

Chairperson and Committee Members
OPERATIONS & FINANCE COMMITTEE

23 FEBRUARY 2017

Meeting Status: **Public**

Purpose of Report: For Information

FINANCIAL REPORT AS AT 31 DECEMBER 2016

PURPOSE OF REPORT

- 1 This report sets out Kāpiti Coast District Council's (Council's) financial performance and financial position for the half year ended 31 December 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 31 December 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 half year ended 31 December 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	28,291	28,437	(146)	56,801	56,867	(66)
Fees and Charges	4,737	4,282	455	8,597	7,899	698
Grants and Subsidies	1,396	2,073	(677)	4,553	4,567	(14)
Development and Financial Contributions Revenue	927	537	390	1,500	1,075	425
Other Operating Revenue	205	141	64	367	333	34
Interest Income	645	563	82	1,390	1,140	250
Total Income	36,201	36,033	168	73,208	71,881	1,327
Other Operating Expense	23,578	24,709	1,131	48,532	48,058	(474)
Depreciation and Amortisation	8,577	8,784	207	17,569	17,569	-
Finance Expense	4,564	4,704	140	9,408	9,408	-
Total Expenditure	36,719	38,197	1,478	75,509	75,035	(474)
Operating Surplus/ (Deficit)	(518)	(2,164)	1,646	(2,301)	(3,154)	853
Revaluation of Property Plant and Equipment	-	-	-	32,633	32,633	-
Unrealised Gain/(Loss) on Revaluation of Financial Derivatives	8,776	-	8,776	8,776	-	8,776
Total Other Comprehensive Income and Expenditure	8,776	-	8,776	41,409	32,633	8,776
Net Operating (Deficit)/Surplus	8,258	(2,164)	10,422	39,108	29,479	9,629

Financial performance summary

- 7 Council's year to date operating deficit is \$1.65 million favourable to budget. This is due to additional revenue from more building activity than planned and lower levels of operating expenditure for the first half 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 gain on revaluation of financial derivatives of \$8.78 million is due to derivative interest rates increasing 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 gain.
- 9 Council is forecasting the full year operating deficit to be \$853,000 favourable to budget. The favourable variance is largely due to increased development contributions and regulatory income resulting from increased subdivision and building activity in the district.
- 10 Six months of the financial year still remains ahead. Council's forecast full year performance is subject to change during the year in light of any new information.

Explanation of key revenue variances

11 Rates

Brief Description:	Rates include all rates earned by the Council, including water rates. Rates remissions and rates billed to Council owned properties are excluded.
YTD Variance:	\$146,000 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:	\$66,000 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:	\$455,000 favourable to budget mainly due to additional building consents fees of \$358,000 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:	\$698,000 favourable to budget mainly due to additional building consent fees and resource consent fees expected of \$730,000.

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:	\$677,000 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:	\$390,000 favourable to budget due to higher subdivision and building activity than planned.
Full year forecast variance:	Expected to be \$425,000 favourable to budget due to higher subdivision and building activity.

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:	\$64,000 favourable to budget mainly due to temporary timing differences
Full Year forecast variance:	Forecast to be \$34,000 favourable to budget.

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:	\$82,000 favourable to budget. This is due to a temporary timing difference regards \$40 million of new debt issued in the first six months of the financial year. (See Part H: Treasury Management).
Full year forecast variance:	Forecast to be \$250,000 favourable to budget due to increased income earned from new debt issued and placed on term deposit.

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:	\$1.13 million favourable to budget. This is mainly a reflection of lower levels of expenditure in the first half 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:	\$474,000 unfavourable to budget which is mainly due to additional resource required to manage Council's higher demand for building and resource 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 31 December 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:	\$8.78 million favourable to budget because swap rates are higher compared to opening rates at 1 July 2016. (See Part H: Treasury Management).
Full year forecast variance:	\$8.78 million favourable 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 31 December 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			
	YTD actual	Full year forecast	Full year budget	Variance
	\$000	\$000	\$000	\$000
Assets				
Cash and cash equivalents	747	200	200	-
Trade and other receivables	4,344	7,064	7,064	-
Inventories	102	100	100	-
Non-current assets held for sale	-	-	-	-
Property, plant and equipment	1,476,704	1,525,131	1,538,602	(13,471)
Forestry assets	378	435	435	-
Intangible assets	555	875	875	-
Other financial assets	48,176	42,696	42,696	-
Loans	616	667	667	-
Total assets	1,531,622	1,577,168	1,590,639	(13,471)
Liabilities				
Trade and other payables	12,341	22,222	22,222	-
Employee benefit liabilities	1,850	2,532	2,532	-
Deposits	755	770	770	-
Borrowings	191,713	199,066	199,066	-
Provisions	4,141	2,934	2,934	-
Derivative financial instruments	10,188	10,188	16,633	(6,445)
Total liabilities	220,988	237,712	244,157	(6,445)
Public equity				
Accumulated funds	569,451	566,140	559,695	6,445
Reserves and special funds	2,720	2,220	2,220	-
Revaluation reserve	738,463	771,096	784,567	(13,471)
Total equity	1,310,634	1,339,456	1,346,482	(7,026)
Total liabilities and equity	1,531,622	1,577,168	1,590,639	(13,471)

