

Chairperson and Committee Members
OPERATIONS & FINANCE COMMITTEE

21 FEBRUARY 2019

Meeting Status: **Public**

Purpose of Report: For Information

FINANCIAL REPORT TO 31 DECEMBER 2018

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 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 31 December 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 outlines the Council's actual revenue and expenses for the half year ended 31 December 2018, including the budget and forecast for the year ended 30 June 2019.

Table 1	Year to date to 31 Dec 2018			Full Year 2018/19		
	Actual	Budget	Variance	Forecast	Budget	Variance
	\$000	\$000	\$000	\$000	\$000	\$000
Rates	32,093	32,027	66	64,220	64,075	145
Fees and Charges	4,938	4,979	(41)	8,991	9,319	(328)
Grants and Subsidies	1,572	1,959	(387)	6,107	5,691	416
Development and Financial Contributions Revenue	1,192	538	654	1,500	1,076	424
Other Operating Revenue	1,308	228	1,080	13,016	434	12,582
Interest Income	1,071	1,357	(286)	1,974	2,856	(882)
Total Income	42,174	41,088	1,086	95,808	83,451	12,357
Personnel, maintenance & operations	24,871	26,649	1,778	53,225	53,475	250
Depreciation and Amortisation	10,151	10,054	(97)	20,285	20,107	(178)
Finance Expense	4,826	5,102	276	9,507	10,263	756
Total Expenditure	39,848	41,805	1,957	83,017	83,845	828
Operating (Deficit) / Surplus	2,326	(717)	3,043	12,791	(394)	13,185
Revaluation of Property Plant and Equipment	65	-	65	43,367	43,367	-
Unrealised gain/(loss) on revaluation of financial derivatives	(2,017)	-	(2,017)	(2,017)	(478)	(1,539)
Total Other Comprehensive Income and Expenditure	(1,952)	-	(1,952)	41,350	42,889	(1,539)
Net Operating Surplus / (Deficit)	374	(717)	1,091	54,141	42,495	11,646

Financial performance summary

- 7 Council's year to date (YTD) operating surplus of \$2.33 million is \$3.04 million favourable to budget. This comprises of a \$1.09 million favourable revenue variance and a \$1.96 million favourable expenditure variance.
- 8 The operating surplus is forecasted to be \$12.79 million by the end of the financial year, which is \$13.19 million favourable to budget.
- 9 The favourable YTD and forecast variances are mainly due to vesting of assets to Council as a result of subdivision activity and the expressway, more development and financial contributions revenue than planned, and additional rates revenue due to stronger growth in rateable units since the LTP was approved. It is also due to lower levels of operating expenditure for the first half of the year in areas such as personnel, maintenance and general expenses. Please note that the forecast takes into account that the Kapiti Investment Funds are not progressing.

- 10 Overall the council is currently forecasting to meet its budgeted rates deficit of \$75,000. This deficit was funded by a portion of the 2017/18 surplus. While the Council's full year performance is subject to change during the next two quarters, the Council is working hard to ensure that we meet the budget or finish the year with a small rates surplus.
- 11 Council's unrealised loss on revaluation of financial derivatives of \$2.02 million is due to derivative interest rates decreasing since 30 June 2018. 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

12 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.
Year to Date Variance	\$66,000 favourable to budget due to additional rates revenue from 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).
Forecast Variance	\$145,000 favourable to budget due to additional rates revenue as a result of stronger growth.

13 Fees and charges

Description	Fees and charges includes all non-rates revenue earned by the Council for providing services to the Community. This also includes fines and penalties charged.
Year to Date Variance	\$41,000 unfavourable to budget, which is mainly driven by lower regulatory income, including resource consents, health license fees, and parking infringements.
Forecast Variance	\$328,000 unfavourable to budget, which is mainly due to lower regulatory income, including resource consents, health license fees, and parking infringements.

14 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.
Year to Date Variance	\$387,000 unfavourable to budget due to project delivery delays in LED street lighting and Stride and Ride, and as the majority of projects are completed during the summer months.
Forecast Variance	\$416,000 favourable to budget as work has been completed to maximise the funding from NZTA, including increased funding expected for low cost low risk category projects which were previously not funded.

15 **Development and financial contributions**

Description	Financial contributions are levied under the Resource Management Act and cover Reserves Contributions levied on developers at the time of subdivision. 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.
Year to Date Variance	\$654,000 favourable to budget due to higher subdivision activity than planned. This increased development activity has been in Waikanae and Otaki.
Forecast Variance	Expected to be \$424,000 favourable to budget due to increased building and subdivision activity.

16 **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.
Year to Date Variance	\$1.08 million favourable to budget due to assets vested to the Council as part of the subdivision process. These mainly relate to Otaki and Waikanae.
Forecast Variance	Forecasted to be \$12.61 million favourable to budget, due to the vesting of roading assets (roads and land under roads) from NZTA as result of the connector roads for the new Expressway. These roads include Peka Peka, Hadfield, and Te Kowhai link roads.

17 **Interest income**

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.
Year to Date Variance	\$286,000 unfavourable to budget which is mainly due to the Council's decision to not progress further with the Kapiti investment funds.
Forecast Variance	\$882,000 unfavourable to budget due to the Council's decision to not progress further with the Kapiti investment funds. Interest expense will also be lower due to this decision.

