

Chairperson and Committee Members
OPERATIONS AND FINANCE COMMITTEE

1 DECEMBER 2016

Meeting Status: **Public**

Purpose of Report: For Noting

FINANCIAL REPORT TO 30 SEPTEMBER 2016

PURPOSE OF REPORT

- 1 This report sets out Kāpiti Coast District Council's (Council's) financial performance and financial position for the quarter ended 30 September 2016, with explanations of key results and variances.

DELEGATION

- 2 The Operations and Finance Committee has delegated authority to consider this report under the 2016-2019 Triennium Governance Structure and Delegations in Section B.2.

Monitoring and decision-making on all broader financial management matters. Key responsibilities will include financial management, including risk mitigation.

BACKGROUND

- 3 The Committee is provided with information on eight broad areas of financial performance each quarter.

- Part A: Statement of Comprehensive Revenue and Expense
- Part B: Statement of Financial Position
- Part C: Statement of Cash Flows
- Part D: Statement of Rates Funding
- Part E: Water Account Statement
- Part F: Capital Spending Programme
- Part G: Outstanding Rates Debt as at 30 September 2016
- Part H: Treasury Management

Part A: Statement of Comprehensive Revenue and Expense

- 4 The statement of comprehensive revenue and expense covers all of Council's revenue and expenditure for the reporting period.
- 5 The net position of revenue less expenditure provides the operating surplus or deficit for the reporting period.
- 6 Table 1 provides Council's actual revenue and expense for the quarter ended 30 September 2016 as well as the forecast performance for the year ended 30 June 2017.

Table 1	2016/17 YTD			Full Year 2016/17		
	Actual \$000	Budget \$000	Variance \$000	Forecast \$000	Budget \$000	Variance \$000
Rates	14,063	14,133	(70)	56,717	56,867	(150)
Fees and Charges	2,642	2,377	265	8,137	7,899	238
Grants and Subsidies	618	699	(81)	4,567	4,567	-
Development and Financial Contributions Revenue	416	269	147	1,075	1,075	-
Other Operating Revenue	114	71	43	333	333	-
Interest Income	278	254	24	1,140	1,140	-
Total Income	18,131	17,803	328	71,969	71,881	88
Other Operating Expense	11,751	12,735	984	48,162	48,059	(103)
Depreciation and Amortisation	4,330	4,392	62	17,569	17,569	-
Finance Expense	2,284	2,352	68	9,408	9,408	-
Total Expenditure	18,365	19,479	1,114	75,139	75,036	(103)
Operating Surplus/ (Deficit)	(234)	(1,676)	1,442	(3,170)	(3,155)	(15)
Revaluation of Property Plant and Equipment	-	-	-	32,633	32,633	-
Unrealised (Loss)/Gain on Revaluation of Financial Derivatives	(1,515)	-	(1,515)	(1,515)	-	(1,515)
Total Other Comprehensive Income and Expenditure	(1,515)	-	(1,515)	31,118	32,633	(1,515)
Net Operating (Deficit)/Surplus	(1,749)	(1,676)	(73)	27,948	29,478	(1,530)

Financial performance summary

- 7 Council's year to date operating deficit is \$1.44 million favourable to budget. This is due to additional revenue from more building activity than planned and lower levels of operating expenditure at the beginning of the year (in areas such as consultants, contractors, legal and maintenance), rather than cost savings that will impact on the full year result.
- 8 Council's unrealised loss on revaluation of financial derivatives of \$1.52 million is due to interest rates falling further since June 2016. There is no intention to realise these fair value changes (whether gains or losses). This is recognised for accounting purposes only and does not represent a cash loss.
- 9 Council is forecasting the full year operating deficit to be \$15,000 unfavourable to budget. Total rates revenue is likely to be \$150,000 unfavourable to full year budget mainly due to lower water consumption than planned. However, this is expected to be largely offset by additional revenue of \$135,000 from building consent fees (net of additional resource costs to meet this increased demand).
- 10 Three quarters of the financial year still remain ahead. Council's forecast full year performance is subject to change during the year in light of any new information, so as a rule full year forecasts at this stage are kept on budget. The exception is the few known variations to date, as noted above.

Explanation of key revenue variances

11 Rates

Brief Description:	Rates include all rates earned by the Council, including metered water rates. Rates remissions and rates billed to Council owned properties are excluded.
YTD Variance:	\$70,000 unfavourable to budget mainly due to less water rates revenue received during the year than expected. (See Part E: Water Account Statement).
Full Year Forecast Variance:	\$150,000 unfavourable to budget mainly due to water consumption tracking below expectations. (See Part E: Water Account Statement).

12 Fees and charges

Brief Description:	Fees and charges include all non-rates revenue earned by the Council for providing services to the Community. This also includes fines and penalties charged.
YTD Variance:	\$265,000 favourable to budget mainly due to additional building consents fees of \$138,000 and a temporary timing difference of the penalties charged on all rates in arrears at the start of the 2016/17 year.
Full Year Forecast Variance:	\$238,000 favourable to budget mainly due to additional building consent fees expected.

13 Grants and subsidies

Brief description:	Includes grants received by the Council for operating and capital spending. The majority of grants revenue is received from New Zealand Transport Agency (NZTA) for their share of our roading maintenance and capital spending programmes.
YTD variance:	\$81,000 unfavourable to budget mainly due to temporary timing differences as capital projects are mainly undertaken in the summer months.
Full year forecast variance:	Expected to be in line with budget at this stage.

14 Development and financial contributions

Brief description:	<ol style="list-style-type: none"> 1. Financial contributions are levied under the Resource Management Act and cover Reserves Contributions levied on developers at the time of subdivision. 2. 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.
YTD variance:	\$147,000 favourable to budget mainly due to earlier subdivision and building activity than planned.
Full year forecast variance:	Expected to be in line with budget at this stage.

