

Chairperson and Committee Members
CORPORATE BUSINESS COMMITTEE

19 NOVEMBER 2015

Meeting Status: **Public**

Purpose of Report: For Information

FINANCIAL REPORT TO 30 SEPTEMBER 2015

PURPOSE OF REPORT

- 1 This report sets out Kāpiti Coast District Council's (Council's) financial performance and financial position for the quarter ended 30 September 2015, with explanations of key results and variances.

DELEGATION

- 2 The Corporate Business 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 Spending Programme
 - Part F: Outstanding Rates Debt as at 30 September 2015
 - Part G: Treasury Management

CONSIDERATIONS

- 4 The financial information as detailed in Parts A to G of this report (Corp-15-1753) 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.

Part A: Statement of Comprehensive Revenue and Expense

- 5 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.
- 6 Table 1 provides Council's actual revenue and expense for the quarter ended 30 September 2015. Council's total revenue and expense forecast for the year ended 30 June 2016 is also provided.

Table 1	2015/16 YTD Actual \$000	2015/16 YTD Budget \$000	YTD Variance \$000	2015/16 Full Year Forecast \$000	2015/16 Full Year Budget \$000	Full Year Forecast Variance \$000
Revenue						
Rates	13,596	13,536	60	53,989	53,989	-
Fees and Charges	2,457	2,376	81	7,667	7,558	109
Development and Financial Contributions Revenue	126	264	(138)	1,055	1,055	-
Grants and Subsidies	378	1,078	(700)	3,917	4,277	(360)
Other Operating Revenue	82	65	17	444	261	183
Total Revenue	16,639	17,319	(680)	67,072	67,140	(68)
Expenses						
Other Operating Expense	11,064	12,249	1,185	46,434	46,434	-
Depreciation and Amortisation	4,320	4,070	(250)	16,530	16,280	(250)
Expenses	15,384	16,319	935	62,964	62,714	(250)
Interest						
Interest Income	25	54	(29)	336	216	120
Finance Expense	2,023	2,041	18	8,366	8,164	(202)
Net Interest Costs	1,998	1,987	(11)	8,030	7,948	(82)
OPERATING SURPLUS/(DEFICIT)	(743)	(987)	244	(3,922)	(3,522)	(400)
Other Gains/Losses						
Unrealised Gain/(Loss) on Revaluation of Derivatives	(3,137)	(122)	(3,015)	(3,137)	(488)	(2,649)
Other Gains/Losses	(3,137)	(122)	(3,015)	(3,137)	(488)	(2,649)
NET OPERATING SURPLUS/(DEFICIT) FOR THE QUARTER	(3,880)	(1,109)	(2,771)	(7,059)	(4,010)	(3,049)
Other Comprehensive Revenue and Expense						
Revaluation of Property Plant and Equipment	-	5,082	(5,082)	20,328	20,328	-
Other Comprehensive Revenue and Expense	-	5,082	(5,082)	20,328	20,328	-
TOTAL COMPREHENSIVE REVENUE AND EXPENSE	(3,880)	3,973	(7,853)	13,269	16,318	(3,049)

Financial Performance Summary

- 7 Council's year to date operating deficit is \$240,000 favourable to budget. This was achieved mainly due to lower levels of operating expenditure at the beginning of the year in areas such as consultants, contractors, legal and maintenance, rather than cost savings that will impact on the full year result.

- 8 Conversely, Council is forecasting a full year operating deficit to be \$400,000 unfavourable to budget. This is mainly due to higher asset depreciation due to the revaluation of Council's water assets now occurring six months earlier than planned and the non-receipt of expected NZTA funding for the 200 metre road extension between the Nga Manu link road and the Nga Manu Reserve.
- 9 Three quarters of the financial year still remain ahead. Council's forecast full year performance is subject to change during the year in light of any new information.
- 10 Council's unrealised loss of \$3.14 million on financial derivatives is due to interest rates falling since 30 June 2015. There is no intention to realise these fair value changes (whether gains or losses). Instead, this change in fair value is recognised for accounting purposes only and does not represent a cash loss.

Explanation of Key Revenue 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.
Year to Date Variance:	In line with budget.
Forecast Full Year Variance:	Expected to be in line with budget at this stage.

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.
Year to Date Variance:	In line with budget.
Forecast Full Year Variance:	\$109,000 favourable to budget mainly due to additional building consent fees.

13 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:	\$138,000 unfavourable to budget. This is mainly due to timing differences of actual subdivision activity in Paraparaumu and Waikanae.
Forecast Full Year Variance:	Expected to be in line with budget at this stage. Budget provided for 125 new lots or dwellings across the district. Year to date, Council has approved 115 new lots and the revenue will be recognised in the coming months.

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.
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Year to Date Variance:	\$700,000 unfavourable to budget mainly due to temporary timing differences as capital project works are mainly undertaken in the summer months.
Forecast Full Year Variance:	\$360,000 unfavourable to budget. This is due to NZTA not contributing towards Council's planned \$1.5 million road extension (200 metres) between Nga Manu Nature Reserve and the link road running over the expressway through to Nga Manu.

15 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:	In line with budget.
Forecast Full Year Variance:	\$183,000 favourable to budget due to sponsorship monies and receipt of \$96,000 from a long outstanding court order for costs awarded to the Council.

Explanation of Key Expenditure Variances

16 Other Operating Expense

Brief Description:	Includes direct operating costs except for finance charges and asset depreciation/amortisation.
Year to Date Variance:	\$1.19 million favourable to budget. This is mainly a reflection of lower levels of expenditure at the beginning of the year in areas such as consultants, contractors, legal and maintenance, rather than cost savings that will impact on the full year result.
Full Year Forecast Variance:	Expected to be in line with budget at this stage.

