

Chairperson and Committee Members
CORPORATE BUSINESS COMMITTEE

19 FEBRUARY 2015

Meeting Status: **Public**

Purpose of Report: For Information

FINANCIAL REPORT TO 31 DECEMBER 2014

PURPOSE OF REPORT

- 1 This report sets out Council's financial performance and financial position for the six months ended 31 December 2014. Financial exceptions are noted in the report together with explanations for any significant variations from the 2014/15 Annual Plan.

DELEGATION

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

Financial and Asset Management

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

BACKGROUND

- 3 Council is provided with information on seven broad areas of financial performance each quarter. The seven broad areas of financial performance are:

Part A: Statement of Comprehensive Revenue and Expense

Part B: Statement of Financial Position

Part C: Statement of Cash Flow

Part D: Statement of Rating Position

Part E: Capital Works Programme Performance

Part F: Outstanding Rates Debt as at 31 December 2014

Part G: Statement of Performance against Treasury Policy Limits

Full explanations are provided under each part.

Part A: Statement of Comprehensive Revenue and Expense

- 4 The Statement of Comprehensive Revenue and Expense covers all of Council's revenue and expenditure. The net position of revenue less expenditure provides the operating surplus or deficit for the period.
- 5 Table 1 summarises Council's Statement of Comprehensive Revenue and Expense for the six months ended 31 December 2014.

Table 1	2014/15 Year to Date Actual \$000	2014/15 Year to Date Annual Plan \$000	2014/15 Year to Date Variance \$000	2014/15 Full Year Forecast \$000	2014/15 Full Year Annual Plan \$000	2014/15 Full Year Variance \$000
Revenue						
Rates	22,483	22,391	92	44,782	44,782	-
Water Rates	3,429	3,484	(55)	7,605	7,742	(137)
Fees and Charges	4,222	4,322	(100)	8,643	8,643	-
Grants and Subsidies	1,407	1,238	169	2,476	2,476	-
Development and Financial Contributions	76	594	(518)	76	1,188	(1,112)
Interest Income	107	304	(197)	150	608	(458)
Other Operating Revenue	784	321	463	1,172	642	530
Revenue	32,508	32,654	(146)	64,904	66,081	(1,177)
Expenses						
Depreciation and Amortisation	7,591	7,935	344	15,479	15,869	390
Finance Expense	3,860	3,950	90	7,715	7,899	184
Other Operating Expense	21,151	22,575	1,424	44,950	45,150	200
Expense	32,602	34,459	1,857	68,144	68,918	774
OPERATING SURPLUS/(DEFICIT)	(94)	(1,805)	1,711	(3,240)	(2,837)	(403)
Other Comprehensive Revenue & Expense						
Unrealised Loss on Revaluation of Derivatives	3,527	-	(3,527)	6,500	-	(6,500)
Other Comprehensive Expense	3,527	-	(3,527)	6,500	-	(6,500)
TOTAL COMPREHENSIVE REVENUE AND EXPENSE	(3,621)	(1,805)	(1,816)	(9,740)	(2,837)	(6,903)

Financial Performance Summary

Half-Year Performance

- 6 Excluding Council's unrealised loss on revaluation of financial derivatives, Council's half year performance is \$1.71 million favourable to budget. This is mainly due to underspends of \$1.42 million in other operating expenditure due to small underspends across a large number of expenses (e.g. consultants, contractors, legal and maintenance).
- 7 Council's unrealised loss of \$3.53 million on financial derivatives is due to cheaper financial derivatives currently available on the open market, driven mainly by low levels of domestic inflation, low economic growth and falling dairy prices. Council does not budget for gains or losses on financial derivatives due to the unpredictability and volatility of the financial markets.

Forecast Full Year Performance

- 8 Excluding Councils unrealised loss on revaluation of financial derivatives, Council is forecasting to be \$0.4 million unfavourable to budget at year end. This is mainly due to \$1.11 million less revenue anticipated from development contributions offset by \$0.39 million less expenditure on depreciation due extension of depreciable lives of certain assets subsequent to Council's 2013/14 asset revaluations.
- 9 Including financial derivative revaluations, Council is forecasting to be \$6.9 million unfavourable to budget at year end.

Explanation of Revenue Variances10 **Water Rates**

Brief Description:	This includes Council's targeted water rates, including fixed and volumetric water supply charges and the Hautere /Te Horo water supply charges that were set for the 2014/15 financial year. Total water rates recognised are net of rates remissions, late payment penalties and GST.
Year to date Variance:	\$0.05 million unfavourable to budget.
Forecast Full Year Variance:	Water rates are forecast to be \$0.14 million unfavourable to budget at year end The main reason is due to the phase-in period at the beginning of July, which is a one-off factor.

