

Chairperson and Committee Members
CORPORATE BUSINESS COMMITTEE

14 MAY 2015

Meeting Status: **Public**

Purpose of Report: For Information

FINANCIAL REPORT TO 31 MARCH 2015

PURPOSE OF REPORT

- 1 This report sets out Council's financial performance and financial position for the nine months ended 31 March 2015. Financial exceptions for the year to date are noted in the report together with explanations for any significant full year forecast variations from the 2014/15 Annual Plan.

DELEGATION

- 2 The Corporate Business Committee (Committee) has delegated authority to consider this report under the following delegation in the Governance Structure, Section B.3.7 – *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 The Committee is provided with information on seven 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 Rating Position

Part E: Capital Works Programme Expenditure

Part F: Outstanding Rates Debt as at 31 March 2015

Part G: Treasury Management

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 reporting period.
- 5 Table 1 summarises Council's Statement of Comprehensive Revenue and Expense for the nine months ended 31 March 2015.

| Table 1 | YTD 2014/15 | | | Full Year 2014/15 | | |
|---|-----------------|-----------------|-------------------|-------------------|-----------------|-------------------|
| | Actual \$000 | Budget \$000 | Variance \$000 | Forecast \$000 | Budget \$000 | Variance \$000 |
| Rates | 38,454 | 38,848 | (394) | 51,458 | 51,798 | (340) |
| Fees and Charges | 6,037 | 6,096 | (59) | 8,038 | 8,128 | (90) |
| Grants and Subsidies | 1,943 | 1,995 | (52) | 2,842 | 2,659 | 183 |
| Development and Financial Contributions Revenue | 411 | 1,008 | (597) | 411 | 1,344 | (933) |
| Other Operating Revenue | 2,050 | 335 | 1,715 | 2,102 | 1,572 | 530 |
| Interest Income | 96 | 456 | (361) | 121 | 609 | (488) |
| Total Income | 48,990 | 48,739 | 252 | 64,971 | 66,110 | (1,138) |
| Other Operating Expense | 32,336 | 33,963 | 1,627 | 44,405 | 45,133 | 728 |
| Depreciation and Amortisation | 11,376 | 12,054 | 678 | 15,374 | 15,869 | 495 |
| Finance Expense | 5,804 | 5,959 | 155 | 7,715 | 7,945 | 230 |
| Total Expenditure | 49,516 | 51,976 | 2,461 | 67,494 | 68,947 | 1,453 |
| Operating Surplus / (Deficit) | (526) | (3,238) | 2,712 | (2,523) | (2,837) | 315 |
| Unrealised Loss on Revaluation of Derivatives | 5,796 | - | (5,796) | 5,796 | - | 5,796 |
| Total Other Comprehensive Income and Expenditure | 5,796 | - | (5,796) | 5,796 | - | 5,796 |
| Total Comprehensive Revenue and Expense | (6,321) | (3,238) | (3,084) | (8,319) | (2,837) | (5,481) |

Financial Performance Summary

Year to Date Performance

- 6 The Council's year to date operating deficit of \$0.53 million is \$2.71 million favourable to budget. Other Operating Expense is \$1.63 million underspent due to lower insurance premiums, lower energy costs, deferred EQP building assessment costs and lower PDP costs. Depreciation is \$0.68 million underspent due to extending Council's infrastructure asset service lives subsequent to the 2013/14 asset revaluations.
- 7 Council's unrealised loss of \$5.8 million on financial derivatives is due to interest rates having fallen in the current year, compared to last year end. This is discussed further in Part G. 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 Council is forecasting an operating deficit of \$2.52 million at year-end, which is \$0.32 million favourable to full year budget.
- 9 With interest rate forecasts stable, Council is forecasting no change to the unrealised loss of \$5.8 million. Therefore, the year-end position including this unrealised loss will be \$8.32 million, which is \$5.48 million unfavourable to full year budget.

10 The following commentary provides explanations of the major variances.

11 **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: | \$0.59 million unfavourable to budget mainly due to fewer subdivision certifications than expected. |
| Forecast Full Year Variance: | \$0.93 million unfavourable to budget due to uncertainty regarding timing of actual subdivision certifications in the next three months. |

12 **Other Operating Revenue**

| | |
|------------------------------|--|
| 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: | \$1.72 million favourable to budget mainly due to \$1.17 million of assets vested to Council earlier than budgeted and an unbudgeted final settlement of \$0.53 million was received from Mainzeal's receivers for additional detailed finishing costs incurred by Council to complete the Coastland Aquatic Centre. |
| Forecast Full Year Variance: | \$0.53 million favourable to budget due to the unbudgeted Mainzeal settlement. |

Explanation of Expenditure Variances

13 **Other Operating Expenses**

| | |
|------------------------------|---|
| Brief Description: | Includes direct operating costs except for finance charges and asset depreciation/amortisation. |
| Year to date Variance: | \$1.63 million favourable to budget mainly due to lower insurance premiums, lower energy costs, deferred EQP building assessment costs and PDP costs. |
| Forecast Full Year Variance: | \$0.73 million favourable to budget as PDP related contracts are now in place and the full year budget is expected to be fully spent. |

Explanation of Other Comprehensive Revenue and Expense Variances**14 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 an 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: | \$5.8 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: | \$5.8 million unfavourable to budget driven mainly by low levels of domestic inflation, low economic growth and falling dairy prices. |

