Chairperson and Committee Members
CORPORATE BUSINESS COMMITTEE

15 NOVEMBER 2012

Meeting Status: **Public**

Purpose of Report: For Decision

FINANCIAL REPORTS TO 30 SEPTEMBER 2012

PURPOSE OF REPORT

1 This report sets out Council's financial results and financial position at 30 September 2012. Financial exceptions are noted in the report together with explanations for any significant variations from the budgets.

SIGNIFICANCE OF DECISION

2 This report does not trigger Council's Significance Policy.

BACKGROUND

3 The financial reports to 30 September 2012 show the Council's financial performance against budgets and highlight any financial exceptions and include some financial performance and analysis indicators.

4 The Council is provided with information on seven broad areas of financial performance at each quarter and these are:

Part A: Statement of Comprehensive Income (Financial Performance)

Part B: Statement of Financial Position

Part C: Statement of Rating Position

Part D: Revenue/Expenditure by Activity with Explanations on Variances and Trends

Part E: Explanation of Capital Works Programme Performance

Part F: Outstanding Rates Debt as at 30 September 2012

Part G: Statement of Performance Against Treasury Policy Limits

Full explanations are provided under each part.

Part A: Statement of Comprehensive Income (Financial Performance)

5 The Statement of Comprehensive Income covers all of Council's revenue and expenditure from all funding sources not just rates funding. The net position of revenue less expenditure provides the operating surplus or deficit. In addition to the operating revenue, there are other comprehensive income items such as the revaluation increase on the value of Council's infrastructural assets resulting from the 3 yearly revaluation with the last revaluation date being 30 June 2011. Table 1 below summarises Council’s Statement of Comprehensive Income as at 30 September 2012. Explanations of key components and variances follow.

Table 1: Statement of Comprehensive Income

2011/12 Actual $000		30/9/2012 Actual $000	2012/13 Budget $000
45,621	Total Rates	11,965	47,180
7,614	Other Revenue	2,358	8,782
3,468	Development Contribution	79	2,040
361	Trust Fund Revenue Aquatic Centre	-	900
880	Vested Assets	0	1,040
1,967	NZTA Operating Funding	171	1,577
612	NZTA Expressway Project	0	200
1,403	NZTA Capital Funding	0	1,493
61,926	**TOTAL OPERATING REVENUE**	**14,573**	**63,212**
39,314	Operating Expenditure	8,045	40,891
612	NZTA Expressway Project	0	200
975	Loss on Disposal	0	-
5,187	Finance Costs	1,460	8,474
5,936	Gain/(loss) on Revaluation of Financial Instruments	0	-
13,142	Depreciation/Amortisation	3,744	13,383
65,166	**TOTAL OPERATING EXPENDITURE**	**13,249**	**62,948**
-3,240	**NET SURPLUS (DEFICIT)**	**1,324**	**264**
	Other Comprehensive Income		
0	Revaluation – Fair Value Movement on Property, Plant, and Equipment	0	0
-3,240	**TOTAL COMPREHENSIVE INCOME**	**1,324**	**264**

Operating Revenue

6 This consists of the following components:

- Rates Revenue
- Other Revenue (key components):
  - Fees and Charges
  - Financial Contributions/Development Contributions
  - Vested Assets
- New Zealand Transport Agency Revenue
  - Operating Funding
  - Capital Projects Funding

Rates Revenue

7 The rates budget is the total Council rates levied of $48.267 million less Council's rates on its own properties to give a net rates budget of $47.180 million.

8 The rates levied in the first three months reflect 25% of the total annual rates and also includes rates penalties which are in addition to the total rates levied.

Other Revenue

9 The key component of Other Revenue is fees and charges.

<u>Fees and Charges</u>

10 Overall fees and charges are ahead of budget due to the timing of some annual charges such as dog registration and health licences which are levied in full during the first part of the financial year.

Development Contributions

11 Development Contributions are levied under the Local Government Act 2002 and are levied on developers at the time of subdivision in accordance with Council's Development Contributions Policy in the LTP. Accounting standards require that Development Contributions are not recognised as revenue until they are utilised to fund capital works. The reason for this is that until the development contributions are spent on the capital works for which they are collected they are required to be recognised as a current liability. As the Development Contributions are spent on capital works they are recognised as revenue. The Development Contributions recognised to date are those that have been spent on capital works. As this year's capital programme progresses further Development Contributions will be utilised as budgeted for the 2012/13 year.

<u>Vested Assets</u>

12 These are the roading, water, wastewater and stormwater assets that are vested in Council at the time of subdivision. For the first three months there were no assets vested in Council by Developers. These are non-cash assets but the value of these vested assets needs to be recognised as revenue in the Statement of Comprehensive Income.

<u>NZTA Operating and Capital Funding</u>

13 Low levels of subsidised roading expenditure generally occur in the first quarter which results in lower levels of subsidy being claimed.

<u>Explanation of Operating Expenditure</u>

14 Total Operating Expenditure consists of operating costs, depreciation and finance costs. Overall Operating Expenditure is below the budget for the first three months. Variances in operating costs and finance costs are summarised briefly below.

Operating Costs

15 The operating costs both direct and indirect are below the budget for the first three months. This is due to lower operating costs as at 30 September 2012 across a number of activities which are explained in Part D.

Finance Costs

16 Council's finance costs or debt servicing costs are below budget for the first three months. This reflects the lower average interest rates achieved for existing debt through the management of Council's interest rate swaps.

Operating Net Surplus

17 The total operating revenue is below the budgeted revenue for the first three months but the operating expenditure is even lower than the budget for the same period, resulting in an operating surplus of $1.324 million as at 30 September 2012.

Revaluation of Assets Movement

18 This adjustment occurs every three years with the revaluation of all of Council’s assets. This occurred last as at 30 June 2011.

Part B: Statement of Financial Position as at 30 September 2012

19 The Statement of Financial Position as at 30 September 2012 is set out in Table 2, followed by an overview of the key components.

Table 2: Statement of Financial Position

2011/12 Actual $000		30/9/2012 Actual $000	2012/13 Budget $000
	Current Assets		
2,662	Cash & Cash Equivalents	592	3,561
5,573	Trade and Other Receivables	5,003	2,667
132	Inventories	119	137
2	Derivative Financial Instruments	2	48
8,369	**Total Current Assets**	**5,716**	**6,413**
	Non-Current Assets		
844,339	Property, Plant and Equipment	856,318	894,912
263	Forestry Assets	263	350
343	Intangible Assets	343	350
3	Derivative Financial Instruments	3	228
66	Other Financial Assets	66	-
845,014	**Total Non-Current Assets**	**856,993**	**895,840**
853,383	**TOTAL ASSETS**	**862,709**	**902,253**
	Liabilities & Public Equity		
	Current Liabilities		
14,896	Trade and Other Payables	9,530	15,293
1,908	Derivative Financial Instruments	1,908	1,704
1,594	Employee Benefit Liabilities	1,328	1,499
1,110	Deposits	1,100	1,200
68,059	Public Debt	81,478	13,909
2,104	Development Contributions	2,329	562
89,671	**Total Current Liabilities**	**97,673**	**34,167**
	Non-Current Liabilities		
20,364	Public Debt	20,364	121,281
8,476	Derivative Financial Instruments	8,476	4,618
308	Employee Benefit Liabilities	308	445
38	Provisions	38	38
29,186	**Total Non-Current Liabilities**	**29,186**	**126,382**
118,857	**TOTAL LIABILITIES**	**126,859**	**160,549**
573,267	Retained Earnings	574,666	579,566
159,338	Revaluation Reserve	159,338	159,338
1,921	Reserves & Special Funds	1,846	2,800
734,526	**TOTAL PUBLIC EQUITY**	**735,850**	**741,704**
853,383	**TOTAL LIABILITIES & PUBLIC EQUITY**	**862,709**	**902,253**

Explanation of Table 2

20 The budgets for the 2012/13 year are the budgets for the end-of-year position i.e. as at 30 June 2013 (the last day of the financial year). These budgets were established as part of the 2012/13 Long term Plan process and set before the end of the 2011/12 financial year (as at 30 June 2012). The budgets were set fifteen months in advance projecting the Council's financial position as at 30 June 2013. It is more realistic to compare Council's financial position as at 30 September 2012 with the position as at 30 June 2012, as it reflects three months of financial activity since 30 June 2012.

