

Draft long term plan 2018-38
Consultation - supporting information

Disclosure statement against financial prudence regulations



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Local Government (Financial Reporting and Prudence) Regulations 2014

Background

New Zealand local authorities have had a statutory obligation to manage their affairs in a financially prudent manner since 2002. However, there has been little discussion of what financial prudence means or how it is appropriately measured. Notwithstanding this, the Department of Internal Affairs considers the Financial Prudence Regulations have the potential to make a significant contribution to improving public understanding of local authority finances and improving local authority financial management.

The Financial Prudence Regulations mandate benchmarks for three components of financial prudence:

- affordability
- sustainability
- predictability.

Please note that predictability benchmarks are not required to be disclosed in long term plans.

Furthermore, the regulations require two indicators of affordability. Whilst no formal regulation is required for these, they are equally important to achieving the intended outcomes and are included for clarity.

The five benchmarks are described in the table below, including their rationale.

Component	Benchmark/indicator	Benchmark rationale
Affordability benchmarks	1	Rates affordability benchmark Rates revenue complies with the limits set in the council's financial strategy.
	2	Debt affordability benchmark Debt complies with the limits set in the council's financial strategy.
Sustainability benchmarks	3	Balanced budget benchmark Operating revenue, excluding development and financial contributions and revenue from revaluations, exceeds operating expenditure.
	4	Essential services benchmark Capital expenditure on the five network infrastructure services ¹ exceeds depreciation on those five services.
	5	Debt servicing benchmark Interest expense is less than 10% of operating revenue, as defined in the balanced budget benchmark, except for local authorities with projected population growth greater than or equal to New Zealand's projected population growth. For those local authorities, the benchmark is 15% of operating revenue.

Note 1 – Network services means infrastructure related to water supply, sewerage, treatment and disposal of sewage, stormwater drainage, flood protection and control works, and the provision of roads and footpaths.

Long term plan disclosure statement for period commencing 1 July 2018

What is the purpose of this statement?

The purpose of this statement is to disclose the Council's planned financial performance in relation to various benchmarks to enable the assessment of whether the council is prudently managing its revenues, expenses, assets, liabilities, and general financial dealings.

The Council is required to include this statement in its long term plan in accordance with the Local Government (Financial Reporting and Prudence) Regulations 2014 (the regulations). Refer to the

regulations for more information, including definitions of some of the terms used in this statement.

