

Chairperson and Committee Members
OPERATIONS & FINANCE COMMITTEE

15 NOVEMBER 2018

Meeting Status: **Public**

Purpose of Report: For Information

FINANCIAL REPORT TO 30 SEPTEMBER 2018

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 2018, 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 nine 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 2018
 - Part H: Treasury Management
 - Part I: Asset Revaluation

Part A: Statement of Comprehensive Revenue and Expense

- 4 The statement of comprehensive revenue and expense covers all of the 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 below summarises the component elements that underlie the Council's financial operating performance to the first quarter ended 30 September 2018, including our budget and most recent forecast to that date.

Table 1	Year to date to 30 Sept. '18			Full Year 2018/19		
	Actual \$000	Budget \$000	Variance \$000	Forecast \$000	Budget \$000	Variance \$000
Rates	15,944	15,914	30	64,151	63,971	180
Fees and Charges	2,726	2,947	(221)	9,327	9,422	(95)
Grants and Subsidies	588	817	(229)	5,691	5,691	-
Development and Financial Contributions Revenue	364	269	95	1,076	1,076	-
Other Operating Revenue	149	141	8	434	434	-
Interest Income	503	565	(62)	1,986	2,856	(870)
Total Income	20,274	20,653	(379)	82,665	83,450	(785)
Personnel, maintenance & operations	12,445	13,341	896	53,487	53,473	(14)
Depreciation and Amortisation	5,078	4,800	(278)	20,181	20,107	(74)
Finance Expense	2,397	2,471	74	9,647	10,263	616
Total Expenditure	19,920	20,612	692	83,315	83,843	528
Operating (Deficit) / Surplus	354	41	313	(650)	(393)	(257)
Revaluation of Property Plant and Equipment	-	-	-	-	-	-
Unrealised gain/(loss) on revaluation of financial derivatives	(733)	-	(733)	(733)	-	(733)
Total Other Comprehensive Income and Expenditure	(733)	-	(733)	(733)	-	(733)
Net Operating Surplus / (Deficit)	(379)	41	(420)	(1,383)	(393)	(990)

Financial performance summary

- 7 The Council's actual year to date net operating surplus is \$0.313m better than budget (which was a \$0.041m surplus), and is currently forecasted to be less favourable for the year (a \$0.257m larger deficit). The additional net spending is the result of additional insurance costs and key additional projects progressing including the Provincial Growth Fund and Kapiti Airport. These additional forecast costs have been partially offset by additional rates revenue resulting from additional property development finalised in June 2018. The forecast also assumes that the Kapiti Growth Fund and the Kapiti Resilience Fund will not be confirmed during 2018/19.
- 8 Please note that any first quarter forecast will inherently have a higher degree of uncertainty attached to it – forecast changes reported have, therefore, been restricted to a defined number of discrete items.
- 9 Note that the Council's unrealised loss on revaluation of financial derivatives of \$0.733m results from changing interest rates. 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 or loss.

Revenue performance - commentary**10 Rates**

Description	Rates include all rates earned by the Council, including water rates. Rates remissions and rates billed to the Council owned properties are excluded.
Comments	Higher rates revenue (\$0.180m) is forecast for the year as there was additional property development finalised in June 2018 after the rates were set. This development was in Raumati Beach (6 lots), Paraparaumu (17 lots) and Waikanae (15 lots).

11 Fees and charges

Description	Fees and charges includes non-rates revenue earned by the Council for providing services to the Community. This also includes fines and penalties charged.
Comments	<p>The Council's lower fees and charges revenue year to date (\$0.221m lower), is mainly driven by lower regulatory income, including resource consents, health license fees, dog registrations, and parking. Fees and Charges are forecast to be \$0.095m lower than planned for the year.</p> <p>While the Council is forecasting an increase in the current levels of resource consents as the District Plan beds in, we are expecting the overall resource consent revenue for the year to be lower (\$0.210m). The forecast level of resourcing has been reduced to account for the lower volume and so expenditure will also be lower.</p> <p>The lower forecast resource consent revenue will be partially offset by the unplanned revenue from the Council currently operating the Te Newhanga Kāpiti Community Centre.</p>

12 Grants and subsidies

Description	Includes grants received by the Council for operating and capital spending. The majority of grants revenue is received from (NZTA) for their share of our roading maintenance and capital spending programmes.
Comments	<p>The current NZTA revenue is lower than planned due to the majority of projects being completed during the summer months.</p> <p>Overall the Council is still expecting to achieve the planned revenue this year.</p>

13 **Development and financial contributions**

Description	<p>Financial contributions are levied under the Resource Management Act and cover Reserves Contributions levied on developers at the time of subdivision.</p> <p>Development contributions are levied under the Local Government Act 2002 and cover all key activities except reserves and are levied on developers at the time of subdivision. Developers' contributions to Council works are treated as revenue.</p>
Comments	Development contributions received are tracking above budget for the first quarter and the Council expects to achieve the planned revenue this year.

14 **Other Operating Revenue**

Description	Includes assets vested to the Council, local government petrol tax, donations and/or sponsorship and realised gains on asset disposals. Note also that the value of land vested to the Council as part subdivision activity in any year will be recorded as revenue in that year.
Comments	Other operating revenues are on plan for the first quarter and we are expecting this revenue performance to continue at this level for the year.

