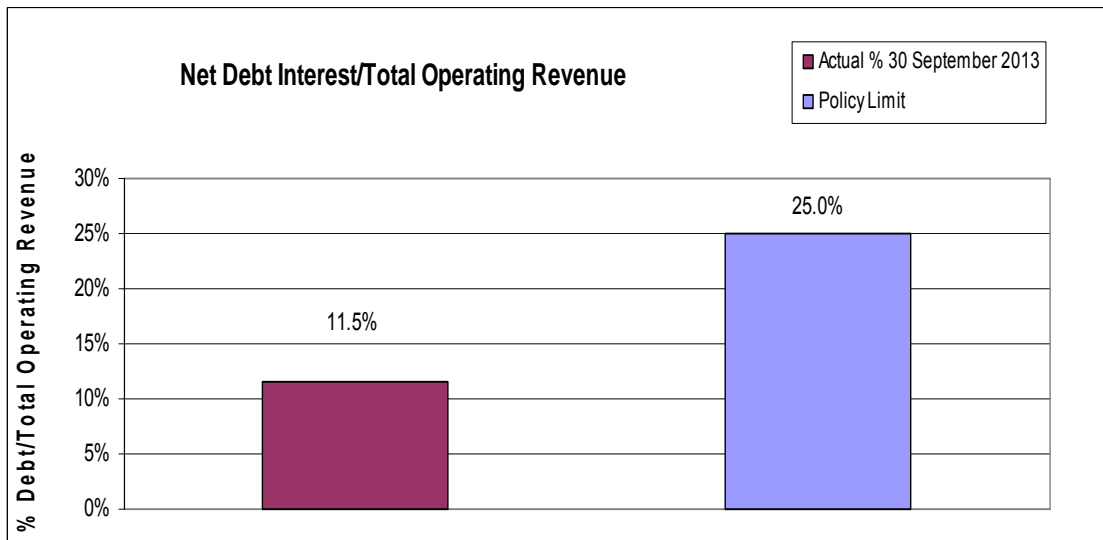


**Part G: Performance against Treasury Management Policy Limits**

- 60 Council is well within its debt/equity policy limits as at 30 September 2013, as set in its Treasury Management Policy. Net Debt as at 30 September 2013 equals \$125 million. Public Equity as at 30 September 2013 equals \$726 million.
- 61 The Treasury Management Policy sets the maximum limit for net debt to equity of 20%. The current position is a net debt to equity ratio of 17.22% which is within the 20% limit.

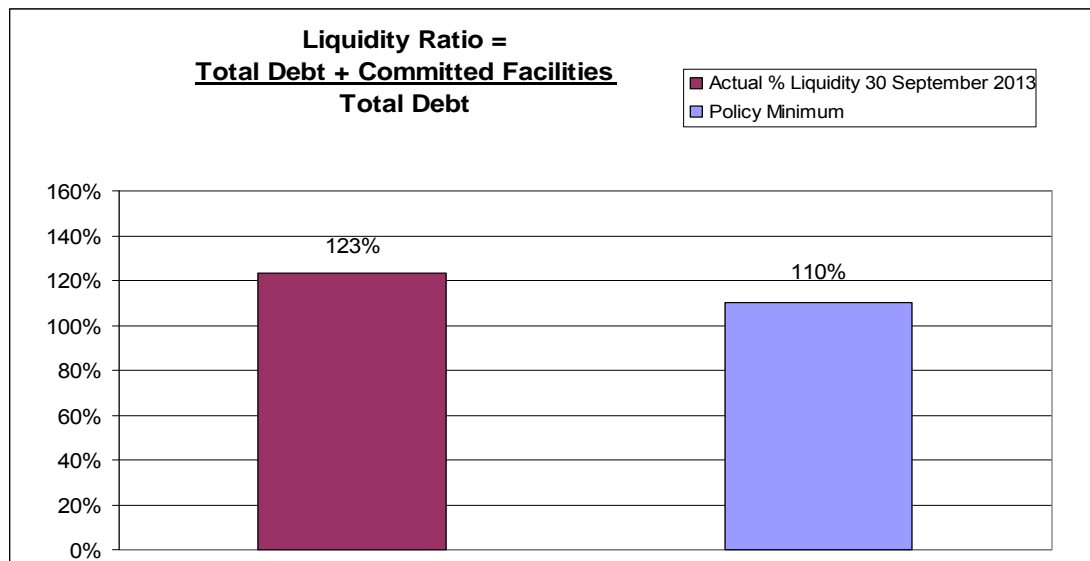


- 62 The Treasury Management Policy sets a limit of 25% for the ratio of Debt Interest to Total Operating Revenue. The current ratio as at 30 September 2013 is 11.5% which is well within the limit.