17 Depreciation

Brief Description:	Includes depreciation costs associated with ownership of the Council's assets
Year to Date Variance:	\$250,000 unfavourable to budget. This is mainly due to: <ol style="list-style-type: none"> 1. Additional assets were vested to Council in 2014/15 than planned. 2. Actual useful lives for the Waikanae Water Treatment Plant and the River Re-charge Scheme are shorter than planned (50 yrs. instead of 75 yrs.). These lives will be further reviewed as part of the 2015/16 water assets revaluation.
Full Year Forecast Variance:	\$250,000 unfavourable to budget. This is mainly due to: <ol style="list-style-type: none"> 1. Additional assets vested to Council in 2014/15 2. Shorter useful lives at the Waikanae Treatment Plant and River Recharge Scheme 3. Six months of higher water assets depreciation than planned as the 2015/16 revaluation of water assets has been moved forward to 31 December 2015.

Explanation of Key Interest Variances**18 Interest Income**

Brief 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:	\$29,000 unfavourable to budget. This is mainly due to lower interest rates.
Full Year Forecast Variance:	\$120,000 favourable to budget. This is due to expected earnings from issuing \$10 million of new unbudgeted debt in November 2015 to pre-fund the \$10 million debt maturity in December 2016. Please see Part G: Treasury Management, for further information.

19 Interest Expense

Brief Description:	Council's debt servicing cost on its total borrowings, including interest rate swap margins and Council's credit line fee.
Year to Date Variance:	In line with budget.
Full Year Forecast Variance:	\$202,000 unfavourable to budget. This is due to expected interest costs from issuing \$10 million of new unbudgeted debt in November 2015 and Council's unbudgeted credit line fee.

Explanation of Key Other Gains / (Losses) Variances**20 Unrealised Loss on Revaluation of Derivatives**

Brief Description:	<ol style="list-style-type: none"> Council recognises its interest rate swaps at fair value on a monthly basis. The change in fair value between 30 June 2015 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).
Year to Date Variance:	\$3.02 million unfavourable to budget because the majority of Council's committed fixed swap rates are higher than fixed swap rates currently available on the open market. Please see Part G: Treasury Management, for further information.
Full Year Forecast Variance:	Given the high volatility and uncertainty 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.

Explanation of Other Comprehensive Revenue and Expense Variances**21 Revaluation of Property, Plant and Equipment**

Brief Description:	<p>Council records its significant assets at fair value. Amongst other aspects, fair value also considers asset obsolescence and impairment. To ensure fair value is best achieved, Council transitioned to an annual asset revaluation programme on a rolling basis as follows:</p> <ol style="list-style-type: none"> Three Waters Assets (Water, Wastewater, Stormwater, flood protection) every two years starting 31 December 2015;
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	<p>2. Roading (including land under roads), every two years starting 31 December 2016; and</p> <p>3. Land and Buildings (including Parks and Open Spaces), every three years, starting 31 December 2016.</p>
Year to Date Variance:	\$5.08 million unfavourable to budget. This is a timing difference as the budget has been incorrectly spread over the year.
Full Year Forecast Variance:	Expected to be in line with budget at this stage.

Part B: Statement of Financial Position

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

Table 2	2015/16 YTD Actual \$000	2015/16 Year End Forecast \$000	2015/16 Year End Budget \$000	2015/16 Year End Variance \$000
Assets				
Cash and Cash Equivalents	139	200	200	-
Trade and Other Receivables	3,492	6,617	6,617	-
Inventories	101	142	142	-
Non-Current Assets Held for Sale	-	-	-	-
Property Plant and Equipment	1,439,724	1,471,306	1,470,772	534
Forestry Assets	218	218	77	141
Intangible Assets	787	923	923	-
Other Financial Assets	2,216	12,278	2,278	10,000
Loans	577	756	756	-
TOTAL ASSETS	1,447,254	1,492,440	1,481,765	10,675
Liabilities				
Trade and Other Payables	4,760	15,661	15,661	-
Employee Benefit Liabilities	2,364	2,478	2,478	-
Deposits	775	900	900	-
Borrowings	140,802	158,022	148,848	(9,174)
Provisions	4,940	4,133	4,133	-
Derivative Financial Instruments	12,240	12,240	6,455	(5,785)
TOTAL LIABILITIES	165,881	193,434	178,475	(14,959)
Public Equity				
Accumulated Funds	569,799	566,599	570,883	(4,284)
Reserves and Special Funds	2,967	3,389	3,389	-
Revaluation Reserve	708,607	729,018	729,018	-
TOTAL EQUITY	1,281,373	1,299,006	1,303,290	(4,284)
TOTAL LIABILITIES AND EQUITY	1,447,254	1,492,440	1,481,765	(10,675)

Total Asset Summary

Year to Date Position

- 23 Council's total assets are currently \$34.51 million unfavourable to full year budget. This is mainly due to the following:
- Property, plant and equipment is \$31.05 million unfavourable to budget mainly due to temporary timing differences as most capital project works are undertaken in the summer months.
 - Trade and other receivables are \$3.13 million unfavourable to budget mainly because three quarters of property and water rates are yet to be invoiced and same for Council's non-rates generating revenue charges.

Full Year Forecast

- 24 Council's assets are forecast to be \$10.68 million favourable to budget. This is due to the following:
- New debt of \$10 million is expected to be issued in November 2015 to pre-fund \$10 million of debt maturing in December 2016. This new debt will be invested on fixed term deposit at the most favourable rate of return.

- In 2014/15, additional assets were vested to the Council that were not included in the budget.
- In 2014/15, Council recognised eight hectares of pine trees on the Otaihanga landfill that actually fell outside of the expressway designation. In 2013/14, they were believed to be within the designation and were derecognised.