Part B: Statement of Financial Position

- 15 The Statement of Financial Position as at 31 March 2015 is set out in Table 2, followed by an overview of the key components.

| Table 2 | YTD 2014/15 | Full Year 2014/15 | | |
|--|------------------|-------------------|-----------------|-------------------|
| | Actual \$000 | Forecast \$000 | Budget \$000 | Variance \$000 |
| Assets | | | | |
| Current Assets | 4,831 | 8,255 | 10,156 | (1,901) |
| Non-Current Assets | 1,440,475 | 1,443,610 | 937,504 | 506,106 |
| Total Assets | 1,445,306 | 1,451,864 | 947,660 | 504,204 |
| Liabilities | | | | |
| Current Liabilities | 13,522 | 17,544 | 36,267 | 18,723 |
| Non-Current Liabilities | 144,300 | 147,831 | 127,883 | (19,948) |
| Total Liabilities | 157,822 | 165,375 | 164,150 | (1,225) |
| Public Equity | | | | |
| Public Equity | 1,287,484 | 1,286,489 | 783,510 | (502,979) |
| Total Public Equity | 1,287,484 | 1,286,489 | 783,510 | (502,979) |
| Total Liabilities and Public Equity | 1,445,306 | 1,451,864 | 947,660 | (504,204) |

Total Asset Summary

Year to Date Position

- 16 Council's total assets are currently \$497.65 million favourable to full year budget. This is mainly due to last year's unbudgeted revaluation of land under roads.

Full Year Forecast Position:

- 17 Similarly, Council's assets are forecast to be \$504.2 million favourable to full year budget due to Council's revaluation of land under roads.

Total Liabilities Summary

Year to Date Position

- 18 Council's total liabilities are currently \$6.33 million favourable to full year budget. This is due to the following reasons:
- Trade and Other Payables are \$9.62 million favourable to budget due to temporary timing differences. Trade and other payables are forecast to increase by \$5.96 million by year end.
 - 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.

- Provisions are currently \$5.29 million unfavourable to budget. This is due to the unbudgeted provision for the Otaihanga Landfill capping costs.

Full Year Forecast Position:

- 19 Total liabilities are forecast to be \$1.23 million unfavourable to budget. This is mainly due to the unbudgeted provision for the Otaihanga Landfill capping costs required in last year's Annual Report.

Total Public Equity Summary

Full Year Forecast Position:

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

Part C: Statement of Cash Flows

- 21 The Statement of Cash Flows for the nine months ended 31 March 2015 is set out in Table 3, followed by an overview of the key variances to Annual Plan.

| Table 3 | YTD 2014/15 | Full Year 2014/15 | | |
|--|-----------------|-------------------|-----------------|-------------------|
| | Actual \$000 | Forecast \$000 | Budget \$000 | Variance \$000 |
| Net Cash Flows from Operating Activities | 5,323 | 7,939 | 11,963 | (4,024) |
| Net Cash Flows from Investing Activities | (17,937) | (21,869) | (27,919) | 6,050 |
| Net Cash Flows from Financing Activities | 5,538 | 10,519 | 15,847 | (5,328) |
| Net (Decrease)/Increase in Cash | (7,076) | (3,411) | (109) | (3,302) |
| Opening Cash and Cash Equivalents | 7,145 | 7,145 | 3,843 | 3,302 |
| Closing Cash and Cash Equivalents | 69 | 3,734 | 3,734 | - |

22 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 \$5.32 million was achieved. |
| Full Year Variance: | \$4.02 million unfavourable to budget. This is mainly due to expected temporary timing differences regarding the receipt of NZTA subsidies. |

23 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 \$17.94 million was achieved due to the following reasons: <ul style="list-style-type: none"> 1 Unbudgeted settlement proceeds of \$2.4 million were received in August 2014 for the town centre land, Rimu Road, Paraparaumu. 2 \$0.95 million of capital expenditure subsidies were received from NZTA. 3 \$21.09 million spent on capital projects. |
| Full Year Variance: | \$6.05 million favourable to budget due to the following reasons: <ul style="list-style-type: none"> 1 Unbudgeted settlement proceeds received for the Paraparaumu town centre land. 2 Council's planned 2014/15 capital works programme is forecast to be \$6.81 million underspent. |

24 Cash flows from Financing Activities

| | |
|---------------------|--|
| Brief Description: | Net cash flow from borrowings. |
| Year to Date: | A net cash inflow of \$5.54 million was achieved. |
| Full Year Variance: | \$5.33 million favourable to budget mainly due to the following reasons: <ul style="list-style-type: none"> 1 Unbudgeted settlement proceeds received for the Paraparaumu town centre land. 2 Council's planned 2014/15 capital works programme is forecast to be \$6.81 million underspent. |

Part D: Statement of Rates Funding

- 25 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 rates surplus/ (deficit) can affect the rates required in future years.
- 26 The total Rates Funding requirement for 2014/15 is \$51.27 million. Table 4 below indicates a total Rates Funding surplus of \$1.59 million is forecast for the year ending 30 June 2015.