Expenditure performance - commentary**18 Personnel, maintenance & operations**

Description	Includes personnel expenses, maintenance, business-as-usual Council operating expenses, internal recoveries, grants and other sundry expenses.
Year to Date Variance	<p>\$1.78 million favourable to budget due to lower levels of expenditure in the first half of the year in the following areas:</p> <p>Personnel \$580,000 – due to staffing vacancies across the organisation, partially offset by fixed term and other external resources used to backfill the positions.</p> <p>Maintenance and operations \$1.2 million – due to lower spending on:</p> <ul style="list-style-type: none"> • planned earnings from the Kapiti Investment funds due to the Council decision in January to not progress further with the Kapiti Investment Funds. • Iwi Management Plan, District Plan, Environmental Management and enforcement and in waste and travel safety plans. • overall maintenance including ICT, Stormwater & Coastal and transfer stations.
Forecast Variance	\$250,000 favourable to budget which is primarily due to the Council decision in January to not progress further with the Kapiti Investment Funds.

19 Depreciation and amortisation

Description	Depreciation is the amortisation of the cost of property, plant and equipment and intangible assets currently owned by the Council.
Year to Date Variance	\$97,000 unfavourable to budget due to the final 2017/18 revaluation inflationary changes resulting in higher water asset values. These higher values give rise to increased depreciation expense.
Forecast Variance	\$178,000 unfavourable to budget due to the three waters asset revaluations being more than expected.

20 Finance expense

Description	Interest expense is incurred on borrowings.
Year to Date Variance	\$270,000 favourable to budget because Council resolved to not progress further with the Kapiti Investment funds.
Forecast Variance	\$746,000 favourable to budget because Council resolved to not progress further with the Kapiti Investment funds.

Items reported below the line - commentary21 **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 31 December 2018 is treated as either an unrealised gain (fair value has decreased) or an unrealised loss (fair value has increased).
Year to Date Variance	\$2.02 million unfavourable to budget because swap rates are lower compared to opening rates at 1 July 2018. (See Part H: Treasury Management).
Forecast Variance	Given the volatility of the financial markets, the full year forecast will always be aligned to the actual year to date fair value of the committed swap portfolio.

Part B: Statement of Financial Position

- 22 The Council's financial position as at 31 December 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	2,959	200	200	-
Trade and other receivables	7,750	8,062	8,062	-
Inventories	140	116	116	-
Property, plant and equipment	1,641,540	1,707,211	1,694,609	12,602
Forestry assets	109	109	429	(320)
Intangible assets	830	2,583	2,583	-
Other financial assets	71,656	53,496	63,755	(10,259)
Loans	500	466	466	-
Total assets	1,725,484	1,772,243	1,770,220	2,023
Liabilities				
Trade and other payables	11,413	19,894	19,894	-
Employee benefit liabilities	1,924	2,778	2,778	-
Deposits	1,520	820	820	-
Borrowings	222,491	210,000	226,175	16,175
Provisions	3,967	4,183	4,183	-
Derivative financial instruments	15,233	15,233	11,392	(3,841)
Total liabilities	256,548	252,908	265,242	12,334
Public equity				
Accumulated funds	570,661	579,473	565,116	14,357
Reserves and special funds	4,159	3,021	3,021	-
Revaluation reserve	894,116	936,841	936,841	-
Total equity	1,468,936	1,519,335	1,504,978	14,357
Total liabilities and equity	1,725,484	1,772,243	1,770,220	(2,023)

Year to date Summary

- 23 The Council's only material changes to its financial position since 30 June 2018 were in respect to other financial assets and gross borrowings.
- 24 \$10 million of new debt was issued during the quarter, bringing the total amount of new debt acquired in the past six months to \$15 million. The full amount was placed on fixed term deposit as part of Council's prefunding programme. (see part H: Treasury management).
- 25 In addition to the \$15 million mentioned above, \$7.5 million of surplus cash was placed on short term deposit, maturing June 2019, for payment towards the 2018/19 capital works programme. (see part H: Treasury management).

Full year forecast Summary

- 26 Property, plant and equipment are forecast to be \$12.6 million favourable to year-end budget. This is mainly due to the vesting of \$12.6 million of roading assets (roads and land under roads) from NZTA as result of the new expressway.
- 27 Net borrowings are forecast to be \$6.2 million favourable to budget at year-end. This is mainly due to lower capital spending and increased development contributions and capital grants.
- 28 Other financial assets are forecast to be \$10.3 million unfavourable to budget at year-end. This variance is due to the reasons mentioned in point 27 above, i.e. Council not progressing with in the Kapiti Investment Funds (\$20 million), offset by the projected increase in prefunding (\$10 million).

Part C: Statement of Cash Flows

29 The Council's cash flow for the half year ended 31 December 2018 and full year forecast 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	32,856	64,116	64,075	41
Greater Wellington Regional Council Rates	6,231	-	-	-
Grants and subsidies - operating	882	1,815	1,701	114
Interest received	126	2,217	2,799	(582)
Charges and fees	7,336	11,103	10,828	275
GST (net)	(230)	206	206	-
	47,201	79,457	79,609	(152)
<i>Cash was applied to:</i>				
Payments to employees and suppliers	30,199	51,066	53,589	(2,523)
Rates paid to Greater Wellington Regional Council	6,231	-	-	-
	36,430	51,066	53,589	(2,523)
Net cash flows from operating activities	10,771	28,391	26,020	2,371
Cash flows from investing activities				
<i>Cash was provided from:</i>				
Loan repayment/Term deposit maturities	7,527	45,550	30,631	14,919
Proceeds from sale of property, plant and equipment	21	-	-	-
Proceeds from capital grants	690	4,300	3,990	310
	8,238	49,850	34,621	15,229
<i>Cash was applied to:</i>				
Construction and purchase of property, plant and equipment and intangibles	6,610	27,939	29,439	(1,500)
Purchase of investments	26,240	46,000	30,000	16,000
	32,850	73,939	59,439	14,500
Net cash flows from investing activities	(24,612)	(24,089)	(24,818)	729
Cash flows from financing activities				
<i>Cash was provided from:</i>				
Short-term borrowings	17,366	-	-	-
Long-term borrowings	15,000	35,000	38,856	(3,856)
	32,366	35,000	38,856	(3,856)
<i>Cash was applied to:</i>				
Interest on borrowings	4,743	9,302	10,058	(756)
Short-term borrowings	14,875	-	-	-
Long-term borrowings	-	30,000	30,000	-
	19,618	39,302	40,058	(756)
Net cash flows from financing activities	12,748	(4,302)	(1,202)	(3,100)
Net increase/(decrease) in cash and cash equivalents	(1,093)	-	-	-
Add total cash and cash equivalents at 1 July 2016	4,052	200	200	-
Total cash and cash equivalents	2,959	200	200	-