Current Assets

21 The lower level of current assets since 30 June 2012 reflects the decrease in cash and investment as at 30 September 2012 compared to 30 June 2012. The decrease in cash and investments reflects that Council had not fully borrowed for the capital expenditure for the first three months as at 30 September. This was covered by working capital and credit facilities and Council raised loan funds in October to match the capex programme.

Non-Current Assets

22 Council's Property Plant and Equipment Assets are Council's infrastructural assets of Roading, Water, Wastewater and Stormwater, Land and Buildings, Parks and Reserves, Improvements and Community Facilities. The higher value of Council's assets as at 30 September 2012 compared to 30 June 2012 reflects three months of capital expenditure less depreciation of Council's Assets.

Current Liabilities

23 The higher level of current liabilities since 30 June 2012 reflects the higher level of short term public debt as at 30 September 2012. As at 30 September 2012 $13.4 million of debt had been raised to fund the capital expenditure incurred up until 30 June 2012 but paid out in July 2012. The Council was holding a higher level of short term debt instruments (rather than long term debt instruments) while it was waiting to use the Local Government Funding Agency to provide long term debt funding in early October 2012.

Non Current Liabilities

24 There has been no change since 30 June 2012 for the long term debt. The other items have not been updated since 30 June 2012 as it involves significant work and cost to assess on a quarterly basis. Market indicators would suggest the liability would reduce rather than increase. These will be updated annually as part of the Annual Report unless there are significant variances in the market.

Public Equity

25 Public Equity = Total Assets minus total Liabilities. The total public equity has increased by the net surplus for the three months.

Part C: Statement of Rates Position

26 The Rates Surplus/(Deficit) is different to the operating surplus as follows.

- Operating Surplus/(Deficit) covers all of Council's operating revenue and expenditure from all funding sources, including vested assets.
- Rates Surplus/(Deficit) only covers Council's revenue and expenditure that is rates funded. Any surplus/deficit effects the rates required for next year.

27 The overall rates position to 30 September 2012 is shown in the following table.

Table 3: Overall Rates Position

	Net Rate Requirement Actual to 30 September 2012 $000	Net Rate Requirement 2012/13 Annual Budget $000	Actual/Annual Budget %
Districtwide			
Districtwide General[1]	1,925	9,344	21
Community Facilities[2]	2,194	11,197	20
Regulatory[3]	410	4,610	9
Roading[4]	1,362	5,521	25
Total Districtwide	**5,891**	**30,672**	**19**
Community			
Paekākāriki	82	387	21
Paraparaumu/Raumati	1,454	6,760	22
Waikanae	472	2,285	21
Joint Water	1,298	5,601	23
Ōtaki	557	2,563	22
TOTAL	**9,754**	**48,268**	**20**

[1] Districtwide General Expenses: including emergency management, civil defence, public toilets and cemeteries. Supporting Social Wellbeing, Supporting Environmental Sustainability, District Strategic Development Projects, Districtwide Coastal Protection of the Council's Infrastructure and Districtwide Strategic Flood Protection.
[2] Libraries, Parks and Reserves, Swimming Pools, Public Halls and Community Centres
[3] Public contribution towards the following Regulatory Services which are not met by user charges: Resource Consents, Building Consents, Development Management, Environmental Health, Liquor Licensing, Hazardous Substances, Environmental Monitoring and Animal Control
[4] All Roading Expenditure except for historic debt servicing costs

Explanation of Table 3

28 The Council has levied total annual rates of $48.267 million for the 2012/13 year and the analysis of the total rates allocated across Districtwide and local Community rates is included in the 2nd column titled 'Net Rate Requirement 2012/13 Annual Budget'.

The net rate requirement is as follows:

Total operating expenditure (funded from Rates)	-	Total other operating revenue (associated with Rates funded expenditure)	=	Net Rate Requirement

29 As at the 30 September 2012 the end of the first three months there would be a general expectation that the net rate requirement would be around 25% of the annual rate requirement if the capital expenditure programme had been spent evenly throughout the financial year.

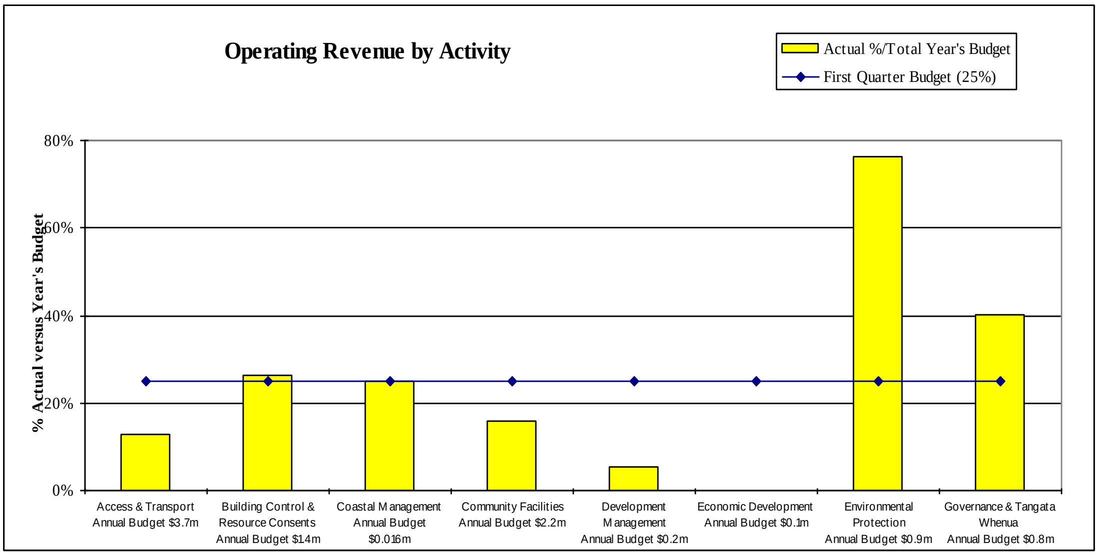
30 Due to seasonal patterns of revenue and expenditure and other trends and exceptions the average rate requirement as at 30 September 2012 is 20% of the annual rate requirement.