| Table 4: Rates Revenue 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 | 10,125 | 8,882 | 1,243 | 13,103 | 12,968 | 135 |
| Expenditure | | | | | | |
| Direct Costs | 32,336 | 33,963 | 1,627 | 44,405 | 45,133 | 728 |
| Funded Depreciation | 7,157 | 7,835 | 678 | 9,952 | 10,447 | 495 |
| Finance Costs | 5,804 | 5,959 | 155 | 7,715 | 7,945 | 230 |
| Capital Costs | 31 | 110 | 79 | 147 | 147 | - |
| Total Expenditure | 45,328 | 47,867 | 2,539 | 62,219 | 63,672 | 1,453 |
| Net Expenditure for Rates Funding Requirement | 35,203 | 38,985 | 3,782 | 49,116 | 50,704 | 1,588 |

- 27 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.
- 28 **Reconciliation of rates funding variance to Net Deficit**

| | Year to Date | Full Year Forecast |
|--|----------------|--------------------|
| Net Expenditure for Rates Funding Requirement | 3,782 | 1,588 |
| Rates received below Budget | (394) | (340) |
| Unrealised Loss on Revaluation of Financial Instruments | (5,796) | (5,796) |
| Development & Financial Contributions under budget | (597) | (933) |
| Rates funded Capital Costs under budget | (79) | - |
| Net Deficit Variance from Statement of Comprehensive Income | (3,084) | (5,481) |

PART E: Capital Works Programme Expenditure

- 29 Table 5 provides a summary of the 2014/15 planned capital expenditure programme.

| Table 5 | YTD 2014/15 | | | Full Year 2014/15 | | |
|--|-----------------|-----------------|-------------------|-------------------|-----------------|-------------------|
| | Actual \$000 | Budget \$000 | Variance \$000 | Forecast \$000 | Budget \$000 | Variance \$000 |
| Projects Over \$250,000 | | | | | | |
| Waikanae Water Treatment Plant Renewal | 2,954 | 3,617 | 663 | 3,312 | 4,822 | 1,510 |
| River Recharge | 2,958 | 2,528 | (431) | 3,003 | 3,370 | 367 |
| Otaki Beach Pump Station | 10 | 1,245 | 1,235 | 1,117 | 1,660 | 543 |
| NZTA Sealed Road Resurfacing | 607 | 1,090 | 483 | 1,302 | 1,453 | 151 |
| Strategic Land Purchase | - | 751 | 751 | 100 | 1,201 | 701 |
| Town Centre Major Connector | 745 | 750 | 5 | 995 | 1,000 | 5 |
| Milne / Te Roto / Kapiti Road Intersection | 869 | 675 | (194) | 907 | 900 | (7) |
| Waikanae Water Treatment Plant Upgrade | 450 | 656 | 206 | 655 | 874 | 219 |
| Otaki WWTP Oxidation Lagoon Desludging | 703 | 504 | (199) | 821 | 672 | (149) |
| Plant Purchase | 381 | 482 | 101 | 371 | 643 | 272 |
| Major Community Connector Upgrades | 221 | 475 | 254 | 217 | 633 | 416 |
| Tilley Road | 64 | 415 | 351 | 438 | 553 | 115 |
| Water Metering | 415 | 404 | (11) | 415 | 539 | 124 |
| Waikakariki Gravel Extraction | 1 | 375 | 374 | 255 | 500 | 245 |
| Material Additions | 162 | 329 | 167 | 438 | 438 | - |
| NZTA Minor Improvements | - | 315 | 315 | 156 | 420 | 264 |
| NZTA Major Bridge Repairs | 26 | 282 | 256 | 300 | 376 | 76 |
| NZTA Traffic Services Renewals | 301 | 260 | (41) | 319 | 347 | 28 |
| Paraparaumu WWTP Drier Replacement | 199 | 218 | 19 | 280 | 290 | - |
| Otaki Splash Pad / Water Features | - | 201 | 201 | - | 268 | 268 |
| Wellington Road Pipe Renewal | 24 | 194 | 170 | 521 | 259 | (262) |
| Hardware Upgrades | 111 | 191 | 80 | 254 | 254 | - |
| Milne Drive Wastewater Pumping Station | 14 | 188 | 174 | 16 | 250 | 234 |
| Youth Hub | - | 188 | 188 | - | 250 | 250 |
| Total Projects Over \$250,000 | 11,215 | 16,329 | 5,114 | 16,192 | 21,972 | 5,370 |
| Total Projects Under \$250,000 | 3,947 | 6,182 | 2,235 | 7,016 | 8,042 | 1,436 |
| TOTAL CAPITAL EXPENDITURE PROJECTS | 15,162 | 22,511 | 7,349 | 23,208 | 30,014 | 6,806 |