15 **Interest income**

Description	Interest income is generated from term deposits and overnight cash deposits and borrower notes held by the Local Government Funding Agency.
Comments	<p>The current forecast (\$0.870m lower than planned) assumes that the Kapiti Growth Fund and the Kapiti Resilience Fund will not be confirmed this financial year. This has reduced the forecast revenue by \$1.3m.</p> <p>This reduced income has been partially offset by a higher level of pre-funding of borrowings than planned.</p>

Expenditure performance - commentary16 **Personnel, maintenance & operations**

Description	Includes personnel expenses, maintenance, business-as-usual Council operating expenses, internal recoveries, grants and other sundry expenses.
Comments	<p>Although council spending in this category is tracking below budget (by \$0.896m) for the first quarter, the expectation is that we will overspend (by \$0.014m) for the year.</p> <p>This forecast includes additional insurance costs as a result of final premium negotiations as well as key additional projects progressing including the Provincial Growth Fund and Kapiti Airport.</p> <p>These additional costs are forecast to be offset by reduced Resource Consent resourcing to align with lower consent volumes and reduced expenditure budgets assuming that the Kapiti Growth Fund and the Kapiti Resilience Fund will not be confirmed during 2018/19.</p>

17 **Depreciation and amortisation**

Description	Depreciation is the amortisation of the cost of property, plant and equipment and intangible assets currently owned by the Council.
Comments	The year to date position is unfavourable to budget (\$0.278m) and the full year forecast overspend of \$0.074m is due to the final 2017/18 revaluation inflationary changes resulting in higher water asset values. These higher values give rise to increased depreciation expense.

18 **Finance expense**

Description	Interest expense is incurred on borrowings.
Comments	The current forecast (\$0.616m lower than planned) assumes that the Kapiti Growth Fund and the Kapiti Resilience Fund will not be confirmed this financial year. This has reduced the forecast expense by \$0.600m.

Items reported below the line - commentary19 **Unrealised gain / (loss) on revaluation of derivatives**

Description:	<ol style="list-style-type: none"> 1. The Council recognises its interest rate swaps at fair value on a monthly basis. 2. The change in fair value between 1 July 2018 and 30 September 2018 is treated as either an unrealised gain (fair value has decreased) or an unrealised loss (fair value has increased).
Comments:	The Council realised an unplanned loss of \$0.733m, because swap rates are lower compared to opening rates at 1 July 2018. (See Part H: Treasury Management).

Part B: Statement of Financial Position

- 20 The Council's financial position as at 30 September 2018 and full year forecast and budget are set out in Table 2, followed by a summary of the key variances. Note that the Council does not prepare a monthly budget for the statement of financial position.

Table 2	2018/19			
	YTD actual	Full year forecast	Full year budget	Variance
	\$000	\$000	\$000	\$000
Assets				
Cash and cash equivalents	466	200	200	-
Trade and other receivables	6,296	8,062	8,062	-
Inventories	115	116	116	-
Non-current assets held for sale	-	-	-	-
Property, plant and equipment	1,642,103	1,694,609	1,694,609	-
Forestry assets	109	109	429	(320)
Intangible assets	923	2,583	2,583	-
Other financial assets	60,996	58,576	63,755	(5,179)
Loans	507	466	466	-
Total assets	1,711,515	1,764,721	1,770,220	(5,499)
Liabilities				
Trade and other payables	11,584	19,894	19,894	-
Employee benefit liabilities	2,568	2,778	2,778	-
Deposits	1,188	820	820	-
Borrowings	210,000	215,000	226,175	11,175
Provisions	3,982	4,183	4,183	-
Derivative financial instruments	13,942	13,942	11,392	(2,550)
Total liabilities	243,264	256,617	265,242	8,625
Public equity				
Accumulated funds	569,976	568,242	565,116	3,126
Reserves and special funds	4,159	3,021	3,021	-
Revaluation reserve	894,116	936,841	936,841	-
Total equity	1,468,251	1,508,104	1,504,978	3,126
Total liabilities and equity	1,711,515	1,764,721	1,770,220	5,499

Year to date Summary

- 21 The Council's only material changes to its financial position since 30 June 2018 were in respect to other financial assets and borrowings.
- 22 New debt of \$5 million was issued since 1 July 2018 as part of the prefunding programme and was placed on fixed term deposit to prefund debt maturing in September 2019 (see part H: Treasury management).
- 23 In addition to the \$5 million mentioned above, \$3 million of surplus cash was placed on short term deposit, maturing December 2018, for payment towards the 2018/19 capital works programme.

Full year forecast Summary

- 24 Detailed forecasts for the balance sheet will commence from next quarter.
- 25 The 2018/38 Long Term Plan catered for and supported the proposed establishment of two investment funds of \$10 million each. Since the establishment of these funds have not yet been confirmed, the impact on the balance sheet was removed in the forecast by reducing both other financial assets and borrowings by \$20 million.
- 26 Borrowings are forecast to be \$11.2 million favourable to budget at year-end. This is mainly due to the \$20 million reduction in borrowings towards the investment funds, offset by a projected increase in prefunding of \$10 million towards the October 2020 debt maturity.
- 27 Other financial assets are forecast to be \$5.2 million unfavourable to budget at year-end. This is also mainly due to the \$20 million reduction in investment funds, offset by a projected increase in prefunding.

Part C: Statement of Cash Flows

28 The Council's cash flow for the quarter ended 30 September 2018 and full year budget are set out in Table 3, followed by a summary of key variances.