Year-to-date summary

- 20 Council's only material changes to its financial position for the six months ended 31 December 2016 were in respect to financial investments, borrowings and financial derivatives.
- 21 New debt of \$40 million was issued in the first half of the year to secure lower borrowing costs. (See Part H: Treasury Management).
- 22 \$10 million of debt matured in December 2016. This was repaid from funds held on fixed term deposit. (See Part H: Treasury Management).
- 23 Since 30 June 2016, the long term swap rates have started increasing. Consequently, the value of Council's financial derivatives to maturity has

decreased from 30 June 2016, creating an unrealised gain on revaluation of derivative financial instruments in the statement of comprehensive revenue and expenses.

Full year forecast summary

- 24 Total equity is forecast to be \$7.03 million unfavourable to budget. This is mainly due to Council's total asset base expected to be lower than planned.
- 25 As reported last quarter, Property, Plant and Equipment is expected to be \$13.47 million below budget at year end. The 2016/17 budget was based on a draft revaluation of the three waters assets in March 2016. The final revaluation at 30 June 2016 was significantly lower due to a comprehensive review of the underlying data and assumptions.

Part C: Statement of Cash Flows

26 The Council's cash flow for the half year ended 31 December 2016 and the forecast for the year ended 30 June 2017 are set out in Table 3, followed by a summary of key variances.

Table 3	2016/17			
	YTD actual \$000	Full year forecast \$000	Full year budget \$000	Full year variance \$000
<i>Cash was provided from:</i>				
Kapiti Coast District Council rates	28,022	56,834	56,866	(33)
Greater Wellington Regional Council Rates	5,238	-	-	-
Grants and subsidies - operating	661	1,595	1,595	-
Interest received	1,142	940	940	-
Charges and fees	5,095	9,671	9,099	572
GST (net)	1,082	284	284	-
	41,240	69,323	68,784	539
<i>Cash was applied to:</i>				
Payments to employees and suppliers	27,255	45,757	45,520	237
Rates paid to Greater Wellington Regional Council	5,238	-	-	-
	32,493	45,757	45,520	237
Net cash flows from operating activities	8,747	23,566	23,264	302
Cash flows from investing activities				
<i>Cash was provided from:</i>				
Sale of investment	10,004	10,088	10,088	-
Proceeds from sale of property, plant and equipment	348	-	-	-
Proceeds from capital grants	2,735	4,972	4,972	-
	13,087	15,060	15,060	-
<i>Cash was applied to:</i>				
Construction and purchase of property, plant and equipment and intangibles	8,112	34,184	34,184	-
Purchase of investments	40,000	35,120	35,120	-
	48,112	69,304	69,304	-
Net cash flows from investing activities	(35,025)	(54,244)	(54,244)	-
Cash flows from financing activities				
<i>Cash was provided from:</i>				
Short-term borrowings	19,260	-	-	-
Long-term borrowings	39,360	50,000	50,000	-
	58,620	50,000	50,000	-
<i>Cash was applied to:</i>				
Interest on borrowings	4,468	9,220	9,220	-
Short-term borrowings	17,560	-	-	-
Long-term borrowings	10,009	10,000	10,000	-
	32,037	19,220	19,220	-
Net cash flows from financing activities	26,583	30,780	30,780	-
Net increase(decrease) in cash and cash equivalents	305	102	(200)	302
Add total cash and cash equivalents at 1 July	442	400	400	-
Total cash and cash equivalents	747	502	200	302

Overall summary

- 27 Council's cash on hand as at 31 December 2016 was \$747,000. This was higher than planned mainly due to water rates and building consent payments received in advance.
- 28 Council's material changes to its cash flow management for the half year ended 31 December 2016 were:
- Issuing new debt of \$40 million (See Part H: Treasury Management)
 - Settlement of \$10 million of debt (See Part H: Treasury Management)
- 29 Cash and cash equivalents are currently forecast to be \$302,000 favourable to full year budget. This is mainly due to higher building and resource consent fees than planned.