15 **Other operating revenue**

Brief description:	Includes assets vested to Council, Local government petrol tax, donations and/or sponsorship and realised gains on asset disposals.
YTD variance:	\$43,000 favourable to budget mainly due to a change in accounting treatment to recognise Greater Wellington Regional Council's contribution for the three-yearly districtwide property revaluations (previously included in operating expenditure).
Full Year forecast variance:	Expected to be in line with budget at this stage.

16 **Interest income**

Brief description:	Interest income represents the Council's earnings on its term deposits, overnight cash deposits and Borrower Notes held by the Local Government Funding Agency.
YTD variance:	\$24,000 favourable to budget. This is due to a temporary timing difference regards \$20 million of new debt issued in July and August 2016. (See Part H: Treasury Management).
Full year forecast variance:	Expected to be in line with budget at this stage

Explanation of key expenditure variances17 **Other operating expense**

Brief description:	Includes direct operating costs except for internal rates, finance charges and asset depreciation/amortisation.
YTD variance:	\$984,000 favourable to budget. This is mainly a reflection of lower levels of expenditure at the beginning of the year in areas such as consultants, contractors, legal and maintenance, rather than cost savings that will impact on the full year result.
Full year forecast variance:	\$103,000 unfavourable to budget due to additional resource required to manage Council's higher demand for building consents than planned.

Explanation of other comprehensive revenue and expense variances18 **Unrealised loss on revaluation of derivatives**

Brief description:	<ol style="list-style-type: none"> 1. Council recognises its interest rate swaps at fair value on a monthly basis. 2. The change in fair value between 30 September 2016 and 30 June 2016 is treated as either an unrealised gain (fair value has decreased) or an unrealised loss (fair value has increased).
YTD variance:	\$1.52 million unfavourable to budget because the majority of Council's committed fixed swap rates are higher than fixed swap rates currently available on the open market. (See Part H: Treasury Management).
Full year forecast variance:	\$1.52 million unfavourable to budget. This has been aligned to the YTD variance due to the uncertainty and volatility of the financial markets.

Part B: Statement of Financial Position

- 19 The Council's financial position as at 30 September 2016 and the forecast for the year ended 30 June 2017 are set out in Table 2, followed by summary of the key variances.

Table 2	2016/17			Variance \$000
	YTD actual \$000	Full year forecast \$000	Full year budget \$000	
Assets				
Cash and cash equivalents	39	200	200	-
Trade and other receivables	4,746	7,064	7,064	-
Inventories	101	100	100	-
Non-current assets held for sale	6	-	-	-
Property, plant and equipment	1,476,365	1,525,170	1,538,602	(13,432)
Forestry assets	378	435	435	-
Intangible assets	591	875	875	-
Other financial assets	37,856	42,696	42,696	-
Loans	621	667	667	-
Total assets	1,520,703	1,577,207	1,590,639	(13,432)
Liabilities				
Trade and other payables	10,708	22,222	22,222	-
Employee benefit liabilities	2,554	2,532	2,532	-
Deposits	722	770	770	-
Borrowings	181,518	199,066	199,066	-
Provisions	4,162	2,934	2,934	-
Derivative financial instruments	20,480	20,480	16,633	3,847
Total liabilities	220,144	248,004	244,157	3,847
Public equity				
Accumulated funds	559,404	555,848	559,695	(3,847)
Reserves and special funds	2,653	2,220	2,220	-
Revaluation reserve	738,502	771,135	784,567	(13,432)
Total equity	1,300,559	1,329,203	1,346,482	(17,279)
Total liabilities and equity	1,520,703	1,577,207	1,590,639	(13,432)

Year-to-date summary

- 20 Council's only material changes to its financial position for the quarter ended 30 September 2016 were in respect to financial investments, borrowings and financial derivatives.
- 21 New debt of \$20 million was issued during July and August 2016 to secure lower borrowing costs. (See Part H: Treasury Management).
- 22 Interest rates have continued to fall since 30 June 2016. Consequently, the total cost of Council's financial derivatives to maturity has increased, as reflected in the year to date valuation.

Full year forecast summary

- 23 Total equity is forecast to be \$17.28 million unfavourable to budget. This is mainly due to Council's total asset base expected to be lower than planned.
- 24 The budgets for Property, Plant and Equipment and the Revaluation Reserve were based on the draft 2015/16 revaluation of the Council's three waters assets. The final asset revaluation was \$13.12 million lower than budget (and the final annual depreciation resulting from the revaluation was significantly reduced) due to a comprehensive due diligence programme completed by the Council after adoption of the 2016/17 Annual Plan.

Part C: Statement of Cash Flows

- 25 The Council's cash flow for the quarter ended 30 September 2016 and the forecast for the year ended 30 June 2016 are set out in Table 3, followed by a summary of key variances.