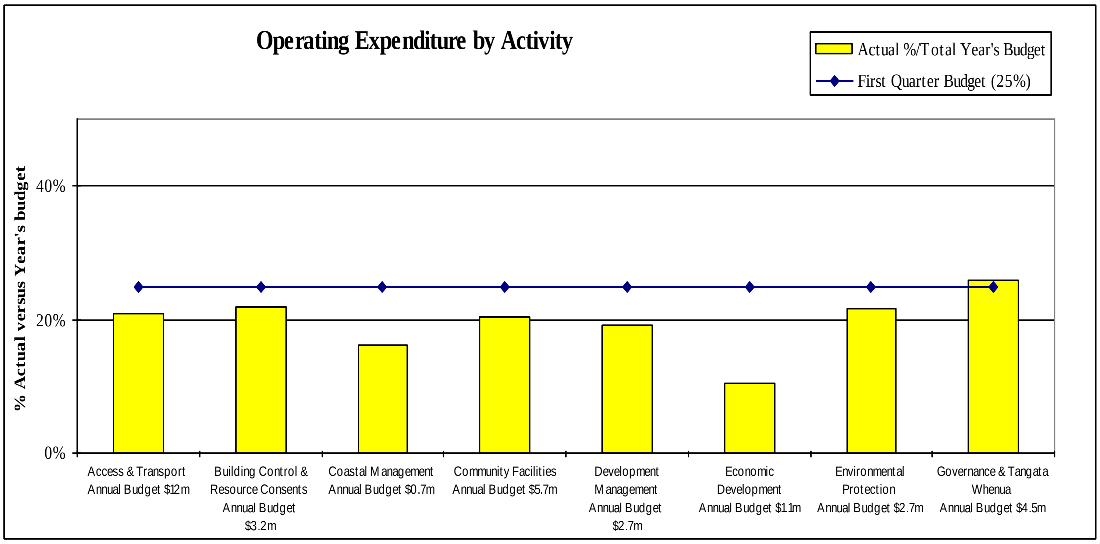
31 As this report covers the first three months results it is not proposed to forecast the end of year rates position until the end of the second quarter i.e. 31 December 2012.

Part D: Revenue/Operating Expenditure by Activity with Explanations on Variances and Trends.

Operating Revenue/Operating Expenditure

32 The graphs below show actual other operating revenue and operating expenditure as at 30 September as a percentage of the Annual Budget for each Activity. Comments on general trends and exceptions are provided below.





Explanations of key variances for operating revenue and expenditure for each activity

Access and Transport

33 Operating revenue is lower than budget as at 30 September 2012 due to the lower level of expenditure incurred that was eligible for NZTA subsidy.

Coastal Management

34 The operating expenditure is lower due to the lower level of maintenance required to date. Planned maintenance is not undertaken until the final quarter to see what portion of the budget is required to fund storm event damage. A lower level of expenditure has been required for reactive maintenance to date.

Community Facilities

35 The operating revenue is slightly down as the Waikanae pool does not open until the second quarter so the variance is of a timing nature.

36 The operating expenditure is lower as the operating costs associated with the new Coastlands Aquatic Centre do not start until March 2013.

Development Management

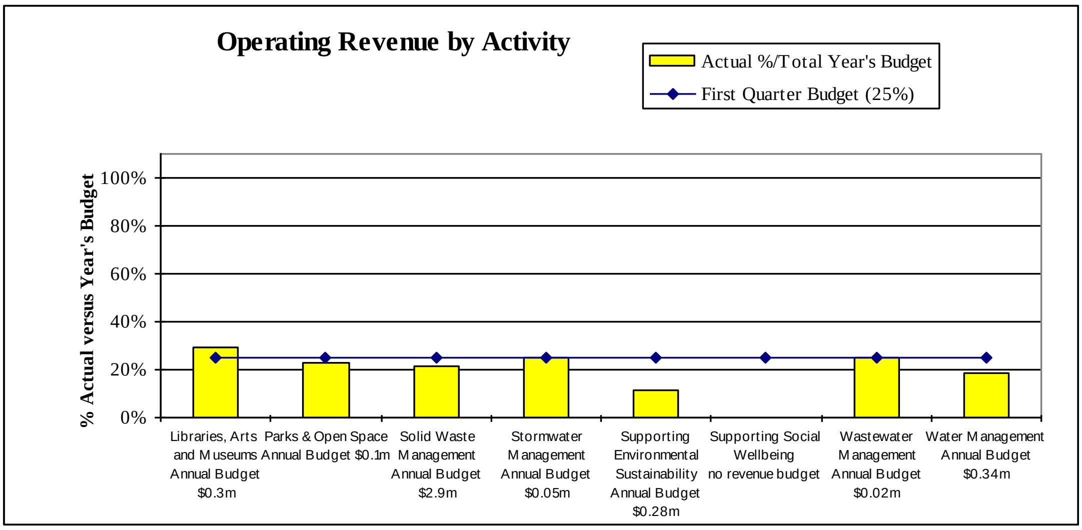
37 Both operating expenditure and revenue are lower due to the lower level of activity relating to private plan changes. Also there is a lower level of subdivision engineering fees due to the lower level of resource consents being processed.

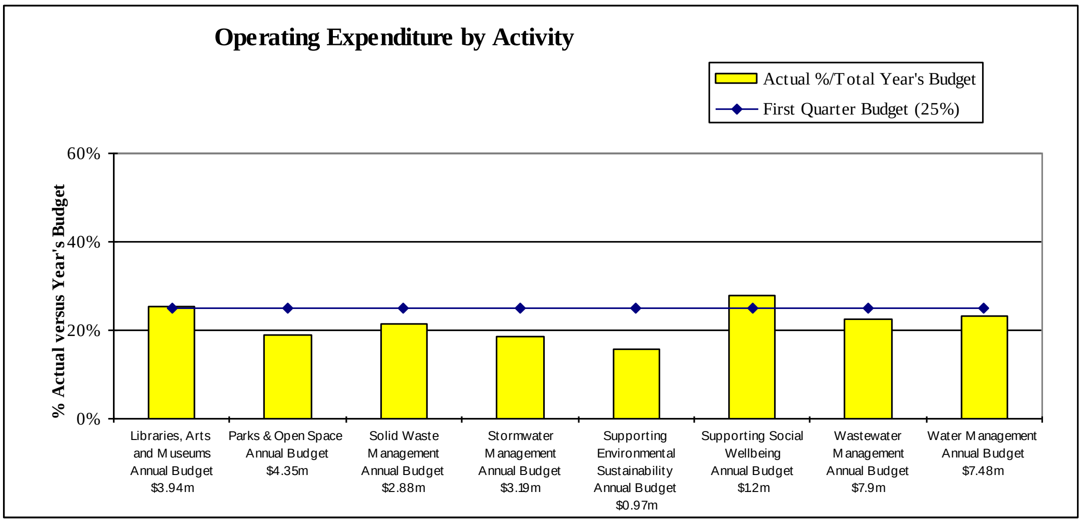
Economic Development

38 The operating expenditure is lower due to the first quarter due to delays in the recruitment of one of the new key economic development positions.

Environmental Protection

39 The higher level of operating revenue compared to the budgets mainly relates to the timing of the annual levying of regulatory fees and charges including Dog Registration and Health Licences.





Explanations of key variances for operating revenue and expenditure for each activity

Library, Arts and Museums

40 The operating revenue is higher for the first three months due to the recognition of the Creative Community Grant which is paid in half yearly instalments.