Part D: Statement of Rates Funding

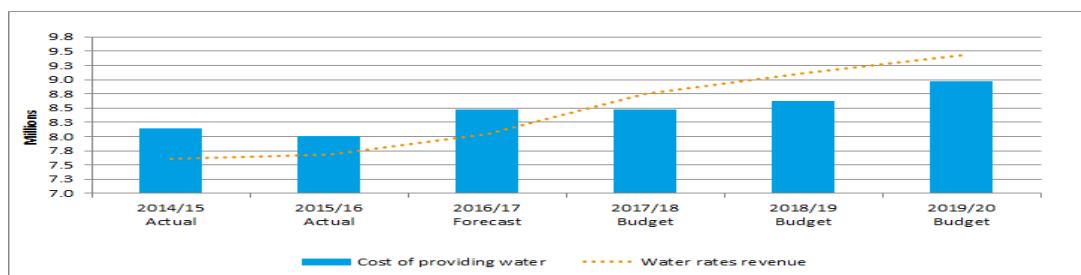
- 30 The rates surplus/(deficit) is different to the operating surplus/(deficit) per the Statement of Comprehensive Revenue and Expense as shown on page 2, due to the following:
- Operating surplus/ (deficit) covers all of Council's operating revenue and expense from all funding sources, including vested assets.
 - The rates surplus/ (deficit) only covers Council's revenue and expenses that are rates funded.
- 31 Table 4 below details the actual rates funding deficit for the year ended 31 December 2017.

Table 4: Rates revenue requirement	2016/17 actual \$000
Net operating (deficit)/surplus	8,258
Adjusted by income and expenditure variances not funded by rates:	
Fair value movement in interest rate swaps - (Gain)	(8,776)
Expenditure funded by reserves and special funds	2
Increased capital funding and vesting of assets	(214)
Underlying net rates surplus/(deficit)	(731)
Less: budgeted net surplus/(Deficit)	(2,164)
Variance	1,433
Represented by:	
Rates funded depreciation	207
Year to date underspend across the organisation	1,226
Rates surplus	1,433

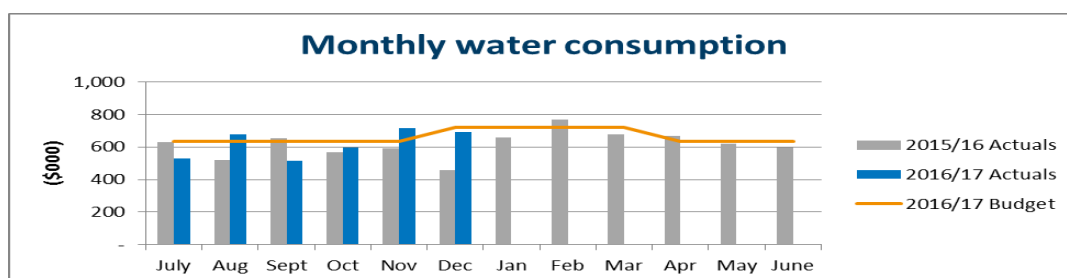
- 32 The December year to date rates deficit is \$1.43 million favourable to budget. This is mainly a reflection of lower levels of expenditure at the beginning of the year rather than cost savings that will impact on the full year result.

Part E: Water Account Statement

- 33 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.
- 34 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.
- 35 The water account is currently in deficit. Council plans to 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.



- 36 The 2016/17 budget assumed a water account deficit of \$169,000. This deficit is forecast to increase to \$420,000 at 30 June 2017 as actual water consumption continues to track lower than expected.



- 37 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. (To be revisited for the 2017/18 Annual Plan).

Summary of water account	2014/15 Actual \$m	2015/16 Actual \$m	2016/17 Forecast \$m	2017/18 Budget \$m	2018/19 Budget \$m	2019/20 Budget \$m
Cost of providing water	8.1	8.0	8.5	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)	(0.4)	0.3	0.5	0.5
Balance of water account	(0.5)	(0.8)	(1.3)	(1.0)	(0.5)	(0.0)

Part F: Capital Spending Programme

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

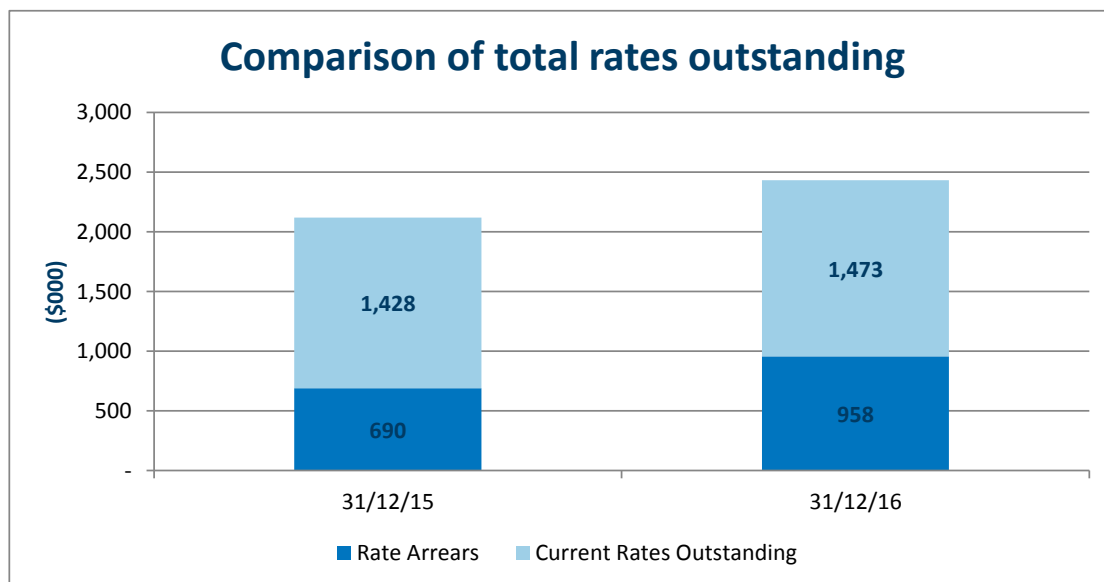
Table 5	YTD Actuals 2016/17 \$000	YTD Budget 2016/17 \$000	YTD Variance 2016/17 \$000	Full Year Budget 2016/17 \$000
Access and Transport	2,596	4,295	1,699	8,390
Coastal Management	497	274	(222)	1,635
Community Facilities and Community Support	23	290	267	962
Corporate	342	569	227	1,136
Districtwide Planning	-	-	-	-
Economic Development	933	1,604	671	3,316
Governance and Tangata Whenua	177	267	91	554
Parks and Open Spaces	150	283	133	1,752
Recreation and Leisure	515	2,578	2,063	6,008
Regulatory Services	-	-	-	-
Solid Waste	218	261	43	522
Stormwater Management	1,351	1,513	163	2,862
Wastewater Management	805	2,293	1,488	4,280
Water Management	314	502	188	1,005
Grand Total	7,921	14,731	6,809	32,422