Table 3	YTD actual \$000	2016/17		Full year variance \$000
		Full year forecast \$000	Full year budget \$000	
<i>Cash was provided from:</i>				
Kapiti Coast District Council rates	14,715	56,866	56,866	-
Greater Wellington Regional Council Rates	2,696	-	-	-
Grants and subsidies - operating	334	1,595	1,595	-
Interest received	8	940	940	-
Charges and fees	3,325	9,099	9,099	-
GST (net)	(259)	284	284	-
	20,819	68,784	68,784	-
<i>Cash was applied to:</i>				
Payments to employees and suppliers	15,946	45,520	45,520	-
Rates paid to Greater Wellington Regional Council	2,696	-	-	-
	18,642	45,520	45,520	-
Net cash flows from operating activities	2,177	23,264	23,264	-
Cash flows from investing activities				
<i>Cash was provided from:</i>				
Sale of investment	-	10,088	10,088	-
Proceeds from sale of property, plant and equipment	102	-	-	-
Proceeds from capital grants	2,284	4,972	4,972	-
	2,386	15,060	15,060	-
<i>Cash was applied to:</i>				
Construction and purchase of property, plant and equipment and intangibles	3,960	34,184	34,184	-
Purchase of investments	20,000	35,120	35,120	-
	23,960	69,304	69,304	-
Net cash flows from investing activities	(21,574)	(54,244)	(54,244)	-
Cash flows from financing activities				
<i>Cash was provided from:</i>				
Short-term borrowings	11,760	-	-	-
Long-term borrowings	19,680	50,000	50,000	-
	31,440	50,000	50,000	-
<i>Cash was applied to:</i>				
Interest on borrowings	2,182	9,220	9,220	-
Short-term borrowings	10,260	-	-	-
Long-term borrowings	4	10,000	10,000	-
	12,446	19,220	19,220	-
Net cash flows from financing activities	18,994	30,780	30,780	-
Net increase(decrease) in cash and cash equivalents	(403)	(200)	(200)	-
Add total cash and cash equivalents at 1 July	442	400	400	-
Total cash and cash equivalents	39	200	200	-

Overall summary

- 26 Council's cash on hand as at 30 September is \$39,000. This reflects Council's policy to minimise cash on hand.
- 27 Council's material change to its cashflow management for the three months ended 30 September 2016 was issuing new debt of \$20 million to partly pre-fund \$60 million of debt maturing in December 2017. (See Part H: Treasury Management).
- 28 Council's cashflow management is expected to meet budget at this stage.

Part D: Statement of Rates Funding

- 29 The rates surplus/(deficit) is different to the operating surplus/(deficit) per the Statement of Comprehensive Revenue and Expense as shown on page 2, due to the following:
- Operating surplus/ (deficit) covers all of Council's operating revenue and expense from all funding sources, including vested assets.
 - The rates surplus/ (deficit) only covers Council's revenue and expenses that are rates funded.
- 30 Table 4 below details the actual rates funding deficit for the year ended 30 June 2017.

Table 4: Rates revenue requirement	2016/17 actual \$000
Net operating (deficit)/surplus	(1,749)
Adjusted by income and expenditure variances not funded by rates:	
Fair value movement in interest rate swaps	1,515
Expenditure funded by reserves and special funds	2
Increased capital funding and vesting of assets	(214)
Underlying net rates surplus/(deficit)	(446)
Less: budgeted net surplus/(Deficit)	(1,676)
Rates surplus	1,230
Represented by:	
Rates funded depreciation	62
Year to date underspend across the organisation	1,168
Rates surplus	1,230

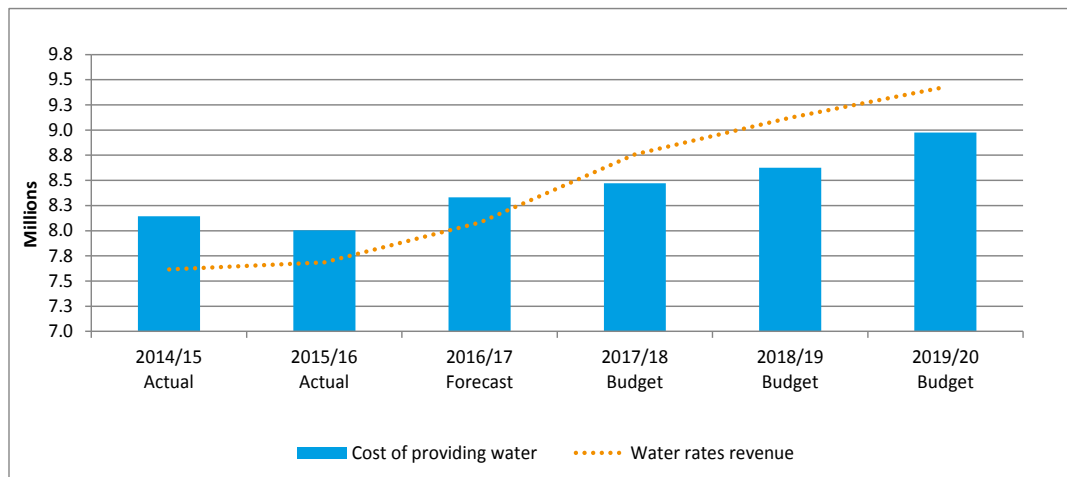
- 31 The September year to date rates deficit is \$1.23 million favourable to budget. This is mainly a reflection of lower levels of expenditure at the beginning of the year rather than cost savings that will impact on the full year result.

Part E: Water Account Statement

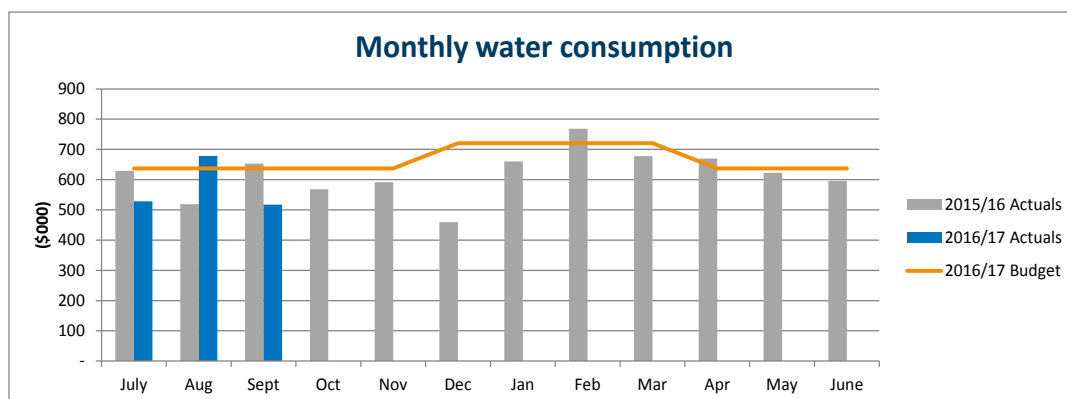
- 32 A water account is a mechanism that captures the total cost of supplying potable water. This includes reticulation and treatment. Ideally the total cost of supplying potable water is fully recovered by fixed and metered water supply rates each year. The water account is a closed account. This means that any surpluses will be held within the account to fund future costs of providing water. Conversely any deficits will need to be recovered from future water charges.