Parks and Open Space

41 The operating revenue is lower for the first three months due to the seasonal nature of fees and charges for Parks and Open Spaces. The Parks fees and charges are projected to match the budget for the 2012/13 year. The operating expenditure is lower for the first three months due to lower maintenance costs and lower debt servicing costs compared to the budget.

Solid Waste

42 The Solid Waste Account is for the first three months shows revenue on track to match expenditure. With a new waste collection provider in the market, revenue and expenditure trends will be closely monitored.

Stormwater Management

43 The operating expenditure is lower due to the lower level of maintenance required to date. Planned maintenance is not undertaken until the final quarter to ensure that there is sufficient budget to fund storm event damage during the year.

Supporting Environmental Sustainability

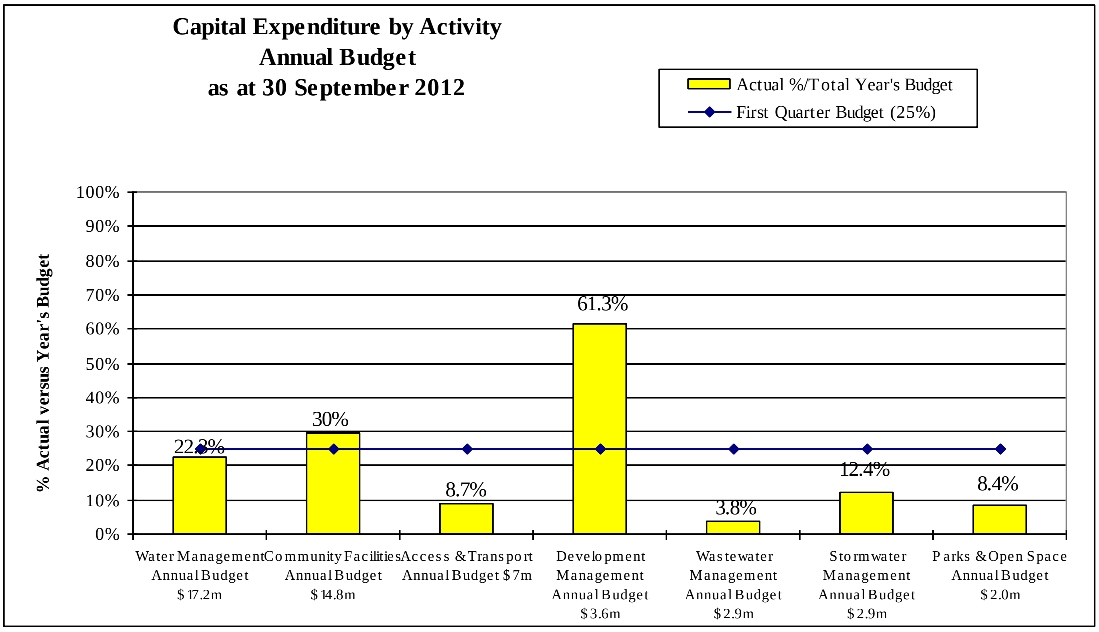
44 Revenue and expenditure associated with the Sustainable Home and Garden show occurs in the second half of the year so revenue and expenditure levels will increase as the year progresses.

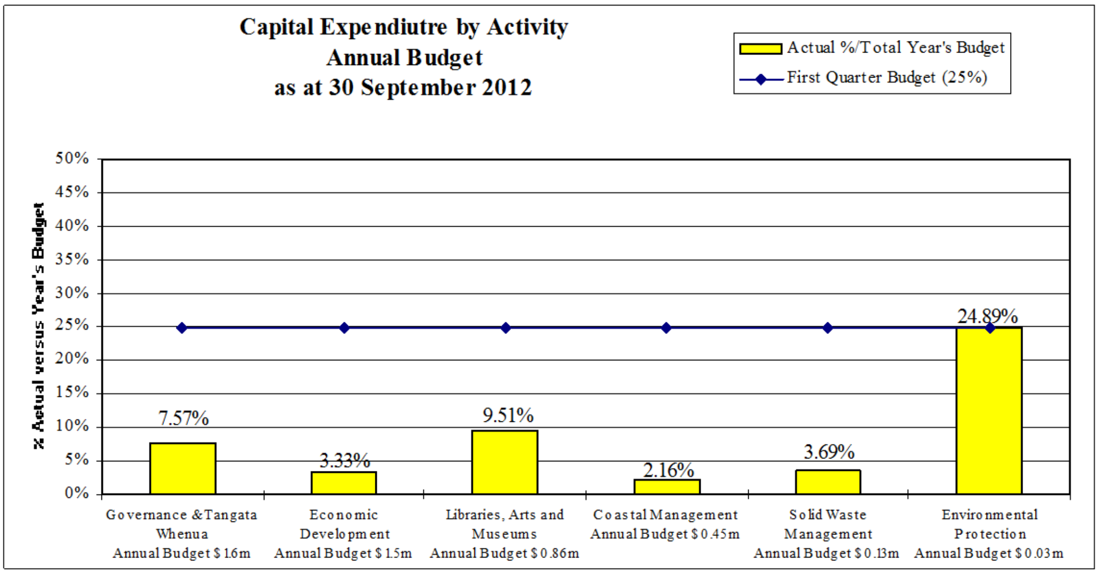
Water Management

45 The operating revenue was lower compared to the expected level of 25% due to the lower level of water consumption relating to extraordinary water charges during the first thee months of the financial year.

PART E: EXPLANATION OF CAPITAL EXPENDITURE

46 A summary of the capital expenditure, set out below, shows the actual expenditure to 30 September 2012 against annual budgets and forecasts.





47 There are three activities which have no capital expenditure: Supporting Social Wellbeing, Supporting Environmental Sustainability and Building and Resource Consents.

48 Net capital expenditure for the three months amounted to $11.986 million compared to the capital expenditure budget for the year of $55.163 million.

49 Development Management covers the purchase of the Turf Farm in the first three months of the year.

50 Community Facilities includes the Coastlands Aquatic Centre and Civic Building upgrade where good progress is being made.

51 Although the capital expenditure for some of the other activities are low for the first three months, the level of capital expenditure is in line with expectations given that the tendering work and awarding of contracts occurs in the first three months with the physical works taking place in the last nine months.

52 The forecast total project costs for both the Coastlands Aquatic Centre and Civic Building upgrade are unchanged from the total budgets approved on 15 December 2011. Due to some timing changes there was less expenditure in the 2011/12 year than forecast which means that more expenditure will be incurred in the 2012/13 year but the total expenditure will remain within the total budgets for each project.