- 39 Coastal Management is unfavourable to budget mainly due to the unbudgeted costs following the major storm event in August 2016. These costs include the concrete block protection installed along Paraparaumu beach to protect the main sewer line and provide temporary protection for damaged seawall assets.
- 40 Following further storm events, total unbudgeted costs are currently estimated to reach up to \$350,000. Whilst these costs will be funded from 2016/17 budget underspends, additional money may be required in 2017/18 to complete the original programme of works. A further update will be provided next quarter.
- 41 Please refer to the Activity section of the report in section SP-17-115 for more detailed information.

Part G: Outstanding Rates Debt as at 31 December 2016

Property rates outstanding (Excluding water rates)

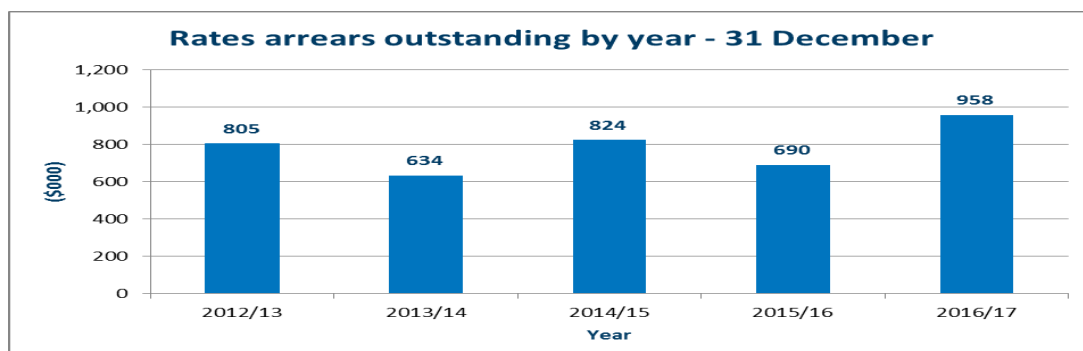
- 42 The total property rates outstanding for the quarter ended 31 December 2016 was \$2.43 million (31 December 2015: \$2.20 million).



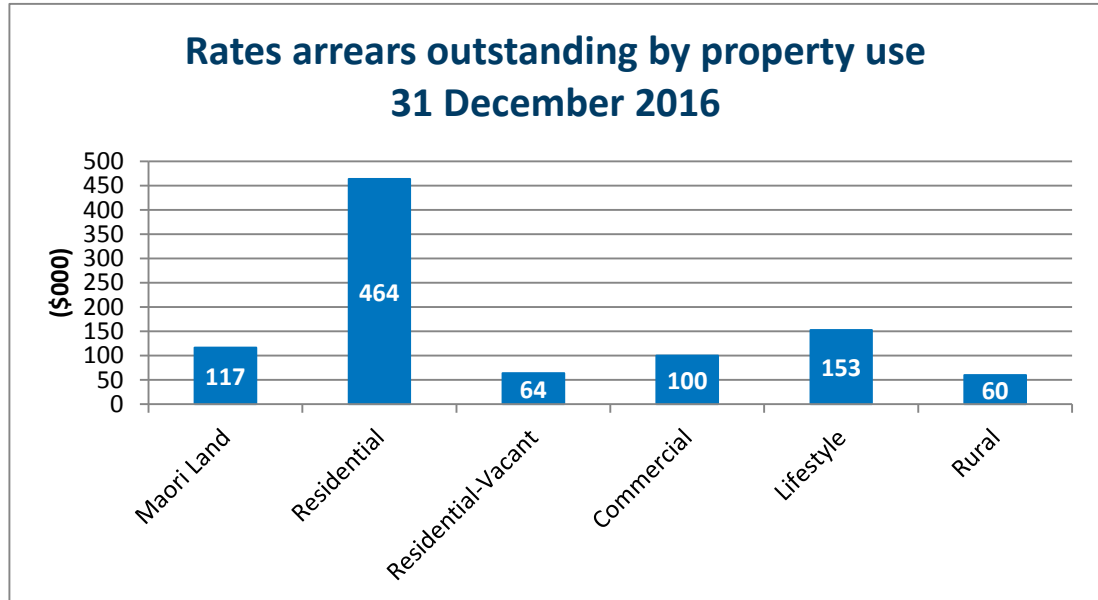
- 43 Council collects current year rates on behalf of the Greater Wellington Regional Council. \$1.47 million of current rates outstanding as at 31 December 2016 is split as follows:

