

Chairperson and Committee Members
CORPORATE BUSINESS COMMITTEE

13 AUGUST 2015

Meeting Status: **Public**

Purpose of Report: For Information

FINANCIAL REPORT TO 30 JUNE 2015

PURPOSE OF REPORT

- 1 This report sets out Council's financial performance and financial position for the year ended 30 June 2015, with an explanation of key results and variances.

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 eight broad areas of financial performance each quarter.

Part A: Statement of Comprehensive Revenue and Expense

Part B: Statement of Financial Position

Part C: Statement of Cash Flows

Part D: Statement of Rating Position

Part E: Capital Spending Programme

Part F: Capital Carry Forwards from 2014/15 to 2015/16

Part G: Outstanding Rates Debt as at 30 June 2015

Part H: Treasury Management

Full explanations are provided under each part.

CONSIDERATIONS

- 4 The financial information as detailed in Parts A to H of this report (Corp-15-1651) 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.
- 5 Council's auditors could potentially require changes to this financial information as part of Council's statutory audit obligations. It is expected that any such changes will be minor and will be reported to Council's Audit and Risk Subcommittee on the 29 September 2015.

Part A: Statement of Comprehensive Revenue and Expense

- 6 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.
- 7 Table 1 summarises Council's Statement of Comprehensive Revenue and Expense for the year ended 30 June 2015.

Table 1	2014/15 Actual \$000	2014/15 Annual Plan \$000	2014/15 Variance \$000
Revenue			
Rates	51,283	51,800	(517)
Fees and Charges	8,198	7,936	262
Grants and Subsidies	3,453	2,835	618
Development and Financial Contributions	1,435	1,188	247
Interest Income	142	609	(467)
Other Operating Revenue	4,491	1,572	2,919
Revenue	69,002	65,940	3,062
Expenses			
Depreciation and Amortisation	16,152	15,869	(283)
Finance Expense	7,795	7,899	104
Other Operating Expense	46,457	45,008	(1,449)
Expense	70,404	68,776	(1,628)
OPERATING SURPLUS/(DEFICIT)	(1,402)	(2,836)	1,434
Other Gains / Losses			
Unrealised Loss on Revaluation of Derivatives	6,541	-	(6,541)
Other Gains / Losses	6,541	-	(6,541)
NET OPERATING SURPLUS / (DEFICIT) FOR THE PERIOD	(7,943)	(2,836)	(5,107)
Other Comprehensive Revenue & Expense			
Revaluation of Property Plant and Equipment	83	-	(83)
Other Comprehensive Revenue & Expense	83	-	(83)
TOTAL COMPREHENSIVE REVENUE AND EXPENSE	(8,026)	(2,836)	(5,190)

Financial Performance Summary

Full Year Performance

- 8 The Council finished this financial year with a positive overall result with an operating position that was \$1.43 million ahead of the Annual Plan budget. This result includes a rates funded surplus of \$0.39 million which the Council was able to achieve despite the significant expenditure on the two recent flood events. This rates surplus will be used to reduce borrowings as agreed during the development of the 2015-35 Long Term Plan.
- 9 The rates surplus of \$0.39 million has decreased since the last report in March mainly due to maintenance and repairs following the floods which reduced the surplus by approximately \$0.4 million.
- 10 Council's unrealised loss of \$6.54 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; and because this is not a cash loss as there is no intention to realise the changes (whether gains or losses). It is recognised for accounting purposes only.

The following commentary provides explanations of the major variances.

11 **Rates**

Brief Description:	Rates include all rates that the Council bills including water meter rates. Rates remissions and rates billed to Council owned properties are excluded.
Full Year Variance:	Rates are \$0.52 million below budget. This is due to: <ol style="list-style-type: none"> 1. Water rates were \$0.35 million below budget. As agreed during the setting of the 2015-35 Long Term Plan, this will be recovered over the next five years. 2. Rates remissions were \$0.15 million above budget. This is discussed further in Part G.

12 **Fees and Charges**

Brief Description:	Fees and charges include all non-rates revenue the Council receives for providing services to the Community. It also includes fines and penalties charged during the year.
Full Year Variance:	Overall fees and charges are \$0.26 million favourable to budget. This is mainly due to additional penalties for late payment of rates and dog licences of \$0.10 million and additional interment fees of \$0.09 million.

13 **Interest Income**

Brief Description:	Interest income represents the Council's earnings on its term deposits and overnight cash deposits.
Full Year Variance:	Overall interest income is \$0.47 million below budget. This is due to the Council minimising the level of cash on hand which in turn minimises our level of borrowings.

14 **Grants and Subsidies**

Brief Description:	Includes grants received by the Council for operating and capital spending. The majority of grants revenue is received from New Zealand Transport Agency (NZTA) to partially fund our roading maintenance and capital spending programmes.
Full Year Variance:	Grants and subsidies are \$0.62 million favourable to budget mainly due to \$0.41 million additional funding from NZTA. \$0.26 million of this additional funding was for flood related works.

15 **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.
Full Year Variance:	\$0.25 million favourable to budget due to subdivision activity in Paraparaumu and Waikanae.

16 **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.
Full Year Variance:	\$2.9 million favourable to budget mainly due to assets vested to Council being \$1.33 million above budget 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. There was also a non-cash accounting adjustment of \$0.84 million recognising both the fair value adjustment of the Council's provisions and water conservation loans.