Year to date Summary

- 30 Council's cash on hand at 31 December 2018 was \$2.96 million. This is higher due to Council drawing down \$2.5 million of short term funding at the end of December to cover working capital requirements for the first two weeks of January. In addition to this, NZTA paid their subsidy claim for November of \$513,000, earlier than expected, on the last day of December.
- 31 The Council's material changes to its cash flow management for the period ended 31 December 2018 were:
- 31.1 \$15 million of new long term debt was issued during the period;
 - 31.2 \$26 million of funds were placed on fixed term deposit (\$15 million new debt and \$11 million surplus cash);
 - 31.3 \$7.5 million of surplus cash that was placed on fixed deposit matured during the past six months; and
 - 31.4 \$6.6 million was paid in relation to the Council's capital expenditure programme.

Full year forecast Summary

- 32 \$30 million of long term debt is maturing March 2019. This amount has been fully prefunded and will be repaid from funds held on term deposit.

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 31 December 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	2,326	12,791	(394)
Adjusted by income and expenditure not funded by rates:			
Net Expenditure funded by reserves and special funds	(10)	120	58
Capital funding and vesting of assets	(2,666)	(16,854)	(3,607)
Revaluation of Council's assets	-	-	-
Unfunded Depreciation	1,934	3,868	3,868
Underlying net rates surplus/(deficit)	1,584	(75)	(75)
Represented by:			
Net underspend across the organisation	1,584	(75)	(75)
Rates surplus / (deficit)	1,584	(75)	(75)

35 The year to date rates surplus of \$1.58 million is mainly due to lower levels of operating expenditure than planned (in areas such as personnel, maintenance and general expenses), and additional rates revenue due to growth in rateable units since the LTP was approved.

36 Overall the council is currently forecasting to meet its budgeted rates deficit of \$75,000. This deficit was funded by a portion of the 2017/18 surplus. While the Council's full year performance is subject to change during the next two quarters, the Council is working hard to ensure that we meet the budget or finish the year with a small rates surplus.

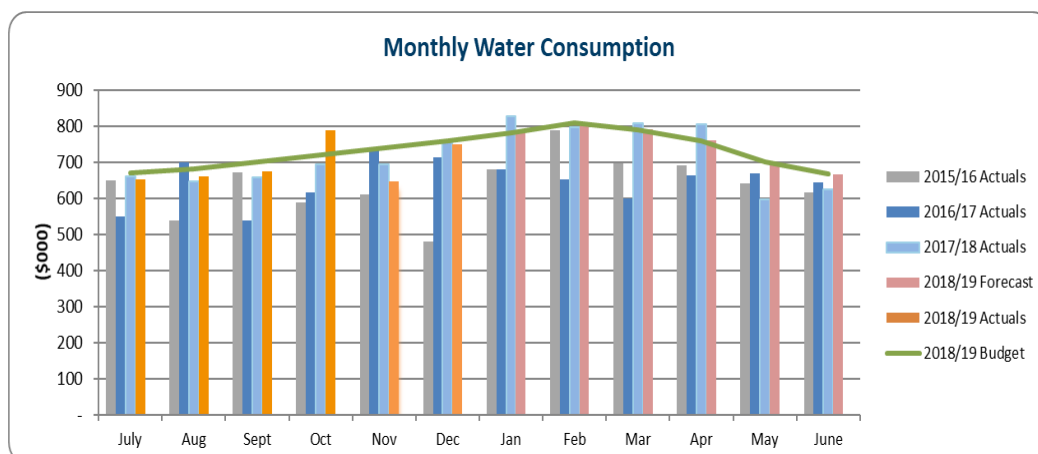
Part E: Water Account Statement

- 37 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.

- 38 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.

- 39 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.

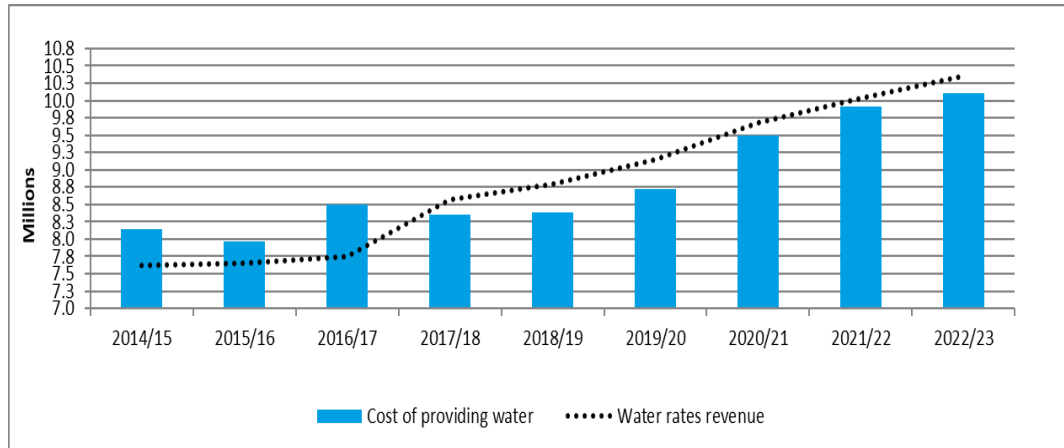
- 40 Council water revenue is currently forecasted to cover expenditure for the 2018/19 financial year.