11 **Grants and Subsidies**

Brief Description:	This includes mainly income received from both operating and capital funding subsidies from the New Zealand Transport Agency (NZTA) and other miscellaneous grants.
Year to date Variance:	\$0.17 million favourable to budget mainly due to receiving higher NZTA capital subsidies for additional capital expenditure to Kapiti Road and Council received an unbudgeted grant of \$0.07 million from the Paraparaumu Memorial Lotteries Grant.
Forecast Full Year Variance:	Expected to be in line with budget at year end.

12 **Development and/or 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.
Year to date Variance:	\$0.52 million unfavourable to budget mainly due to fewer subdivision certifications than expected.

Forecast Full Year Variance:	Development and financial contributions are forecast to be \$1.11 million unfavourable to budget at year end due to uncertainty regarding timing of actual subdivision certifications in the next six months.
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13 **Other Operating Income**

Brief Description:	Includes assets vested to Council, Local Government petrol tax, donations and/or sponsorship, realised gains on asset disposals, unrealised gains or losses on revaluation of forestry assets and exceptional revenue items.
Year to date Variance:	\$0.46 million favourable to budget mainly due to a final settlement of \$0.53 million (net of GST) received from Mainzeal's receivers for additional detailed finishing costs incurred by Council to complete the Coastland Aquatic Centre.
Forecast Full Year Variance:	Other Operating Income is forecast to be \$0.53 million favourable to budget at year end due to the unbudgeted Mainzeal settlement.

Explanation of Expenses Variances

14 **Other Operating Expense**

Brief Description:	Includes direct operating costs except for payments to employees, finance charges and asset depreciation/amortisation.
Year to date Variance:	\$1.42 million favourable to budget. This is due to small underspends across a large number of expenses (e.g. consultants, contractors, legal and maintenance).
Forecast Full Year Variance:	Other operating expense is expected to be \$0.2 million favourable to budget due to savings on insurance premiums following an unexpected competitive re-insurance market in July 2014.

Explanation of Other Comprehensive Revenue and Expense Variances15 **Expenditure: Unrealised Loss on Revaluation of Financial Instruments**

Brief Description:	<ol style="list-style-type: none"> 1. Council recognises its interest rate swaps at fair value on a quarterly basis. 2. The change in fair value between 30 June 2014 and the end of the reporting period is treated as either a unrealised gain (fair value has decreased) or an unrealised loss (fair value has increased). 3. The fair value of Council's swaps at reporting date represents the present value of the future net cost to Council of its swaps from the reporting date to maturity of the swap portfolio.
Year to date Variance:	\$3.53 million unfavourable to budget due to a fall in fixed interest swap rates driven mainly by low levels of domestic inflation, low economic growth and falling dairy prices.
Forecast Full Year Variance:	The unrealised revaluation of Council's financial Instruments is forecast to be unfavourable to budget by \$6.5 million at year end. Again, this is driven mainly by low levels of domestic inflation, low economic growth and falling dairy prices.

Part B: Statement of Financial Position as at 31 December 2014

- 16 The Statement of Financial Position as at 31 December 2014 is set out in Table 2, followed by an overview of the key components.

Table 2	2014/15 Current Month Actual \$000	2014/15 Year End Forecast \$000	2014/15 Year End Annual Plan \$000	2014/15 Year End Variance \$000
ASSETS				
Cash and Cash Equivalents	63	3,734	3,734	-
Trade and Other Receivables	4,529	6,244	6,244	-
Loans	509	450	-	450
Inventories	94	139	139	-
Non-Current Assets held for Sale	272	-	-	-
Property Plant and Equipment	1,433,770	1,438,101	936,654	501,447
Forestry Assets	77	77	268	(191)
Intangible Assets	588	550	350	200
Derivative Financial Instruments	879	271	271	-
Other Financial Assets	1,976	2,296	-	2,296
TOTAL ASSETS	1,442,757	1,451,862	947,660	504,202
LIABILITIES				
Trade and Other Payables	6,263	13,971	14,693	722
Employee Benefit Liabilities	1,742	2,103	2,103	-
Deposits	956	1,218	1,218	-
Development and Financial Contributions	-	-	1,622	1,622
Borrowings	133,304	140,016	138,016	(2,000)
Provisions	5,337	5,053	39	(5,014)
Derivative Financial Instruments	6,595	8,996	6,459	(2,537)
TOTAL LIABILITIES	154,197	171,357	164,150	(7,207)
Public Equity				
Accumulated Funds	576,879	569,438	574,892	(5,454)
Reserves and Special Funds	2,688	2,074	2,074	-
Revaluation Reserve	708,993	708,993	206,544	502,449
TOTAL PUBLIC EQUITY	1,288,560	1,280,505	783,510	496,995
TOTAL LIABILITIES AND EQUITY	1,442,757	1,451,862	947,660	504,202

Total Asset Summary

Half-Year Position

- 17 Council's total assets are currently \$495.10 million favourable to full year budget. This is mainly due to last year's unbudgeted revaluation of land under roads.