Explanation of Expenditure Variances17 **Depreciation**

Brief Description:	Includes depreciation costs associated with ownership of the Council's assets
Full Year Variance:	\$0.28 million unfavourable due to the Council ensuring that assets begin depreciating as soon as the projects are completed. The 2014/15 budget assumed the majority of projects would be completed at the end of the financial year.

18 **Other Operating Expense**

Brief Description:	Includes direct operating costs except for finance charges and asset depreciation/amortisation.
Full Year Variance:	<p>Overall this account was \$1.45 million unfavourable at the end of the financial year.</p> <ol style="list-style-type: none"> 1. This increase in expenditure was predominantly due to costs incurred for the two recent flooding events of \$0.4 million. 2. There were also some additional costs related to an increase in the annual leave balance of \$0.2 million, a reduction in the amount of staff time applied to capital projects of \$0.2 million and some non-cash movements in our provisions of \$0.7 million. 3. There was also some more expenditure on contract resource to backfill vacancies during the year to ensure delivery of the Long Term Plan and District Plan, as well as business improvement work in Finance, IT and Regulatory. 4. These additional costs were partially offset by savings in insurance (\$0.3m), energy (\$0.4m), transport costs (\$0.3m).

Explanation of Other Comprehensive Revenue and Expense Variances19 **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).
Full Year Variance:	\$6.54 million unbudgeted loss due to a fall in fixed interest swap rates driven mainly by low levels of domestic inflation, low economic growth and falling dairy prices.

Part B: Statement of Financial Position

- 20 The Statement of Financial Position as at 30 June 2015 is set out in Table 2, followed by an overview of the key components.

Table 2	2014/15 Actual \$000	2014/15 Budget \$000	Variance
Current Assets			
Cash and Cash Equivalents	1,440	3,734	(2,294)
Trade and Other Receivables	7,634	6,244	1,390
Inventories	95	139	(44)
Non-Current Assets Held for Sale	90	-	90
Loans	212	-	212
Derivative Financial Instruments	-	39	(39)
Total Current Assets	9,471	10,156	(685)
Non-Current Assets	-		
Property Plant and Equipment	1,442,491	936,654	505,837
Forestry Assets	231	268	(37)
Intangible Assets	860	350	510
Other Financial Assets	2,216	-	2,216
Loans	348	-	348
Derivative Financial Instruments	389	232	157
Total Non-Current Assets	1,446,535	937,504	509,031
TOTAL ASSETS	1,456,006	947,660	508,346
Current Liabilities			
Trade and Other Payables	13,131	14,693	1,562
Employee Benefit Liabilities	2,379	1,643	(736)
Deposits	847	1,218	371
Borrowings	10,043	15,749	5,706
Provisions	765	-	(765)
Development Contributions	-	1,622	1,622
Derivative Financial Instruments	262	1,342	1,080
Total Current Liabilities	27,427	36,267	8,840
Non-Current Liabilities			
Employee Benefit Liabilities	212	460	248
Borrowings	130,022	122,267	(7,755)
Provisions	4,187	39	(4,148)
Derivative Financial Instruments	8,893	5,117	(3,776)
Total Non-Current Liabilities	143,314	127,883	(15,431)
TOTAL LIABILITIES	170,741	164,150	(6,591)
Public Equity			
Accumulated Funds	573,575	574,892	1,317
Reserves and Special Funds	3,083	2,074	(1,009)
Revaluation Reserve	708,607	206,544	(502,063)
TOTAL EQUITY	1,285,265	783,510	(501,755)
TOTAL LIABILITIES AND EQUITY	1,456,006	947,660	(508,346)

Total Asset Summary**Year End Position**

- 21 Council's total assets are currently \$508.35 million favourable to full year budget. This is mainly due to the 2013/14 unbudgeted revaluation of land under roads. Due to the timing of this revaluation being completed, it was not included in the 2014/15 budget.

Total Liabilities Summary**Year End Position**

- 22 Council's total liabilities are currently \$6.59 million above full year budget. This is due to the following reasons:
- Trade and Other Payables are \$1.56 million below budget due to less capital expenditure completed during the year than planned.
 - Development and Financial Contributions are \$1.62 million below budget. This is due to new accounting standards now requiring Council to recognise all development and financial contributions as revenue when they are billed (instead of a liability). 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 \$4.91 million above budget. This is due to the unbudgeted provision for the Otaihangā Landfill capping costs.
 - Derivative financial instruments are \$2.43 million above budget. This is mainly due to a fall in fixed interest swap rates in the second part of the 2015 financial year.
 - Borrowings (excluding LGFA Borrower Notes) are \$2 million above budget at year end. The 2014/15 budget for borrowings was set net of LGFA Borrower Notes. As at 30 June 2015, Council's LGFA Borrower Notes are \$2.08 million (included in Non-Current Assets: Other Financial Assets of \$2.22 million).
 - Including LGFA Borrower Notes, total borrowings are in line with budget.

Total Public Equity Summary**Year End Position:**

- 23 Public Equity is \$501.76 million favourable to budget at year end. This is mainly due to the unbudgeted revaluation of land under roads at 30 June 2014.