- 41 The table below outlines the 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 water account deficit is expected to be nil by 30 June 2023.

	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%

- 42 The chart below outlines the cost of providing water services each year, compared with the water rates revenue received. The overall approach by Council is to gradually increase the water rates revenue to ensure that the full cost of providing water services is recovered by 2023.



Part F: Capital Spending Programme

- 43 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 31 Dec 2018	FY Forecast 2018/19	FY Budget 2018/19	FY Variance - under / (over) 2018/19
	\$000	\$000	\$000	\$000
Access and Transport	1,460	9,166	9,155	(11)
Coastal Management	407	1,891	1,894	3
Community Facilities and Community Support	358	2,202	1,504	(698)
Corporate	287	1,122	1,122	-
Economic Development	464	2,553	2,553	-
Governance and Tangata Whenua	11	116	116	-
Parks and Open Spaces	236	1,909	2,152	243
Recreation and Leisure	425	2,950	3,684	734
Regulatory Services	10	35	20	(15)
Solid Waste	58	586	586	-
Stormwater Management	579	2,556	2,556	-
Wastewater Management	698	1,712	2,482	770
Water Management	534	1,260	1,896	636
Totals	5,527	28,058	29,720	1,662

- 44 The capital works program is 19% completed against the budget of \$29.7 million. Note that this budget includes 2017/18 carry-forwards approved by the Council in August.

- 45 The explanation for significant forecast variances in the 2018/19 capital works programme are outlined below:

Activity	Forecast Variance	Summary Explanation
Community Facilities and Community Support	(\$698,000)	This includes expenditure for Otaki rivermouth toilets \$44k, Districtwide Housing renewals \$204k and Paraparaumu College Sportshall renewal \$293k.
Recreation and Leisure	\$734,000	Waikanae Library building capital budget will not be spent this financial year as analysis is being completed on solutions for providing library services into the future.
Wastewater Management	\$770,000	Waikanae Duplicate Rising Main \$731k due to resource consent delays.
Water Management	\$636,00	This is due to delays due to the set-up of the professional services panel for Waikanae Stage 2. Because there is budget provided in 2019/20 this funding will be carried forward to 2020/21.

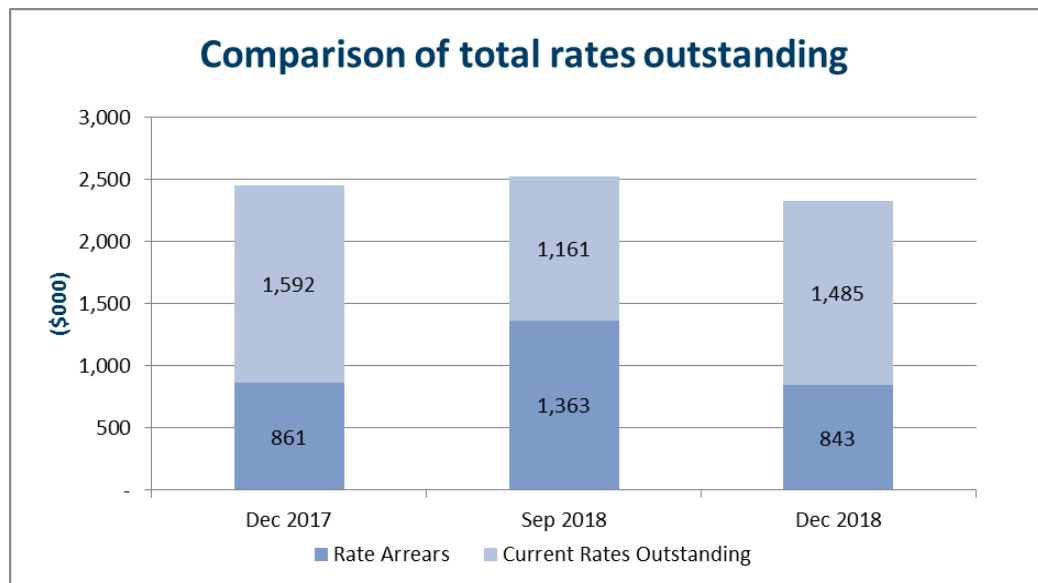
- 46 The Activity Reports 1 October – December 2018 (Corp-19-729) contain more detailed information about the spending variations at the activity level.

Part G: Outstanding Rates Debt as at 31 December 2018

- 47 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.
- 48 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.
- 49 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 (Rating) Act 2002.
- 50 We expect this assistance, which started in mid-September, to be over six to twelve months.

Property rates outstanding (Excluding water rates)

- 51 The total property rates outstanding as at 31 December 2018 was \$2.32 million (31 December 2017: \$2.45 million).