Table 3	YTD actual	2018/19 Full year forecast	Full year budget	Full Year Variance
	\$000	\$000	\$000	\$000
Cash flows from operating activities				
<i>Cash was provided from:</i>				
Kapiti Coast District Council rates	16,257	64,075	64,075	-
Greater Wellington Regional Council Rates	3,088	-	-	-
Grants and subsidies - operating	421	1,701	1,701	-
Interest received	47	1,929	2,799	(870)
Charges and fees	3,269	10,828	10,828	-
GST (net)	(260)	206	206	-
	22,822	78,739	79,609	(870)
<i>Cash was applied to:</i>				
Payments to employees and suppliers	15,884	53,335	53,589	(254)
Rates paid to Greater Wellington Regional Council	3,088	-	-	-
	18,972	53,335	53,589	(254)
Net cash flows from operating activities	3,850	25,404	26,020	(616)
Cash flows from investing activities				
<i>Cash was provided from:</i>				
Loan repayment/Term deposit maturities	20	40,631	30,631	10,000
Proceeds from sale of property, plant and equipment	21	-	-	-
Proceeds from capital grants	167	3,990	3,990	-
	208	44,621	34,621	10,000
<i>Cash was applied to:</i>				
Construction and purchase of property, plant and equipment and intangibles	2,193	29,439	29,439	-
Purchase of investments	8,080	40,000	30,000	10,000
	10,273	69,439	59,439	10,000
Net cash flows from investing activities	(10,065)	(24,818)	(24,818)	-
Cash flows from financing activities				
<i>Cash was provided from:</i>				
Short-term borrowings	11,650	-	-	-
Long-term borrowings	5,000	38,856	38,856	-
	16,650	38,856	38,856	-
<i>Cash was applied to:</i>				
Interest on borrowings	2,371	9,442	10,058	(616)
Short-term borrowings	11,650	-	-	-
Long-term borrowings	-	30,000	30,000	-
	14,021	39,442	40,058	(616)
Net cash flows from financing activities	2,629	(586)	(1,202)	616
Net increase/(decrease) in cash and cash equivalents	(3,586)	-	-	-
Add total cash and cash equivalents at 1 July 2016	4,052	200	200	-
Total cash and cash equivalents	466	200	200	-

Year to date Summary

- 29 The Council's material changes to its cash flow management for the period ended 30 September 2018 were:
- 29.1 \$5 million of new long term debt was issued during the period;
 - 29.2 \$8 million (\$5 million debt and \$3 million surplus cash) were placed on fixed term deposit; and
 - 29.3 cash payments of \$ 2.2 million in relation to the Council's capital expenditure programme.

Full year forecast Summary

- 30 Detailed forecast for the cashflow will commence from next quarter
- 31 Net cashflow from operating activities is forecast to be \$0.33 million unfavourable to budget. This is due the reduction in interest income of \$0.87 million earned from the two planned investment funds, offset by a reduction in the expenses earmarked to be covered by this additional income stream.
- 32 Net cashflow from financing activities is forecast to be \$0.33 million favourable to budget. This is due the reduction in interest expense on a lower than planned external borrowings balance.

Part D: Statement of Rates Funding

33 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 the Council's operating revenue and expense from all funding sources, including vested assets.
- the rates surplus/(deficit) only covers the Council's revenue and expenses that are rates funded.

34 Table 4 below details the actual year to date rates funding surplus / (deficit) for the quarter ending 30 September 2018 and for the 2018/19 year.

Table 4: Rates revenue requirement	2018/19 YTD actual \$000	2018/19 Year forecast \$000	2018/19 Year Budget \$000
Operating (deficit)/surplus	354	(650)	(393)
Adjusted by income and expenditure not funded by rates:			
Net Expenditure funded by reserves and special funds	(9)	57	57
Capital funding and vesting of assets	(529)	(3,607)	(3,607)
Revaluation of Council's assets	-	-	-
Unfunded Depreciation	967	3,868	3,868
Underlying net rates surplus/(deficit)	783	(332)	(75)
Represented by:			
Net underspend across the organisation	783	(332)	(75)
Rates surplus / (deficit)	783	(332)	(75)

35 The Council has an actual \$0.782m rates surplus for the first quarter and is forecasting a rates deficit of \$0.332m for the year.

36 The budgeted rates deficit of \$0.075m relates to the Council's agreement to use a portion of the 2017/18 rates surplus to reduce the rates increase for 2018/19.

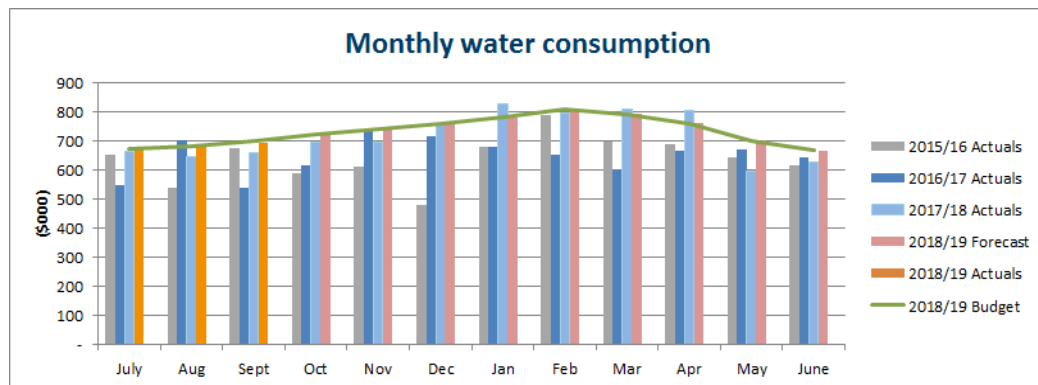
37 The additional net spending is the result of additional insurance costs and key additional projects progressing including the Provincial Growth Fund and Kapiti Airport. These additional forecast costs have been partially offset by additional rates revenue resulting from additional property development finalised in June 2018. The forecast also assumes that the Kapiti Growth Fund and the Kapiti Resilience Fund will not be confirmed 2018/19.

Part E: Water Account Statement

- 38 The Council’s water account since water meters were introduced in 2014 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.