Breakdown of total rates outstanding	Rates	Penalties	Total rates outstanding
	\$000	\$000	\$000
Kāpiti Coast District Council rates	874	254	1,128
Greater Wellington Regional Council	299	46	345
Total	1,173	300	1,473

- 44 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.
- 45 The graph below shows a comparison of the rates arrears outstanding as at 31 December 2016 and for the previous 4 years.



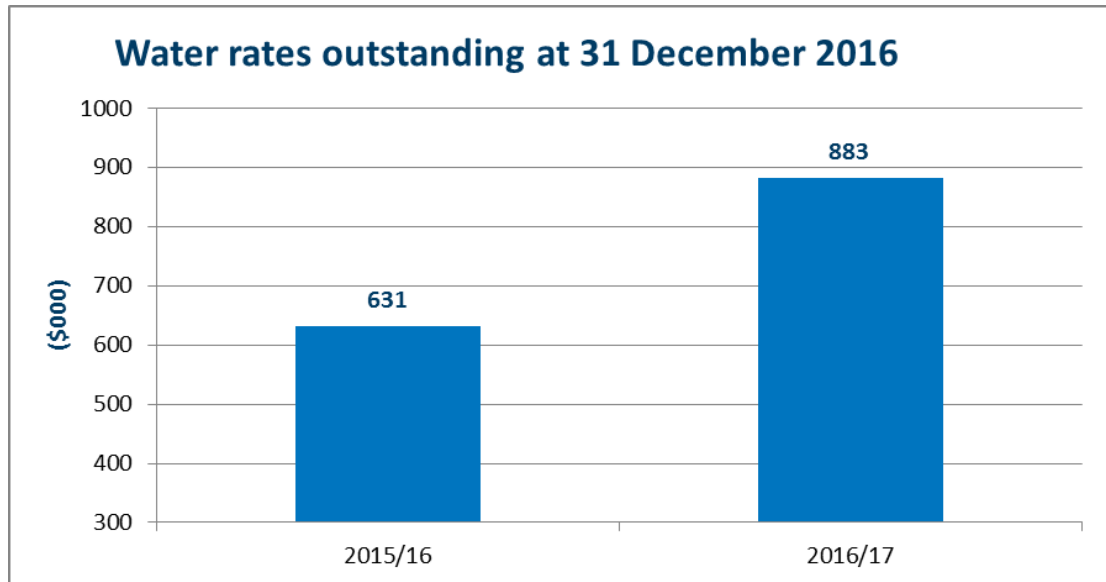
- 46 Outstanding rate collections in the first half of the year have fallen compared to prior years due to refocusing resources on higher demand activities such as subdivisions and sales notices.
- 47 The graph below details the total rates arrears of \$958,000 by Property Use Category. The majority of the total rates arrears are from residential properties.



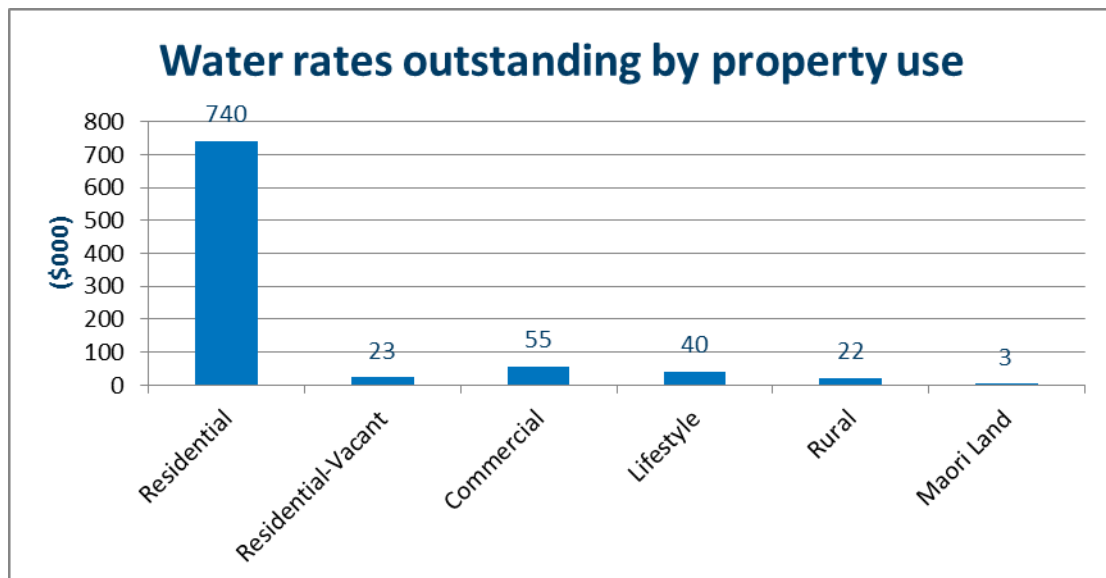
- 48 The rates arrears from Māori Land are rate arrears owed to Greater Wellington Regional Council. Their policy is to remit such rates that are six years old.