- 33 Water usage is expected to take a number of years to normalise as Districtwide water meter charging for all residential properties commenced from July 2014. Therefore, Council needs to carefully monitor usage trends to best determine what charges are necessary to fully recover the total costs of providing a treated water supply.

- 34 The water account is currently in deficit. Council will gradually increase the annual water supply rates over the next two years, to a level that recovers the full cost of providing this service across the District.



- 35 The 2016/17 budget assumed a water account deficit of \$169,000. This deficit is forecast to increase to \$250,000 at 30 June 2017 as actual water consumption continues to track lower than expected.



- 36 The table below outlines the current water account position. From 2017/18 to 2019/20, the anticipated surpluses will help to ensure that the full cost of water is recovered from water rates.

Summary of water account	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	Actual	Actual	Forecast	Budget	Budget	Budget
	\$m	\$m	\$m	\$m	\$m	\$m
Cost of providing water	8.1	8.0	8.3	8.5	8.6	9.0
Water rates revenue	7.6	7.7	8.1	8.8	9.1	9.4
Annual surplus/(deficit)	(0.5)	(0.3)	(0.3)	0.3	0.5	0.5
Balance of water account	(0.5)	(0.8)	(1.1)	(0.8)	(0.2)	0.2

Part F: Capital Spending Programme

- 37 A summary of the 2016/17 capital works programme by activity and the full year budget are set out in Table 5 below

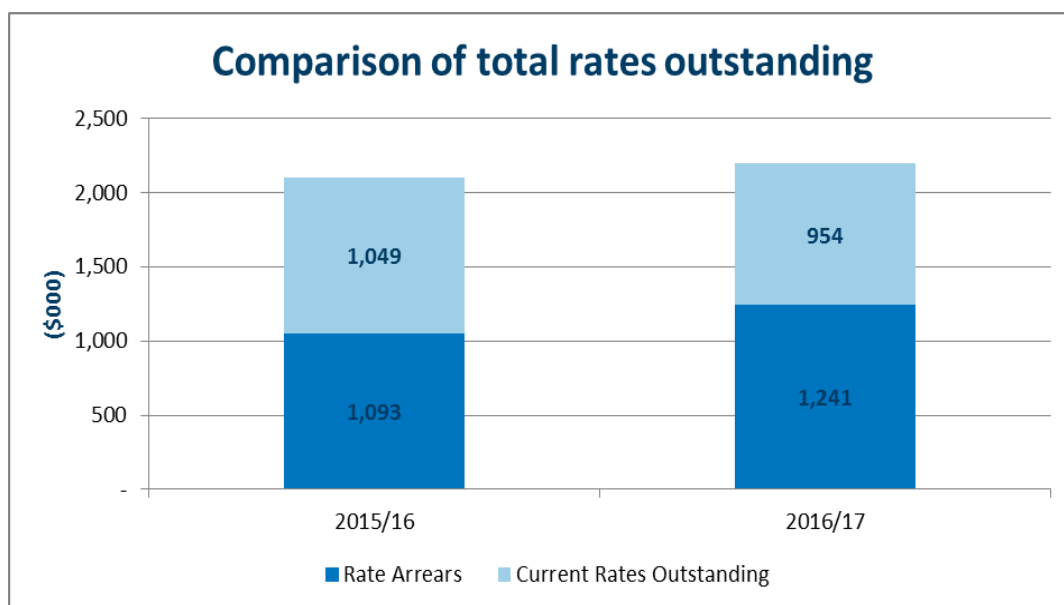
Table 5	YTD	YTD	YTD	Full Year
	Actuals	Budget	Variance	Budget
	2015/16	2015/16	2015/16	2015/16
	\$000	\$000	\$000	\$000
Access and Transport	1,089	1,762	673	8,390
Coastal Management	39	409	370	1,635
Community Facilities and Community Support	26	145	119	962
Corporate	85	199	114	1,136
Districtwide Planning	-	-	-	-
Economic Development	187	1,128	941	3,316
Governance and Tangata Whenua	-	134	134	554
Parks and Open Spaces	39	591	552	1,752
Recreation and Leisure	200	1,189	989	6,008
Regulatory Services	-	-	-	-
Solid Waste	195	131	(64)	522
Stormwater Management	630	869	239	2,862
Wastewater Management	104	1,096	991	4,280
Water Management	509	251	(258)	1,005
Grand Total	3,103	7,903	4,800	32,422

- 38 Please refer to the Activity section of the report in section SP-16-2026 for more detailed information.