Part C: Statement of Cash Flows

- 24 The Statement of Cash Flows for the year ended 30 June 2015 is set out in Table 3, followed by an overview of the key variances to Annual Plan.

Table 3	2014/15 Actual \$000	2014/15 Budget \$000	Variance
<i>Cash was provided from:</i>			
Kapiti Coast District Council Rates	51,706	52,350	(644)
Greater Wellington Regional Council Rates	8,995	8,120	875
Grants and Subsidies - Operating	4,888	-	4,888
Interest Received	142	-	142
Fees and Charges	8,807	11,964	(2,982)
	74,538	72,434	2,280
<i>Cash was applied to:</i>			
Payments to Employees and Suppliers	47,723	43,293	4,605
Rates Paid to Greater Wellington Regional Council	8,995	8,120	875
Interest on Borrowings	7,908	7,899	9
GST (net)	146		
	64,772	59,312	5,636
Net Cash Flows from Operating Activities	9,766	13,122	(3,356)
Cash Flows from Investing Activities			
<i>Cash was provided from:</i>			
Proceeds from Sale of Property, Plant and Equipment	2,492	120	2,372
Donations and Sponsorships	264	125	139
	2,756	245	2,511
<i>Cash was applied to:</i>			
Construction and Purchase of Property, Plant and Equipment and Intangibles	27,851	29,323	(1,472)
Purchase of Investments	376	-	376
	28,227	29,323	(1,096)
Net Cash Flows from Investing Activities	(25,471)	(29,078)	3,607
Cash Flows from Financing Activities			
<i>Cash was provided from:</i>			
Long Term Borrowing Raised	15,000	25,125	(10,125)
	15,000	25,125	(10,125)
<i>Cash was applied to:</i>			
Repayment of Principal on Borrowings	5,000	9,278	(4,278)
	5,000	9,278	(4,278)
Net Cash Flows from Financing Activities	10,000	15,847	(5,847)
Net Increase(Decrease) in Cash and Cash Equivalents	(5,705)	(109)	(5,596)
Add Total Cash and Cash Equivalents at 1 July	7,145	3,843	3,302
TOTAL CASH AND CASH EQUIVALENTS AT 30 JUNE	1,440	3,734	(2,294)

25 **Cash Flow from Operating Activities**

Brief Description:	Net cash flow generated from total operating revenue less total operating expenditure.
Full Year:	A net cash inflow of \$9.77 million was achieved.
Full Year Variance:	Operating cash flows were \$3.36 million below budget. This was mainly due to more payments being processed prior to the end of the financial year; leaving less outstanding payables than budgeted.

26 **Cash Flows from Investing Activities**

Brief Description:	Net cash flow generated from the sale and purchase of Council assets.
Full Year:	A net cash outflow of \$25.47 million was achieved due to the following reasons: <ol 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 \$28.03 million spent on capital projects; being \$1.29 million lower than budget. 3 Purchase of Investments of \$0.38 million comprises \$0.14 million funding to advance additional water conservation loans and an increase in LGFA borrower notes of \$0.24 million.
Full Year Variance:	Cash flows from investing activities were \$3.6 million favourable to budget which was mainly due to the unbudgeted settlements proceeds received for the Paraparaumu town centre land.

27 **Cash Flows from Financing Activities**

Brief Description:	Net cash flow from borrowings.
Full Year:	A net cash inflow of \$10 million was achieved.
Full Year Variance:	Cash flows from financing activities were \$5.85 million below budget which was mainly due to the unbudgeted settlement proceeds received for the Paraparaumu town centre land and reduced capital spending. This meant that the Council was not required to borrow as much during the year

Part D: Statement of Rates Funding

- 28 The underlying budget variance is the difference between the budgeted and actual deficit after adjusting for items that are not used to fund our operating expenditure.
- 29 The underlying rates cash surplus was \$0.33 million this year which is a favourable position for the Council to be in considering the significant expenditure on the recent flooding events.
- 30 The underlying rates cash surplus arose from the recognition of additional operating income and through savings in expenditure. As agreed during the preparation of the 2015-35 Long Term Plan, this will be used to repay borrowings.

Table 4: Rates Revenue Requirement	\$000's
Net Operating Surplus/(Deficit)	(7,943)
Adjusted by income and expenditure variances not funded by rates:	
<i>Add:</i>	
Movement in net expenditure funded by reserves	119
Fair value movement in interest rate swaps	6,541
Changes to revenue not impacting rates	167
<i>Less:</i>	
Vested assets not budgeted for	(1,327)
Underlying net surplus/(deficit)	(2,443)
Less: budgeted net surplus/(Deficit)	(2,837)
Underlying rates surplus	394

Part E: Capital Spending Programme

- 31 Table 5 provides a summary of the 2014/15 capital expenditure programme for the year.