Water rates outstanding

- 49 A total of \$883,000 of water rates is outstanding as at 31 December 2016.
- 50 Similarly, water rate payments received are first applied to water rate arrears. The chart below reflects the overall water rates debt as at 31 December 2016 compared to 31 December 2015.

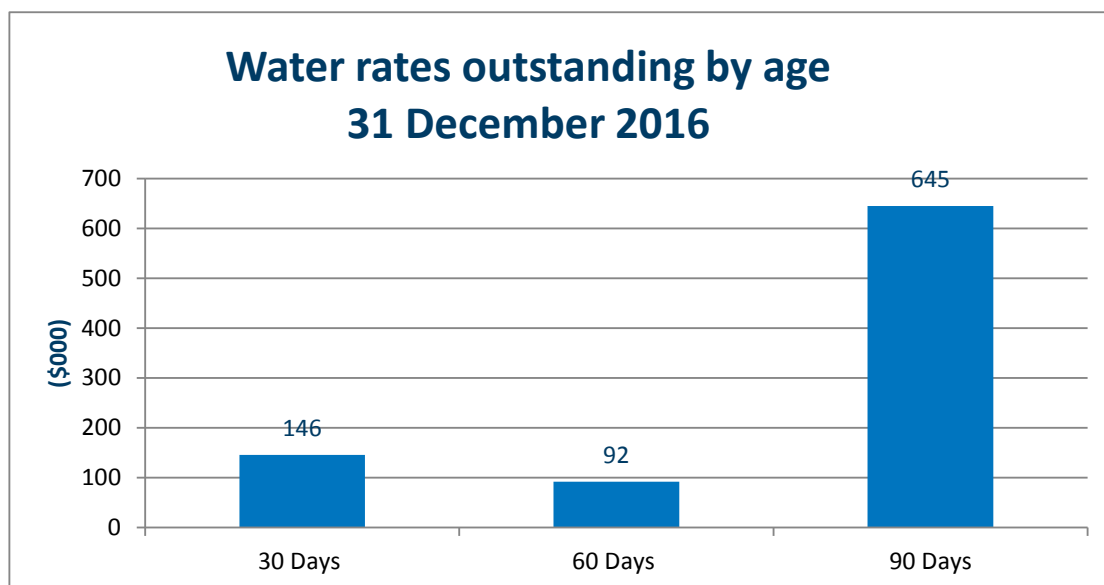


- 51 The graph below details the total water rates outstanding by property use category. The majority of the outstanding water rates are from residential properties.



- 52 \$662,000 or 75% of outstanding water rates relate to individual debtor balances of less than \$1,000. The total water rates outstanding represent less than 5% of total water rates invoiced since 1 July 2014.

The graph below details the ageing of the total water rates outstanding. \$645,000 or 73% of the Council's outstanding water rates are older than 90 days.



53 In January 2017, payment reminder letters were sent to ratepayers that met the following criteria:

- outstanding water rates and fully paid property rates; or
- outstanding water rates and overpaid property rates.

In general, this identified a common misunderstanding that separate direct debits are required for both property rates and water rates. Subsequently, new direct debits for water rates have been set up and work continues to focus on collecting outstanding water rates.

54 Table 7 below details the total rate remissions issued for the half year ended 31 December 2016 against the full year budget.