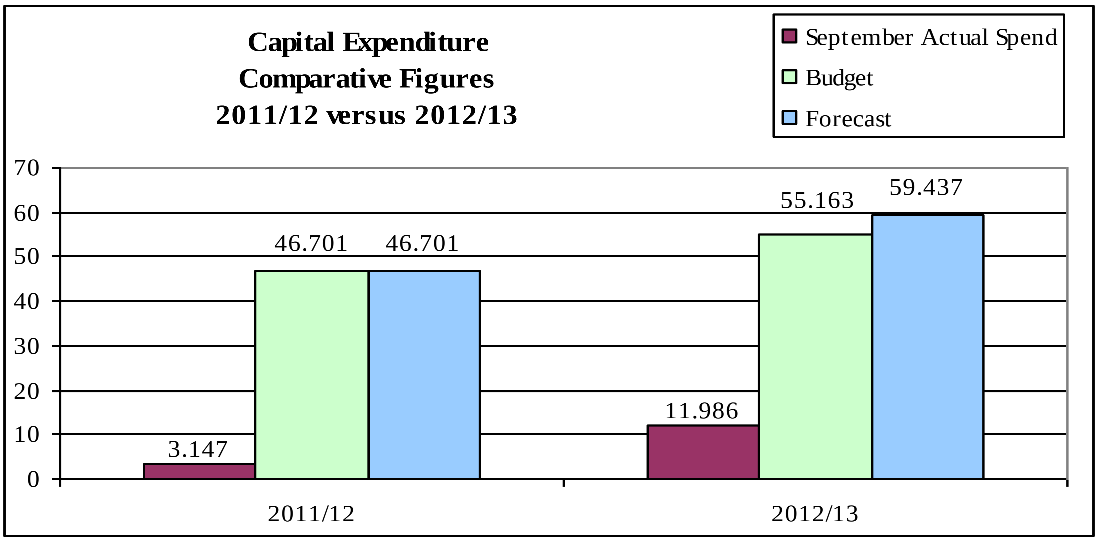
53 The total 2012/13 capital expenditure programme of $55.164 million has been reforecasted to $59.437 million and reflects the under-expenditure on the 2011/12 capital programme where $34.464 million was spent against a forecast of $39.896 million. These reforecasts reflect timing changes between years for projects such as the Coastlands Aquatic Centre and Civic Building upgrade.

54 Other capital projects where changes are forecast include the water supply land project where the sales of surplus land are forecast to occur in the 2013/14 year rather than the 2012/13 year. Adjustments are being made to debt servicing and holding cost budgets for the 2013/14 draft Annual Plan process.

55 The capital expenditure at 30 September 2012 of $11.986 million represents 20.2% of the total reforecast capital expenditure for the 2012/13 year.

56 A summary of the capital projects where the forecast expenditure varies from the budget is attached as Appendix 1.

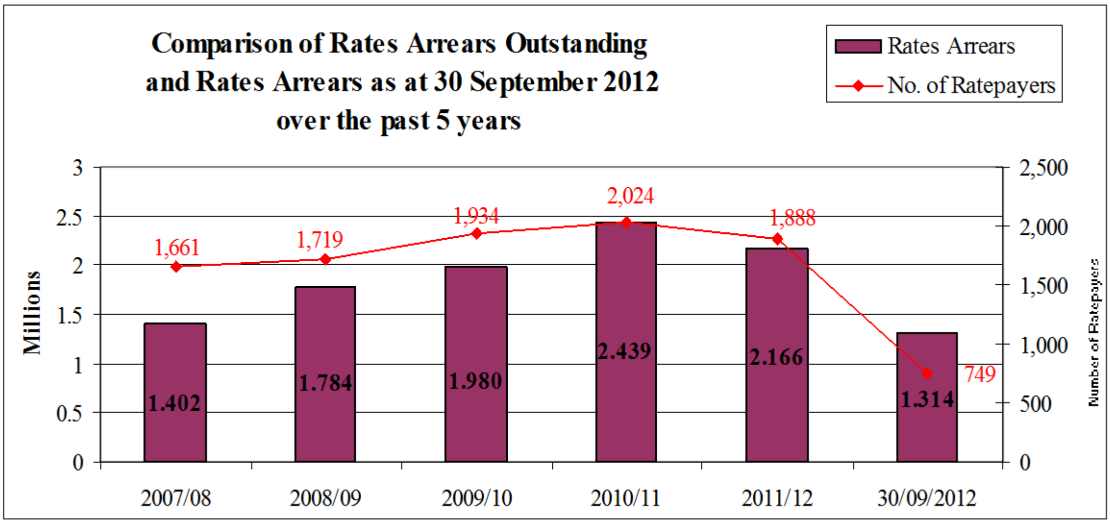
57 Set out below is a comparison of the capital expenditure programme between the 2011/12 year and 2012/13 year and the actual spend as at 30 September.



58 Note: the reforecast capital expenditure of $59.437 million reflects mainly timing changes between years for projects such as the Coastlands Aquatic Centre and Civic Building upgrade. These projects were underspent in the 2011/12 year so more expenditure will be incurred in the 2012/13 year but total expenditure will remain within the total budgets for each project.

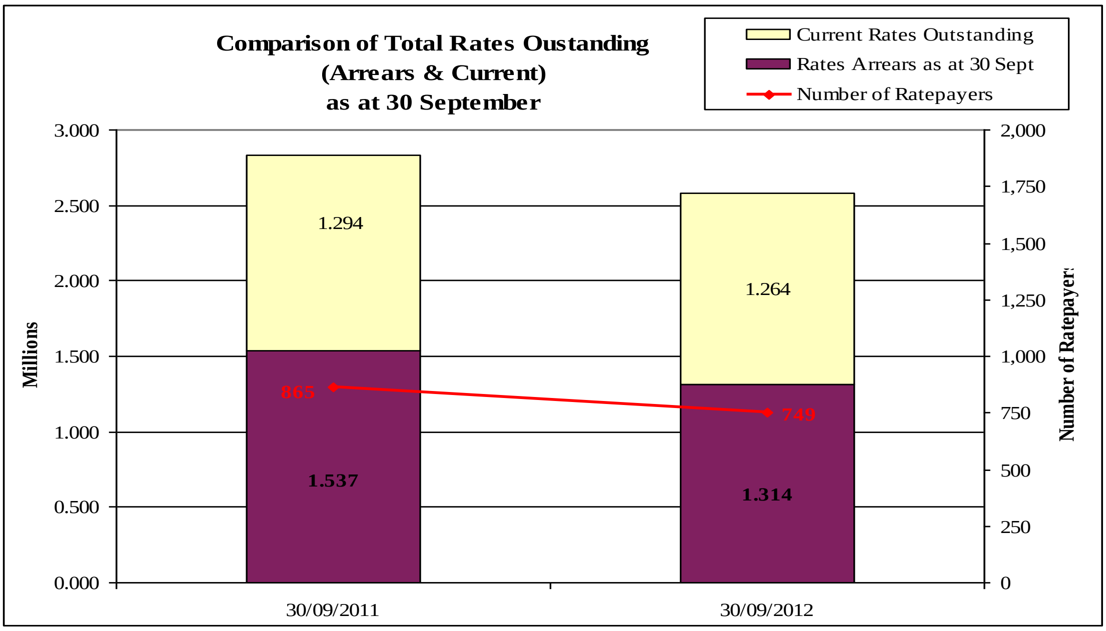
Part F: Outstanding Rates Debt as at 30 September 2012

59 The first graph below shows a comparison of the rates arrears outstanding at the end of June each year over the past five years and the rates outstanding as at 30 June 2012 which are still outstanding s at 30 September 2012.



60 The rates arrears as at 30 June 2012 of $2.166 million has been reduced to $1.315 million as at 30 September 2012 and the number of rate debtors with outstanding rate arrears as at 30 June 2012 has reduced from 1,888 ratepayers to 749 ratepayers as at 30 September 2012.

61 The following graph shows a comparison of the total rates outstanding (rate arrears from 30 June still outstanding plus the current year's rates outstanding as at 30 September 2012) between financial years.