Full Year Forecast Position:

- 18 Similarly, Council's assets are forecast to be \$502.20 million favourable to full year budget due to last year's unbudgeted revaluation of land under roads.

Total Liabilities Summary

Half-Year Position

- 19 Council's total liabilities are currently \$9.95 million favourable to budget. This is due to the following reasons:
- Trade and Other Payables are \$8.43 million favourable to budget due to temporary timing differences. Six months of the 2014/15 financial year remains ahead of Council in terms of operating and capital expenditure liabilities, employee benefit liabilities, and additional borrowing requirements to fund Council's planned capital work programme.
 - Development and Financial Contributions are \$1.62 million favourable to budget. This is due to new accounting standards now requiring Council to recognise all development and financial contributions as revenue (instead of a liability) when received or receivable. An adjustment to transfer Council's total development and financial contribution liability as at 30 June 2014 to equity has been agreed with Council's auditors.

Full Year Forecast Position:

- 20 Total liabilities are forecast to be \$7.2 million unfavourable to budget. This is mainly due to the unbudgeted provision for the Otaihanga Landfill capping costs that was required to be included in last year's Annual Report.

Total Public Equity Summary

Full Year Forecast Position:

- 21 Public Equity is forecast to be \$504.2 million favourable to budget at year end. This is mainly due to the unbudgeted valuation of land under roads at 30 June 2014.

Part C: Statement of Cash Flows as at 31 December 2014

- 22 The Statement of Cash Flows for the six months ended 31 December 2014 is set out in Table 3, followed by an overview of the key variances to Annual Plan.

Table 3	2014/15 Current Month Actual \$000	2014/15 Full Year Forecast \$000	2014/15 Full Year Annual Plan \$000	2014/15 Full Year Variance \$000
<i>Cash was provided from:</i>				
Kapiti Coast District Council Rates	25,457	52,350	52,350	-
Greater Wellington Regional Council Rates	4,497	8,120	8,120	-
Fees, Charges, Operating Grants & Subsidies	7,175	10,805	10,805	-
	37,129	71,275	71,275	-
<i>Cash was applied to:</i>				
Payments to Employees and Suppliers	26,151	43,293	43,293	-
Rates Paid to Greater Wellington Regional Council	4,497	8,120	8,120	-
Interest on Borrowings	3,914	7,899	7,899	-
GST (net)	283	-	-	-
	34,845	59,312	59,312	-
Net Cash Flows from Operating Activities	2,284	11,963	11,963	-
Cash Flows from Investing Activities				
<i>Cash was provided from:</i>				
Proceeds from Sale of Property, Plant and Equipment	2,400	2,400	120	2,280
NZTA Capital Funding	705	1,159	1,159	-
Other	-	-	125	(125)
	3,105	3,559	1,404	2,155
<i>Cash was applied to:</i>				
Construction and Purchase of Property, Plant and Equipment and Intangibles	15,279	28,863	29,323	460
Purchase of Investments	85	-	-	-
	15,364	28,863	29,323	460
Net Cash Flows from Investing Activities	(12,259)	(25,304)	(27,919)	2,615
Cash Flows from Financing Activities				
<i>Cash was provided from:</i>				
Borrowings Raised	2,944	15,000	25,125	(10,125)
	2,944	15,000	25,125	(10,125)
<i>Cash was applied to:</i>				
Debt Principal Repayment	51	5,070	9,278	4,208
	51	5,070	9,278	4,208
Net Cash Flows from Financing Activities	2,893	9,930	15,847	(5,917)
Net Increase(Decrease) in Cash and Cash Equivalents	(7,082)	(3,411)	(109)	(3,302)
Add Total Cash and Cash Equivalents at 1 July	7,145	7,145	3,843	3,302
TOTAL CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	63	3,734	3,734	-

23 **Cash Flow from Operating Activities**

Brief Description:	Net cash flow generated from total operating revenue less total operating expenditure.
Year to Date:	A net cash inflow of \$2.28 million was achieved.
Full Year Variance:	The net cash inflow from operating activities is forecast to be on budget at year end.

24 **Cash flows from Investing Activities**

Brief Description:	Net cash flow generated from the sale and purchase of Council assets.
Year to Date:	A net cash outflow of \$12.26 million was achieved due to the following reasons: <ol style="list-style-type: none"> 1 Unbudgeted sale proceeds of \$2.4 million was received in August 2014 for settlement of the town centre land, Rimu Road, Paraparaumu. 2 \$0.71 million of capital expenditure subsidies was received from NZTA. 3 \$15.28 million spent on capital projects.
Full Year Variance:	The net cash outflow from investing activities is forecast to be \$2.62 million favourable to budget mainly due to the unbudgeted \$2.4 million sale proceeds received for settlement of the Paraparaumu town centre land.