Table 5	Full Year June 2015		
	Actual \$000	Budget \$000	Variance \$000
Projects Over \$250,000			
Hardware Upgrades	114	254	140
Otaki Splash Pad / Water Features	-	268	268
Strategic Land Purchase	21	1,001	980
Youth Hub	-	250	250
Material Additions	389	438	49
NZTA Sealed Road Resurfacing	1,462	1,453	(9)
NZTA Traffic Services Renewals	362	347	(15)
NZTA Minor Improvements	174	420	246
NZTA Major Bridge Repairs	248	376	128
Milne / Te Roto / Kapiti Road Intersection	1,238	900	(338)
Major Community Connector Upgrades	429	633	204
Town Centre Major Connector	889	1,000	111
Waikakariki Gravel Extraction	61	500	439
Tilley Road	470	553	83
Wellington Road Pipe Renewal	499	259	(240)
Milne Drive Wastewater Pumping Station	135	250	115
Paraparaumu WWTP Drier Replacement	280	290	10
Waikanae Water Treatment Plant Renewal	4,417	4,822	405
Waikanae Water Treatment Plant Upgrade	516	874	358
River Recharge	4,110	3,370	(740)
Water Metering	434	539	105
Otaki WWTP Oxidation Lagoon Desludging	822	672	(150)
Otaki Beach Pump Station	148	1,660	1,512
Plant Purchase	629	643	14
Total Projects Over \$250,000	17,847	21,772	3,925
Total Projects Under \$250,000	6,750	8,242	1,492
TOTAL CAPITAL SPENDING PROJECTS	24,597	30,014	5,417
Explained by:			
Projects to be carried forward to 2015/16			4,186
Savings			1,231
Total			5,417

- 32 Please refer to the CBC Activity Report for the quarter ended 30 June 2015 for more detailed information. Part F also provides for information on projects carried forward into 2015/16.

Part F: Capital Carry forwards from 2014/15 to 2015/16

- 33 During the setting of the 2015-35 Long Term Plan approval was given to carry forward \$3.48 million. Subsequently there have been some changes in the carry forward required as a result of more or less spending than anticipated in 2014/15. Explanations have been provided below:

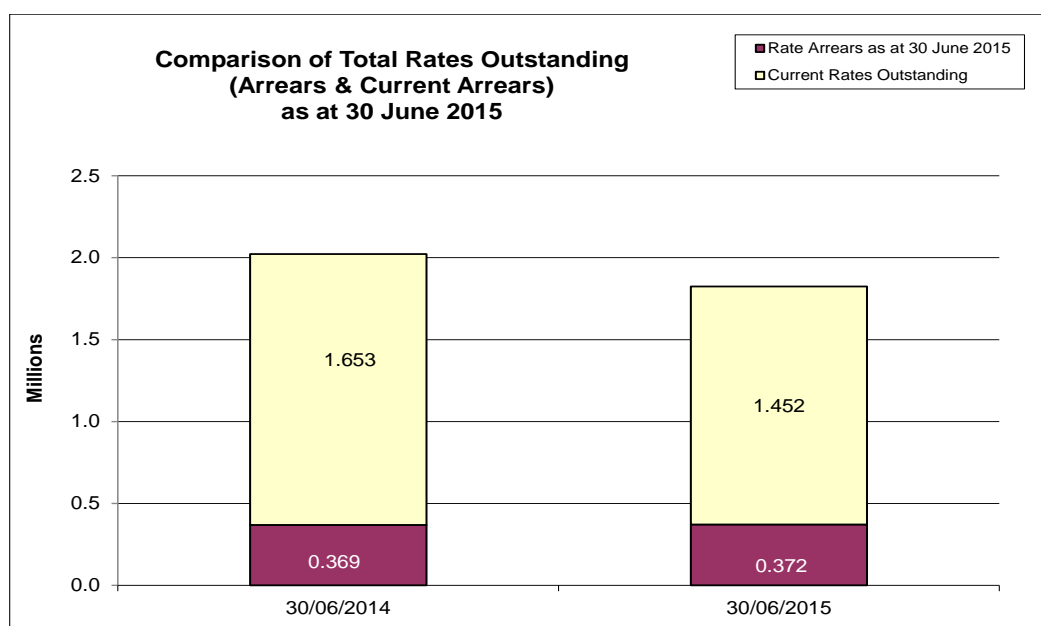
Table 6	Final proposed carry- over \$000's	Carry over approved in LTP \$000's	Explanation	
No change in carry forward required				
Ōtaki Theatre Renewals	10	10		
Coastland Aquatic Centre Slide Stairs	10	10		
Website Development	21	21		
Councillors' Computer Hardware	42	42	No Changes required to the carry forwards as project spending was in line with forecasts set when the 2015-35 long term plan was finalised.	
Public Art Fund	50	50		
Ōtaki Domain Training Lights	61	61		
Ōtaki Beach BBQ's	10	10		
Ōtaki Beach Shade Area	10	10		
Waikakariki Gravel Extraction	400	400		
Total	614	614		
Decrease in carry forward required				
Hardware Upgrades PC	18	29		More spending occurred in 2014/15 than anticipated when the long term plan was finalised and so a lower carry forward is required.
Network Upgrade	92	94		
Old Ōtaki Service Centre/Museum	31	46		
Stormwater -renewal of discharge consent with GWRC	-	50		
Total	140	219		

