

Chairperson and Committee Members
OPERATIONS & FINANCE COMMITTEE

16 MAY 2019

Meeting Status: **Public**

Purpose of Report: For Information

FINANCIAL REPORT TO 31 MARCH 2019

PURPOSE OF REPORT

- 1 This report sets out Kāpiti Coast District Council's (Council's) financial performance and financial position for the three quarters ended 31 March 2019, with explanations of key results and variances.

DELEGATION

- 2 The Operations and Finance Committee has delegated authority to consider this report under the 2016-2019 Triennium Governance Structure and Delegations in Section B.2.
Monitoring and decision-making on all broader financial management matters. Key responsibilities will include financial management, including risk mitigation.

BACKGROUND

- 3 The Committee is provided with information on nine 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 Rates Funding
 - Part E: Water Account Statement
 - Part F: Capital Spending Programme
 - Part G: Outstanding Rates Debt as at 31 March 2019
 - Part H: Treasury Management
 - Part I: Asset Revaluation

Part A: Statement of Comprehensive Revenue and Expense

- 4 The statement of comprehensive revenue and expense covers all of the Council's revenue and expenditure for the reporting period.
- 5 The net position of revenue less expenditure provides the operating surplus or deficit for the reporting period.
- 6 Table 1 below outlines the Council's actual revenue and expenses for the third quarter ended 31 March 2019, including the budget and forecast for the year ended 30 June 2019.

Table 1	Year to date to 31 Mar 2019			Full Year 2018/19		
	Actual \$000	Budget \$000	Variance \$000	Forecast \$000	Budget \$000	Variance \$000
Rates	48,188	47,913	275	64,136	64,075	61
Fees and Charges	6,832	7,335	(503)	8,833	9,319	(486)
Grants and Subsidies	3,456	3,692	(236)	6,113	5,691	422
Development and Financial Contributions Revenue	1,424	807	617	1,578	1,076	502
Other Operating Revenue	1,386	352	1,034	12,995	434	12,561
Interest Income	1,673	2,182	(509)	2,027	2,856	(829)
Total Income	62,959	62,281	678	95,682	83,451	12,231
Personnel, maintenance & operations	37,022	39,682	2,660	53,080	53,475	395
Depreciation and Amortisation	15,217	15,080	(137)	20,283	20,107	(176)
Finance Expense	7,219	7,712	493	9,546	10,263	717
Total Expenditure	59,458	62,474	3,016	82,909	83,845	936
Operating (Deficit) / Surplus	3,501	(193)	3,694	12,773	(394)	13,167
Revaluation of Property Plant and Equipment	65	-	65	43,367	43,367	-
Unrealised gain/(loss) on revaluation of financial derivatives	(5,489)	-	(5,489)	(5,489)	(478)	(5,011)
Total Other Comprehensive Income and Expenditure	(5,424)	-	(5,424)	37,878	42,889	(5,011)
Net Operating Surplus / (Deficit)	(1,923)	(193)	(1,730)	50,651	42,495	8,156

Financial performance summary

- 7 Council's year to date (YTD) operating surplus of \$3.50 million is \$3.69 million favourable to budget. This comprises of a \$0.68 million favourable revenue variance and a \$3.02 million favourable expenditure variance.
- 8 The operating surplus is forecasted to be \$12.77 million by the end of the financial year, which is \$13.17 million favourable to budget.
- 9 The favourable YTD and forecast variances are mainly due to vesting of assets to Council as a result of subdivision activity and the expressway, more development and financial contributions revenue than planned, and additional rates revenue due to stronger growth in rateable units since the LTP was approved. It is also due to lower levels of operating expenditure for the first three quarters of the year in areas such as personnel, maintenance and general expenses. Please note that the forecast takes into account that the Kapiti Investment Funds are not progressing.

- 10 Overall the council is currently forecasting a favourable variance of \$11,000 against its budgeted rates deficit of \$75,000. The budgeted deficit was funded by a portion of the 2017/18 surplus. The Council's full year performance is subject to change during the next quarter of the financial year.
- 11 Council's unrealised loss on revaluation of financial derivatives of \$5.49 million is due to derivative interest rates decreasing since 30 June 2018. There is no intention to realise these fair value changes (whether gains or losses). This is recognised for accounting purposes only and does not represent a cash gain or loss.

Revenue performance - commentary

12 Rates

Description	Rates include all rates earned by the Council, including water rates. Rates remissions and rates billed to the Council owned properties are excluded.
Year to Date Variance	\$275,000 favourable to budget due to additional rates revenue from additional property development finalised in June 2018 after the rates were set. This development was in Raumati Beach (6 lots), Paraparaumu (17 lots) and Waikanae (15 lots).
Forecast Variance	\$61,000 favourable to budget due to additional rates revenue as a result of stronger growth.