Part G: Outstanding Rates Debt as at 30 September 2016

Property rates outstanding (Excluding water rates)

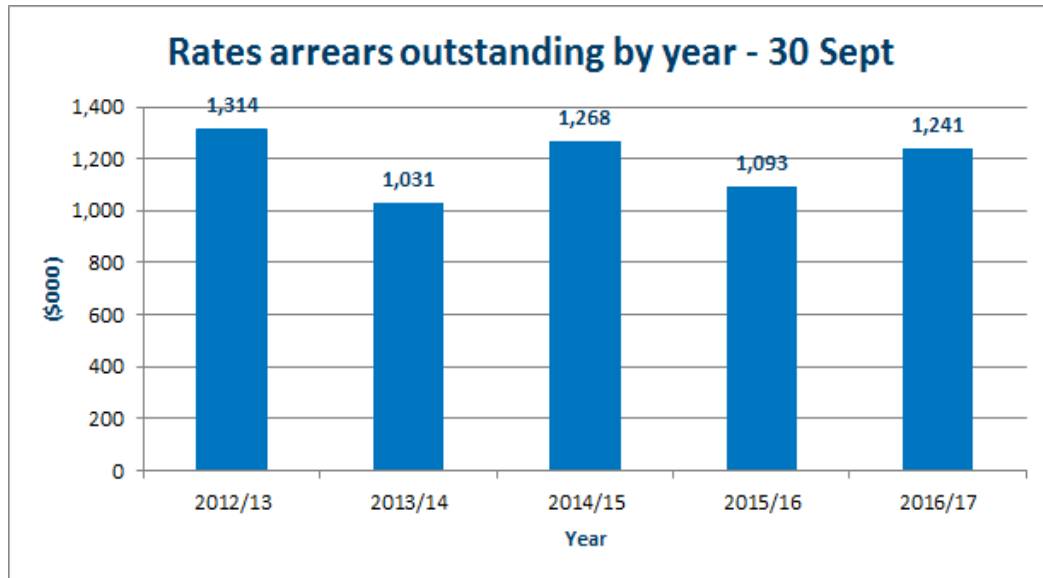
39 The total property rates outstanding for the quarter ended 30 September 2016 was \$2.20 million (30 June 2016: \$2.14 million).



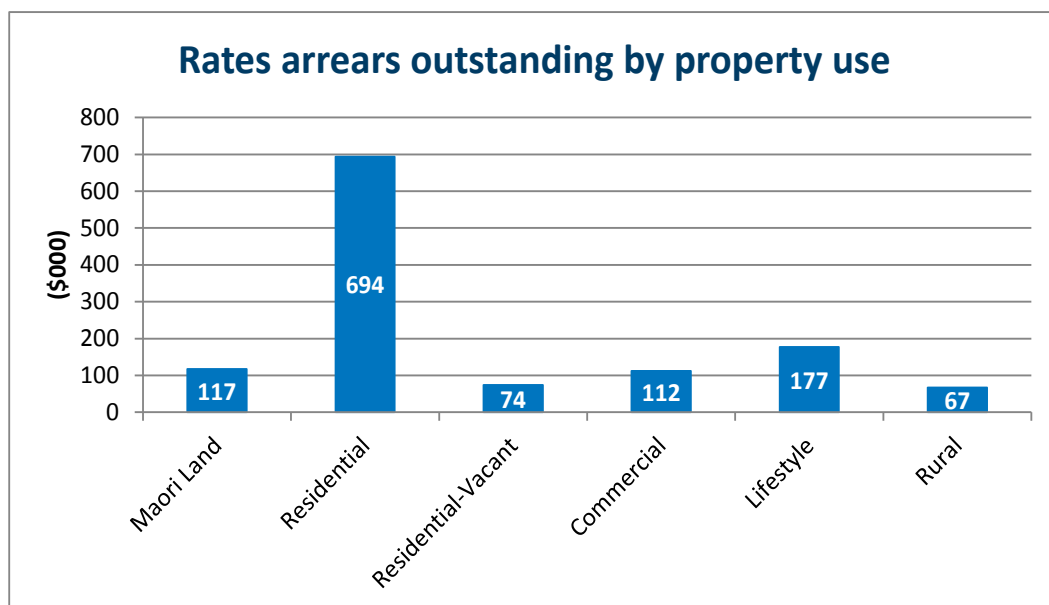
40 Council collects current year rates on behalf of the Greater Wellington Regional Council. \$954,000 current rates outstanding as at 30 September 2016 is split as follows:

Breakdown of total rates outstanding	Rates	Penalties	Total rates outstanding
	\$000	\$000	\$000
Kāpiti Coast District Council rates	605	210	815
Greater Wellington Regional Council	101	39	140
Total	706	248	954

- 41 Rate payments received are first applied to rates arrears. Council’s rates collection process involves follow up with outstanding debtors and payment arrangements to ensure debts are settled over a reasonable time period. The graph below shows a comparison of the rates arrears outstanding as at 30 September 2016 and for the previous 4 years.



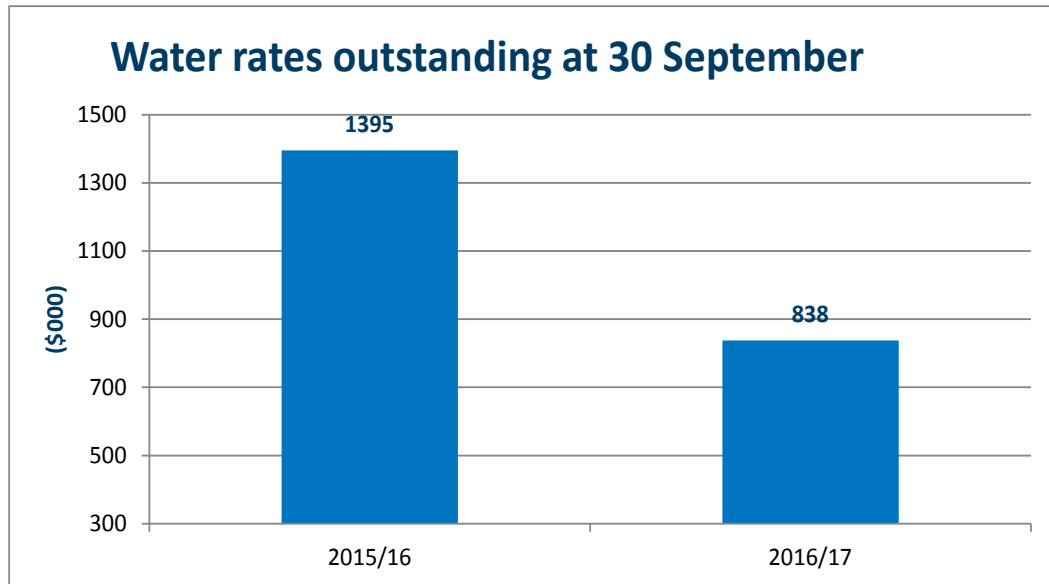
- 42 The graph below details the total rates arrears of \$1.24 million by Property Use Category. The majority of the total rates arrears are from residential properties.