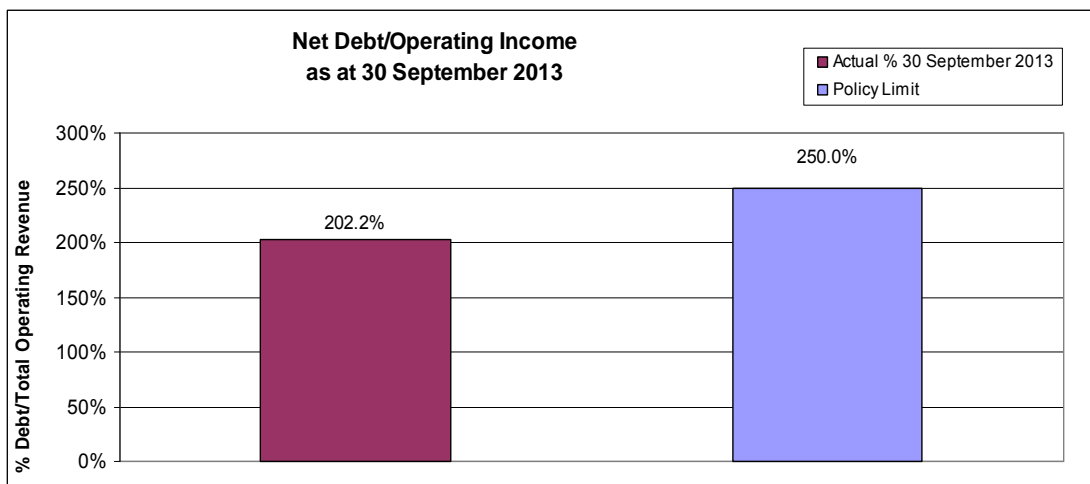




- 63 The Liquidity Ratio measures Council's ratio of its available financial facilities compared to its current debt levels. At this stage Council has 123% coverage of its current debt requirements mainly through the bank facilities which it currently has in place which is above the minimum level of liquidity which is 110%.



- 64 The net debt to operating income (excluding vested assets and development contributions) measures the ability of an organisation to repay its debt from operating income. The Treasury Management Policy sets a limit of 250% for the ratio of Net Debt to Operating Income. The current budgeted ratio for the 2013/14 year is 202.2% which is within the limit.



**Other Considerations**

- 65 There are no further financial, legal, publicity, consultation or other considerations.

## Delegation

66 The Corporate Business Committee has delegated authority to consider this report under Section B.3.7 of the Governance Structure.

*Without limiting the generality of this delegation, the committee has the following functions, duties and powers:*

*Financial and Asset Management,*

*7.5 Authority to monitor performance of the Council's financial activities, including income, operating and capital expenditure against budgets, remissions, key financial indicators and investment and debt/borrowings management.*

## RECOMMENDATIONS

67 That the Corporate Business Committee notes the three monthly financial results contained in this report Fin-13-1019.

68 That the Corporate Business Committee notes that due to the seasonal nature of some of Council's operating expenditure and revenue, the Council's operating surplus for the first three months, ended 30 September 2013, was \$0.330 million. Even though operating revenue is below the annualised budget levels, the operating expenditure is even lower than the annualised budget levels for the same period resulting in an operating surplus.

69 That the Corporate Business Committee notes that the net capital expenditure for the three months amounted to \$3.344 million compared to the capital expenditure forecast for the year of \$36.318 million which represents 9.2% of the capital expenditure forecast for the 2013/14 year.

70 That the Corporate Business Committee notes the other key financial performance indicators including the performance against key Treasury Management Limits.

**Report prepared by:**

**Matt McGlinchey**  
**Acting Group Manager Finance**