Table 6	Final proposed carry-over \$000's	Carry over approved in LTP \$000's	Explanation
Increase in carry forward required			
Ōtaki Beach Pump Station	2,201	1,510	Ownership matters have been resolved so that the project is ready to begin in July in 2015. This increase is to align with the project budget coming from the tender process which was presented to Council last year. To ensure that there is no overall impact on Councils forecast borrowings Officers reviewed budget to confirm that the level of budget savings from capital spending was enough to offset this increase.
Library -Materials Additions	50	-	To allow provision for library materials arriving late from overseas.
Otaraua Park (Stage 2)	31	-	The full planned programme for 2014/15 was not completed in the current year but is expected to be completed in the first quarter of 2015/16.
Website Refresh	114	112	There was less spending than anticipated in 2014/15, therefore the carry forward requires a minor increase to ensure the full 2014/15 budget can be utilised.
Hardware Upgrades Servers	56	54	
Strategic Land Purchase	979	971	
Total	3,431	2,647	
Total Carry forward	4,186	3,479	
Savings in Capital Expenditure	1,231	1,508	This change in savings from the original forecast represents an additional \$0.27m borrowings forecast for 2015/16 if the full capital spending programme is completed during 2015/16.
Total underspend in Capital Spending for 2014/15	5,417	4,987	

Part G: Outstanding Rates Debt as at 30 June 2015

Rates Outstanding

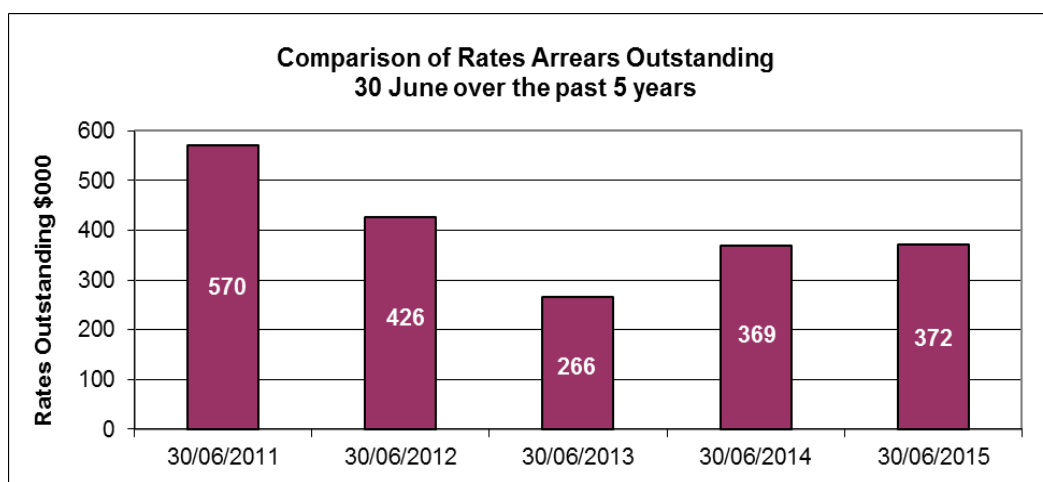
- 34 \$1.82 million of total rates (current and arrears, excluding water rates) is outstanding as at 30 June 2015 (\$2.02 million: 30 June 2014).
- 35 Rate payments received are first applied to rate arrears. The chart below reflects a reduction in the overall rates debt as at 30 June 2015 (Net of Council owned properties) compared to 30 June 2014.



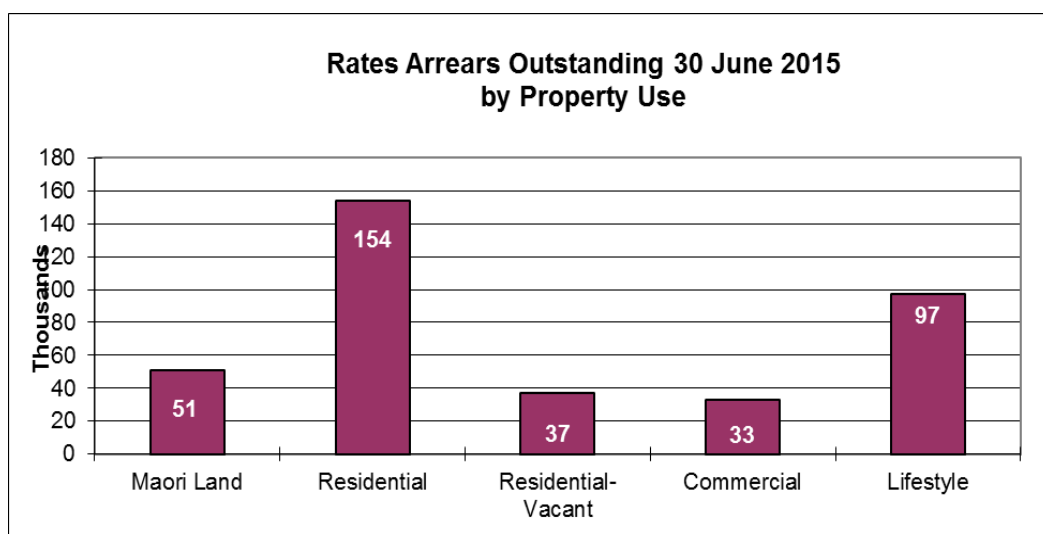
- 36 Council collects current year rates on behalf of the Greater Wellington Regional Council. \$1.45 million of current rates outstanding as at 30 June 2015 is split as follows:

	\$000	\$000
Kāpiti Coast District Council rates	985	
Kāpiti Coast District Council penalties	266	
Total Kāpiti Coast District Council outstanding rates	1,251	
Greater Wellington Regional Council rates	157	
Greater Wellington Regional Council penalties	44	
Total Greater Wellington Regional Council outstanding rates	201	
Total 2014/15 rates outstanding as at 30 June 2015	1,452	

- 37 The graph below shows a comparison of the rates arrears outstanding as at 30 June 2015 and balance date for the previous 4 years.