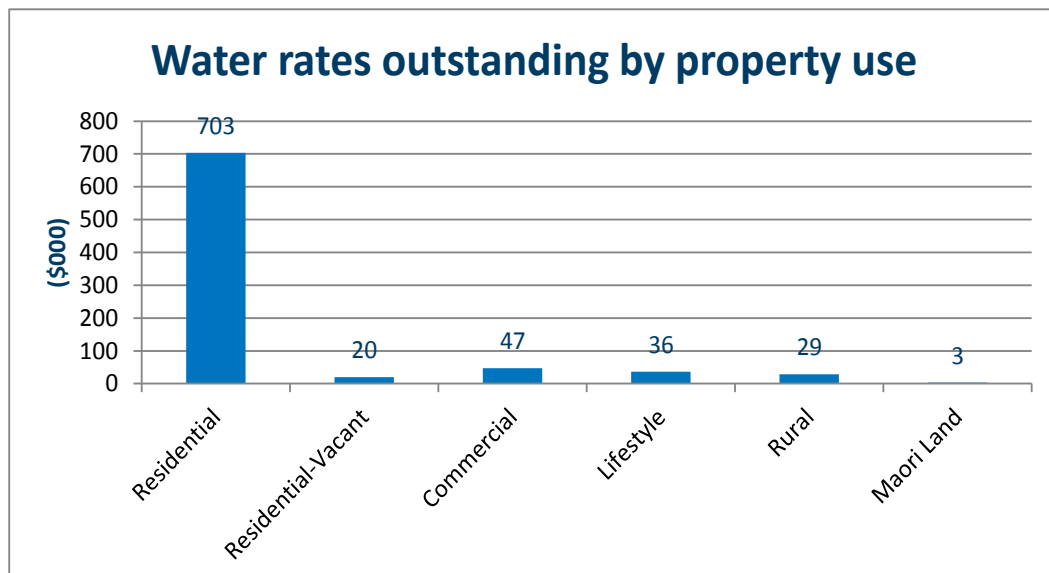
- 43 The rates arrears from Māori Land are rate arrears owed to Greater Wellington Regional Council. Their policy is to remit such rates that are six years old.

Water rates outstanding

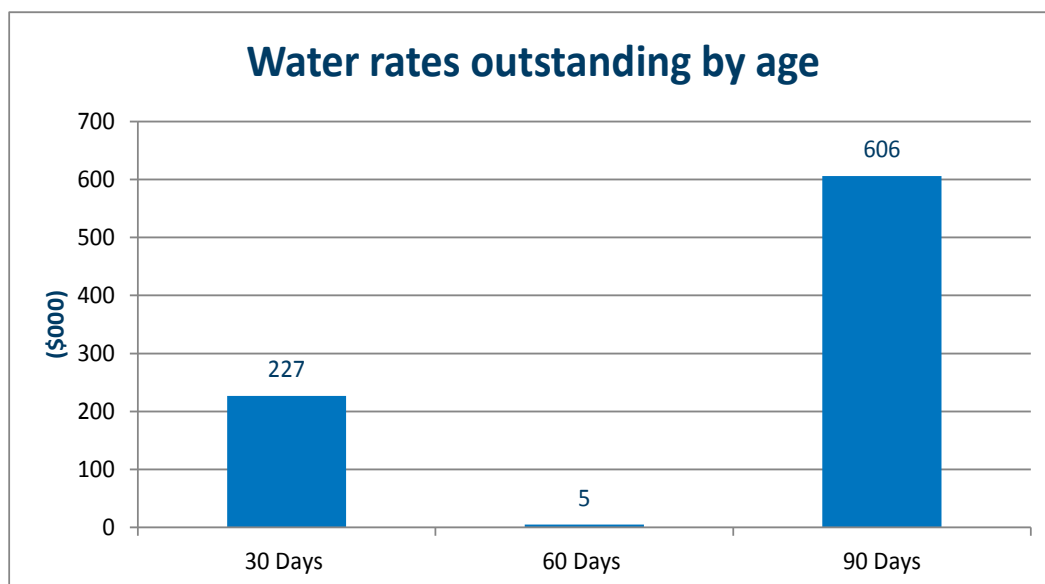
- 44 A total of \$838,000 of water rates is outstanding as at 30 September 2016.
- 45 Similarly, water rate payments received are first applied to water rate arrears. The chart below reflects the overall water rates debt as at 30 September 2016 compared to 30 September 2015. The current rate of collection is tracking at 86 per cent.



- 46 The graph below details the total water rates outstanding by property use category. The majority of the outstanding water rates are from residential properties.



- 47 The graph below details the ageing of the total water rates outstanding. \$606,000 or 72% of the Council’s outstanding water rates are older than 90 days.