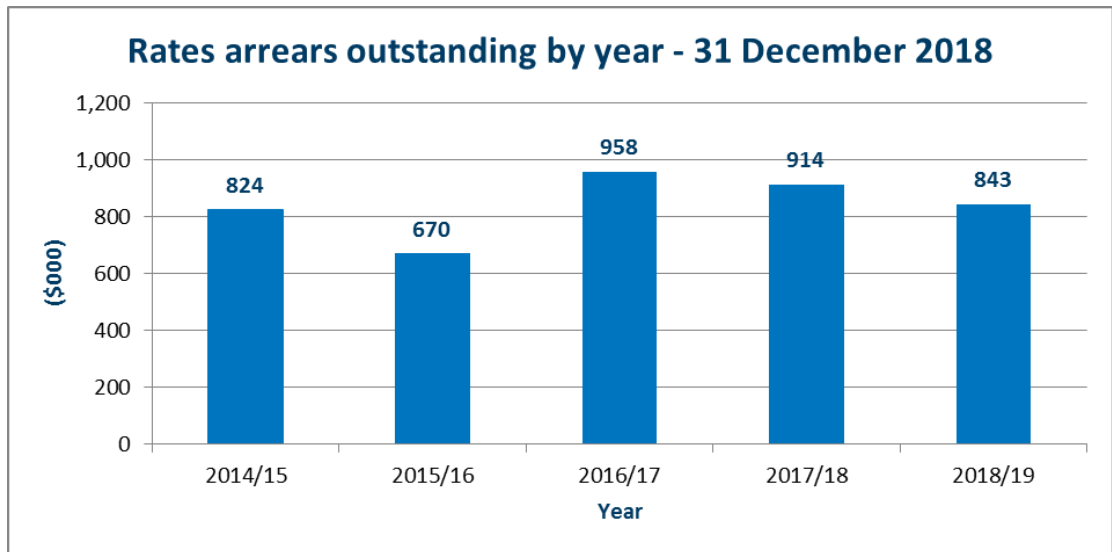


- 52 The Council has collected \$1.46 million of rate arrears since 1 July 2018. DMC have worked with ratepayers to firstly set up workable payment arrangements, and have also issued mortgagee notifications where appropriate. This will ensure that an increased level of outstanding rates will be collected 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 \$152,000.

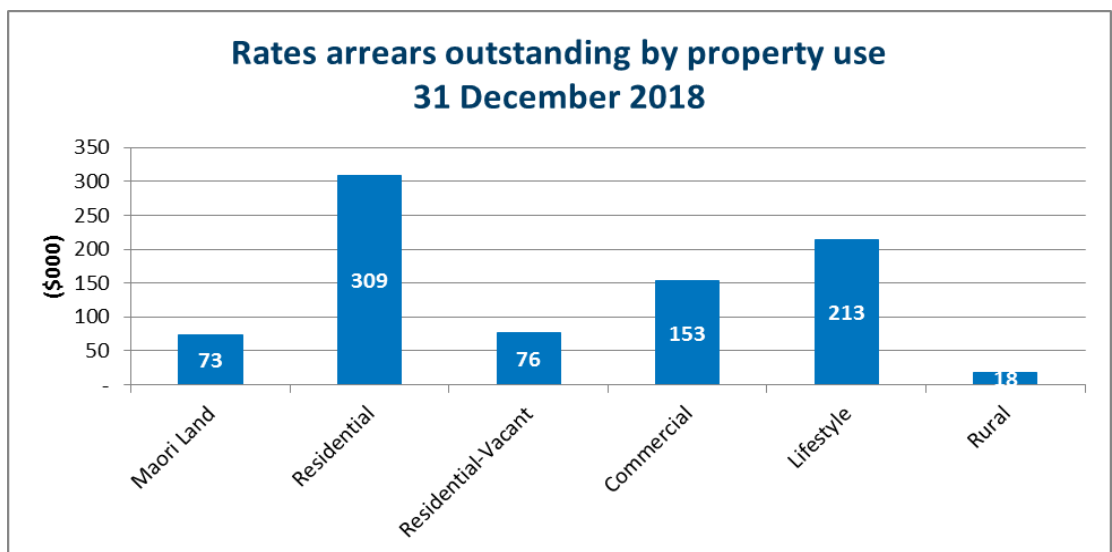
- 53 The Council collects rates on behalf of the Greater Wellington Regional Council. There is \$1.49 million of current rates outstanding as at 31 December 2018 split as follows:

Breakdown of current rates outstanding	Rates	Penalties	Current rates outstanding
	\$000	\$000	\$000
Kāpiti Coast District Council rates	998	266	1,264
Greater Wellington Regional Council	173	47	220
Total	1,171	314	1,485

- 54 The graph below shows a comparison of the \$843,000 of rate arrears outstanding as at 31 December 2018 and for the previous 4 years.



- 55 The graph below details the rates arrears of \$843,000 by property use category. The majority of the total rate arrears are from residential properties, followed by lifestyle properties.