Table 7	Actual \$000	Budget \$000	Remaining to allocate \$000
Community properties (Council and private ownership), sporting, recreational and other community organisations	83	141	57
Residential rating units containing two separately habitable units	50	19	(31)
Financial hardship	-	125	125
One off expenditure relating to the repairs to water leaks, serious health issue or essential housing maintenance	1	25	24
High water consumption for larger families	-	25	25
Total	135	335	200

55 Central Government rate rebates of \$962,813 (1,688 properties) have been granted in the half year ended 31 December 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

- 56 New debt of \$20 million was issued during November and December 2016, bringing the total amount of debt issued during the past six months to \$40 million. Council's strategy has been to secure prefunding early to take advantage of lower interest rates and the \$40 million of new debt issued is to partly prefund \$80 million of debt maturing in December 2017 and May 2018.
- 57 \$10 million of debt matured in December 2016. This was repaid from funds held on fixed term deposit as planned.
- 58 The Reserve Bank of New Zealand (RBNZ) delivered a further cut of 25 basis points (bps) to the Official Cash Rate (OCR) in November 2016, bringing it down to 1.75%.
- 59 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 half year ended 31 December 2016 was 5.03% compared to the budget of 5.60%.

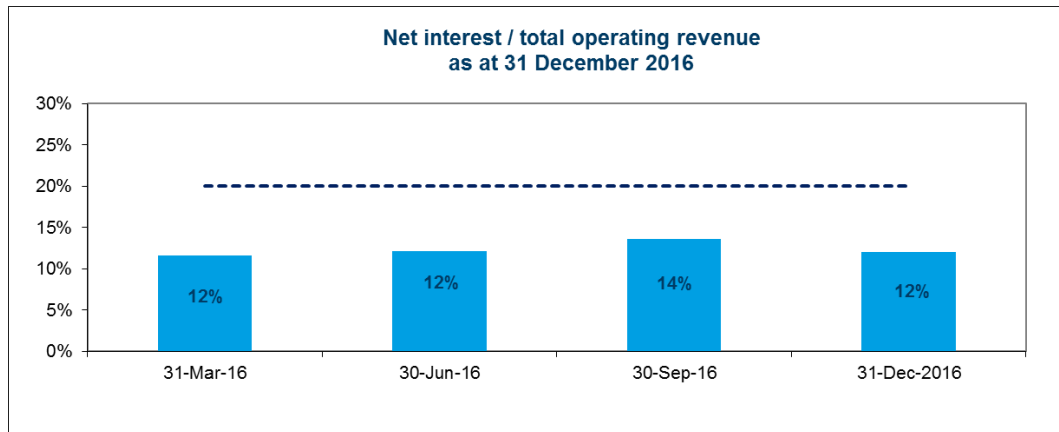
Net debt

- 60 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.
- 61 Table 8 below shows the Council's actual net debt for the quarter ended 31 December 2016 and the forecast for the full year ended 30 June 2017.

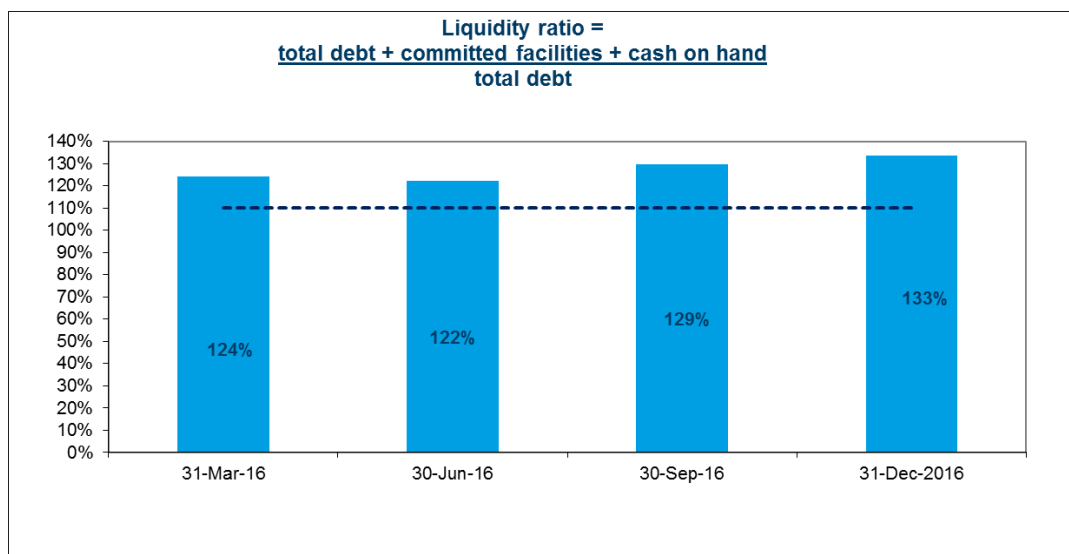
Table 8	December YTD Actual \$000's	Full Year Forecast \$000's	Full Year Budget \$000's	Full Year Variance \$000's
External debt	191,713	199,066	199,066	-
/less borrower notes	(3,040)	(3,200)	(3,200)	-
/less cash investments	(45,747)	(39,560)	(39,560)	-
Net debt	142,926	156,306	156,306	-