- 38 Council's rates collection process involves follow up with outstanding debtors and payment arrangements to ensure debts are cleared over a reasonable time period.
- 39 The graph below details the total rates arrears of \$0.372 million by Property Use Category. As expected, the majority of the total rates arrears are from residential properties.



- 40 Central Government rate rebates of \$1.71 million were granted for the year ended 30 June 2015. Council provides the approved rates remission (up to \$605 per rateable property) to the successful applicants and recovers the costs from the Department of Internal Affairs.

- 41 The table below details the total rate remissions (including Central Government rates rebates) granted for the year ended 30 June 2015.

Table 7	2014/15 Actual \$000	2014/15 Annual Plan \$000
Financial Hardship	183	200
Other General Remissions	252	85
Total Rates Remissions	434	285
Central Government Rebates	1,710	-

- 42 Other General Remissions includes rate remissions for Māori Freehold Land for the 2013 and 2014 financial years.

Part H: Treasury Management

SUMMARY

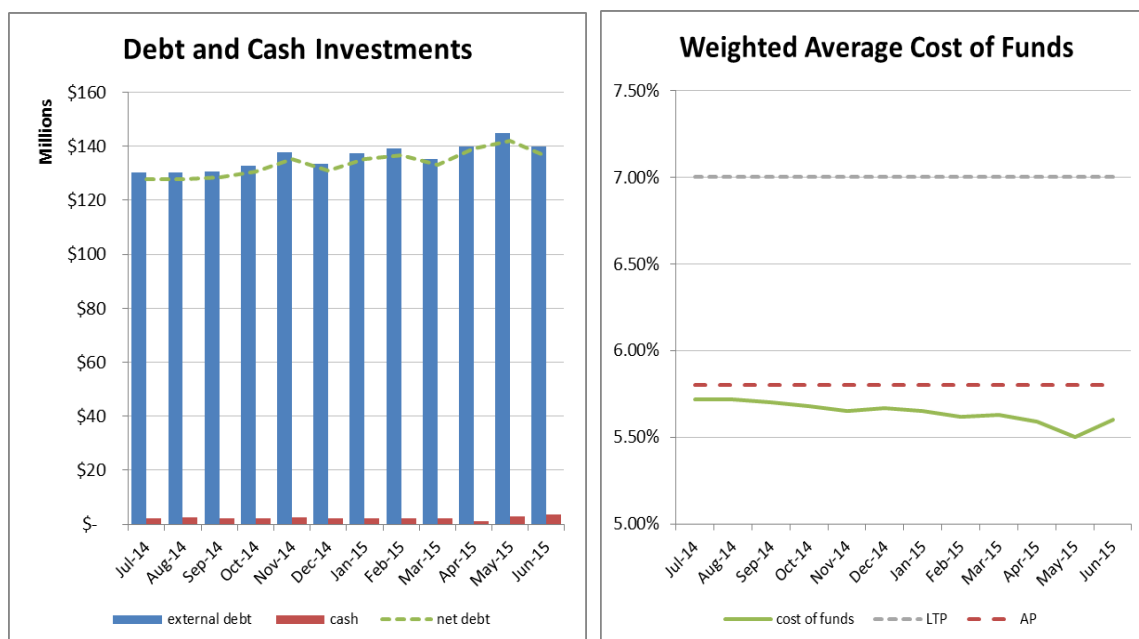
- 43 It has been a year of two halves. For much of 2014, interest rates were trending upwards, with optimistic views of the economy, both locally and internationally. Things levelled off in late 2014, and throughout the first half of 2015 the outlook has changed with interest rates declining and a 25 basis point cut to the OCR in June.
- 44 Market rates are now significantly lower, and all market commentators are expecting further interest rate cuts over the rest of 2015. The only question is how far the OCR reductions will go – a further 75 to 100 basis points has been predicted, from the current 3.25%, as at 30 June.
- 45 During the quarter there was \$10 million of new term debt drawn down. Recent Reserve Bank forecasts now indicate short term rates will remain at current levels for the next 2 years.

- 46 Debt and investments

(\$000)	This month 30-Jun-15	Last month 31-May-15	Full Year Forecast	Full Year Budget
External debt	140,065	145,065	145,100	138,016
less cash investments	(1,440)	(2,845)	(2,300)	(3,734)
Net debt	138,625	142,220	142,800	134,282

- 47 The Council participated in the April and June funding round with LGFA, drawing down \$10 million with 2020 maturity. New short term debt of \$10 million was drawn down in May and repaid in June. There have not been any other debt maturities during this period. This brings our net debt to \$139 million as at the end of June.
- 48 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.

- 49 The following charts show the Council's month end balances, and cost of funds, for the 2014/15 year.



- 50 The weighted average cost of funds has improved slowly as the Council takes advantage of lower interest rates.