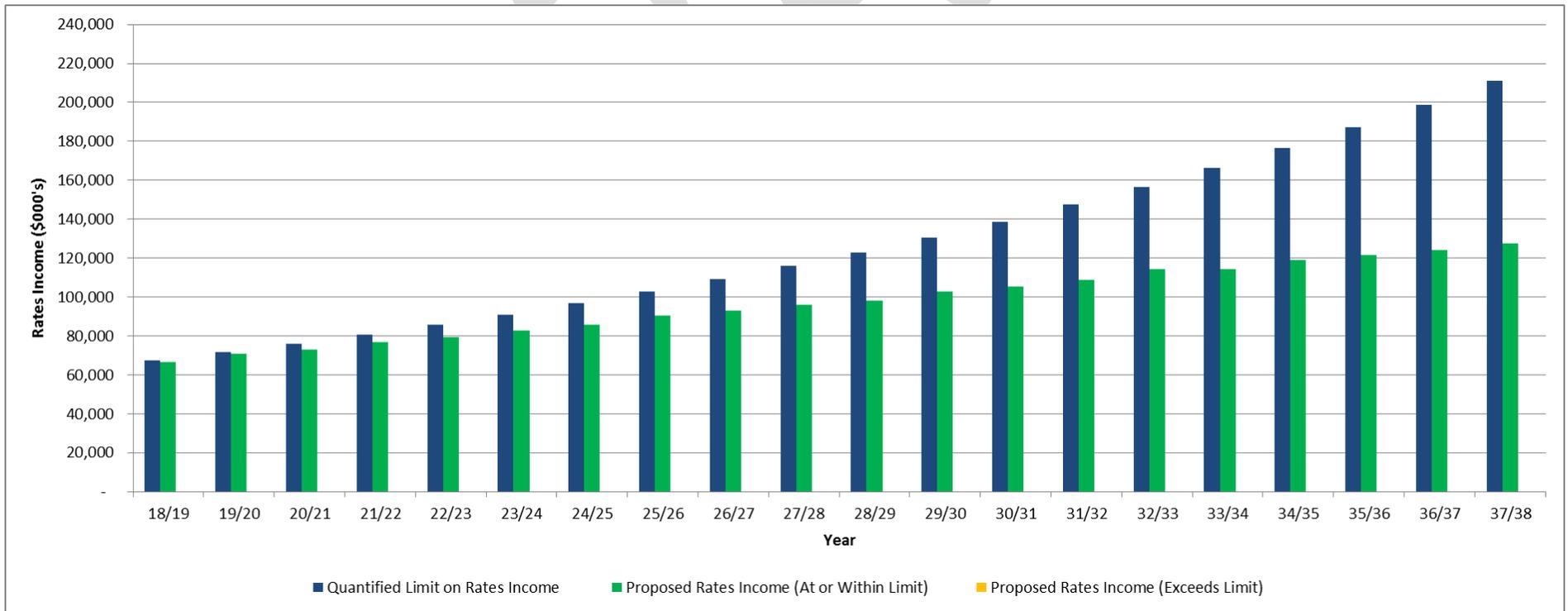
Rates affordability benchmark

The Council meets its affordability benchmark if:

- its planned rates income equals or is less than each quantified limit on rates; and
- its planned rates increases equal or are less than each quantified limit on rates increase.

Rates (income) affordability

The graph below compares the Council's planned rates with a quantified limit on rates contained in the financial strategy included in this long term plan. The council meets the rates affordability benchmark if its planned rates income equals or is less than each quantified limit on rates. The quantified limit on rates income is an allowable increase between 2.9% to 5.5% (after growth) against the preceding financial year.

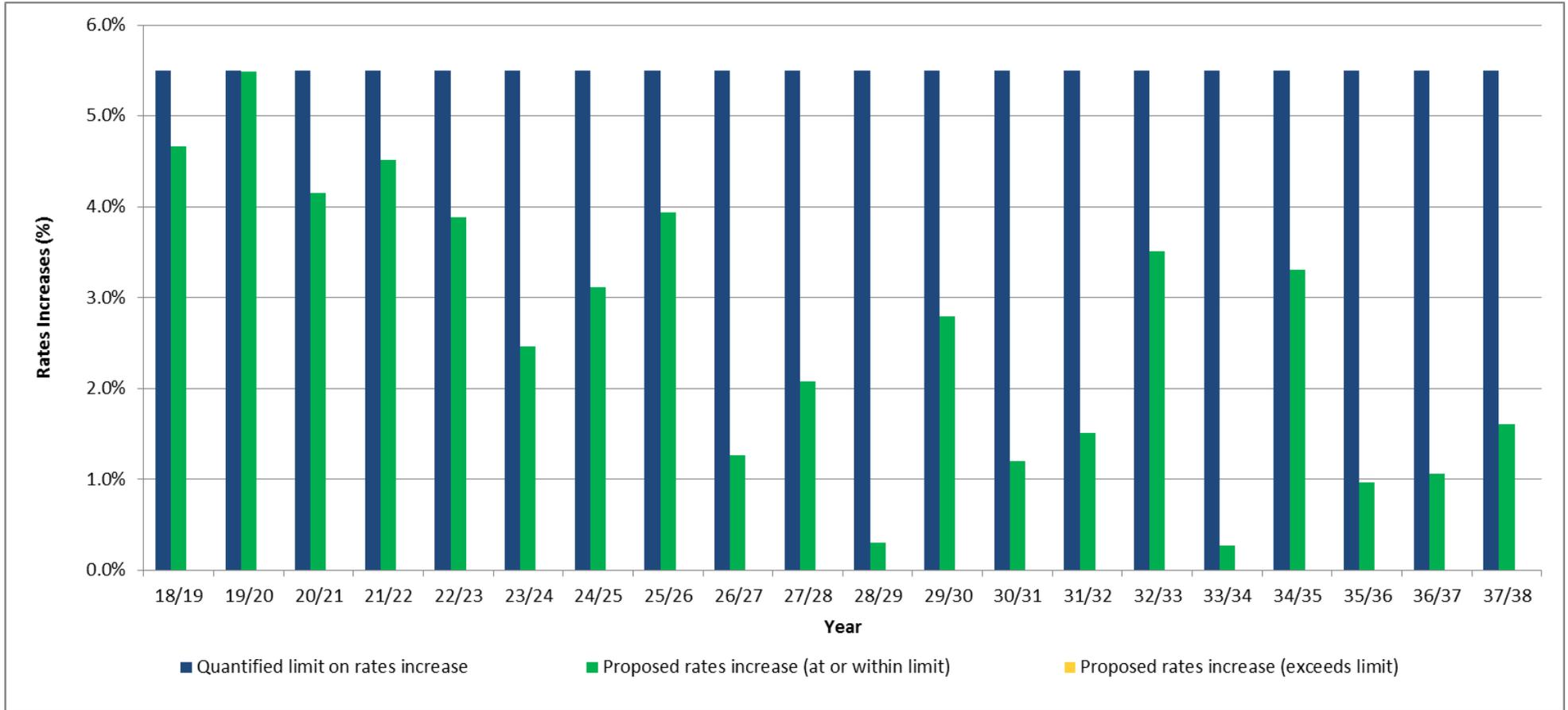


Rates (increases) affordability

The following graph compares the Council's planned rates increases with a quantified limit on rates increases contained in the financial strategy included in this long term plan.