Treasury policy limits

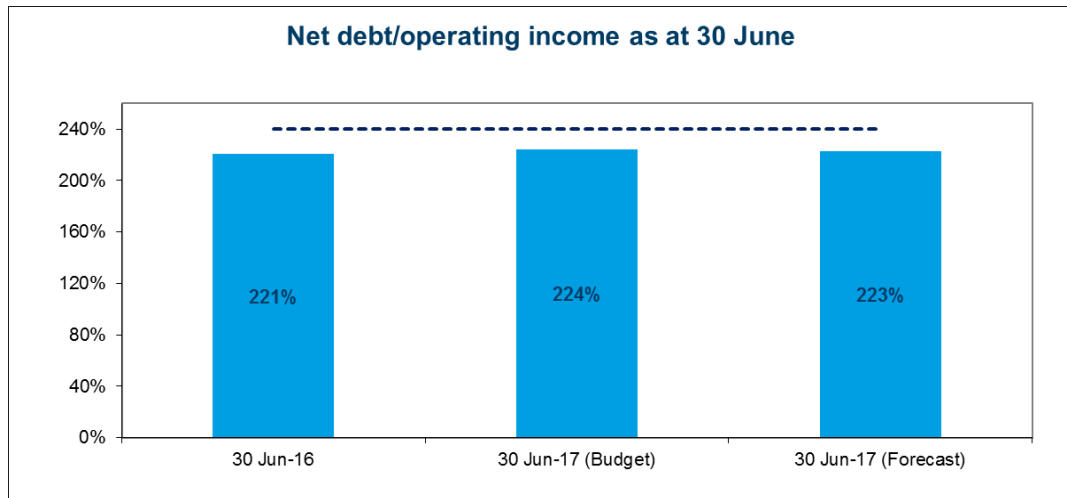
- 62 The treasury management policy (Policy) contains four financial ratios with either a maximum or minimum policy limit.
- 63 The policy sets the maximum limit for the ratio of net interest expense to total operating revenue of 20%. The chart below shows actual limits achieved for each quarter.



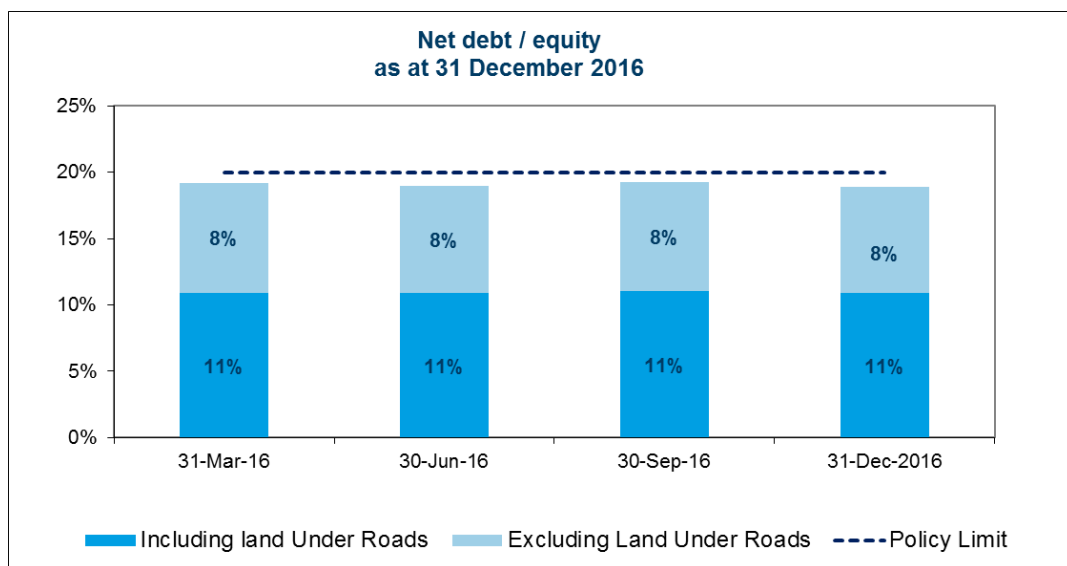
- 64 The Policy sets the minimum limit for the liquidity ratio of 110%. This is a measure of Council's available financial facilities compared to its current debt levels. The chart below shows actual limits achieved for each quarter.



- 65 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.



- 66 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

- 67 The financial information as detailed in Parts A to H of this report (Corp-17-084) 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

- 68 There are no legal considerations arising from this report.

Consultation

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

Policy Implications

70 There are no policy implications arising from this report.

Tāngata Whenua

71 There are no tāngata whenua considerations arising from this report.

SIGNIFICANCE AND ENGAGEMENT

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

Publicity Considerations

73 There are no publicity considerations arising from this report.

RECOMMENDATIONS

74 That the Operations and Finance Committee notes the actual financial performance and position of Council for the half year ended 31 December 2016 as contained in this report (Corp-17-084).

75 That the Operations and Finance Committee notes that total unbudgeted costs from recent storm events are currently estimated to reach up to \$350,000. These costs will be funded from 2016/17 budget underspends and additional money may be required in 2017/18 to complete the original 2016/17 programme of works.

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