Finance Costs

(\$000)	2014/15 Actual \$000	2014/15 Budget \$000	var	Full Year Forecast	Full Year Budget	var
External interest expense	7,741	7,852	111	7,750	7,945	102
less interest received	(142)	(609)	(466)	(150)	(609)	(459)
Net finance costs	7,599	7,243	(356)	7,600	7,336	(357)
Weighted average cost of funds	5.64%	5.80%	0.16%	5.64%	5.80%	
Revaluation of derivatives	6,541	-	6,541			

Policy Compliance

Criterion			YTD	Compliant	note
Debt					
Projected debt (12 mths)			\$150m		
Current debt			\$140m		
Fixed debt (>1 yr)			\$109m		
Fixed portion	55%	95%	75%	☑	
Funding maturity	Limit min – max				
0-3 years	10%	70%	48%	☑	1,2
3-5 years	10%	60%	30%	☑	
5+ years	10%	50%	21%	☑	
Fixed rate maturity	Limit min – max				
1-3 years	15%	60%	25%	☑	
3-5 years	15%	60%	34%	☑	
5+ years	15%	60%*	24%	☑	
Liquidity ratio	110%		114%	☑	

Comments

1. We have renegotiated our line of credit facility with Westpac, with the result being we have a 4 year term, expiring in April 2019. This moves our \$20m funding maturity from the 0-3 bucket, into the 3-5 year bucket, thus contributing to being policy compliant.
2. Policy limits were adjusted in line with the revised Treasury Policy, adopted by CBC in May. This provides further headroom with an increased upper limit in the 0-3 year bucket, should market conditions dictate borrowing from shorter maturity dates. This can be reviewed after the \$60m maturity in December 2017.

Market Commentary

- 51 Inflation is low – at a 15 year low, and has been below 2% for over 5 years now. Expectations for the next two years are for more of the same. While growth has been strong, prospects are for things to ease, for example when the Christchurch rebuild winds down, in another 2-3 years.
- 52 The US influence on long-term rates is expected to see a continuation of the recent steady rise in 10 year rates. There is an ongoing question mark around what happens with Greece, with a real possibility of debt default.
- 53 This is providing opportunities to lock in low fixed rates for Council debt and a stable platform for the next two years.

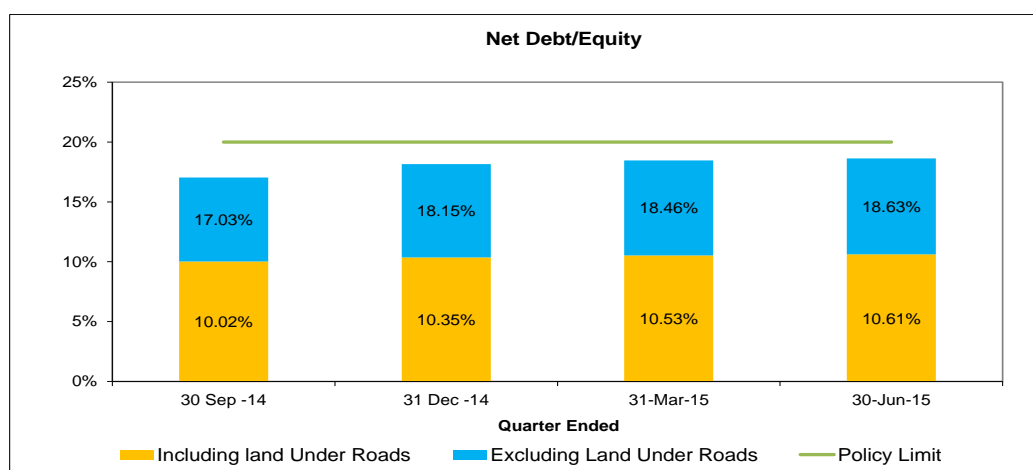
* Maximum cover in the five year plus period may be extended up to 70% during periods of historical low long term interest rates subject to approval by the Chief Executive and reported to Corporate Business Committee at the following committee meeting. The definition of 'historical low long term interest rate' is where the 10-year swap rate is more than 15% below its rolling ten year average.

Looking forward

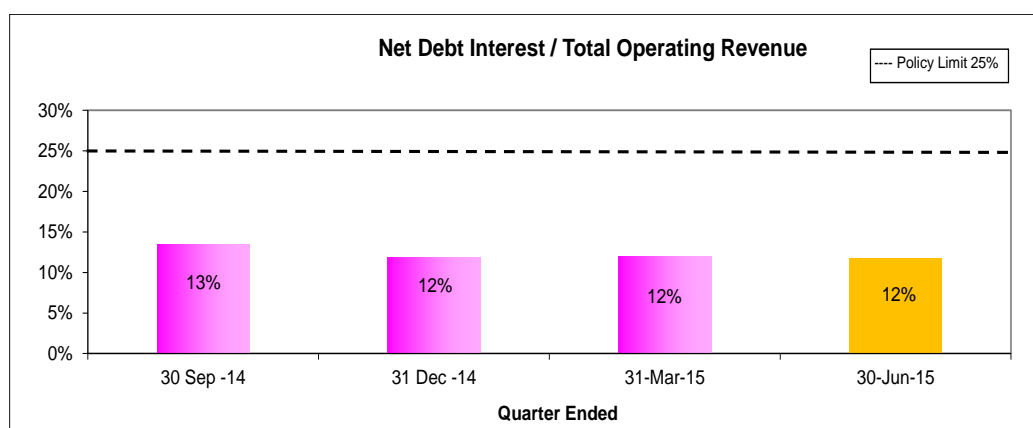
- 54 We are seeing a new reality for interest rates, with a likely long run average interest rate that is significantly lower than historical averages. Of course, nothing is ever certain.
- 55 The Reserve Bank is expected to lower the OCR by at least 50 basis points from 1 July onwards. This has been priced in to the interest rate projections. Following another reduction of 25 basis points on 23 July, commentators expect a further cut in September, with another cut before the end of the year not being ruled out.