25 **Cash flows from Financing Activities**

Brief Description:	Net cash flow from borrowings.
Year to Date:	A net cash inflow of \$2.89 million was achieved. Short term borrowings from Council's \$50 million Credit Facility was used to fund Council's working capital requirements instead of new long term borrowings from the LGFA.
Full Year Variance:	The net cash inflow from financing activities is forecast to be \$5.92 favourable to budget mainly due to less borrowings required due to: <ol style="list-style-type: none"> 1. Council's cash and cash equivalents at 1 July 2014 was \$3.3 million favourable to budget. 2. Unbudgeted \$2.4 million sale proceeds received for settlement of the Paraparaumu town centre land.

Part D: Statement of Rates Funding

- 26 The Rates Funding 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 expenditure from all funding sources, including vested assets.
 - Rates Funding Surplus / (Deficit) only covers Council's revenue and expenditure that is rates funded. Any surplus/ (deficit) affects the rates required for the 2014/15 year onwards.
- 27 The total Rates Funding requirement for 2014/15 is \$51.27 million. Table 4 below indicates a total Rates Funding surplus of \$0.84 million is forecast for the year ending 30 June 2015.

Table 4: Rates Revenue Requirement						
Rates Funding Requirement	2014/15 Year to Date			2014/15 Full Year		
	Actual	Annual Plan	Var Fav / (Unfav)	Forecast	Annual Plan	Var Fav / (Unfav)
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
Total Non-Rates Funded Revenue	6,520	6,185	336	12,441	12,369	72
Expenditure						
Direct Costs	21,151	22,575	1,424	44,950	45,150	200
Funded Depreciation	4,880	5,224	344	10,057	10,447	390
Finance Costs	3,860	3,950	90	7,715	7,899	184
Capital Costs	13	74	61	147	147	-
Total Expenditure	29,904	31,822	1,918	62,869	63,643	774
Net Expenditure for Rates Funding Requirement	23,384	25,637	2,253	50,428	51,274	846

- 28 Depreciation has a full year budget of \$15.87 million as per the Annual Plan. \$10.47 million is funded from rates revenue and \$5.42 million is non-funded in 2014/15.

	Year to Date	Full Year Forecast
Net Expenditure for Rates Funding Requirement	2,253	846
Rates Revenue above/(below) Annual Plan	37	(137)
Development & Financial Contributions (below) Annual Plan	(518)	(1,112)
Unrealised Loss on Revaluation of Financial Instruments	(3,527)	(6,500)
Rates funded Capital Costs below Annual Plan	(61)	-
Total Comprehensive Revenue and Expense	(1,816)	(6,903)

PART E: Capital Works Programme Performance

29 This table provides a summary of the full year's capital expenditure programme.

Capital Projects		December 2014 Year to Date					
		Year to Date Actual \$000's	2014/15 Full Year Budget + Carryover \$000's	2014/15 Forecast \$000's	Variance (Budget less Forecast) \$000's	2014/15 Savings \$000's	Carryover to 15/16
Total Carryover Projects to 2014/15		6,276	13,537	12,846	691	140	551
New Projects Over \$250,000							
01971	Hardware Upgrades	74	254	154	100	100	-
11247	Otaki Splash Pad / Water Features	-	268	-	268	268	-
13170	Strategic Land Purchase	-	1,001	300	701	-	701
13951	Youth Hub	-	250	-	250	-	250
14811	Material Additions	40	438	438	-	-	-
1792B	NZTA Sealed Road Resurfacing	337	1,453	1,402	51	51	-
1792G	NZTA Traffic Services Renewals	263	347	347	-	-	-
1793A	NZTA Minor Improvements	19	420	318	102	102	-
17950	Major Community Connector Upgrades	169	633	473	160	160	-
18246	Town Centre Major Connector	436	1,000	1,000	-	-	-
28164	Tilley Road	58	553	553	-	-	-
2833J	Wellington Road Pipe Renewal	14	259	259	-	-	-
48471	Waikanae Water Treatment Plant Upgrade	353	874	874	-	-	-
58133	Otaki Beach Pump Station	5	1,660	1,117	543	-	543
99901	Plant Purchase	264	643	450	193	193	-
Total New Projects Over \$250,000		2,032	10,053	7,685	2,368	874	1,494
Total New Projects Under \$250,000		1,939	6,436	6,614	(178)	(199)	21
TOTAL CAPITAL EXPENDITURE PROJECTS		10,247	30,026	27,145	2,881	815	2,066