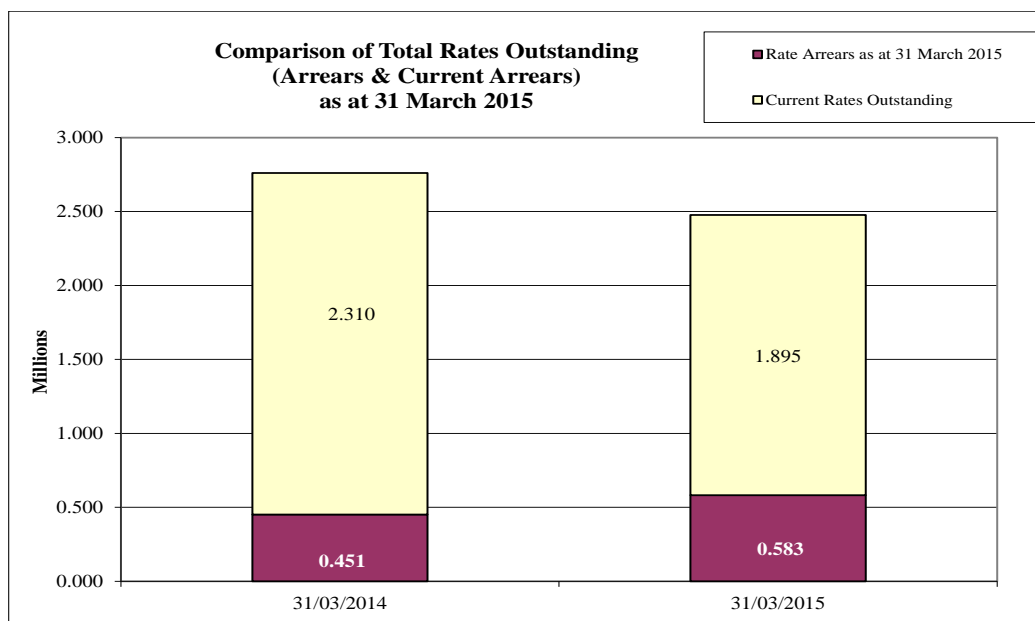
- 30 Please note that the capital works project budgets are spread evenly across twelve months. Some projects are largely completed and others have commenced later in the financial year. Budget phasing will be improved for next year.
- 31 Please refer to the CBC Activity Report for the quarter ended 31 March 2015 (SP-15-1568) for more detailed information.

Part F: Outstanding Rates Debt as at 31 March 2015

Rates Outstanding

32 \$2.48 million of total rates (current and arrears) is outstanding as at 31 March 2015.

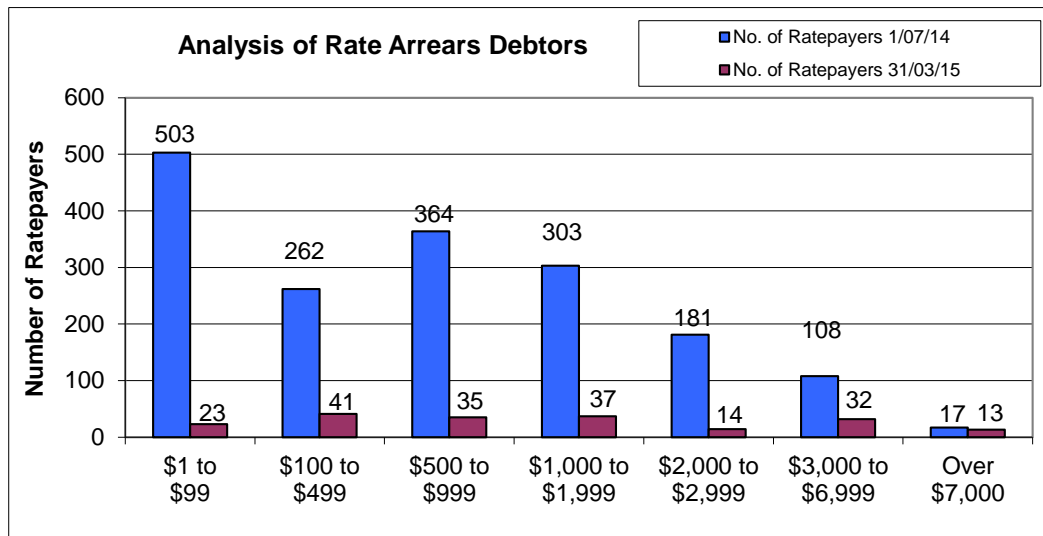
33 Rate payments received are first applied to rate arrears. The chart below reflects a marginal increase in rate arrears as at 31 March 2015 (Net of Council owned properties) compared to 31 March 2014.



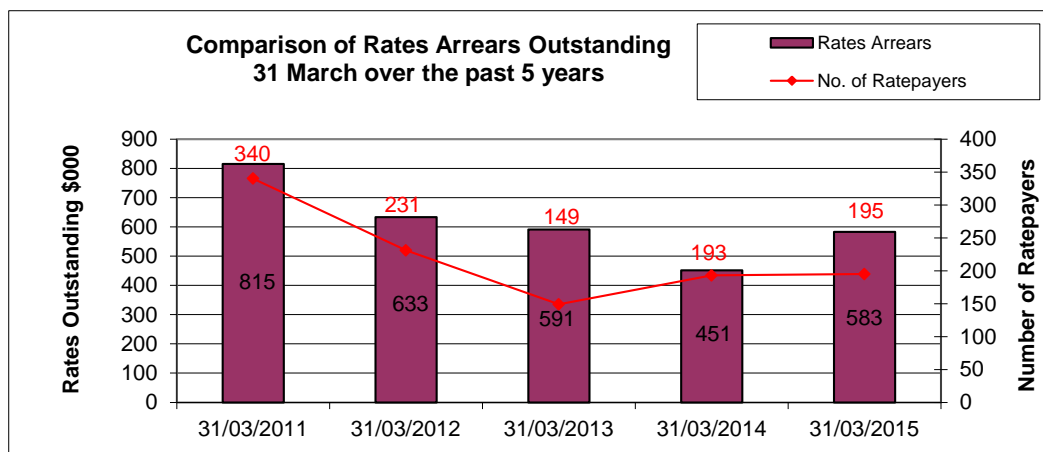
34 Council collects current year rates on behalf of the Greater Wellington Regional Council. \$1.89 million of current rates outstanding as at 31 March 2015 is split as follows:

| | \$000 | \$000 |
|--|--------------|---------------------|
| Kāpiti Coast District Council rates | 1,263 | |
| Kāpiti Coast District Council penalties | 257 | |
| Total Kāpiti Coast District Council outstanding rates | <u>1,520</u> | 1,520 |
| Greater Wellington Regional Council rates | 334 | |
| Greater Wellington Regional Council penalties | 41 | |
| Total Greater Wellington Regional Council outstanding rates | <u>375</u> | 375 |
| Total 2014/15 rates outstanding as at 31 March 2015 | | <u>1,895</u> |