62 The total rates outstanding as at 30 September 2012 covering both current rates and rate arrears is $2.578 million which is lower than the total rates outstanding of $2.831 million at the same time last financial year i.e. 30 September 2011.

63 The current rates outstanding reduced from $1.294 million as at 30 September 2011 to $1.264 million as at 30 September 2012 which is an excellent result given that the average rates increase in the 2012/13 year was 5.9%.

64 The current rates for the first quarter also include the rate arrears penalty which is levied on all rates outstanding as at 30 June on the 9 July each year. This year the rate arrears penalty levied amounted to $192,000.

65 The rate arrears outstanding reduced from $1.537 million as at 30 September 2011 to $1.314 million as at 30 September 2012 reflecting the excellent follow up work on rates in arrears.

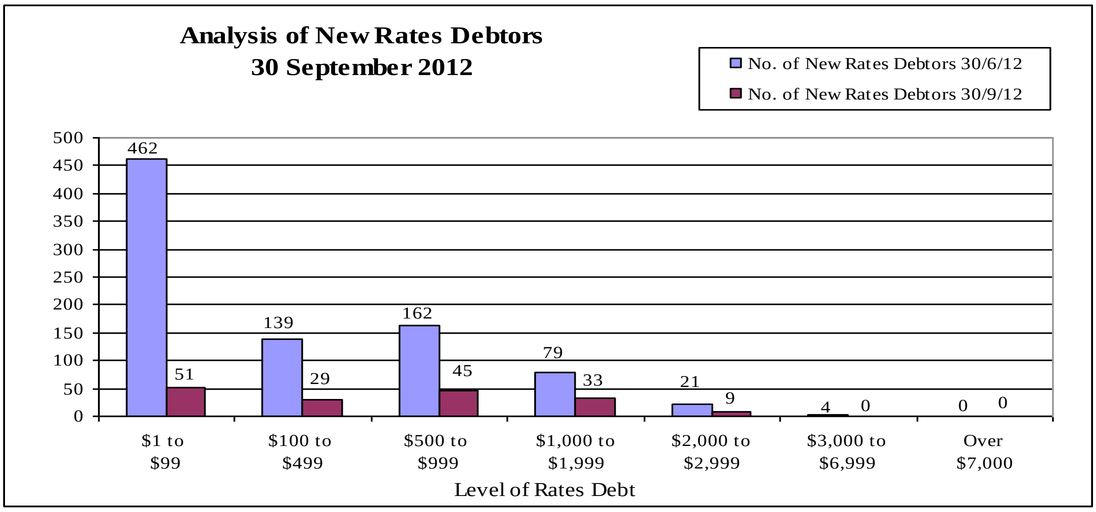
66 The rate arrears collection has improved from previous years and work is currently being carried out to reduce the current rates outstanding by follow up letters and telephone calls to set up payment arrangements.

67 As the Council collects rates on behalf of the Greater Wellington Regional Council the total rates outstanding includes both Council's rates. The analysis of the rates outstanding as at 30 September 2012 is as follows:

	$000	$000
Kāpiti Coast District Council rates	727	
Kāpiti Coast District Council penalties	413	
Total Kāpiti Coast District Council outstanding rates		1,140
Greater Wellington Regional Council rates	129	
Greater Wellington Regional Council penalties	45	
Total Greater Wellington Regional Council outstanding rates		174
Total rates outstanding as at 30 September 2012		**1,314**

Analysis of New Rates Debtors

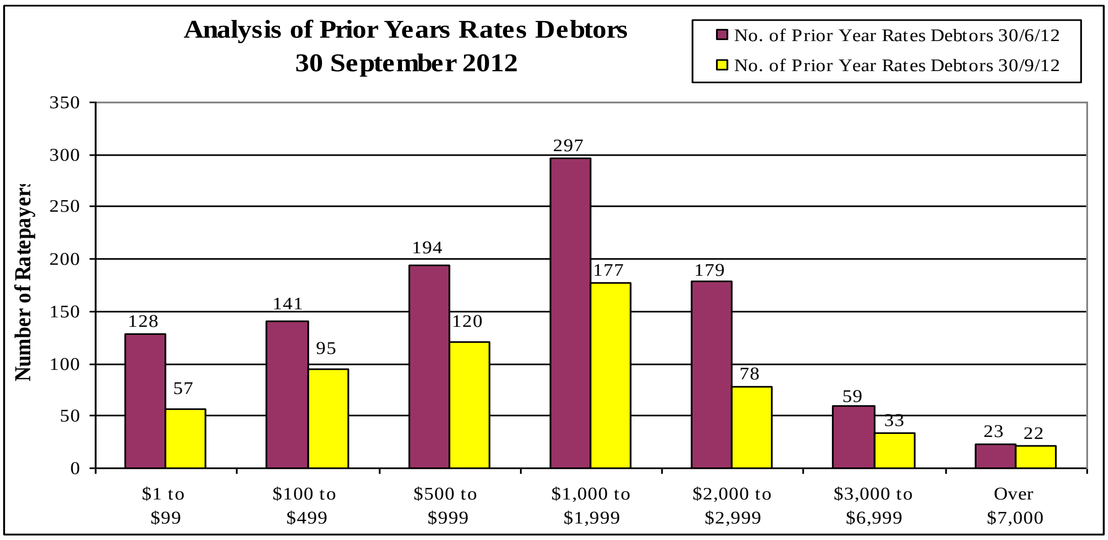
68 The definition of "New Rates Debtors" is where the ratepayer had no outstanding rates at the beginning of the 2011/12 year but had outstanding rates at 30 June 2012.



69 The blue column shows the number of "new rates debtors" grouped by their level of rates debt as at 30 June 2012. The maroon column shows the number of those new rates debtors with rates still outstanding as at 30 September 2012 for each range of rates debt. It shows a substantial decrease in the number of new rates debtors with rate debt after the first three months.

Analysis of Prior Year Rates Debtors

70 The definition of “prior year rates debtors” is where the ratepayer has outstanding rates at the beginning of the 2011/12 year and still has outstanding rates as at 30 June 2012.