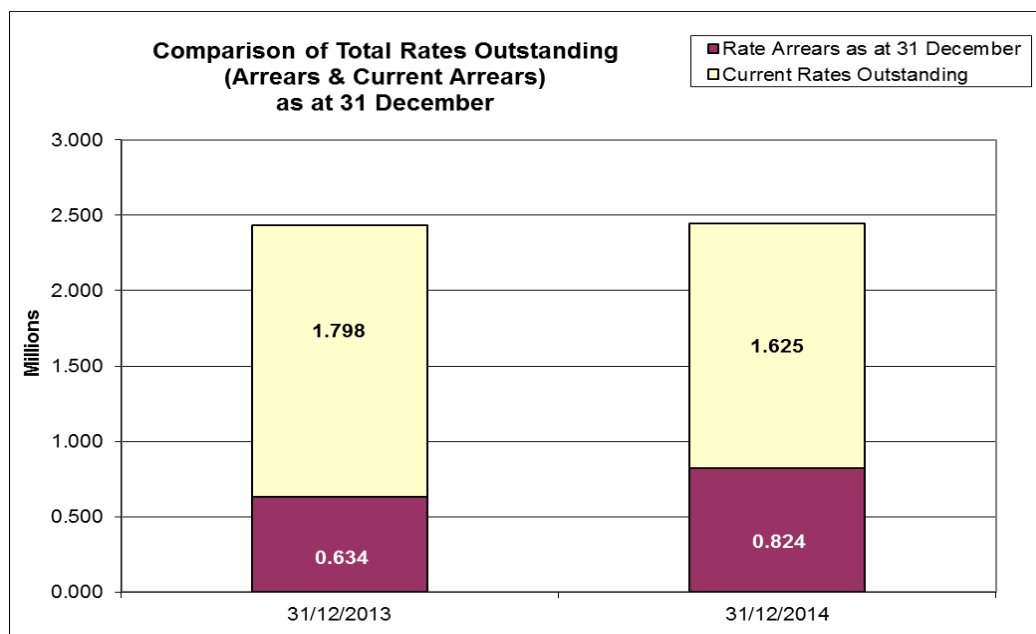
30 Please refer to the CBC Activity Report for the quarter ended 31 December 2014 (SP-15-1453) for more detailed information.

Part F: Outstanding Rates Debt as at 31 December 2014

Rates Outstanding

31 \$2.45 million of total rates (current and arrears) is outstanding as at 31 December 2014.

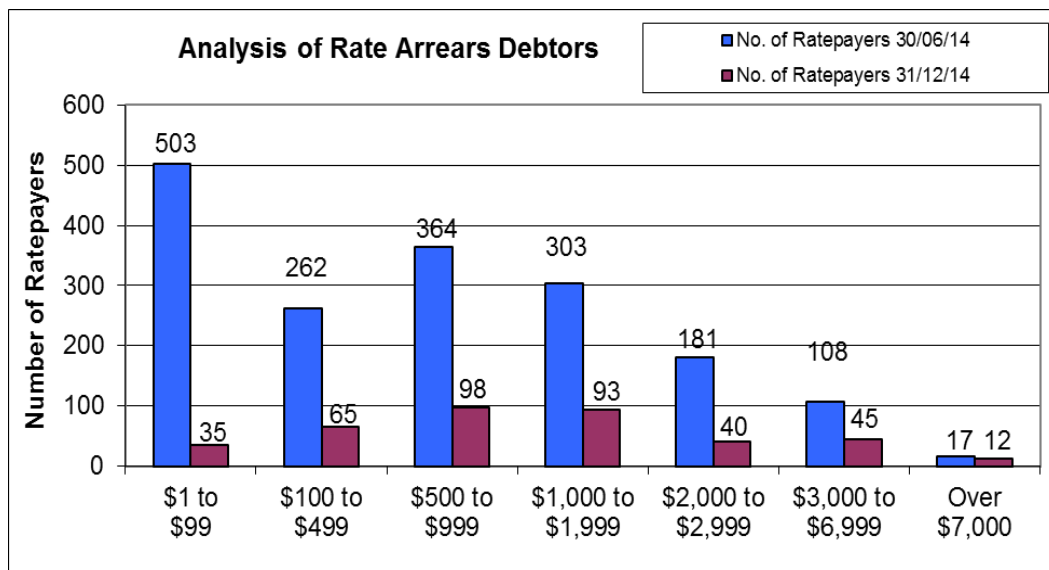
32 Rate payments received are first applied to rate arrears. The chart below reflects a marginal increase in rate arrears as at 31 December 2014 (Net of Council owned properties) compared to 31 December 2013.