- 35 Rates arrears as at 31 March 2015 are \$0.58 million (\$2.02 million and 1738 ratepayers as at 30 June 2014). The chart below shows that good progress has been made in rates arrears collection.



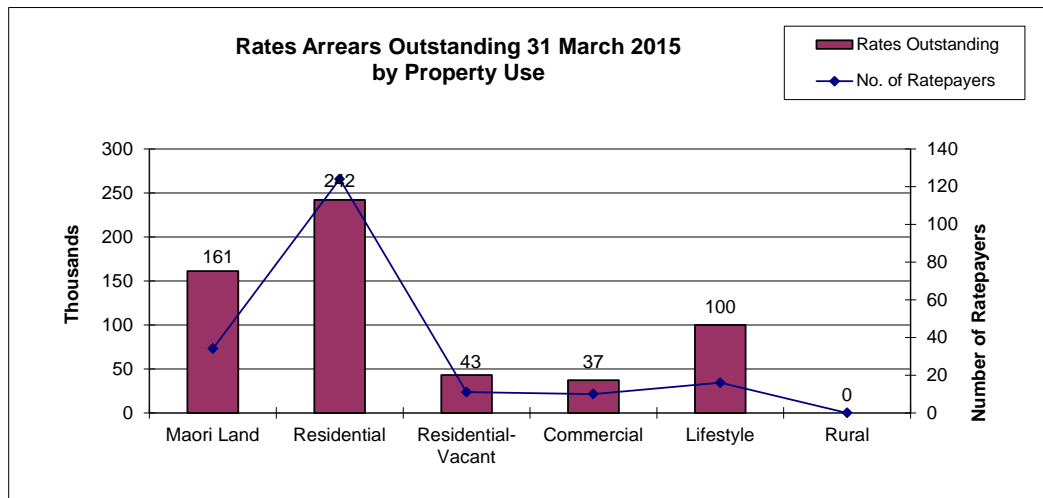
- 36 The graph below shows a comparison of the rate arrears outstanding as at 31 March for the current year and the previous 4 years.



- 37 Council's rates collection process involves follow up with outstanding debtors and payment arrangements to ensure debts are cleared over a reasonable time period.

- 38 While the number of ratepayers in arrears is stable, the arrears have increased. Work is ongoing to improve the situation.

- 39 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: Treasury Management

SUMMARY

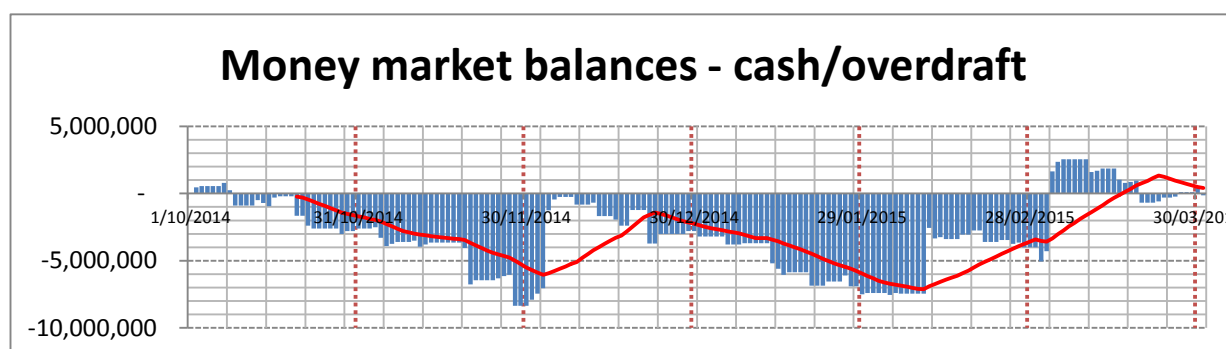
40 Market conditions have continued to improve during 2015, from a borrower's perspective. During February there was \$5m of new term debt drawn down, and \$30 million of forward start swaps transacted, taking advantage of the low rates on offer. Recent Reserve Bank forecasts now indicate short term rates will remain at current levels for the next 2 years.