Total Liabilities Summary

Year to Date Position

- 25 Council's total liabilities are currently \$12.59 million favourable to full year budget. This is mainly due to the following:
- Trade and Other Payables are \$10.9 million favourable to budget due to lower levels of operating expenditure at the beginning of the year in areas such as consultants, contractors, legal and maintenance. In addition, most capital project works are scheduled in the summer months.
 - Borrowings are \$8 million favourable to budget mainly because most capital project works are scheduled across the summer months.
 - Derivative financial instruments are \$5.8 million unfavourable to budget mainly due to low interest rates.

Full Year Forecast

- 26 Council's liabilities are expected to be \$14.96 million unfavourable to budget. This is mainly due to the following reasons:
- Unbudgeted pre-funding of the \$10 million debt maturity in December 2016.
 - The fair value of Council's committed derivative financial instruments are estimated to be \$5.79 million unfavourable to budget due to low interest rates. Please see Part G: Treasury Management for further information.

Total Public Equity Summary

Year to Date Position

- 27 Council's total public equity is \$21.92 million unfavourable to budget. This is mainly due to a temporary timing difference regarding the \$20.3 million uplift expected in the Revaluation Reserve from the revaluation of the three waters infrastructure assets.

Full Year Forecast

- 28 Total equity is forecast to be \$4.28 million unfavourable to budget. This is mainly due to the impact of low interest rates on Council's derivative financial instruments.

Part C: Statement of Cash Flows

- 29 The Statement of Cash Flows for the quarter ended 30 September 2015 is set out in Table 3, followed by an overview of the key variances to budget.

Table 3	2015/16 YTD Actual \$000	2015/16 Full Year Forecast \$000	2015/16 Full Year Budget \$000	2015/16 Full Year Variance \$000
<i>Cash was provided from:</i>				
Kapiti Coast District Council Rates	14,038	45,976	45,976	-
Greater Wellington Regional Council Rates	2,545	-	-	-
Grants and Subsidies - Operating	378	2,862	2,862	-
Interest Received	25	216	216	-
Charges and Fees	3,308	16,637	16,637	-
GST (net)	884	299	299	-
	21,178	65,990	65,990	-
<i>Cash was applied to:</i>				
Payments to Employees and Suppliers	16,096	45,377	45,377	-
Rates Paid to Greater Wellington Regional Council	2,545	-	-	-
	18,641	45,377	45,377	-
Net Cash Flows from Operating Activities	2,537	20,613	20,613	-
Cash Flows from Investing Activities				
<i>Cash was provided from:</i>				
Proceeds from Sale of Property, Plant and Equipment	111	-	-	-
Proceeds from capital grants	94	1,415	1,415	-
	205	1,415	1,415	-
<i>Cash was applied to:</i>				
Construction and Purchase of Property, Plant and	2,801	22,427	22,427	-
Purchase of Investments	16	10,287	287	(10,000)
	2,817	32,714	22,714	(10,000)
Net Cash Flows from Investing Activities	(2,612)	(31,299)	(21,299)	(10,000)
Cash Flows from Financing Activities				
<i>Cash was provided from:</i>				
Short-term borrowings	16,550	-	-	-
Long-term borrowings	-	38,832	8,832	30,000
	16,550	38,832	8,832	30,000
<i>Cash was applied to:</i>				
Interest on Borrowings	1,976	8,164	8,164	-
Short-term borrowings	15,800	-	-	-
Long-term borrowings	-	20,064	-	(20,064)
	17,776	28,228	8,164	(20,064)
Net Cash Flows from Financing Activities	(1,226)	10,604	668	9,936
Net Increase(Decrease) in Cash and Cash Equivalents	(1,301)	(82)	(18)	(64)
Add Total Cash and Cash Equivalents at 1 July	1,440	218	218	-
TOTAL CASH AND CASH EQUIVALENTS AT 30 JUNE	139	136	200	(64)

Overall Summary

- 30 Council's cash on hand as at 30 September is \$0.14 million. This low level of cash on hand reflects Council's policy to minimise cash on hand.
- 31 Council funded the first quarter capital works programme using a combination of an opening cash balance of \$1.44 million, public auction fleet sale proceeds of \$111,000, NZTA subsidies of \$94,000 and short term borrowings.
- 32 **Cash Flow from Operating Activities**

Brief Description:	Net cash flow generated from total operating revenue less total operating expenditure.
Year to Date:	The first quarter realised a net cash inflow of \$2.54 million. This was mainly due to increased building consent fees and payment of the final tranche of the fourth quarter water rates for 2014/15.
Full Year Forecast:	Expected to be in line with budget at this stage.

33 **Cash Flows from Investing Activities**

Brief Description:	Net cash flow generated from the sale and purchase of Council assets.
Year to Date:	The first quarter realised a net cash outflow of \$2.61 million on fixed assets mainly due to: <ol style="list-style-type: none"> 1 Sale proceeds of \$111,000 were received from public auction fleet sales. 2 NZTA subsidies of \$94,000 were received. 3 Council spent \$2.8 million on capital projects in the first quarter.
Full Year Forecast:	\$10 million unfavourable to budget. This is due to new debt of \$10 million expected to be issued in November 2015 to pre-fund \$10 million of debt maturing in December 2016. This will be invested on fixed term deposit.

34 **Cash Flows from Financing Activities**

Brief Description:	Net cash flow from borrowings.
Year to Date:	The first quarter realised a net cash outflow of \$1.23 million. This is mainly due to interest paid on borrowings.
Full Year Forecast:	\$9.94 million favourable to budget. This is mainly due to new debt of \$10 million to be issued in November 2015 to pre-fund \$10 million of debt maturing in December 2016.