13 Fees and charges

Description	Fees and charges includes all non-rates revenue earned by the Council for providing services to the Community. This also includes fines and penalties charged.
Year to Date Variance	\$503,000 unfavourable to budget, which is mainly driven by lower rental lease income and regulatory income, including building consents, resource consents, health license fees, and parking infringements.
Forecast Variance	\$486,000 unfavourable to budget, which is mainly due to lower rental lease income and regulatory income, including building consents, resource consents, health license fees, and parking infringements.

14 Grants and subsidies

Description	Includes grants received by the Council for operating and capital spending. The majority of grants revenue is received from (NZTA) for their share of our roading maintenance and capital spending programmes.
Year to Date Variance	\$236,000 unfavourable to budget due to project delivery delays in the Stride and Ride programme.
Forecast Variance	\$422,000 favourable to budget as work has been completed to maximise the funding from NZTA, including increased funding expected for low cost low risk category projects which were previously not funded.

15 **Development and financial contributions**

Description	Financial contributions are levied under the Resource Management Act and cover Reserves Contributions levied on developers at the time of subdivision. Development contributions are levied under the Local Government Act 2002 and cover all key activities except reserves and are levied on developers at the time of subdivision. Developers' contributions to Council works are treated as revenue.
Year to Date Variance	\$617,000 favourable to budget due to higher subdivision activity than planned. This increased development activity has been in Waikanae and Ōtaki.
Forecast Variance	Expected to be \$502,000 favourable to budget due to increased building and subdivision activity.

16 **Other Operating Revenue**

Description	Includes assets vested to the Council, local government petrol tax, donations and/or sponsorship and realised gains on asset disposals. Note also that the value of land vested to the Council as part subdivision activity in any year will be recorded as revenue in that year.
Year to Date Variance	\$1.03 million favourable to budget due to assets vested to the Council as part of the subdivision process. These mainly relate to Ōtaki and Waikanae.
Forecast Variance	Forecasted to be \$12.56 million favourable to budget, due to the vesting of roading assets (roads and land under roads) from NZTA as result of the connector roads for the new Expressway. These roads include Peka Peka, Hadfield, and Te Kowhai link roads.

17 **Interest income**

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	\$509,000 unfavourable to budget which is due to the Council's decision to not progress further with the Kapiti investment funds.
Forecast Variance	\$829,000 unfavourable to budget due to the Council's decision to not progress further with the Kapiti investment funds. Interest expense will also be lower due to this decision.

Expenditure performance - commentary**18 Personnel, maintenance & operations**

Description	Includes personnel expenses, maintenance, business-as-usual Council operating expenses, internal recoveries, grants and other sundry expenses.
Year to Date Variance	<p>\$2.66 million favourable to budget due to lower levels of expenditure in the first three quarters of the year in the following areas:</p> <p>Personnel \$1.08 million – due to staffing vacancies across the organisation, partially offset by fixed term and other external resources used to backfill the positions.</p> <p>Maintenance and operations \$1.61 million – due to lower spending on:</p> <ul style="list-style-type: none"> • planned earnings from the Kapiti Investment funds due to the Council decision in January to not progress further with the Kapiti Investment Funds. • Iwi Management Plan, Environmental Management and enforcement and in waste and travel safety plans. • overall maintenance including ICT, Stormwater & Coastal and transfer stations.
Forecast Variance	\$395,000 favourable to budget which is primarily due to the Council decision in January to not progress further with the Kapiti Investment Funds.

19 Depreciation and amortisation

Description	Depreciation is the amortisation of the cost of property, plant and equipment and intangible assets currently owned by the Council.
Year to Date Variance	\$137,000 unfavourable to budget due to the final 2017/18 revaluation resulting in higher water asset values than expected. These higher values give rise to increased depreciation expense.
Forecast Variance	\$176,000 unfavourable to budget due to the three waters asset revaluations being more than expected.

20 Finance expense

Description	Interest expense is incurred on borrowings.
Year to Date Variance	\$493,000 favourable to budget because Council resolved to not progress further with the Kapiti Investment funds.
Forecast Variance	\$717,000 favourable to budget because Council resolved to not progress further with the Kapiti Investment funds.