41 Debt and investments

| (\$'000) | Last month 28-Feb-15 | This month 31-Mar-15 | Full Year Forecast | Full Year Budget |
|------------------------------|-------------------------|-------------------------|-----------------------|---------------------|
| External debt | 139,034 | 135,684 | 140,065 | 138,016 |
| less cash investments | (313) | (68) | (3,734) | (3,734) |
| Net debt | 138,721 | 135,616 | 136,331 | 134,282 |

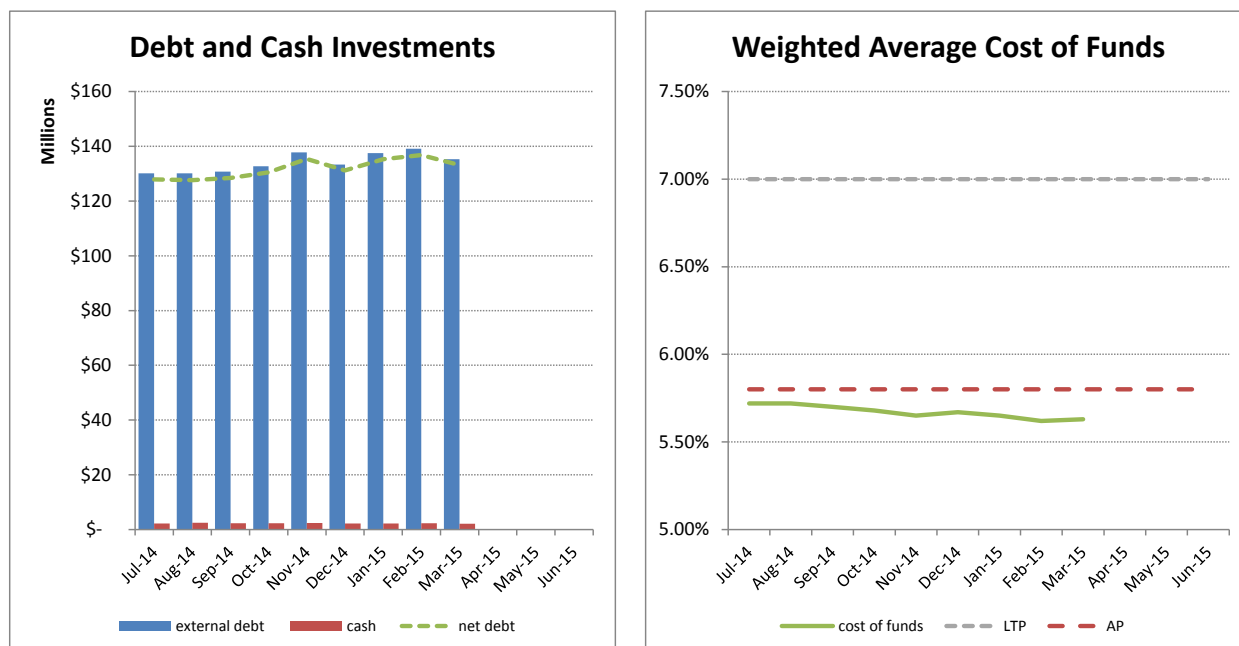
42 The Council participated in the February funding round with LGFA, drawing down \$5 million of the 2020 maturity. There have not been any debt maturities during this period. This brings our fixed term debt to \$135 million as at the end of the month. The balance of \$0.68 million was from utilisation Council's Call Facility and non-interest bearing EECA loan.

43 Our use of the call (overdraft) facility is now becoming settled. At the beginning of the year the Council was holding cash balances, which was an inefficient use of our funds, given we are a net borrower. We now aim to have no cash on hand, with a net nil balance as the optimal position as at rates payment day each quarter. The following chart shows the daily position for the last 6 months, with a 30-day trendline.



44 A further improvement is being implemented in March, with the Council's operating bank account to be swept of any surplus funds at the close of each day. These funds will be transferred to an On-Call investment account, maximising Council's interest income.

45 The following charts show the Council’s month end balances, and cost of funds, for the current year.



46 The weighted average cost of funds has improved slowly as the Council takes advantage of lower interest rates. This is measuring external debt only – internal debt will be reported in future.

Finance Costs

| (\$000) | YTD Actual 31-Mar-15 | YTD Budget 31-Mar-15 | Var | Full Year Forecast | Full Year Budget | Var |
|----------------------------------|-------------------------|-------------------------|-------|-----------------------|---------------------|-------|
| External interest expense | 5,804 | 5,959 | 155 | 7,715 | 7,945 | 230 |
| less interest received | (96) | (456) | (360) | (121) | (609) | (488) |
| Net finance costs | 5,708 | 5,503 | (205) | 7,594 | 7,336 | (258) |

| | | | | | | |
|---------------------------------------|-------|-------|---|-------|-------|--|
| Weighted average cost of funds | 5.67% | 5.80% | | 5.64% | 5.80% | |
| Revaluation of derivatives | 5,796 | | - | | | |

Policy Compliance

| Criterion | | | YTD | Compliant | note |
|----------------------------|--------------------|------|--------|-----------|------|
| Debt | | | | | |
| Projected debt (12 mths) | | | \$155m | | |
| Current debt | | | \$135m | | |
| Fixed debt | | | \$118m | | |
| Fixed portion | 55% | 95% | 87% | ☑ | |
| Funding maturity | Limit min – max | | | | |
| 0-3 years | 15% | 60% | 61% | ☒ | 1 |
| 3-5 years | 15% | 60% | 13% | ☒ | 2 |
| 5+ years | 10% | 40% | 26% | ☑ | |
| Fixed rate maturity | Limit min – max | | | | |
| 1-3 years | 15% | 60% | 29% | ☑ | |
| 3-5 years | 15% | 60% | 26% | ☑ | |
| 5+ years | 15% | 60%* | 32% | ☑ | |
| Liquidity ratio | 110% | | 115% | ☑ | |

Comments on policy breaches: notes 1 & 2

- 47 There is a \$60 million tranche of funding with LGFA that matures in December 2017. This has now moved into the 0-3 year maturity bucket, causing the policy breach. The 0-3 year bucket now exceeds the upper limit, and the 3-5 year bucket is below the lower limit.
- 48 Debt funding activity over the coming months will see debt return to compliance with the policy by 30 June 2015, and as such this is a temporary non-compliance. The Council's policy allows for up to 12 months to phase-in compliance, with the approval of Council.
- 49 In addition, the policy limits are being revised as part of the treasury management policy review. This is to avoid any unnecessary constraints being imposed over the next 3 years on the Council's borrowing programme.