Treasury Policy Limits

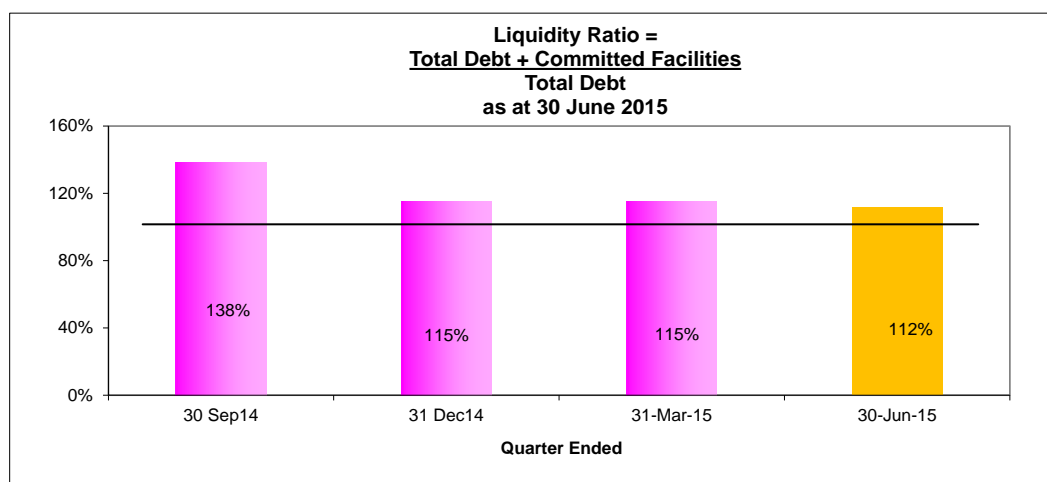
- 56 The Treasury Management Policy (Policy) contains four financial ratios with either a maximum or minimum annual limit.
- 57 Maximum Policy ratio limits must not be exceeded. Conversely, minimum Policy ratio limits must either be met or exceeded.
- 58 The Policy sets the maximum annual limit for the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



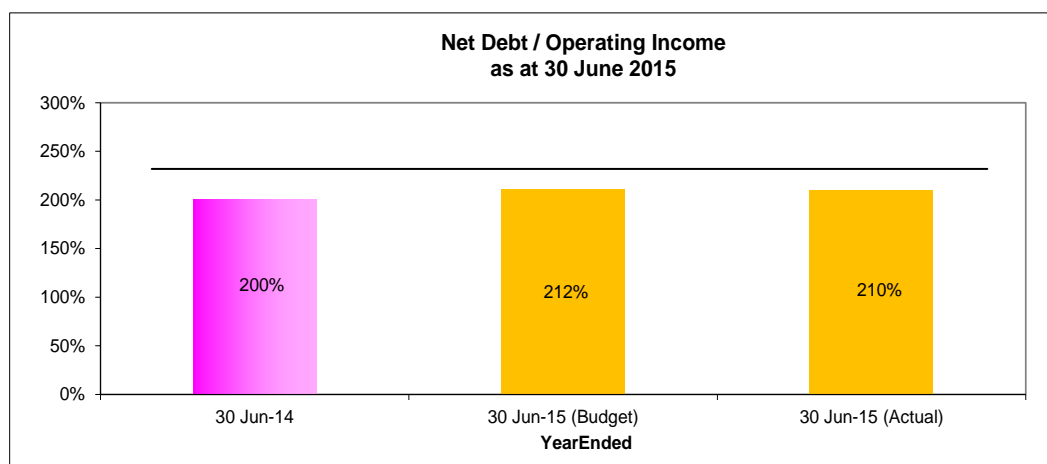
- 59 The Policy sets the maximum annual limit of 20% for the ratio of Net Debt Interest to Total Operating Revenue. The chart below shows actual limits achieved at the end of each quarter.



- 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 240% for the ratio of Net Debt to Operating Income. This is a measure of Council's ability to repay its debt from the operating income it receives during a given financial.



CONSIDERATIONS

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 year ended 30 June 2015 as contained in this report Corp-15-1651.

69 That the Corporate Business Committee approves the changes to the capital projects carried forward from 2014/15 to 2015/16 as outlined in Table 6.

Report prepared by:

Report prepared by:

**Mark de Haast
Financial Controller**

**Jacinta Straker
Manager, Financial Planning and
Performance**

Approved for Submission by:

Approved for Submission by:

**Wayne Maxwell
Group Manager Corporate Services**

**Sean Mallon
Group Manager Infrastructure Services**