Items reported below the line - commentary21 **Unrealised gain / (loss) on revaluation of derivatives**

Description:	<ol style="list-style-type: none"> 1. The Council recognises its interest rate swaps at fair value on a monthly basis. 2. The change in fair value between 1 July 2018 and 31 December 2018 is treated as either an unrealised gain (fair value has decreased) or an unrealised loss (fair value has increased).
Year to Date Variance	\$5.49 million unfavourable to budget because swap rates are lower compared to opening rates at 1 July 2018. (See Part H: Treasury Management).
Forecast Variance	Given the volatility 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.

Part B: Statement of Financial Position

- 22 The Council's financial position as at 31 March 2019 and full year forecast and budget are set out in Table 2, followed by a summary of the key variances. Note that the Council does not prepare a monthly budget for the statement of financial position.

Table 2	2018/19			
	YTD actual	Full year forecast	Full year budget	Variance
	\$000	\$000	\$000	\$000
Assets				
Cash and cash equivalents	167	200	200	-
Trade and other receivables	7,418	8,062	8,062	-
Inventories	135	116	116	-
Property, plant and equipment	1,641,529	1,702,749	1,694,609	8,140
Forestry assets	109	109	429	(320)
Intangible assets	747	2,583	2,583	-
Other financial assets	51,256	58,496	63,755	(5,259)
Loans	489	466	466	-
Total assets	1,701,850	1,772,781	1,770,220	2,561
Liabilities				
Trade and other payables	13,942	19,894	19,894	-
Employee benefit liabilities	2,172	2,778	2,778	-
Deposits	1,172	820	820	-
Borrowings	195,300	210,000	226,175	16,175
Provisions	3,937	4,183	4,183	-
Derivative financial instruments	18,685	18,685	11,392	(7,293)
Total liabilities	235,208	256,360	265,242	8,882
Public equity				
Accumulated funds	568,367	576,559	565,116	11,443
Reserves and special funds	4,159	3,021	3,021	-
Revaluation reserve	894,116	936,841	936,841	-
Total equity	1,466,642	1,516,421	1,504,978	11,443
Total liabilities and equity	1,701,850	1,772,781	1,770,220	(2,561)

Year to date Summary

- 23 The Council's only material changes to its financial position since 30 June 2018 were in respect to other financial assets and gross borrowings.
- 24 \$30 million of long term debt matured in March 2019. The full amount was funded by the prefunding programme, with \$30 million of term deposits maturing on the same day.
- 25 \$5 million of new debt was issued during the quarter, bringing the total amount of new debt acquired in the past nine months to \$20 million. This was all placed on fixed term deposit as part of Council's prefunding programme. (see part H: Treasury management).

- 26 In addition to the \$20 million term deposit placement, \$13 million of surplus cash was placed on short term deposit, for payment towards the 2018/19 capital works programme. (see part H: Treasury management).

Full year forecast Summary

- 27 Property, plant and equipment are forecast to be \$8.14 million favourable to year-end budget. This is mainly due to the vesting of \$12.56 million of roading assets (roads and land under roads) from NZTA as result of the new expressway. This additional vesting is offset by the estimated 2018/19 Capex programme carry forwards of \$6.23 million.
- 28 Net borrowings (Borrowings less Other Financial assets) are forecast to be \$10.92 million favourable to budget at year-end. This is mainly due to Council not progressing with in the Kapiti Investment Funds (\$20 million), offset by the projected increase in prefunding (\$10 million).

Part C: Statement of Cash Flows

- 29 The Council's cash flow for the half year ended 31 March 2019 and full year forecast are set out in Table 3, followed by a summary of key variances.