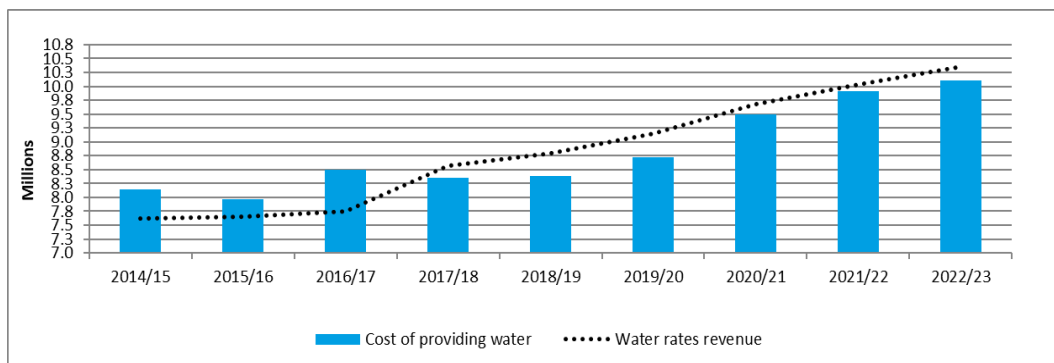
- 39 Water usage is expected to take a number of years to normalise as districtwide water meter charging for all residential properties commenced from July 2014. Therefore, the Council needs to carefully monitor usage trends to best determine what charges are necessary to fully recover the total costs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

- 40 The water account is currently in deficit. The Council plans to gradually increase the annual water supply rates, to a level that recovers the full cost of providing this service across the District within the next five (or more) years. The water account reported a \$1.4 million cumulative deficit at 30 June 2018.



41 The table below outlines the current water account position. From 2018/19 onwards, the anticipated surpluses will help to ensure that the full cost of water is recovered from water rates. The Council water account revenue is expected to fully recover cost over five years (i.e. by 2022/23).

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	Actual	Actual	Actual	Actual	Budget	Budget	Budget	Budget	Budget
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Cost of providing water	8.1	8.0	8.5	8.3	8.4	8.7	9.5	9.9	10.1
Water rates revenue	7.6	7.6	7.8	8.6	8.8	9.2	9.7	10.0	10.4
Annual surplus/(deficit)	(0.5)	(0.3)	(0.7)	0.2	0.4	0.4	0.2	0.1	0.3
Balance of water account	(0.5)	(0.8)	(1.6)	(1.4)	(1.0)	(0.5)	(0.4)	(0.2)	0.0
Variable Price (Including GST)	\$0.95	\$0.99	\$1.04	\$1.09	\$1.14	\$1.19	\$1.24	\$1.29	\$1.32
Fixed Price (Including GST)	\$189	\$190	\$199	\$207	\$215	\$222	\$233	\$236	\$240
Fixed Portion	54%	55%	56%	60%	55%	55%	55%	55%	55%



Part F: Capital Spending Programme

- 42 A summary of the progress of our capital works programme for 2018/19 and forecast for this year are shown by activity against the full year budget in Table 5 below.

Table 5	Actuals Q1 30 Sept 2018	FY Forecast 2018/19	FY Budget 2018/19	FY Variance - under / (over) 2018/19
	\$000	\$000	\$000	\$000
Access and Transport	565	9,155	9,155	-
Coastal Management	115	1,894	1,894	-
Community Facilities and Community Support	120	1,504	1,504	-
Corporate	54	1,122	1,122	-
Economic Development	249	2,553	2,553	-
Governance and Tangata Whenua	9	116	116	-
Parks and Open Spaces	52	2,152	2,152	-
Recreation and Leisure	109	3,684	3,684	-
Regulatory Services	-	20	20	-
Solid Waste	30	586	586	-
Stormwater Management	227	2,556	2,556	-
Wastewater Management	430	2,482	2,482	-
Water Management	234	1,896	1,896	-
Totals	2,194	29,720	29,720	-

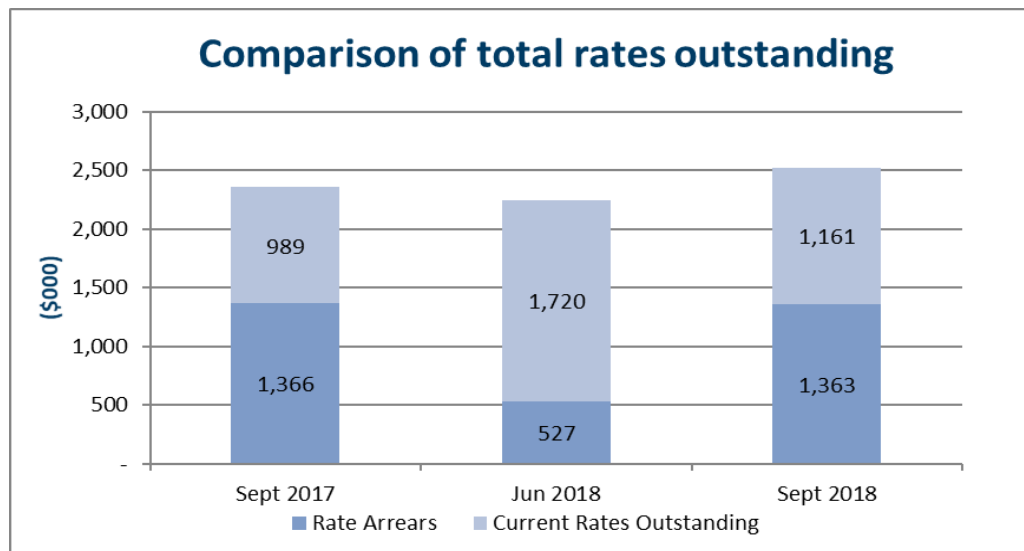
- 43 The capital works program is 7% completed against the budget of \$29.7 million. Note that this budget includes 2017/18 carry-forwards approved by the Council in August.
- 44 The Activity Reports 1 July – 30 September 2018 (SP-18-669) contain more detailed information about the spending variations at the activity level.