General Note

- 35 Parts A to C include minor corrections to the 2015/16 budget as reported in the 2015-35 Long Term Plan. Council's auditors, Ernst & Young, have been advised of these corrections. Notwithstanding the total impact of these corrections are immaterial, work is progressing to ensure similar corrections are not required in future. These corrections do not trigger an amendment to the Long Term Plan.

Part D: Statement of Rates Funding

36 The rates surplus/(deficit) is different to the net operating surplus/(deficit) per the Statement of Comprehensive Revenue and Expense as shown on page 2, due to the following:

- Net operating surplus/(deficit) covers all of Council's operating revenue and expense from all funding sources, including vested assets and unrealised gains/(losses) on revaluation of financial derivatives.
- The rates surplus/(deficit) only covers Council's revenue and expense that is rates funded.

37 Table 4 below details the actual rates funding deficit for the quarter ended 30 September 2015.

Table 4 Rates Revenue Requirement	\$000's
Actual YTD Net Operating Surplus/(Deficit)	(3,880)
Adjusted by income and expenditure variances not funded by rates:	
Add:	
Fair value movement in interest rate swaps	3,015
Reduced Capital Funding	441
Movement in net expenditure funded by reserves and special funds	181
Adjusted YTD Rates Funding Deficit	(243)
Budgeted YTD Net Operating Deficit	(1,109)
Variance	866

38 The year to date rates funding deficit is \$866,000 favourable to budget. This largely reflects lower levels of expenditure at the beginning of the year rather than cost savings that will impact on the full year result.

Part E: Capital Spending Programme

39 Table 5 provides a summary of the 2015/16 capital expenditure programme.

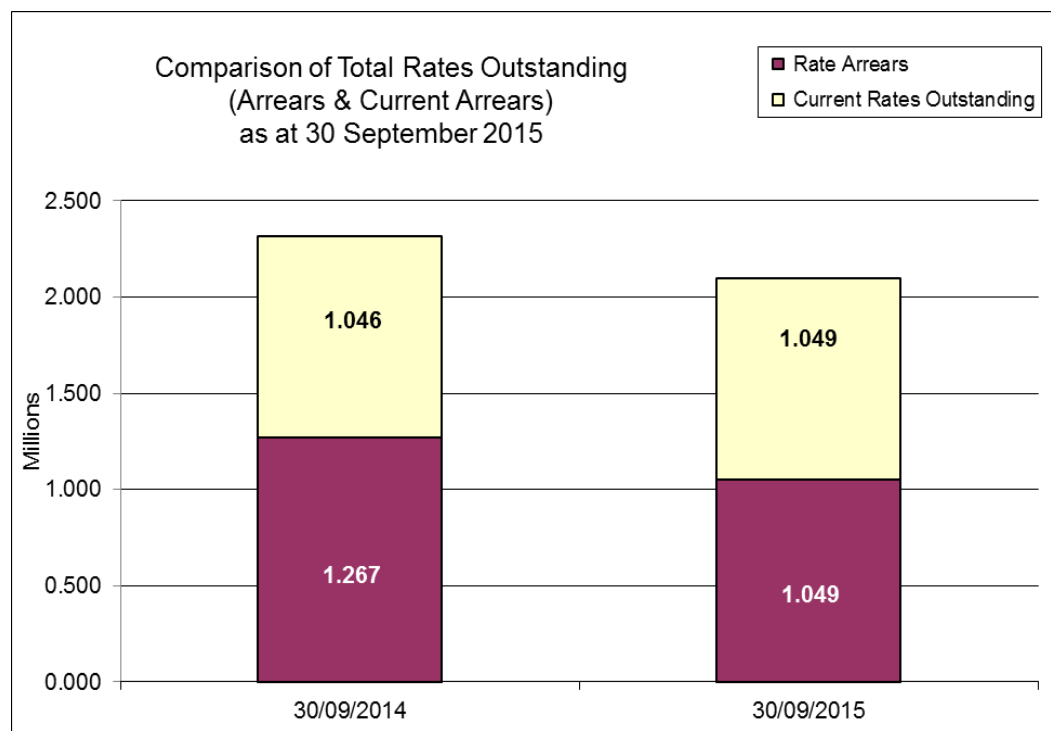
Table 5	September YTD Actual 2015/16 (\$'000)	YTD Budget 2015/16 (\$'000)	Full Year Budget 2015/16 (\$'000)
1790A CWB CAPITAL UCF	16	150	600
1792B NZTA SEALED ROAD RESURFACING	27	250	999
1792G NZTA TRAFFIC SERVICES RENEWALS	30	91	364
1792X CWB NEW CAPITAL	-	181	725
1793A NZTA MINOR IMPROVEMENTS	70	88	350
1794L LOCAL AREA CONNECTORS	89	-	663
17950 MAJOR COMMUNITY CONNECTOR UPGRADES	-	-	1,535
18775 COASTAL PROTECTION PAEKAKARIKI	12	70	282
13951 YOUTH HUB	-	62	250
13170 STRATEGIC LAND PURCHASE	5	460	1,841
18246 TOWN CENTRE MAJOR CONNECTORS	58	122	1,328
99901 PLANT PURCHASE & RENEWAL A/C	28	113	450
1218C TE ATIWA PARK	7	-	975
11241 OTAKI BUILDING RENEWALS/ROOF	9	-	340
14811 MATERIALS ADDITIONS	166	150	450
18049 LANDFILL CLOSURE	0	70	500
18412 WAIKAKARIKI GRAVEL EXTRACTION	8	100	400
28164 TILLEY ROAD	17	143	570
58133 OTAKI BEACH PUMP STATION	168	900	3,601
3883J PARA/RAU RETCI RENEWALS PLANNED	15	62	250
3883M PARA NORTH WW NETWORK RECONFIG	7	9	300
4773R WAIKANAE DUPLICATE RISING MAIN - ADVANCED	6	7	250
47745 WW TREATMENT PLT DISSOLVED AIR FLOATATION	17	175	700
5881E OTAKI WWTP CONSENT UPGRADES	7	-	300
38318 PARAPARAUMU/RAUMATI NETWORK PIPE RENEWAL	107	127	270
48426 WAIK RRWG BORE UPGRADE	39	30	250
Projects less than \$250k	631	1,392	7,177
Total Capital Expenditure	1,540	4,752	25,718

40 Please refer to the CBC Activity Report for the quarter ended 30 June 2015 (SP-15-1741) for more detailed information.