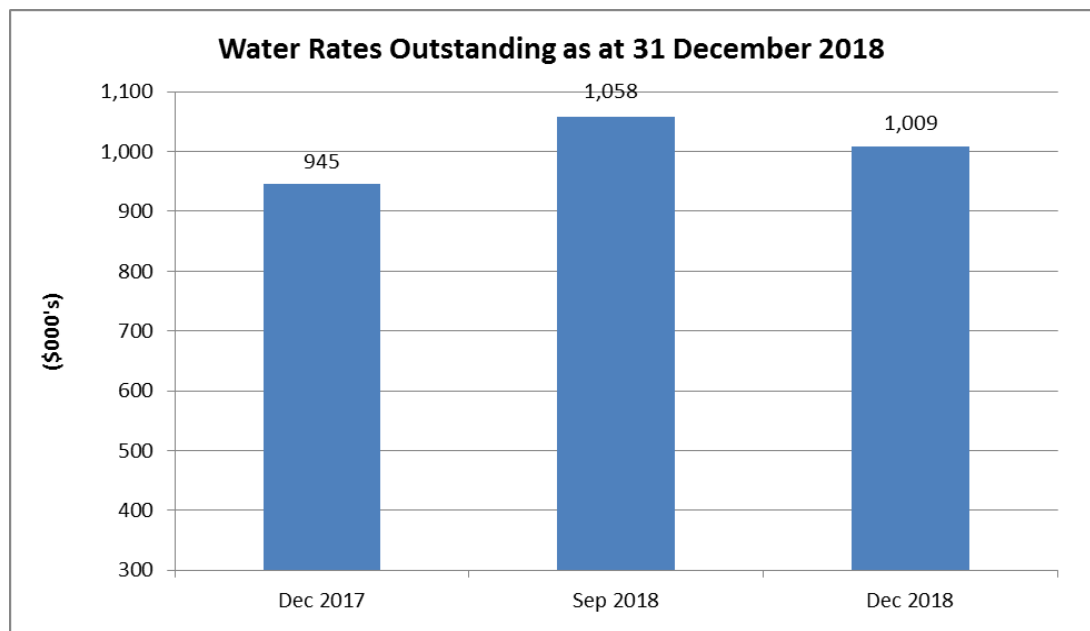


56 The rates arrears from Māori freehold land rate is arrears owed to Greater Wellington Regional Council, as well as Kapiti Coast District Council rates charged for the current rating year which have not yet been recommended for remission for the 2018/19 rating year.

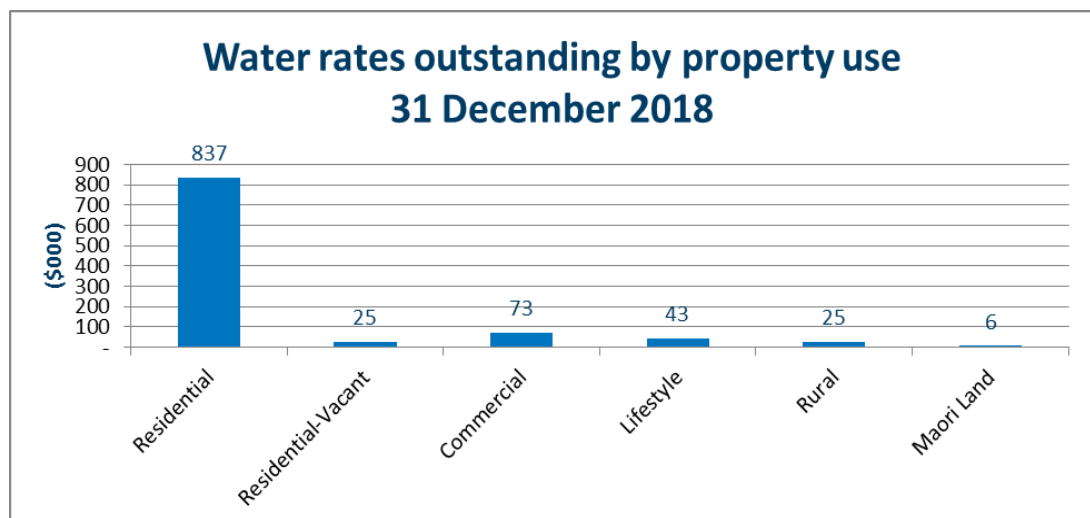
Water rates outstanding

57 A total of \$1.01 million of water rates is outstanding as at 31 December 2018 (\$1.06 million as at 30 September 2018).

58 Water rate payments received are first applied to water rate arrears. The chart below reflects the overall water rates debt as at 31 December 2018, 30 September 2018 and 31 December 2017;

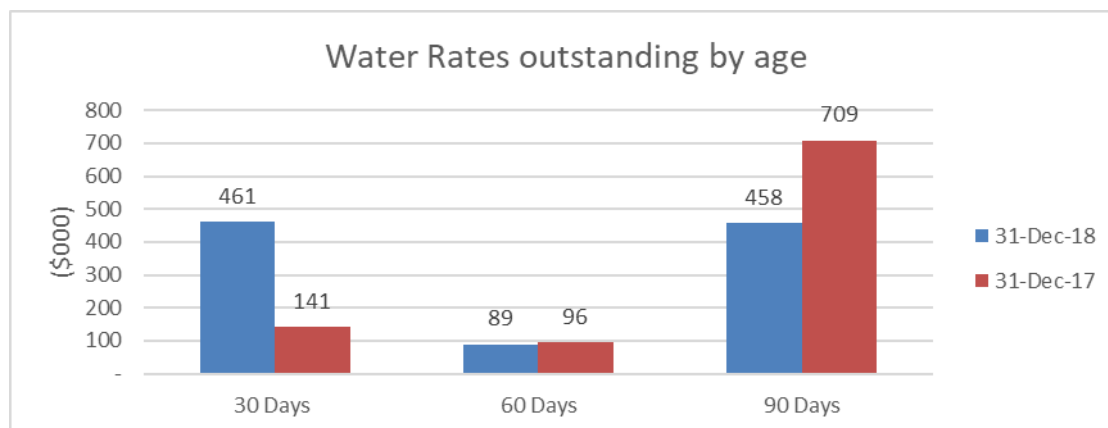


59 The graph below details the total water rates outstanding by property use category. The majority of the outstanding water rates are from residential properties.



60 \$664,000 or 66% of outstanding water rates relate to individual debtor balances of less than \$500.

- 61 The graph below details the ageing of the total water rates outstanding. \$458,000 (31 December 2018: \$709,000) or 45% of the Council’s outstanding water rates are 90 days or older. The Council has seen a 35% reduction in balances 90 days or older when compared to the prior year as a result of the increased focus on collection. 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 water rates arrears by a further \$124,000.



- 62 Table 7 below details the total rate remissions issued to 31 December 2018 against the full year budget. Applications for Rates Assistance were posted to eligible property owners in December 2018 and are expected to be processed in Q3 2019.