Part G: Outstanding Rates Debt as at 30 September 2018

- 45 As part of the bigger picture of continuing to better manage and reduce the Council’s debt we need to ensure that everyone is paying their fair share when it comes to general property rates and water rates.
- 46 Our rates team has always performed a debt collection role when it comes to unpaid rates. Like a number of other councils around the country we are now using the services of a Local Government Shared Services agency, Debt Management Central, to assist our team with collecting outstanding rates debts.
- 47 Debt Management Central is working with the Council and within its rating policies, following the same process our own debt collection staff use. This framework for recovery of unpaid rates is set out in the Local Government Act.
- 48 We expect this assistance, which started in mid-September, to be over the next six to twelve months

Property rates outstanding (Excluding water rates)

- 49 The total property rates outstanding as at 30 September 2018 was \$2.52 million (30 September 2017: \$2.36 million).

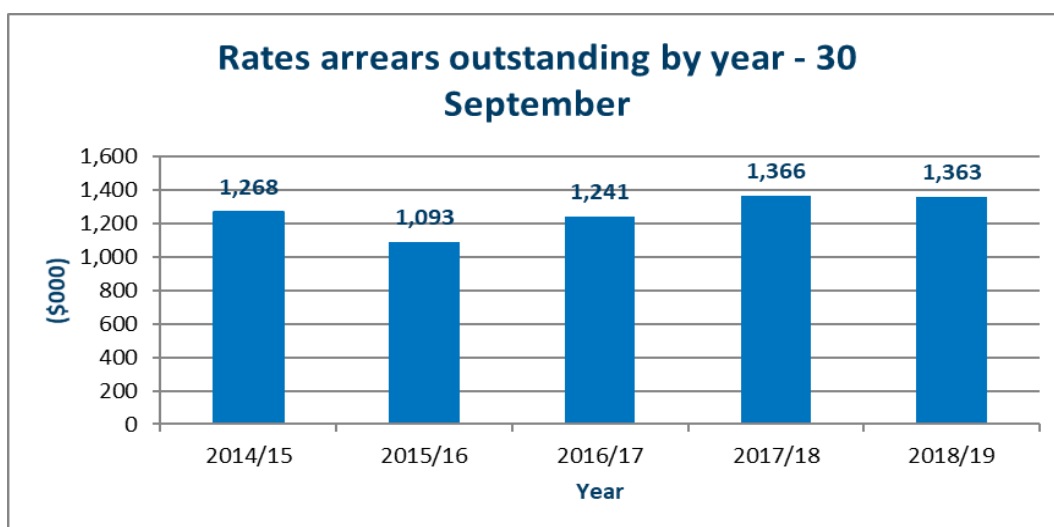


- 50 The Council has collected \$0.938m of rate arrears since 1 July 2018. DMC have worked with ratepayers to firstly set up workable payment arrangements, and have also issued mortgagee notifications where appropriate. This will ensure that an increased level of outstanding rates will be collected over the next year, allowing the Council to reduce its borrowings levels. Mortgagee demands for those who have not entered into arrangements will be collected in the third quarter and is anticipated to reduce the level of outstanding rates arrears by a further \$0.351 million.

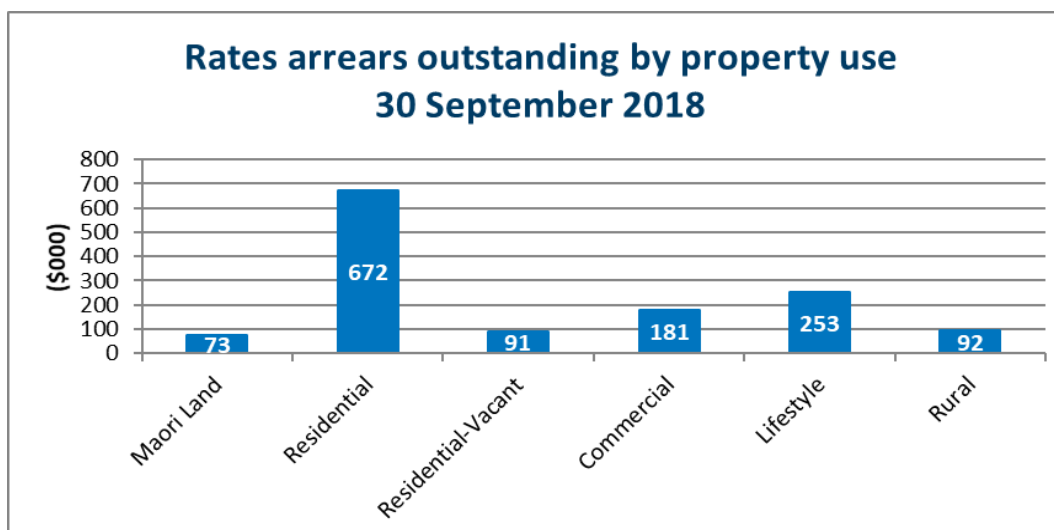
- 51 The Council collects rates on behalf of the Greater Wellington Regional Council. There is \$1.16 million of current rates outstanding as at 30 September 2018 split as follows:

Breakdown of current rates outstanding	Rates	Penalties	Current rates outstanding
	\$000	\$000	\$000
Kāpiti Coast District Council rates	740	248	987
Greater Wellington Regional Council	129	45	173
Total	868	292	1,161

- 52 The graph below shows a comparison of the \$1.363m of rate arrears outstanding as at 30 September 2018 and for the previous 4 years.