- 48 Work continues to address outstanding rates, with more focus on water rates.
- 49 Chart 7 below details the total rate remissions budgeted for the year ended 30 June 2017.

Table 7	Actual \$000	Budget \$000	Remaining to allocate \$000
Community properties (Council and private ownership), sporting, recreational and other community organisations	8	160	113
Residential rating units containing two separately habitable units	40		
Financial hardship	-	125	125
One off expenditure relating to the repairs to water leaks, serious health issue or essential housing maintenance	-	25	25
High water consumption for larger families	-	25	25
Total	47	335	288

- 50 Central Government rate rebates of \$781,172 have been granted during the quarter ended 30 September 2017. Council provides the approved rates remission (up to \$610 per rateable property) to the successful applicants and recovers the costs directly from the Department of Internal Affairs.

Part H: Treasury management

Summary

- 51 New debt of \$20 million was issued during July and August 2016 to secure lower interest rates. The \$20 million of new debt was issued to prefund \$20 million of debt maturing in December 2017. All pre-funding was invested on fixed term deposits at a favourable rates of return.
- 52 The Reserve Bank of New Zealand (RBNZ) delivered a further cut of 25 basis points (bps) to the Official Cash Rate (OCR) in August 2016, bringing it down to 2%.
- 53 Council's weighted average cost of funds has improved slowly as the Council takes advantage of lower interest rates. The weighted average cost of borrowing for the quarter ended 30 September 2016 was 5.10% compared to the budget of 5.60%.

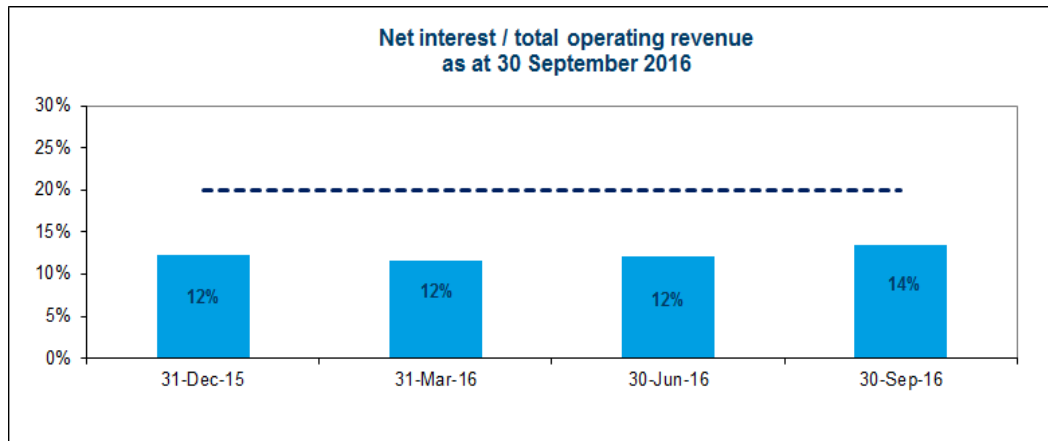
Net debt

- 54 Net debt is the measure of Council's total borrowings less cash on hand and cash investments (including Local Government Funding Agency (LGFA) Borrower Notes). Net debt is used to calculate two of Council's Treasury Policy Limits.
- 55 Table 8 below shows the Council's actual net debt for the quarter ended 30 September 2016 and the forecast for the full year ended 30 June 2017.

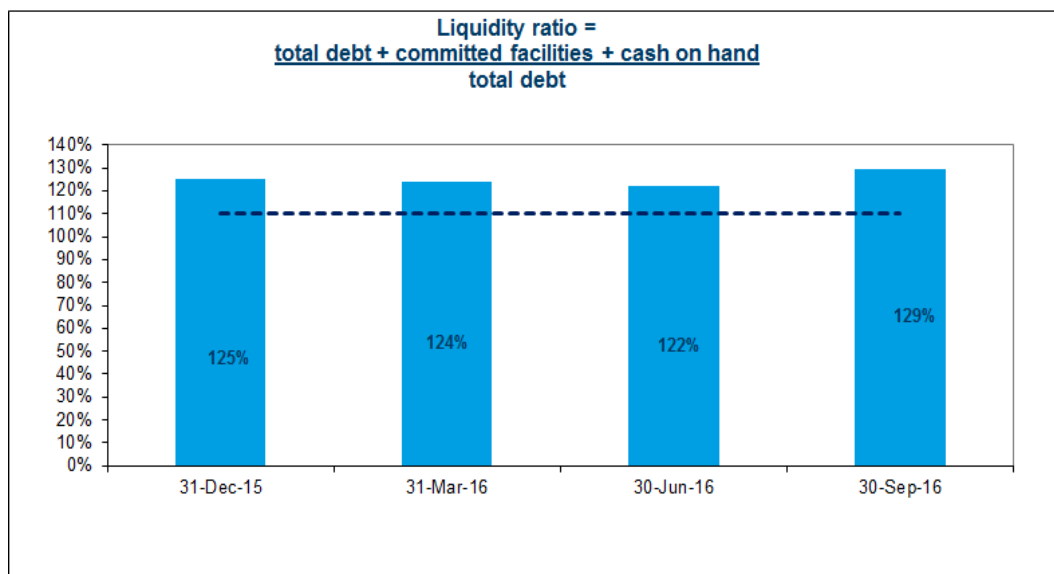
Table 8	YTD actual \$000's	Full year forecast \$000's	Full year budget \$000's	Full year variance \$000's
External debt	181,518	199,066	199,066	-
less borrower notes	(2,720)	(3,200)	(3,200)	-
less cash investments	(35,039)	(39,560)	(39,560)	-
Net debt	143,759	156,306	156,306	-