Table 7	Actual \$000	Forecast \$000	Budget \$000	Variance \$000
Community properties (Council and private ownership), sporting, recreational and other community organisations	15	112	195	-
Residential rating units containing two separately habitable units	53	83		
Rates Assistance including ongoing financial assistance, temporary financial assistance and water rate remission for vulnerable households	-	200	200	-
Total	69	395	395	-

- 63 Central Government rate rebates of \$1.048 million (1,789 properties) have been granted up to 31 December 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.
- 64 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

- 65 During the past quarter, the Council has issued \$10 million of new debt towards prefunding the April 2020 debt maturity, bringing the total amount of new debt acquired during the past six months to \$15 million. The funds were placed on term deposit as part of Council's prefunding programme, at the most favourable rates available in the market.
- 66 The Table below shows the movement in the Council's debt balance for the past six months.

Borrowings	Gross borrowings \$000	Explained by:			
		Pre-funding borrowings			Short term funding
		TD March 2019 \$000	TD September \$000	TD April 2020 \$000	Commercial Paper \$000
Opening balance 1 July 2018	205,000	30,000	15,000		
New Long term debt issued YTD	15,000	-	5,000	10,000	
Short term working capital funding	2,491	-	-	-	2,491
Total	222,491	30,000	20,000	10,000	2,491

- 67 \$30 million of long term debt is maturing March 2019. As seen from the table above this amount has been fully funded through our prefunding programme and will be repaid from term deposits maturing on the day.
- 68 As at 31 December 2018, the Council had \$74.48 million of cash, term deposits and borrower notes on hand. 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
LGFA debt maturing April 2020	10,000	-	-	-	10,000
Surplus cash placed on TD for Capital Works Programme maturing June 2019	-	8,000	-	-	8,000
Surplus cash	-	-	-	2,959	2,959
Borrower notes held	-	-	3,520	-	3,520
Total	60,000	8,000	3,520	2,959	74,479

- 69 Since August 2016, the RBNZ has kept the official cash rate (OCR) at 1.75% with no change for the year.
- 70 The Council's weighted average cost of borrowing for the quarter ended 31 December 2018 was 4.49% compared to the budget of 4.8%.

Net debt

71 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.

72 Table 8 below shows the Council’s net debt as at 31 December 2018 against full year forecast and budget.

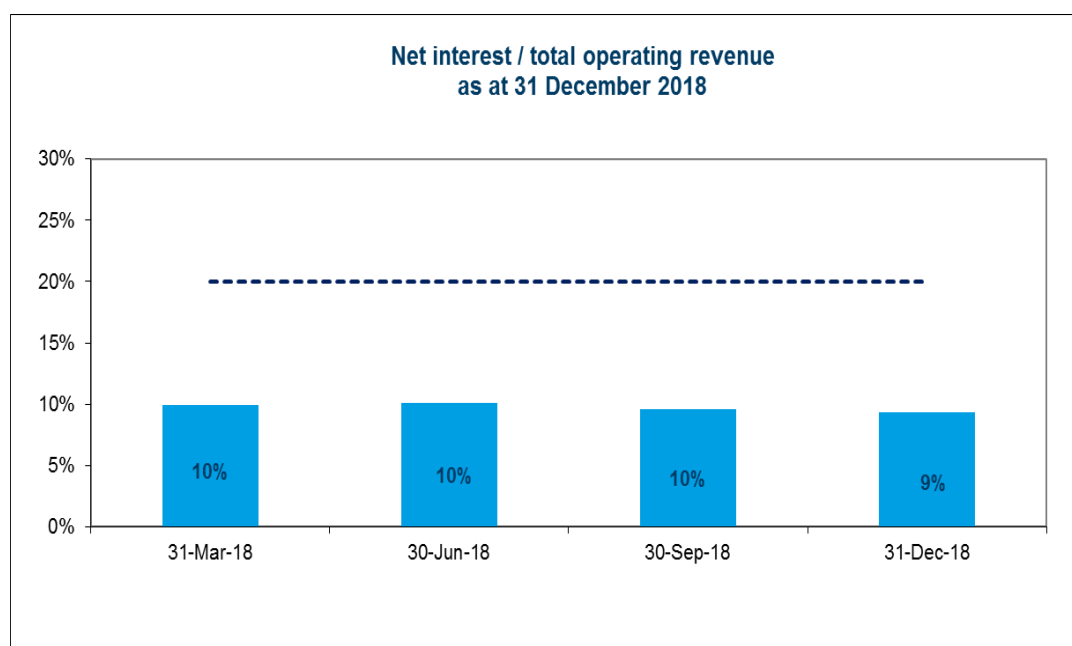
Table 1	Dec YTD Actual	Full Year Forecast	Full Year Budget	Full Year Variance
	\$000's	\$000's	\$000's	\$000's
External debt	222,491	210,000	226,175	(16,175)
less borrower notes	(3,520)	(3,360)	(3,619)	259
less cash investments	(70,959)	(50,200)	(60,000)	9,800
Net debt	148,012	156,440	162,556	(6,116)

73 The Council is targeting through its financial strategy to bring net borrowings below 200% of operating income. The Council is currently forecasting net borrowings as a share of operating income to be 198% at the end of June 2019.