- 53 The graph below details the rates arrears of \$1.363m by property use category. The majority of the total rate arrears are from residential properties, followed by lifestyle properties.

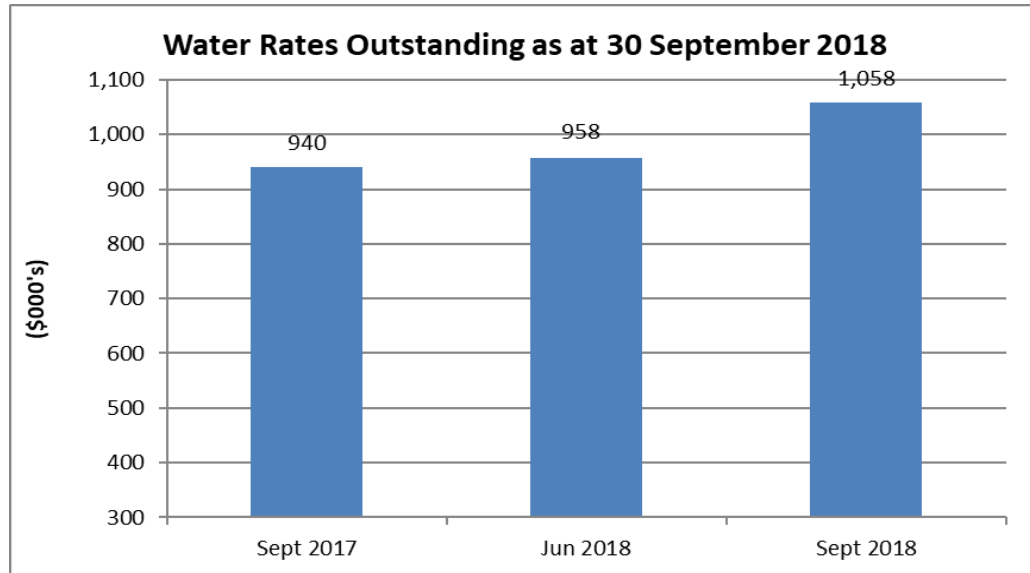


- 54 The rates arrears from Māori freehold land rate is arrears owed to Greater Wellington Regional Council, as well as Kapiti Coast District Council rates charged for the current rating year which have not yet been recommended for remission for the 2018/19 rating year.

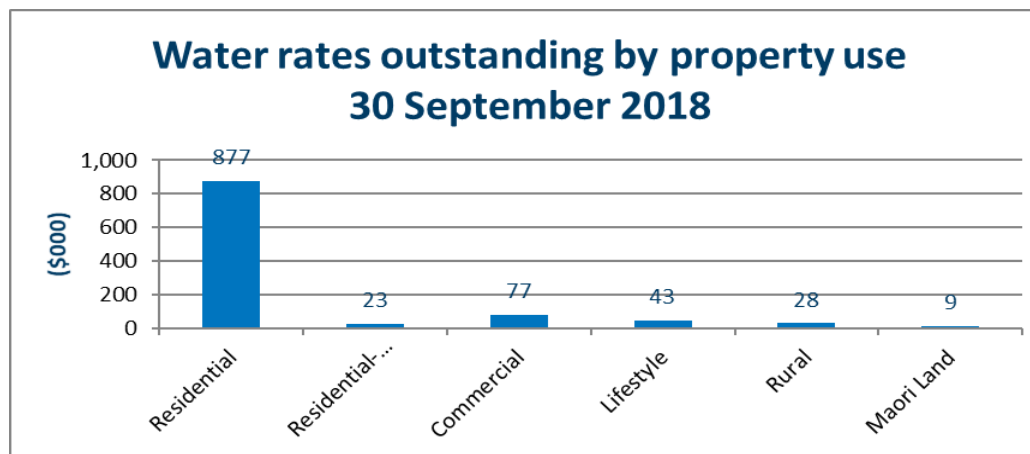
Water rates outstanding

55 A total of \$1.058 million of water rates is outstanding as at 30 September 2018 (\$0.958m as at 30 June 2018).

56 Water rate payments received are first applied to water rate arrears. The chart below reflects the overall water rates debt as at 30 September 2018 compared to 30 September 2018 and 30 September 2017.

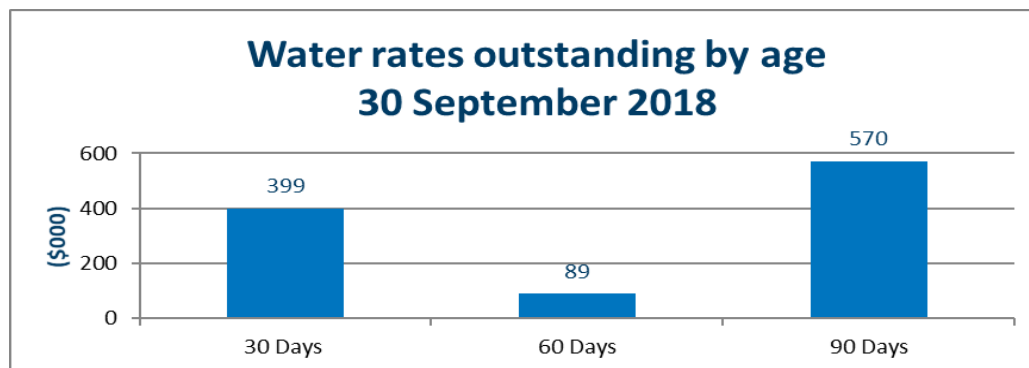


57 The graph below details the total water rates outstanding by property use category. The majority of the outstanding water rates are from residential properties.