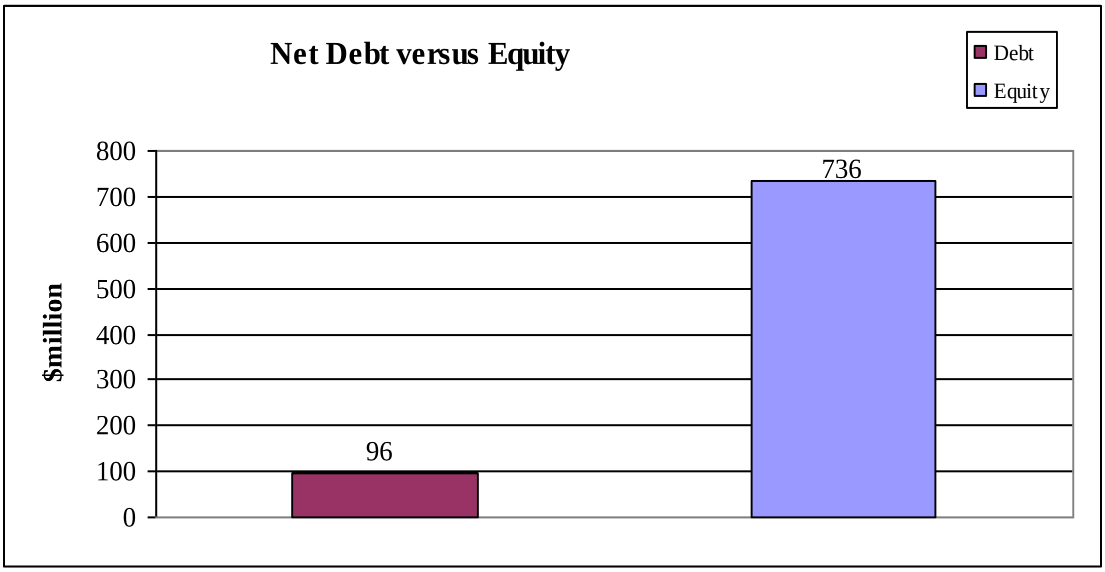


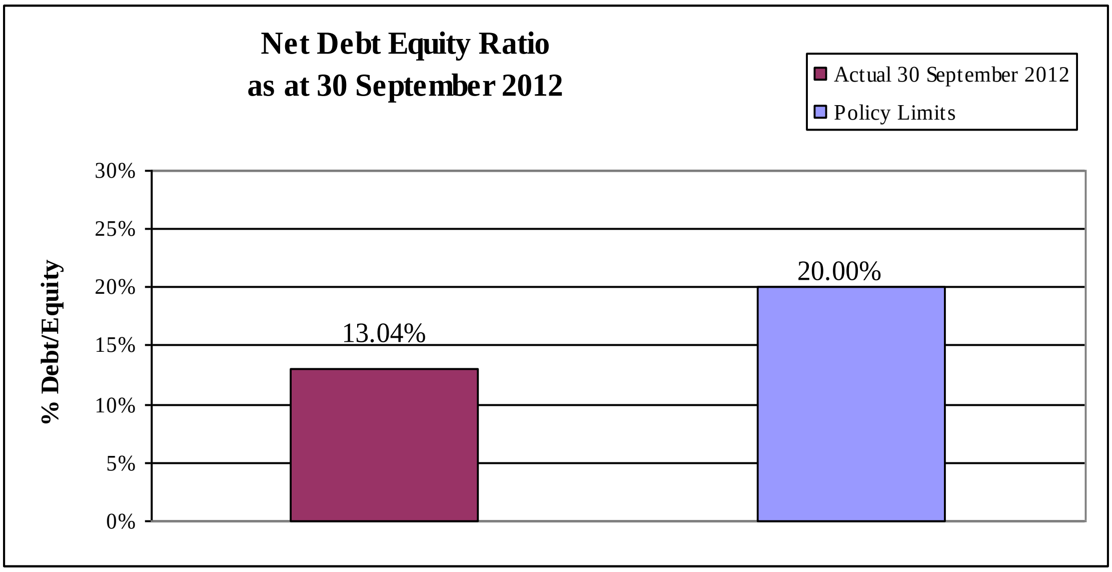
71 The maroon column shows the number of “prior year rates debtors” grouped by their level of rates debt as at 30 June 2012. The yellow column shows the number of those prior year rates debtors with rates still outstanding as at 30 September 2012 for each range of rates debt. It shows a reasonable decrease in rates debt after the first three months in the number of prior year rates debtors with rates debt after the first three months especially for those ratepayers owing less than $7,000.

72 The rates collection process involves regular follow up with outstanding debtors and updates to payment arrangements to ensure debts are cleared over a reasonable time period.

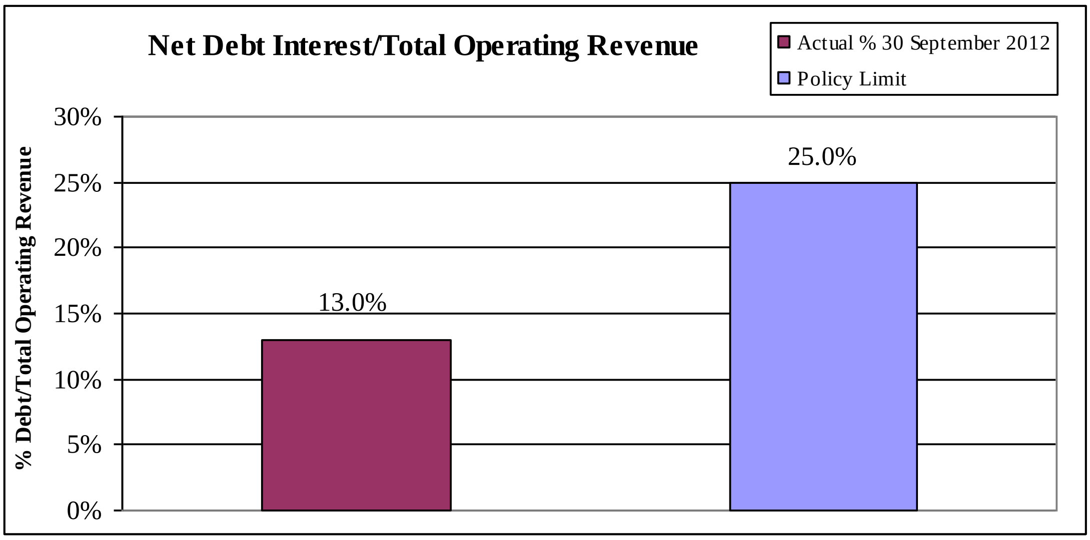
Part G: Performance against Treasury Management Policy Limits

73 The graphs below show that Council is well within its debt/equity policy limits as at 30 September 2012, as set in its Treasury Management Policy. Net Debt as at 30 September 2012 equals $96 million. Public Equity as at 30 September 2012 equals $736 million. The net debt equity ratio is shown below in the second graph.