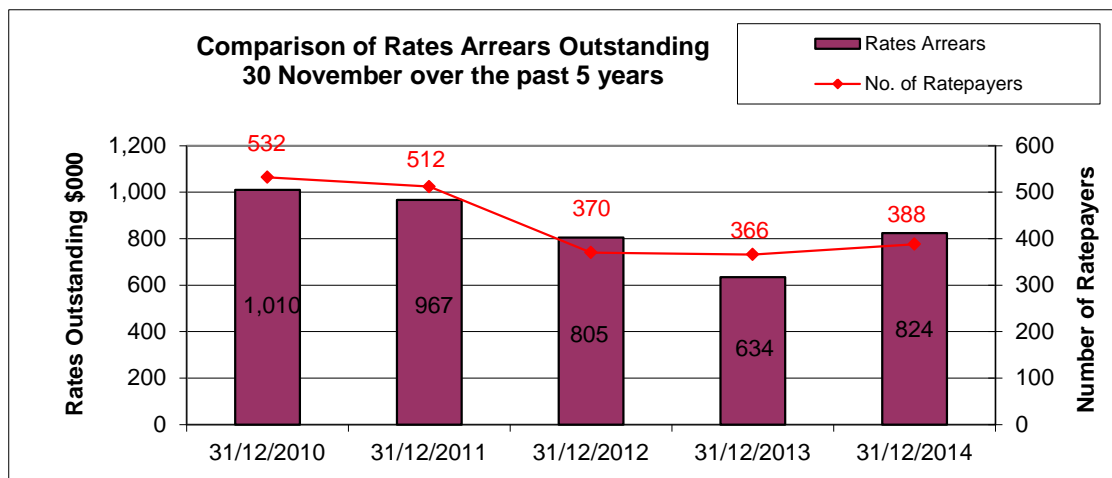
33 Council collects current year rates on behalf of the Greater Wellington Regional Council. \$1.62 million of current rates outstanding as at 31 December 2014 is split as follows:

	\$000	\$000
Kāpiti Coast District Council rates	1,094	
Kāpiti Coast District Council penalties	244	
Total Kāpiti Coast District Council outstanding rates	1,338	1,338
Greater Wellington Regional Council rates	248	
Greater Wellington Regional Council penalties	39	
Total Greater Wellington Regional Council outstanding rates	287	287
Total 2014/15 rates outstanding as at 31 December 2014	1,625	1,625

- 34 Rates arrears as at 31 December 2014 are \$0.824 million (\$2.023 million as at 30 June 2014). The chart below shows that good progress has been made in rates arrears collection, most notably with ratepayers that have rates arrears exceeding \$1,000.

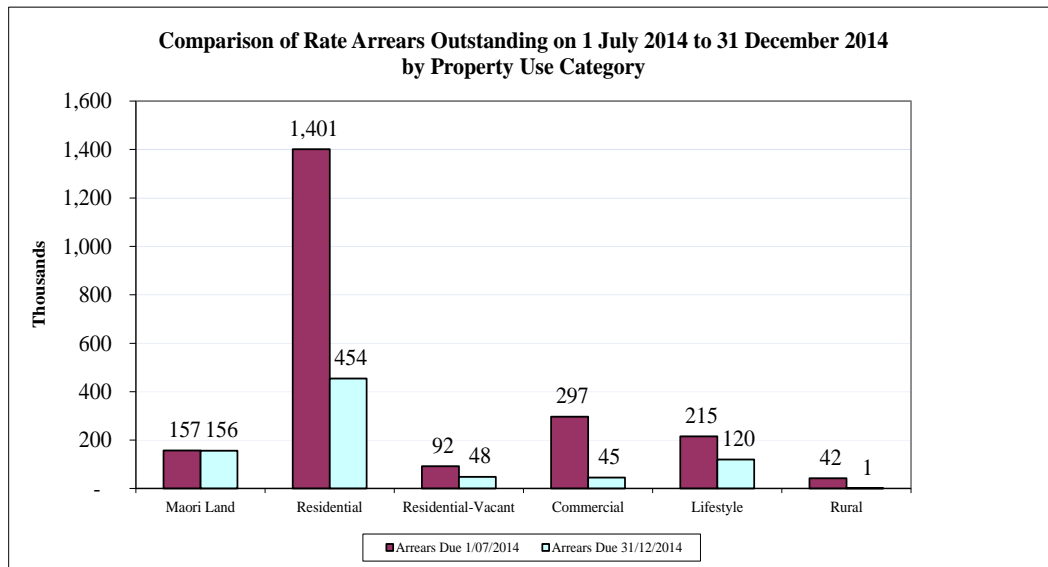


- 35 The graph below shows a comparison of the rate arrears outstanding as at 31 December for the past four years and the rate arrears outstanding as at 31 December 2014.