58 \$0.558m or 53% of outstanding water rates relate to individual debtor balances of less than \$500.

- 59 The graph below details the ageing of the total water rates outstanding. \$0.570m (30 June 2018: \$0.727m) or 54% of the Council’s outstanding water rates are 90 days or older. The Council has seen a 21% reduction in balances 90 days or older when compared to the prior year as a result of the increased focus on collection.



- 60 Table 7 below details the total rate remissions issued to 30 September 2018 against the full year budget.

Table 7	Actual \$000	Forecast \$000	Budget \$000	Variance \$000
Community properties (Council and private ownership), sporting, recreational and other community organisations	8	112	195	-
Residential rating units containing two separately habitable units	38	83		
Rates Assistance including ongoing financial assistance, temporary financial assistance and water rate remission for vulnerable households	0	200	200	-
Total	46	395	395	-

- 61 Central Government rate rebates of \$663,000 (1,112 properties) have been granted up to 30 September 2018. The Council provides the approved rates rebate (up to \$630 per rateable property) to the successful applicants and recovers the costs directly from the Department of Internal Affairs.
- 62 The Council actively promotes the Government rates rebate and remissions on radio, Facebook and through adverts in the local papers and has begun working with Grey Power and the Older Persons’ Council to look at opportunities to promote remissions and rebates more widely.

Part H: Treasury Management

SUMMARY

- 63 During the past three months, the Council has issued \$5 million of new debt towards prefunding the September 2019 debt maturity. The funds were placed on term deposit at the most favourable market rates.
- 64 The Table below shows the movement in the Council's debt balance for the quarter.

Borrowings	Gross borrowings \$000	Explained by:	
		Pre-funding borrowings	
		TD March 2019 \$000	TD September 2019 \$000
Opening balance 1 July 2018	205,000	30,000	15,000
New Debt issued YTD	5,000	-	5,000
Maturities	-	-	-
Total	210,000	30,000	20,000

- 65 As at 30 September 2018, the Council had \$61.33 million of cash, term deposits and borrower notes. This is broken down as follows:

Term deposits & borrower notes	Prefunding borrowings \$000	Prefunding capex \$000	Borrower notes \$000	Cash \$000	Total cash, term deposits and borrower notes \$000
LGFA debt maturing March 2019	30,000	-	-	-	30,000
LGFA debt maturing September 2019	20,000	-	-	-	20,000
Surplus cash placed on TD for Capital Works Programme maturing October (\$4.5m) and December (\$3.0m)	-	7,500	-	-	7,500
Surplus cash	-	-	-	466	466
Borrower notes held	-	-	3,360	-	3,360
Total	50,000	7,500	3,360	466	61,326

- 66 Since August 2016, the RBNZ has kept the official cash rate (OCR) at 1.75% with no change for the year.
- 67 The Council's weighted average cost of borrowing for the quarter ended 30 September 2018 was 4.54% compared to the budget of 4.8%.

Net debt

68 Net debt is the measure of the 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 the Council’s treasury policy limits.

69 Table 8 below shows the Council’s net debt for the year ended 30 September 2018 against full year budget.

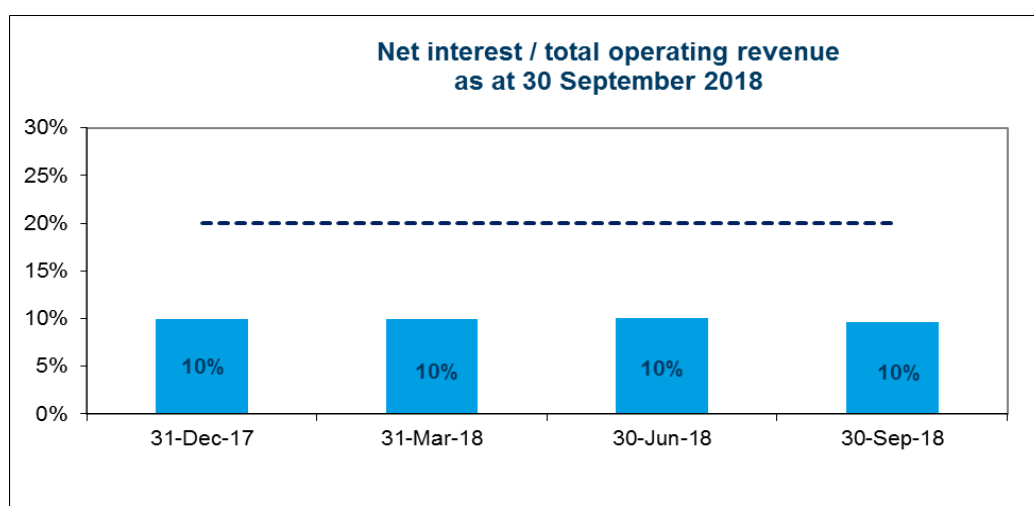
Table 1	Sep YTD Actual \$000's	Full Year Budget \$000's	Full Year Variance \$000's	Full Year 2017/18 \$000's
External debt	210,000	226,175	16,175	205,000
less borrower notes	(3,360)	(3,619)	(259)	(3,280)
less cash investments	(57,966)	(60,000)	(2,034)	(53,552)
Net debt	148,674	162,556	13,882	148,168

70 The Council is targeting through its financial strategy to bring net borrowings below 200% of operating income. As of the end of September 2018, the Council forecasts net borrowings as a share of operating income to be 200.6%.