The Council meets the rates affordability benchmark if its planned rates increases equal or are less than each quantified limit on rates increases.

The quantified limit on average annual rates increases is between 2.9% to 5.5% (after growth) against the preceding financial year.

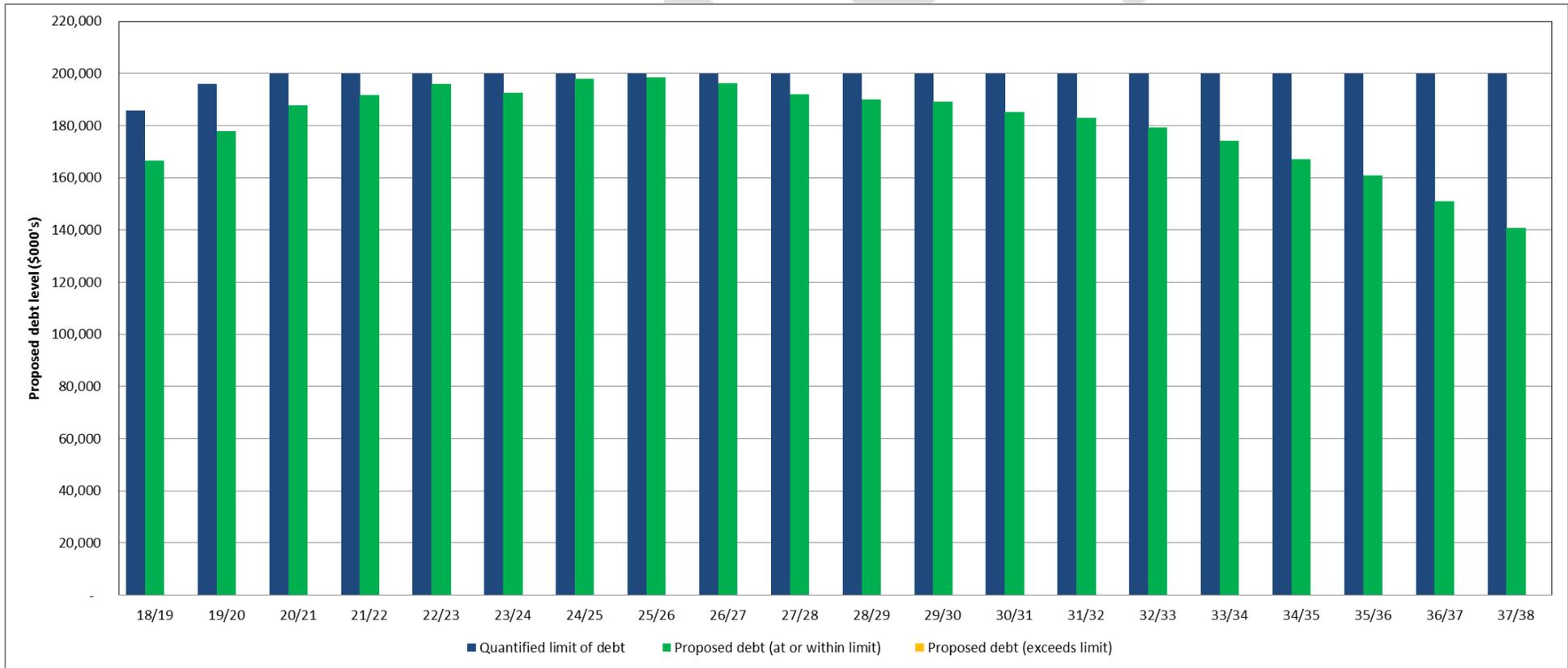


Debt affordability benchmark

The Council meets the debt affordability benchmark if its planned borrowing is within each quantified limit on borrowing.

The following graph compares the council's planned net debt with a quantified limit on borrowing contained in the financial strategy included in the long term plan.