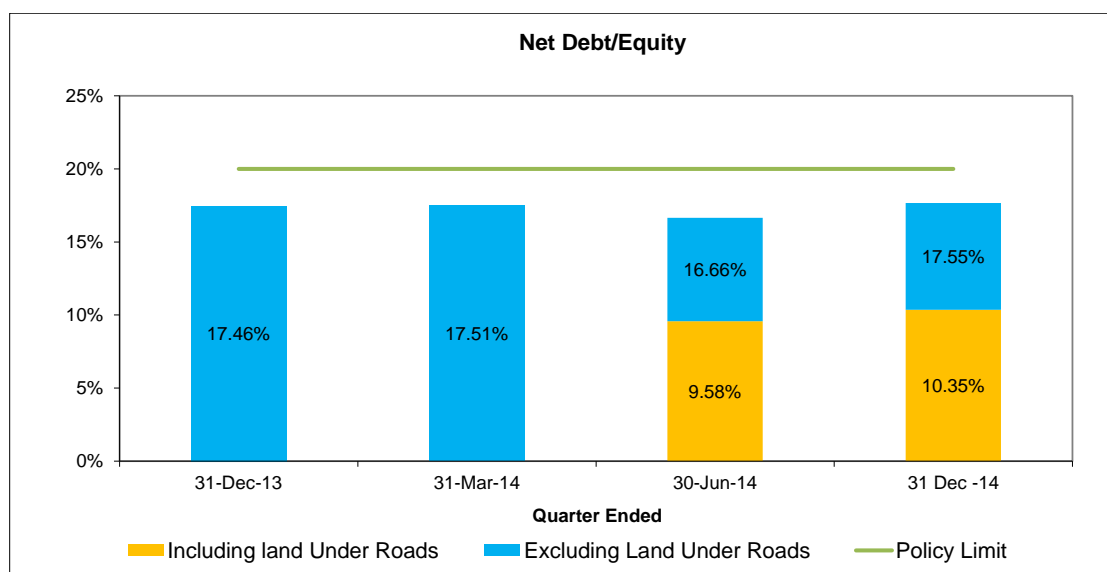
- 36 Council's rates collection process involves follow up with outstanding debtors and payment arrangements to ensure debts are cleared over a reasonable time period.
- 37 Rates arrears as at 31 December 2014 have increased mainly due to less staff capacity to follow up on rate arrears due to reallocation of rates staff to the water meter project.

- 38 The graph below details the total rates arrears by Property Use Category. As expected, the majority of the total rates arrears are from residential properties. 2013/14 and 2014/15 rates remissions for Māori Freehold Land will be considered and recommended for approval before 30 June 2015.