Treasury policy limits

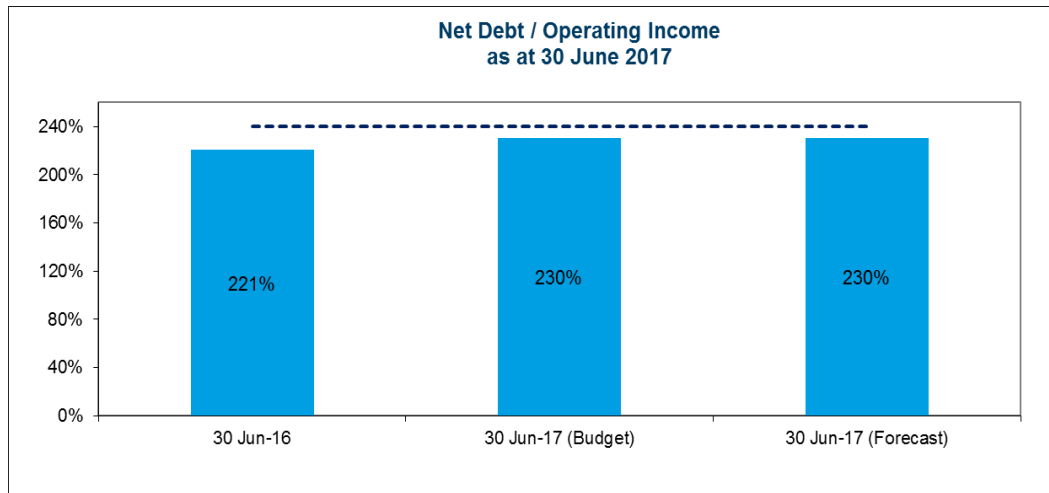
- 56 The treasury management policy (Policy) contains four financial ratios with either a maximum or minimum policy limit.
- 57 The policy sets the maximum limit for the ratio of net interest expense to total operating revenue of 20%. The chart below shows actual limits achieved for each quarter.



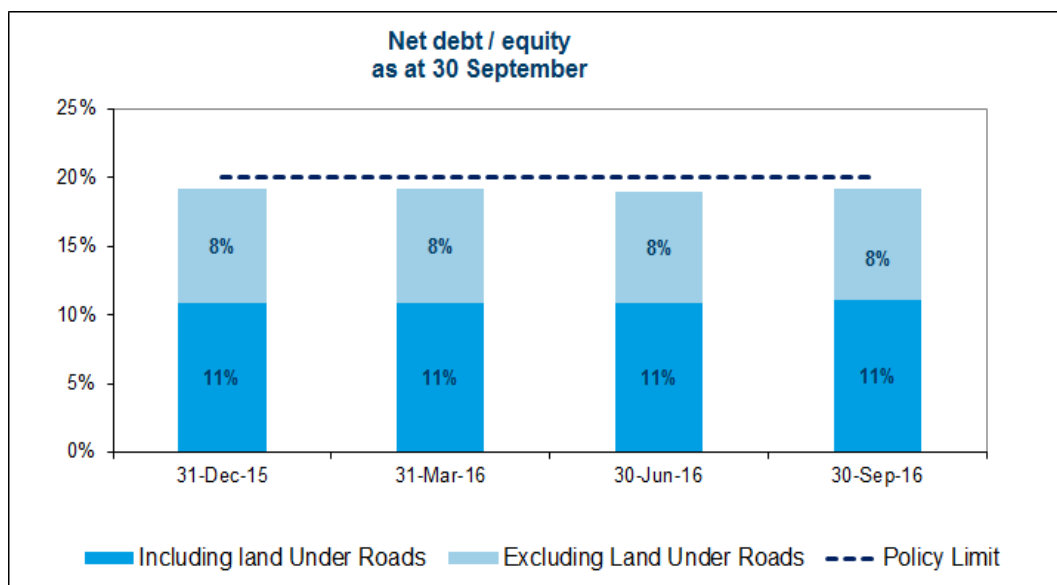
- 58 The Policy sets the minimum limit for the liquidity ratio of 110%. This is a measure of Council's available financial facilities compared to its current debt levels. The chart below shows actual limits achieved for each quarter.



- 59 The policy sets the maximum limit for net debt to operating income of 240%. This is a measure of Council’s ability to repay its debt from the operating revenue it receives during a given financial year.



- 60 The policy sets the maximum limit for net debt to equity ratio of 20%. The chart below shows actual limits achieved for each quarter and also includes the uplift to the treasury ratio when excluding land under roads.



CONSIDERATIONS

Financial Consideration

- 61 The financial information as detailed in Parts A to H of this report (Corp-16-005) is unaudited. Best endeavours have been made by all Council Officers to ensure the accuracy, completeness and robustness of the financial information contained herein as at the time of issuance of this report.

Legal Considerations

- 62 There are no legal considerations.

Consultation

63 There is no requirement to consult on the issues discussed in this report.

Policy Implications

64 There are no policy implications.

Tāngata Whenua

65 There are no tāngata whenua considerations.

SIGNIFICANCE AND ENGAGEMENT

66 This matter has a low level of significance under the Council Policy.

Publicity Considerations

67 There are no publicity considerations at this stage.

RECOMMENDATIONS

68 That the Operations and Finance Committee notes the actual financial performance and position of Council for the quarter ended 30 September 2016 as contained in this report (Corp-16-005).

Report prepared by:

Report prepared by:

**Jacinta Straker
Manager Financial Planning and
Performance**

**Mark de Haast
Financial Controller**

Approved for Submission:

Approved for Submission:

**Wayne Maxwell
Group Manager
Corporate Services**

**Sarah Stevenson
Group Manager
Strategy and Planning**