The quantified limit for net planned debt for this long term plan is the lesser of \$200 million or 240% of Total Operating Income. Total Operating Income excludes unrealised gains/losses on derivatives and capital contributions (such as developer contributions and vested assets)



Balanced budget benchmark

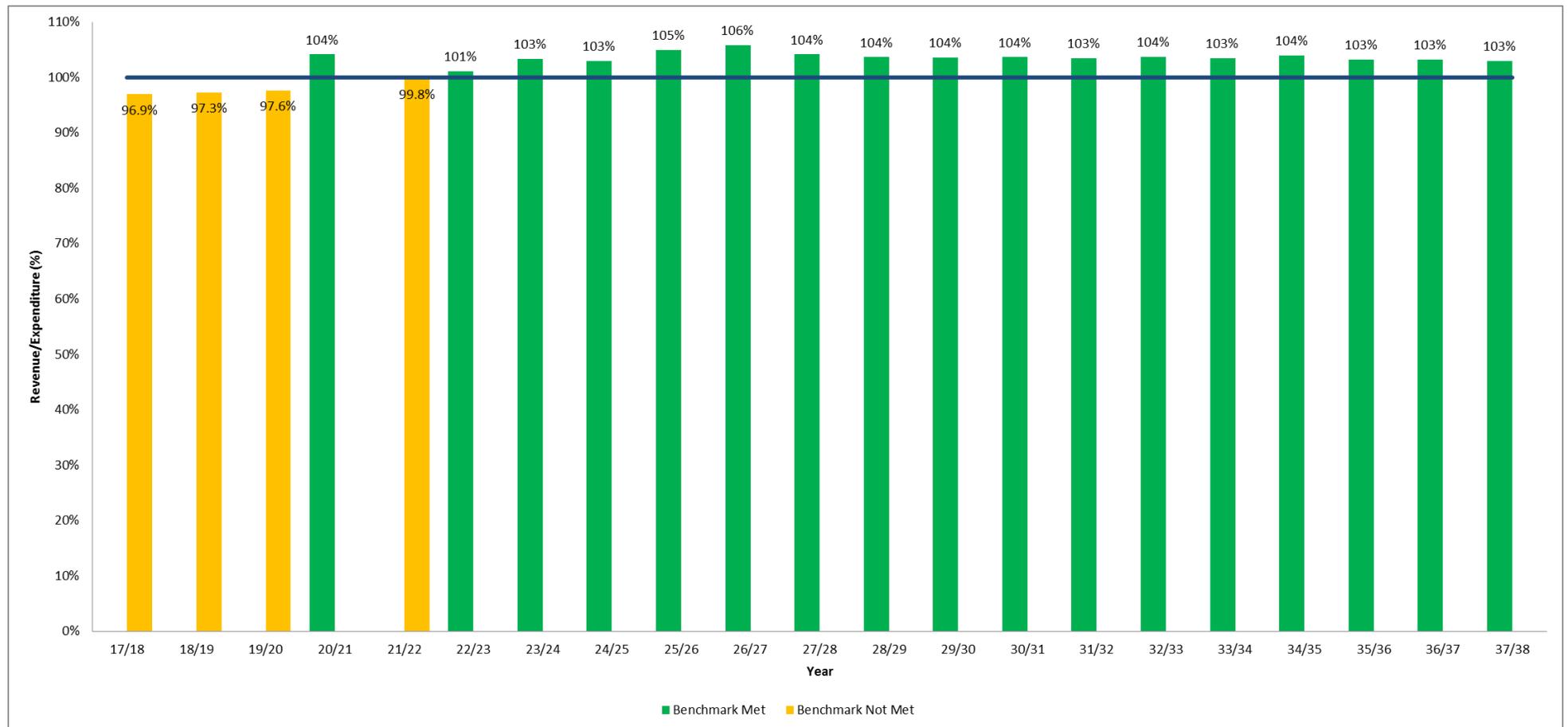
The Council meets the balanced budget benchmark if its planned revenue equals or is greater than its planned operating expenses.

The following graph displays the council's planned revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant and equipment) as a proportion of

planned operating expenses (excluding losses on derivative financial instruments and revaluations of property, plant, or equipment).

Kāpiti Coast District Council does not plan to meet this benchmark in four of the first five years of this long term plan due to its policy of non-funded depreciation of infrastructure assets.

Council's financial strategy for this long term plan is to accelerate repayment of debt by fully funding annual depreciation by 2022/23.