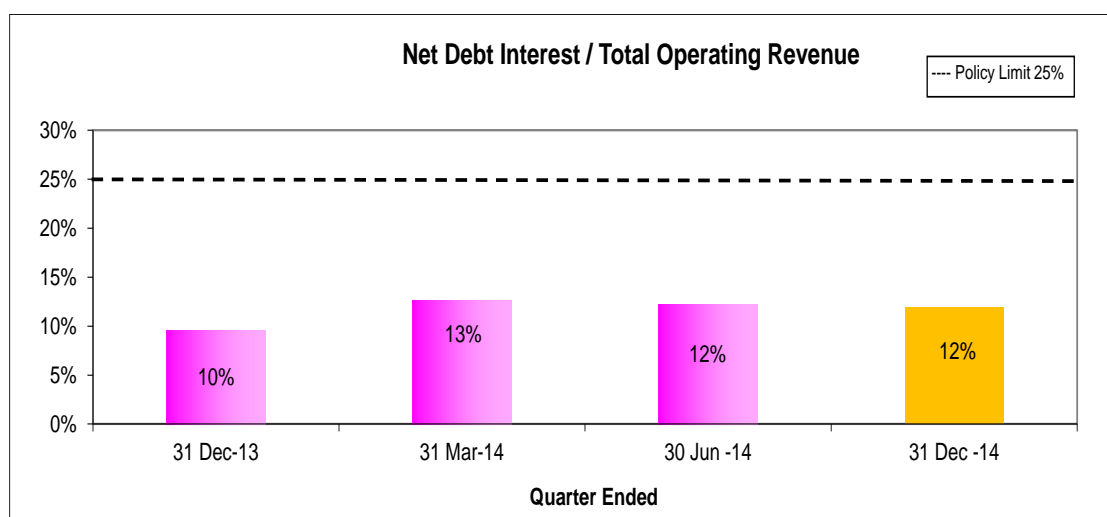


Part G: Statement of Performance against Treasury Management Policy Limits

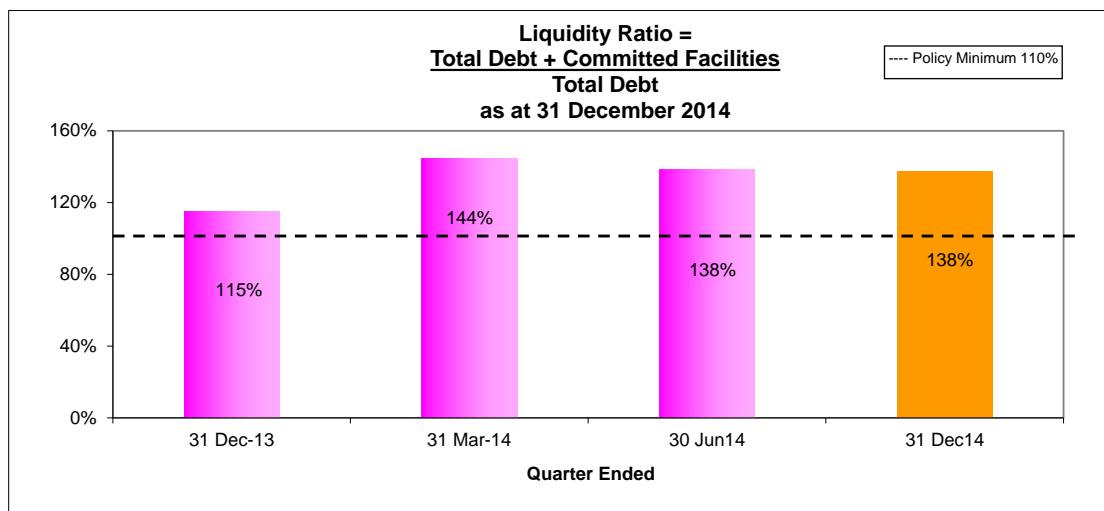
- 39 The Treasury Management Policy (Policy) contains four financial ratios with either a maximum or minimum annual limit.
- 40 Maximum Policy ratio limits must not be exceeded. Conversely, minimum Policy ratio limits must either be met or exceeded.
- 41 The Policy sets the maximum annual limit for the ratio of net debt to equity of 20%. The chart below shows actual limits achieved at the end of each quarter.



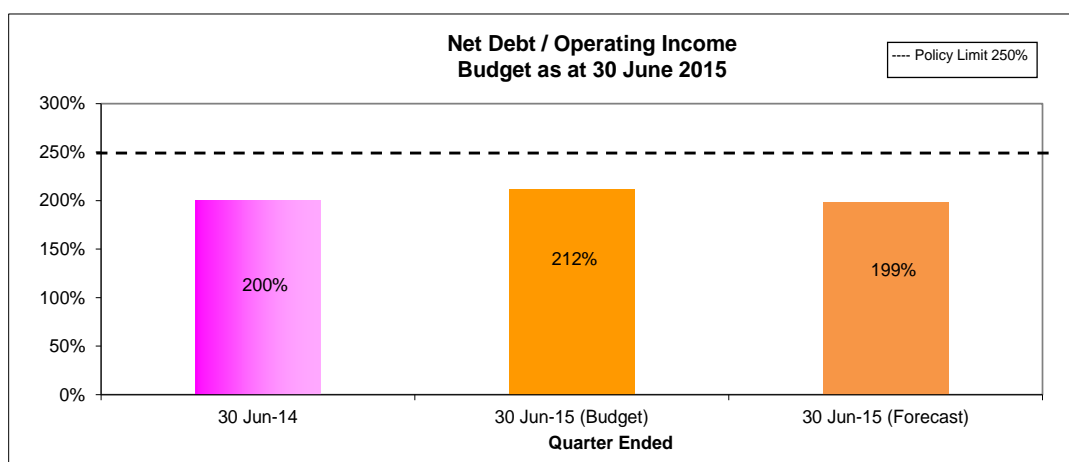
- 42 The Policy sets the maximum annual limit of 25% for the ratio of Debt Interest to Total Operating Revenue. The chart below shows actual limits achieved at the end of each quarter.



- 43 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.



- 44 The Policy sets an annual limit of 250% for the ratio of Net Debt to Operating Income. This is a measure of Council's ability to repay its debt from operating financial year compared to the 2014/15 year end budget.



Legal Considerations

- 45 There are no legal considerations

Consultation

- 46 There is no need to consult on the issues discussed in this report.

Policy Implications

- 47 There are no policy implications.

Tāngata Whenua

- 48 There are no tāngata whenua considerations.

SIGNIFICANCE AND ENGAGEMENT

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

Publicity Considerations

50 There are no publicity considerations at this stage.

RECOMMENDATIONS

51 That the Corporate Business Committee notes the actual financial performance and position for the Half-Year ended 31 December 2014 as contained in this report Corp-15-1473.

Report prepared by:

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Accountant**

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