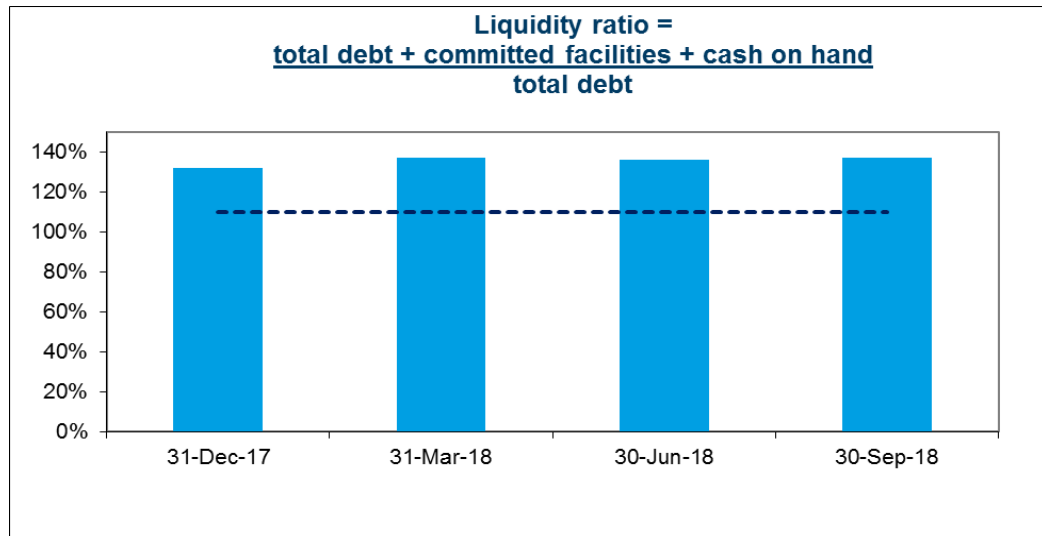
Treasury policy limits

71 The treasury management policy (Policy) contains three financial ratios with either a maximum or minimum policy limit.

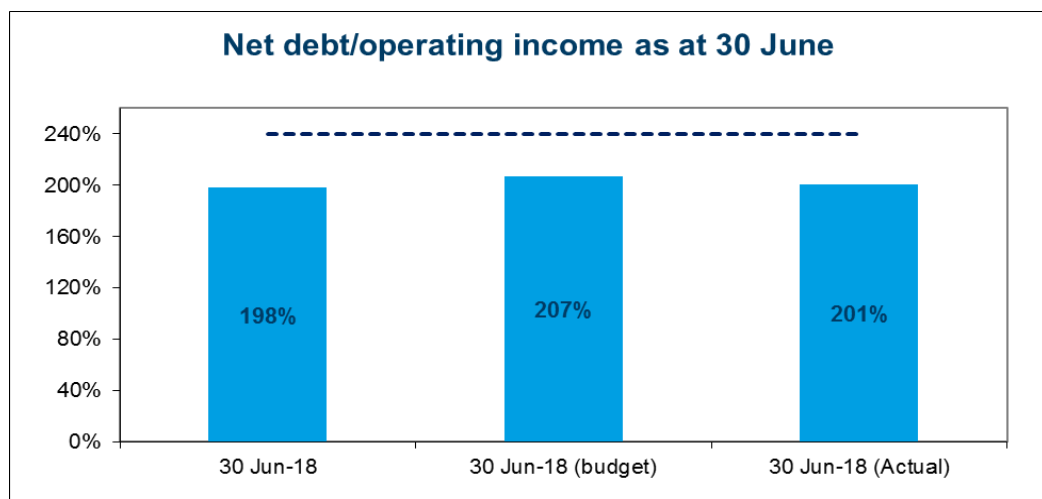
72 The Policy sets the maximum limit for the ratio of net interest expense to total operating revenue of 20%. The chart below shows actual limits achieved for each quarter.



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



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



Part I: Asset Revaluation

- 75 The Council's asset valuations are performed with sufficient regularity to ensure the carrying amounts are maintained at fair value. All valuations are performed by independent qualified valuers.
- 76 By maintaining asset values at fair value, the Council ensures that it best achieves intergenerational equity whereby ratepayers pay their fair share, and only their fair share, of the assets they use and benefit from.
- 77 From 1 July 2015, the Council transitioned to an annual rolling asset revaluation programme as set out below:

Asset classification	Next Revaluation date	Subsequent revaluation
Water, wastewater and stormwater (including seawalls and river control)	30 June 2020	Every two years thereafter
Roading (including land under roads)	30 June 2019	Every two years thereafter
Land and buildings (excluding land under roads revaluations)	30 June 2020	Every three years thereafter
Parks and reserves structures	30 June 2020	Every three years thereafter

- 78 As seen from the table above, the Council's Roding assets (including land under roads) are scheduled to be re-valued in the 2018/19 financial year. This group of assets were previously re-valued in June 2017.
- 79 The Council has again engaged Stantec New Zealand Limited (formerly MWH New Zealand Limited) to perform this revaluation. As with previous valuations, the Council will perform a comprehensive due diligence review of the revaluations provided by independent valuers.
- 80 As changes in the asset values can significantly impact depreciation costs in out years, the Council has requested a draft asset valuation of the Roding assets at 30 November 2018. This will allow staff to best determine the likely asset depreciation cost for the 2019/20 Annual Plan.

CONSIDERATIONS

Financial Consideration

- 81 The financial information as detailed in Parts A to I of this report (Corp-18-648) 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

82 There are no legal considerations arising from this report.

Consultation

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

Policy Implications

84 There are no policy implications arising from this report.

Tāngata Whenua

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

SIGNIFICANCE AND ENGAGEMENT POLICY

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

Publicity Considerations

87 There are no publicity considerations arising from this report.

RECOMMENDATIONS

88 That the Operations and Finance Committee notes the actual financial performance and position of the Council for the year ended 30 September 2018 as contained in this report (Corp-18-648).

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