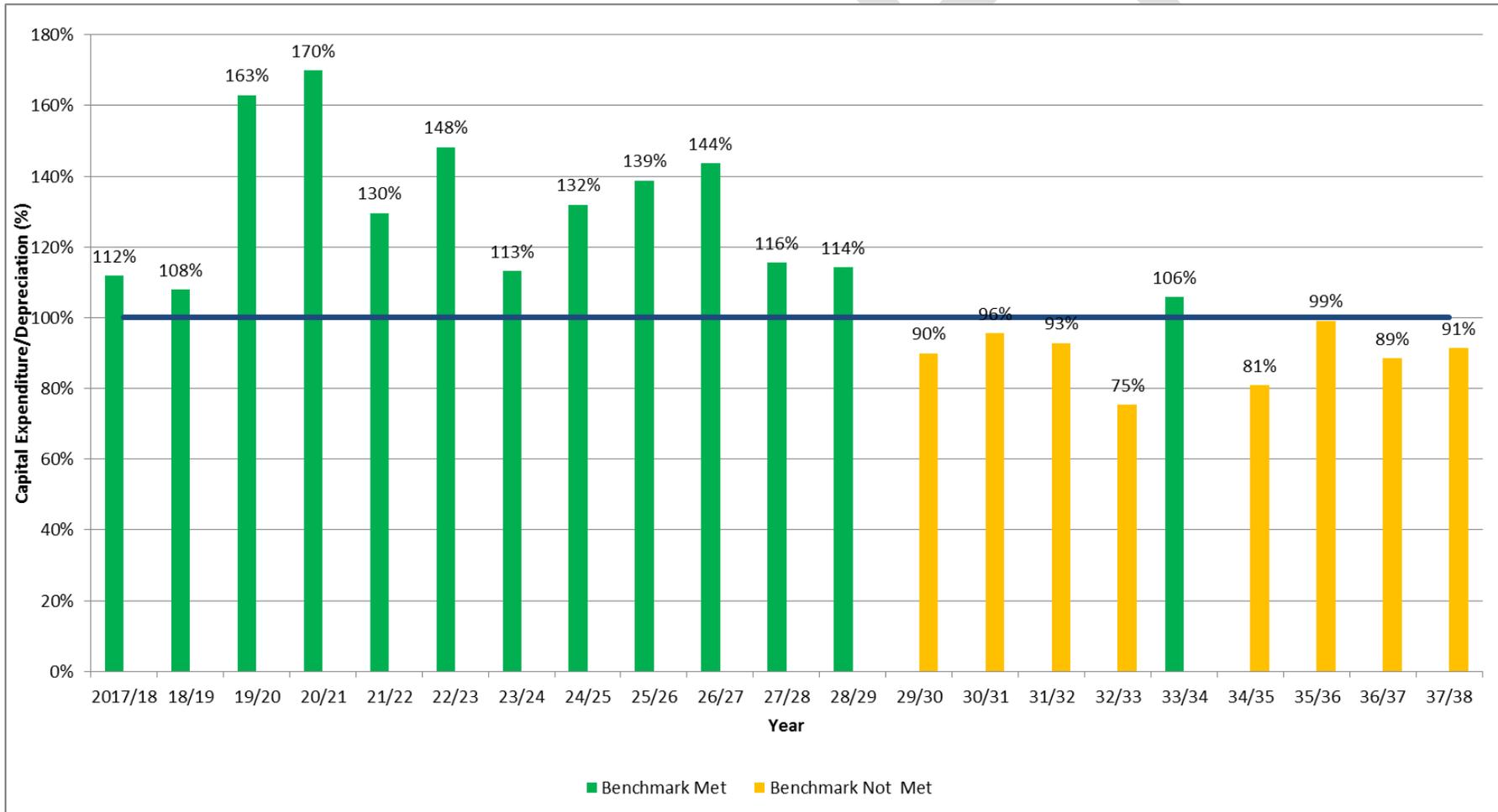


Essential services benchmark

The Council meets the essential services benchmark if its planned capital expenditure on network services equals or is greater than expected depreciation on network services.

The following graph displays the Council's planned capital expenditure on network services as a proportion of expected depreciation on network services.

Council will not meet this benchmark in the out-years of this long term plan mainly because the planned capital investment from 2015/16 to 2020/21 will create new infrastructure assets with long service lives requiring lower levels of maintenance and renewals.



Debt servicing benchmark

The following graph displays the council's planned borrowing costs as a proportion of planned revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant, or equipment).

Because Statistics New Zealand projects the district's population will grow more slowly than the national population is projected to grow, it meets the debt servicing benchmark if its planned borrowing costs equal or are less than 10% of its planned revenue.

Council does not plan to meet this benchmark until 2018/19. There has been significant capital investment in the Kāpiti district over the past four years, in response to the community's needs. This has resulted in a high level of debt for the Council; however, our financial strategy for this long term plan is to accelerate repayment of debt by fully funding annual depreciation by 2022/23. This will reduce planned borrowing costs.