Part F: Outstanding Rates Debt as at 30 September 2015

Rates Outstanding

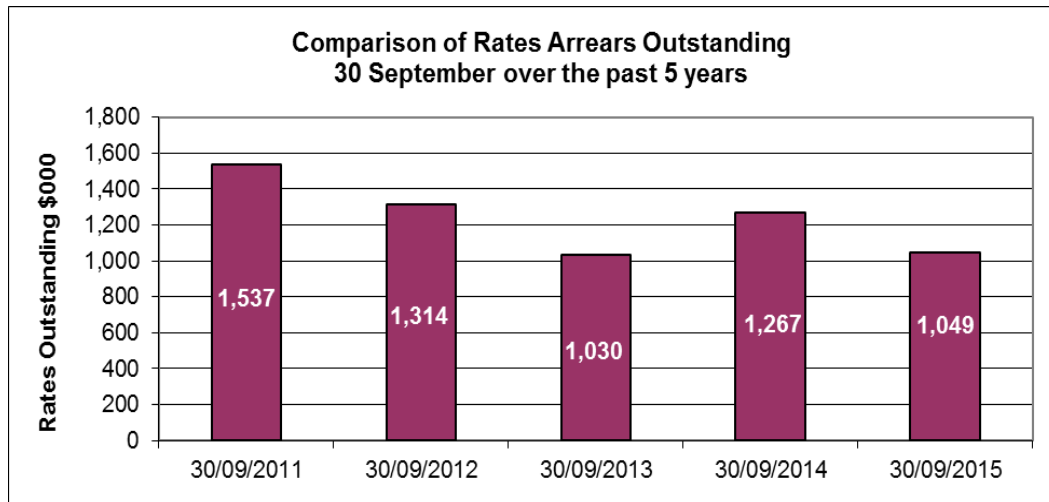
- 41 \$2.09 million of total rates (both current and arrears but excluding water rates) is outstanding as at 30 September 2015 (\$2.31 million: 30 September 2014).
- 42 Rate payments received are first applied to rate arrears. The chart below reflects a reduction in the overall rates debt as at 30 September 2015 compared to 30 September 2014.



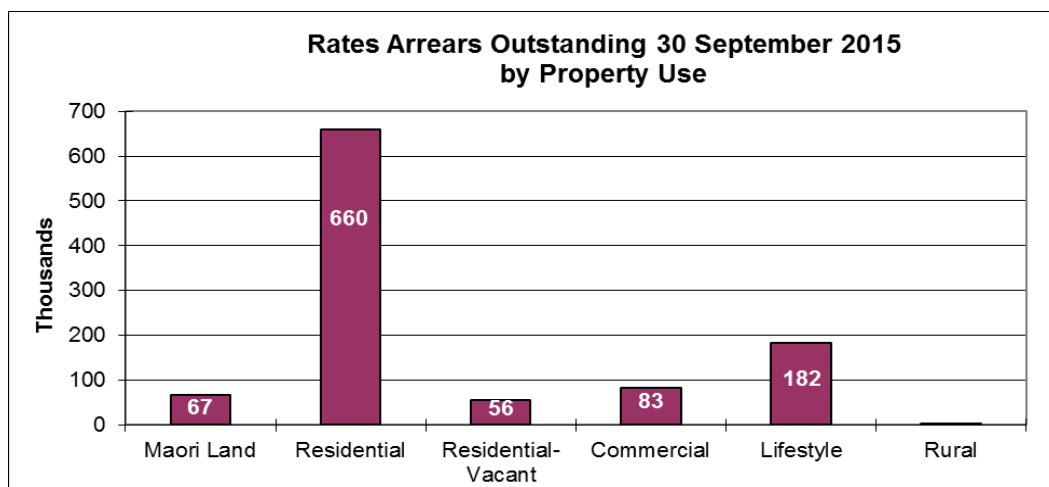
- 43 Council collects current year rates on behalf of the Greater Wellington Regional Council. \$1.05 million of current rates outstanding as at 30 September 2015 is split as follows:

	\$000	\$000
Kāpiti Coast District Council rates	666	
Kāpiti Coast District Council penalties	197	
Total Kāpiti Coast District Council outstanding rates	863	863
Greater Wellington Regional Council rates	152	
Greater Wellington Regional Council penalties	34	
Total Greater Wellington Regional Council outstanding rates	186	186
Total 2015/16 rates outstanding as at 30 September 2015	1,049	1,049

- 44 Council's rates collection process involves follow up with outstanding debtors and payment arrangements to ensure debts are settled over a reasonable time period.
- 45 The graph below shows a comparison of the rates arrears outstanding as at 30 September 2015 and for the previous 4 years.



- 46 The graph below details the total rates arrears of \$1.05 million by Property Use Category. The majority of the total rates arrears are from residential properties.



- 47 The rates arrears from Māori Freehold Land include mainly rate arrears owed to Greater Wellington Regional Council. Their policy is to remit such rates that are six years old.