Market Commentary

- 50 Domestically, economic data has highlighted that business confidence remains high, net migration trends continue to break records, export volumes increased (to partially offset lower prices) and building consents slipped lower in January. Perhaps the two biggest surprises were the decline in building consents and the sheer strength of the migration data; both of which help add pressure onto the already-hot Auckland housing market.
- 51 Cheap oil is providing a boost to the economy, and lowering inflation expectations. This is somewhat offset by the fall in milk prices, and the possibility of drought across the country. As a result, there are mixed views about the OCR, with some predicting a cut in coming months. Overall, it is expected to remain unchanged through all of 2015 and 2016.
- 52 This is providing opportunities to lock in low fixed rates for Council debt and a stable platform for the next two years.

Transacted this quarter

| | |
|----------------------------|--|
| • Debt maturity/roll-over | No debt matured during the quarter |
| • New debt | \$5m LGFA @ 0.3925% Start date: 4-Feb-2015 Maturity: 15-Apr-2020 |
| • Swaps closed out/expired | No swaps expired during the quarter |
| • New swaps | Three swaps purchased during the quarter (all forward starts) 1. \$10m Westpac @ 3.8775% on 11-Feb-2015 <i>Start date: 22-Jan-2019 Maturity: 10-Feb-2025</i> 2. \$10m Westpac @ 3.80% on 17-Feb-2015 <i>Start date: 15-Dec-2016 Maturity: 15-Dec-2024</i> 3. \$10m ANZ @ 3.83% on 25-Feb-2015 <i>Start date: 20-Jan-2016 Maturity: 20-Jan-2025</i> No swaps commenced during the quarter. |

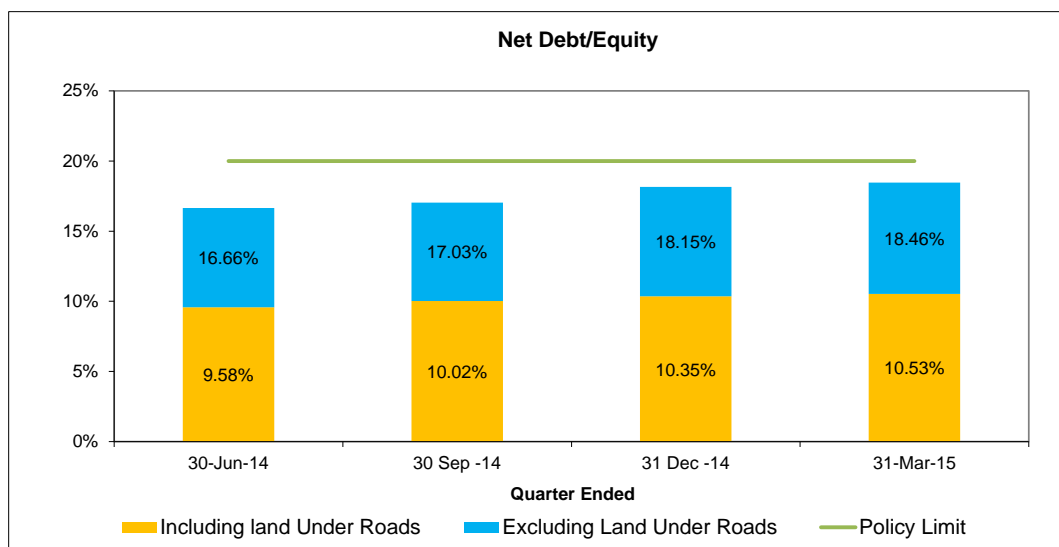
Looking forward

- 53 With market conditions looking increasingly favourable from a borrower's perspective, there is more activity by the Council during the March quarter, in particular locking in long term rates.
- 54 While requirements for new debt will be minimal (\$5 million new debt was drawn in Q3 and a further \$5 million is forecast for Q4), there are opportunities to increase the duration of the swaps that the Council has in place.
- 55 In addition, the annual review of the Treasury Management Policy is being undertaken, and a revised policy was approved by the Corporate Business Committee.