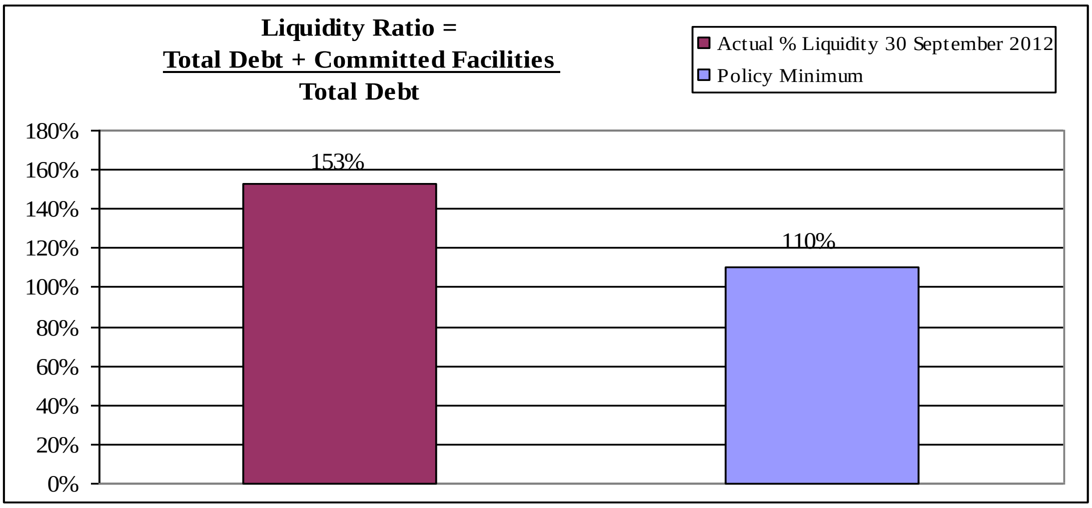




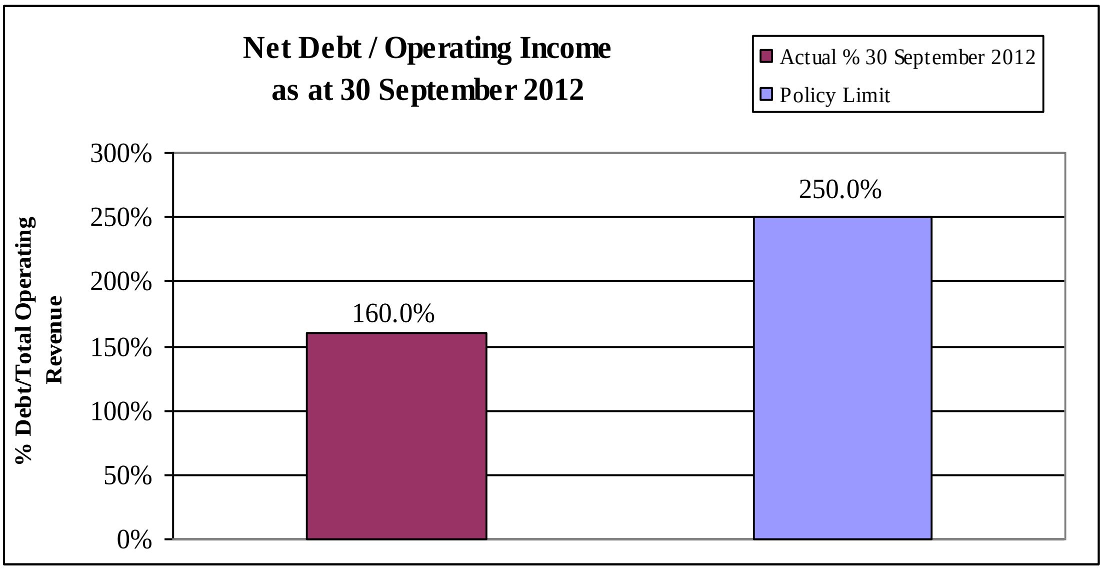
74 The Treasury Management Policy sets the maximum limit for net debt to equity of 20%. The current position is a net debt to equity ratio of 13.04% which is well within the 20% limit.



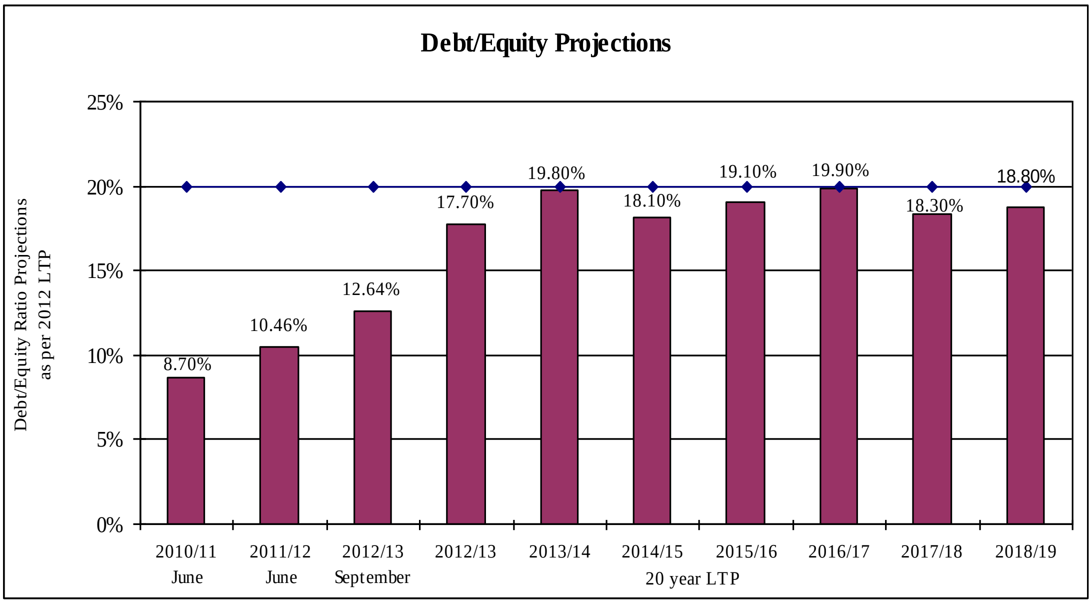
75 The Treasury Management Policy sets a limit of 25% for the ratio of Debt Interest to Total Operating Revenue. The current ratio budgeted for the 2012/13 year is 13% which is well within the limit.



76 The Liquidity Ratio measures Council's ratio of its available financial facilities compared to its current debt levels. At this stage Council has 153% coverage of its current debt requirements mainly through the bank facilities which it currently has in place which is well above the minimum level of liquidity which is 110%.



77 The net debt to operating income (excluding vested assets and development contributions) measures the ability of an organisation to repay its debt from operating income. The Treasury Management Policy sets a limit of 250% for the ratio of Net Debt to Operating Income. The current ratio as at 30 September 2012 is 160% which is well within the limit.



78 The debt equity graph shows the actual debt/equity ratio as at 30 September 2012 and for the followings years the debt/equity ratios as per the 2012 Long Term Plan.

Other Considerations

79 There are no further financial, legal, publicity, consultation or other considerations.

Delegation

80 The Corporate Business Committee has delegated authority to consider this report under Section B.3.7 of the Governance Structure.
Without limiting the generality of this delegation, the committee has the following functions, duties and powers:
Financial and Asset Management,
7.5 Authority to monitor performance of the Council's financial activities, including income, operating and capital expenditure against budgets, remissions, key financial indicators and investment and debt/borrowings management.

RECOMMENDATIONS

81 That the Corporate Business Committee notes the three monthly financial results contained in this report Fin-12-700.

82 That the Corporate Business Committee notes that due to the seasonal nature of some of Council's operating expenditure and revenue, the Council's operating surplus for the first three months, ended 30 September 2012, was $1.324 million. Even though operating revenue is below the annualised budget levels, the operating expenditure is even lower than the annualised budget levels for the same period resulting in an operating surplus.

83 That the Corporate Business Committee notes the forecast changes to the capital expenditure programme for the 2012/13 year as listed on Appendix 1 to report Fin-12-700 which shows that the total 2012/13 capital budget of $55.164 million being reforecast to $59.437 million. This is mainly due to timing changes on some major projects and reflects the under-expenditure on the 2011/12 capital programme where $34.464 million was spent against a forecast of $39.896 million.

84 That the Corporate Business Committee notes the capital expenditure forecast change relates mainly to the Coastlands Aquatic Centre and Civic Building upgrade projects due to timing changes between financial years and that the total forecast project costs are unchanged for these projects.

85 That the Corporate Business Committee notes that the net capital expenditure for the three months amounted to $11.986 million compared to the capital expenditure forecast for the year of $59.437 million which represents 20.2% of the capital expenditure forecast for the 2012/13 year.

86 That the Corporate Business Committee notes the other key financial performance indicators including the performance against key Treasury Management Limits.

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Appendix 1 – Forecast Changes to Capital Programme in 2012/13