- 48 Table 7 below details the total rate remissions (including Central Government Rates Rebates) granted for the quarter ended 30 September 2015. A forecast for the year ended 30 June 2016 is also provided.

Table 7	Sep YTD Actual \$000	FY Forecast \$000	Full Year Budget \$000	Full Year Variance \$000
Community properties (Council and Private ownership), sporting, recreational and other community organisations	8	43	87	(25)
Residential rating units containing two separately habitable units	33	69		
Financial Hardship	-	125	125	-
One off expenditure relating to the repairs to water leaks, serious health issue or essential housing maintenance	1	25	25	-
High water consumption for larger families	-	50	50	-
Total Council Rates Remissions	42	312	287	(25)
Central Government Rebates	863	1,710	N/A	N/A

- 49 Central Government rate rebates of \$0.86 million were granted for the quarter ended 30 September 2015. Council provides the approved rates remission (up to \$610 per rateable property) to the successful applicants and recovers the costs directly from the Department of Internal Affairs.

Part G: Treasury Management

Summary

- 50 The first quarter was relatively quiet in treasury terms because there were no long term debt maturities and no new long term debt was issued. This is mainly because the majority of Council's capital works programme is undertaken in the summer months.
- 51 Council is compliant with all of its Treasury Policy limits, including its debt maturity and hedging limits.
- 52 As expected, the Reserve Bank of New Zealand (RBNZ) delivered a third consecutive cut of 25 basis points (bps) to the Official Cash Rate (OCR) bringing it down to 2.75%.
- 53 Council's weighted average cost of funds has improved slowly as the Council takes advantage of lower interest rates. The weighted average costs of funds for the quarter ended 30 September 2015 was 5.52% compared to budget of 5.80%.
- 54 LGFA's total debt is now \$5.4 billion. The sector is moving increasingly to longer-dated bonds, which are proving attractive to offshore investors. The weighted average duration of debt is 66 months for the LGFA, versus 47 months for the Council. This reflects the 2027 debt maturity, which the Council has not participated in, to date.
- 55 Current Interest rates are close to the lowest they have been in decades. Market projections are for a small drop in 90 days rates, and for the upwards trend to start in late 2016.

Net Debt

- 56 Net debt is the measure of 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 three of Council's four Treasury Policy Limits.
- 57 Table 8 below shows the Council's actual net debt for the quarter ended 30 September 2015 and the forecast net debt as at 30 June 2016.

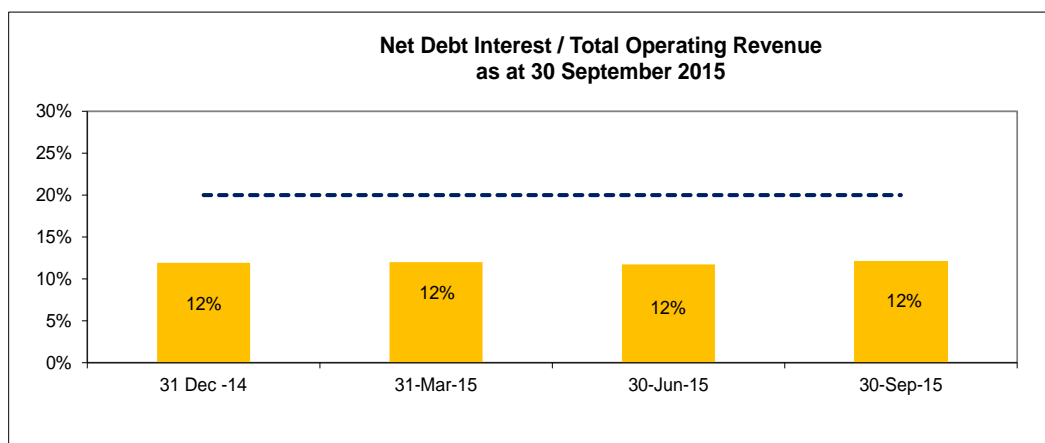
	Sept YTD	Full Year	Full Year	Full Year
	Actual	Forecast	Budget	Variance
	\$000's	\$000's	\$000's	\$000's
External debt	140,802	158,022	148,848	(9,174)
/less borrower notes	(2,080)	(2,240)	(2,080)	160
/less cash investments	(139)	(10,200)	(200)	10,000
Net debt	138,583	145,582	146,568	986

- 58 Council's net debt at 30 June 2016 is forecast to be \$986,000 favourable to full year budget. This is mainly due to Council's capital works programme requiring less debt funding than planned.