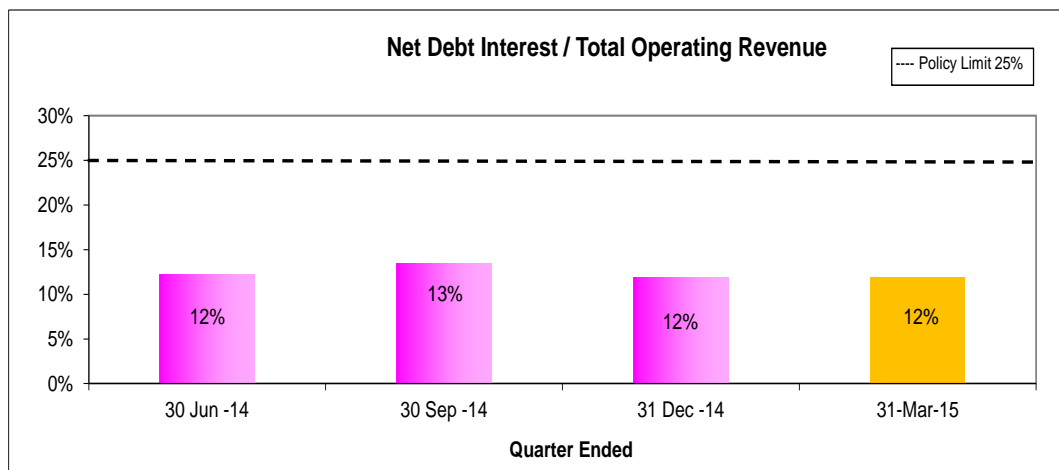
Treasury Policy Limits

- 56 The Treasury Management Policy (Policy) contains four financial ratios with either a maximum or minimum annual limit.
- 57 Maximum Policy ratio limits must not be exceeded. Conversely, minimum Policy ratio limits must either be met or exceeded.

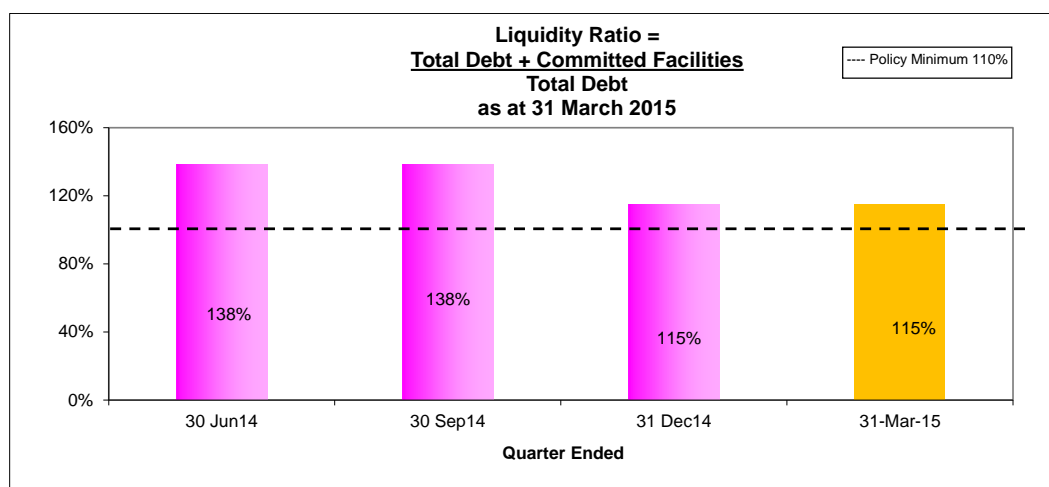
58 The Policy sets the maximum annual limit for the ratio of net debt to equity of 20%. The chart below shows actual limits achieved at the end of each quarter.



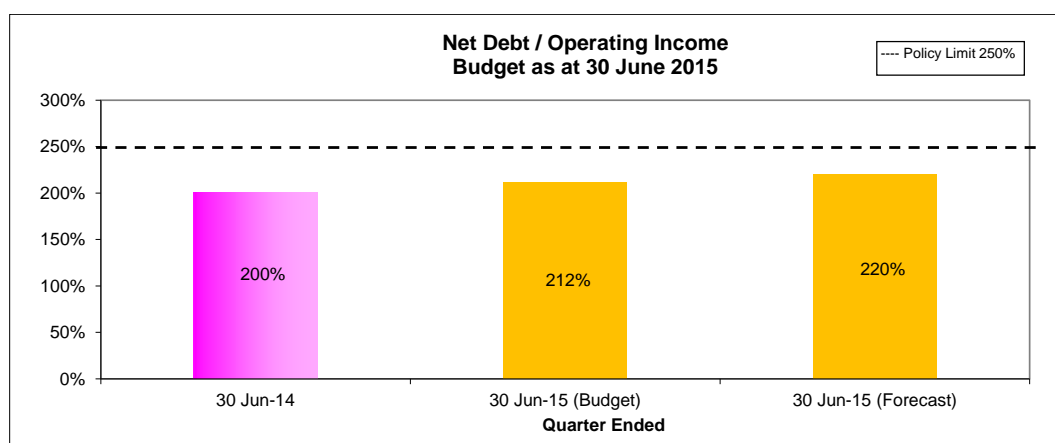
59 The Policy sets the maximum annual limit of 25% for the ratio of Net Debt Interest to Total Operating Revenue. The chart below shows actual limits achieved at the end of each quarter.



- 60 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.



- 61 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

- 62 There are no legal considerations

Consultation

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

Policy Implications

- 64 There are no policy implications.

Tāngata Whenua

- 65 There are no tāngata whenua considerations.

SIGNIFICANCE AND ENGAGEMENT

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

Publicity Considerations

67 There are no publicity considerations at this stage.

RECOMMENDATIONS

68 That the Corporate Business Committee notes the actual financial performance and position for the nine months ended 31 March 2015 as contained in this report Corp-15-1572.

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