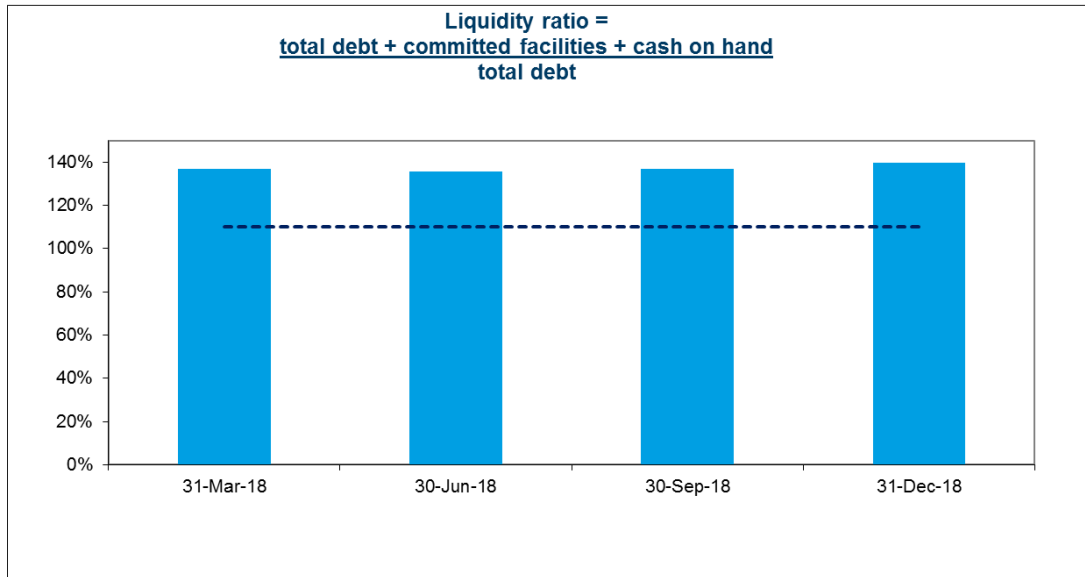
Treasury policy limits

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

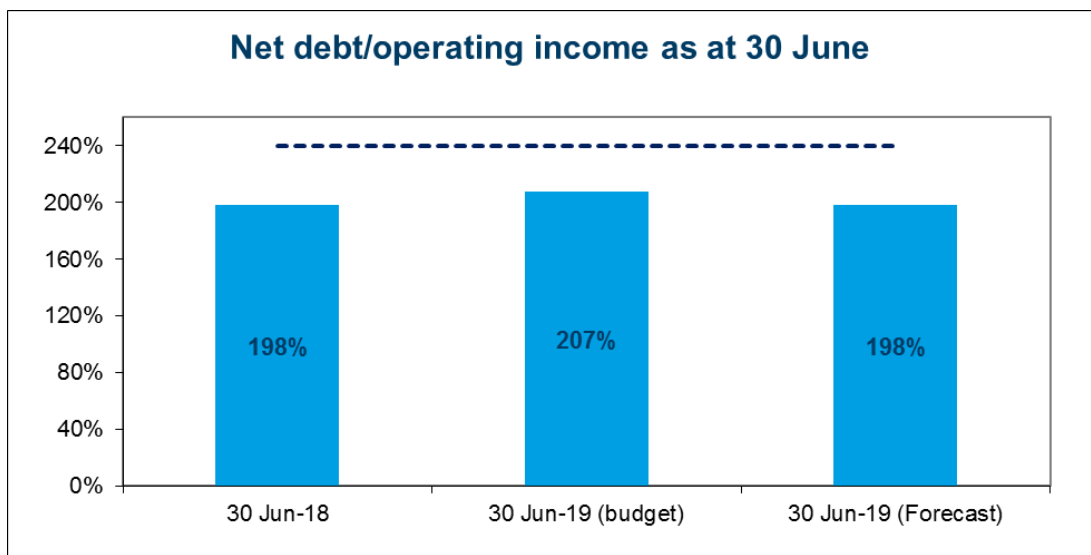
75 The Policy sets the maximum limit for the ratio of net interest expense to total operating revenue of 20%. The chart below shows actual limits achieved for each quarter.



76 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.



77 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

- 78 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.
- 79 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.
- 80 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 (excluding land under roads)	30 June 2019	Every two years thereafter
Land and buildings (including land under roads revaluation)	30 June 2020	Every three years thereafter
Parks and reserves structures	30 June 2020	Every three years thereafter

- 81 As seen from the table above, the Council's Roding assets (excluding 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.
- 82 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.
- 83 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 31 January 2019.
- 84 We are currently finalising our due diligence on the draft January revaluation. Based on the impacts of the draft results, an additional \$163,808 of depreciation has been forecast to what was assumed in the 2019/20 LTP. This is due to the significant level of assets vested to the Council this year for subdivisions and local link roads associated with the expressway. The additional depreciation has been included in the 2019/20 Draft Annual Plan.
- 85 The annual report accounting policy relating to the revaluation of Council assets for the 2018/19 year programme included land under roads together with all other roading assets.
- 86 To be consistent with Councils other asset classes of land and buildings, we have elected to revalue land under roads at the same time in 30 June 2020.

CONSIDERATIONS

Financial Consideration

87 The financial information as detailed in Parts A to I of this report (Corp-19-707) 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

88 There are no legal considerations arising from this report.

Consultation

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

Policy Implications

90 There are no policy implications arising from this report.

Tāngata Whenua

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

SIGNIFICANCE AND ENGAGEMENT POLICY

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

Publicity Considerations

93 There are no publicity considerations arising from this report.

RECOMMENDATIONS

94 That the Operations and Finance Committee notes the actual financial performance and position of the Council for the year ended 31 December 2018 as contained in this report (Corp-19-707).

Report prepared by:

Jacinta Straker
Chief Financial Officer

Approved for Submission:

Mark De Haast
Group Manager
Corporate Services

Approved for Submission:

Sean Mallon
Group Manager
Infrastructure Services