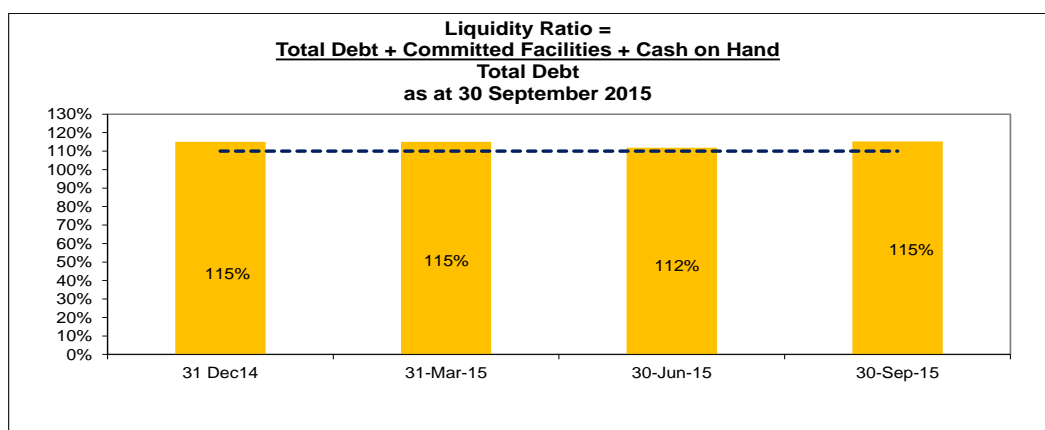
Treasury Policy Limits

59 The Treasury Management Policy (Policy) contains four financial ratios with either a maximum or minimum policy limit.

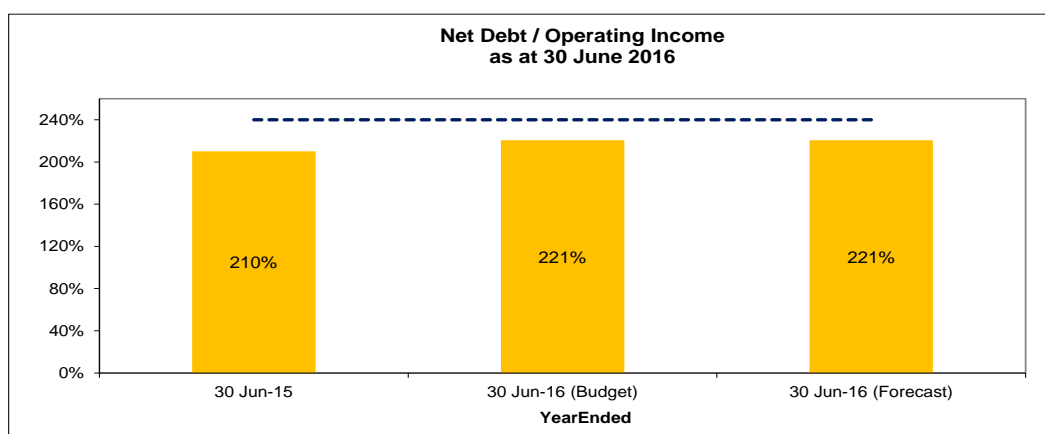
60 The Policy sets the maximum limit for the ratio of Net Debt Interest Expense to Total Operating Revenue of 20%. The chart below shows actual limits achieved for each quarter.



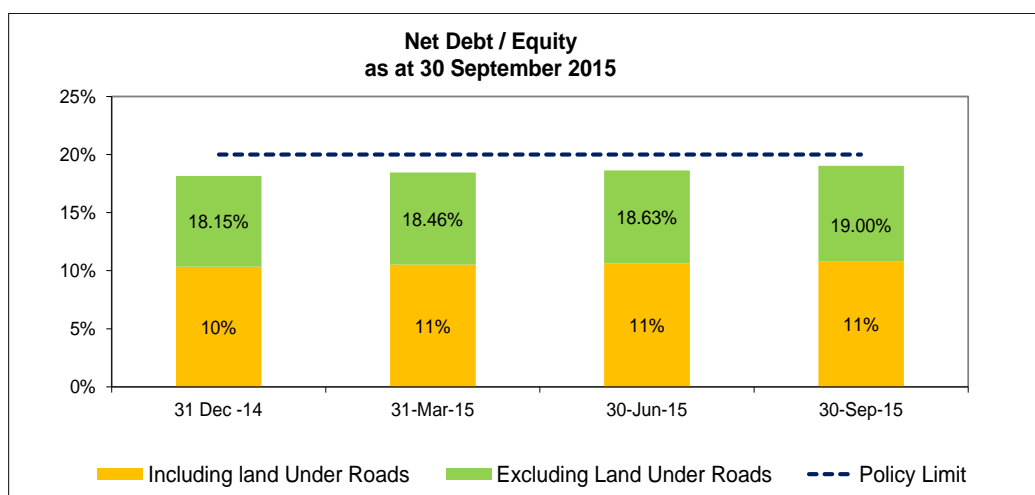
61 The Policy sets the minimum limit for the Liquidity Ratio of 110%. This is a measure of Council's available financial facilities compared to its current debt levels. The chart below shows actual limits achieved for each quarter.



62 The Policy sets the maximum limit for Net Debt to Operating Income of 240%. This is a measure of Council's ability to repay its debt from the operating income it receives during a given financial year. The chart below shows the forecast limit at year end.

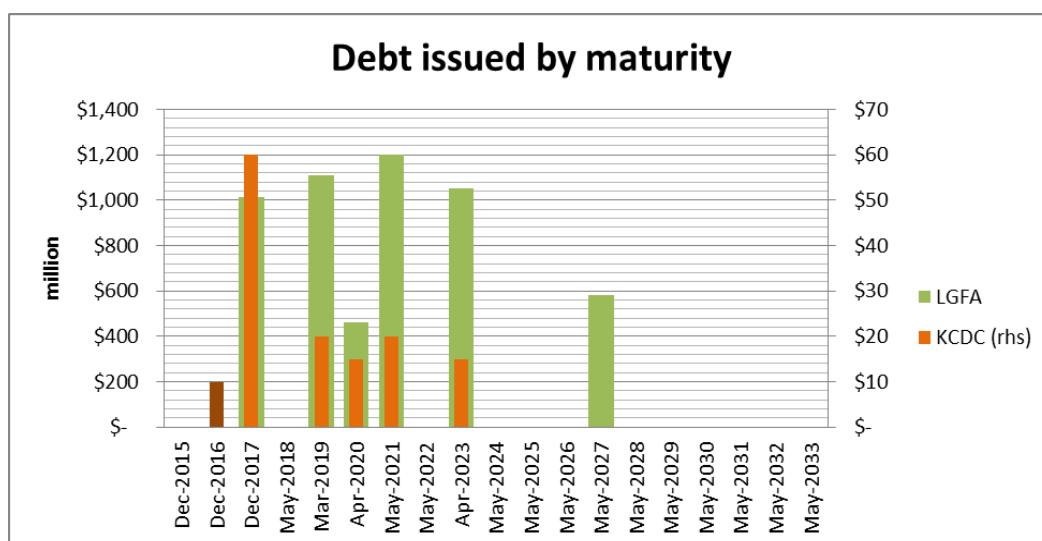


63 The Policy sets the maximum limit for net debt to equity of 20%. The chart below shows actual limits achieved for each quarter.



Debt Maturity Profile

64 The maturity profile for the LGFA debt is shown in the following chart. This shows the profile for the Council (against the total debt issued by LGFA, as at 30 September 2015).



The 2016 debt maturity is not LGFA debt, but the last of our bank-sourced debt (drawn prior to LGFA being established).

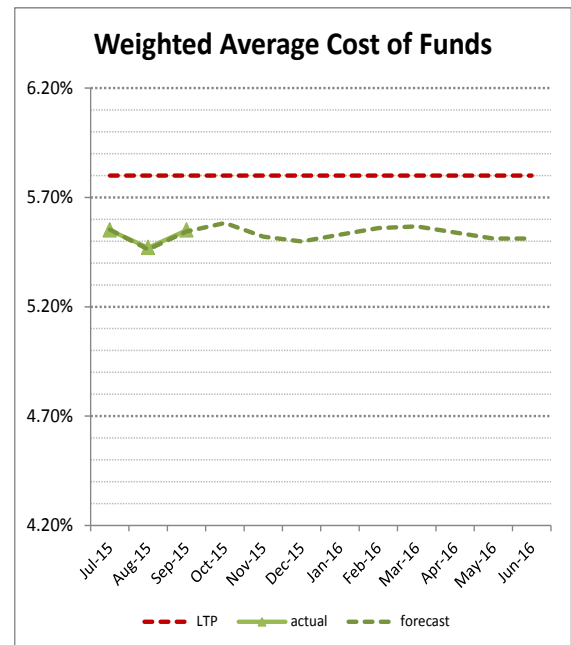
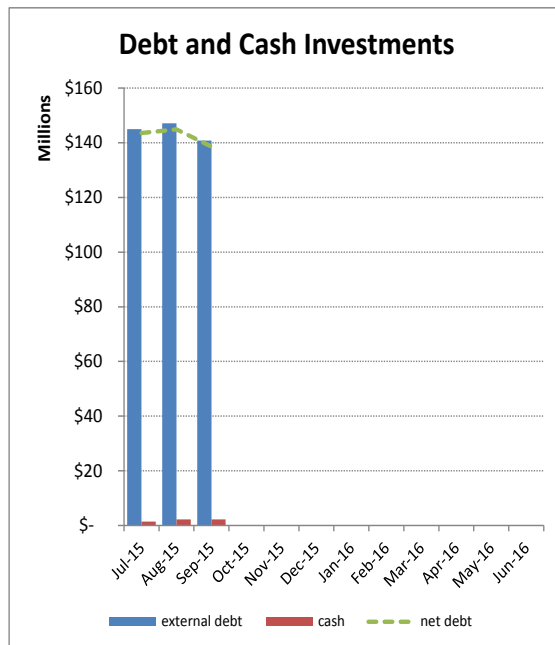
65 The sector is moving increasingly to longer-dated bonds, which are proving attractive to offshore investors. There is likely to be a 2033 debt maturity offered at some point – possibly as the 2027 debt maturity nears the \$1 billion level. The Council will however need to amend its Treasury Policy if it wishes to participate in debt maturities beyond 12 years (2027).

Finance Costs

66 Council's weighted average cost of funds has improved slowly as the Council takes advantage of lower interest rates.

Table 9	Sept YTD Actual \$000's	YTD Budget \$000's	YTD Variance \$000's	Full Year Forecast \$000's	Full Year Budget \$000's	Full Year Variance \$000's
External Finance Expense	2,023	2,041	18	8,366	8,164	(202)
less: Interest Received	(25)	(54)	29	(336)	(216)	120
Net Interest Costs	1,998	1,987	(11)	8,030	7,948	(82)
Weighted Average Cost of Funds	5.52%	5.80%	0.28%	5.53%	5.80%	0.27%
Unrealised Loss on Financial Derivatives	3,137	122	(3,015)	3,137	488	(2,649)

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



Policy Compliance

68 The following table shows that Council is fully compliant with its Treasury Management policy for the quarter ended 30 September 2015.

Criterion		YTD	Compliant	note
Debt				
Projected debt (24 months)		\$160m		
Current debt		\$140m		
Hedged		\$130m		
Fixed debt (>1 yr)		\$111m		
Hedged Portion	<100%	93%	✓	Hedged/Current
Fixed portion	55% 95%	69%	✓	Fixed/24 mth projection
Funding maturity	Limit min – max			
0-3 years	15% 70%	44%	✓	
3-5 years	15% 60%	34%	✓	
5+ years	10% 50%	22%	✓	
Fixed rate maturity	Limit min – max			
1-3 years	15% 60%	22%	✓	
3-5 years	15% 60%	30%	✓	
5+ years	15% 60%*	34%	✓	
Liquidity ratio	110%	114%	✓	

CONSIDERATIONS

Legal Considerations

69 There are no legal considerations.

Consultation

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

Policy Implications

71 There are no policy implications.

Tāngata Whenua

72 There are no tāngata whenua considerations.

SIGNIFICANCE AND ENGAGEMENT

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

Publicity Considerations

74 There are no publicity considerations at this stage.

RECOMMENDATIONS

75 That the Corporate Business Committee notes the actual financial performance and position for the quarter ended 30 September 2015 as contained in this report (Corp-15-1753).

Report prepared by:

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