Table 3	YTD actual	2018/19 Full year forecast	Full year budget	Full Year Variance
	\$000	\$000	\$000	\$000
Cash flows from operating activities				
<i>Cash was provided from:</i>				
Kapiti Coast District Council rates	48,004	64,116	64,075	41
Greater Wellington Regional Council Rates	9,058	-	-	-
Grants and subsidies - operating	1,287	1,815	1,701	114
Interest received	1,380	2,217	2,799	(582)
Charges and fees	8,741	11,103	10,828	275
GST (net)	(123)	206	206	-
	68,347	79,457	79,609	(152)
<i>Cash was applied to:</i>				
Payments to employees and suppliers	39,691	51,066	53,589	(2,523)
Rates paid to Greater Wellington Regional Council	9,058	-	-	-
	48,749	51,066	53,589	(2,523)
Net cash flows from operating activities	19,598	28,391	26,020	2,371
Cash flows from investing activities				
<i>Cash was provided from:</i>				
Loan repayment/Term deposit maturities	38,018	45,550	30,631	14,919
Proceeds from sale of property, plant and equipment	33	-	-	-
Proceeds from capital grants	2,169	4,300	3,990	310
	40,220	49,850	34,621	15,229
<i>Cash was applied to:</i>				
Construction and purchase of property, plant and equipment and intangibles	10,495	27,939	29,439	(1,500)
Purchase of investments	36,320	46,000	30,000	16,000
	46,815	73,939	59,439	14,500
Net cash flows from investing activities	(6,595)	(24,089)	(24,818)	729
Cash flows from financing activities				
<i>Cash was provided from:</i>				
Short-term borrowings	23,125	-	-	-
Long-term borrowings	20,000	35,000	38,856	(3,856)
	43,125	35,000	38,856	(3,856)
<i>Cash was applied to:</i>				
Interest on borrowings	7,188	9,302	10,058	(756)
Short-term borrowings	22,825	-	-	-
Long-term borrowings	30,000	30,000	30,000	-
	60,013	39,302	40,058	(756)
Net cash flows from financing activities	(16,888)	(4,302)	(1,202)	(3,100)
Net increase/(decrease) in cash and cash equivalents	(3,885)	-	-	-
Add total cash and cash equivalents at 1 July 2018	4,052	200	200	-
Total cash and cash equivalents	167	200	200	-

Year to date Summary

- 30 The Council's material changes to its cash flow management for the three quarters ended 31 March 2019 were:
- 30.1 \$20 million of new long term debt was issued during the year;
 - 30.2 \$36 million of funds were placed on fixed term deposit (\$20 million new debt and \$16 million surplus cash);
 - 30.3 \$30 million of long term debt matured during March 2019;
 - 30.4 \$38 million of term deposits matured (\$30 million prefunded for the repayment of the debt maturity and \$7.5 million of surplus cash that was placed on fixed deposit); and
 - 30.5 \$10.5 million was paid in relation to the Council's capital expenditure programme.

Part D: Statement of Rates Funding

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

- operating surplus/(deficit) covers all of the Council's operating revenue and expense from all funding sources, including vested assets.
- the rates surplus/(deficit) only covers the Council's revenue and expenses that are rates funded.

32 Table 4 below details the actual year to date rates funding surplus / (deficit) for the quarter ending 31 March 2019 and for the 2018/19 year.

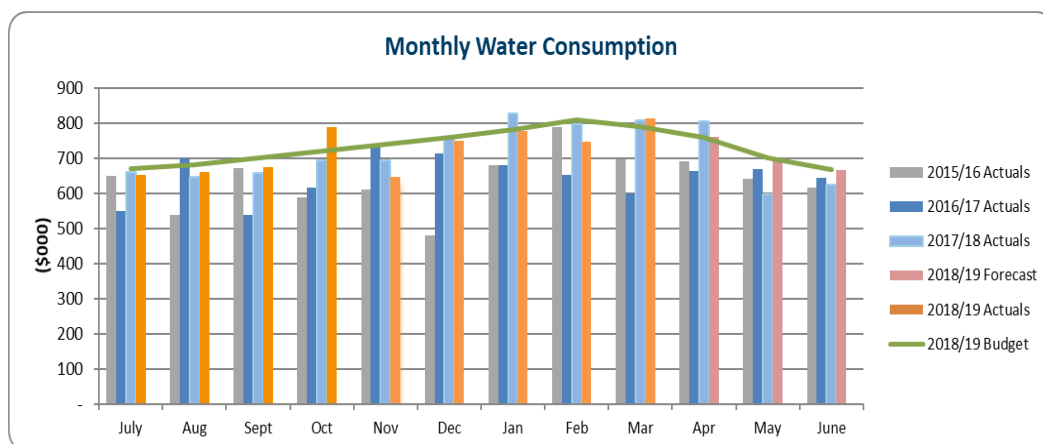
Table 4: Rates revenue requirement	2018/19 YTD actual \$000	2018/19 Year forecast \$000	2018/19 Year Budget \$000
Operating (deficit)/surplus	3,501	12,773	(394)
Adjusted by income and expenditure not funded by rates:			
Net Expenditure funded by reserves and special funds	(22)	110	58
Capital funding and vesting of assets	(3,592)	(16,815)	(3,607)
Revaluation of Council's assets	-	-	-
Unfunded Depreciation	2,901	3,868	3,868
Underlying net rates surplus/(deficit)	2,788	(64)	(75)
Represented by:			
Net underspend across the organisation	2,788	(64)	(75)
Rates surplus / (deficit)	2,788	(64)	(75)

33 The year to date rates surplus of \$2.79 million is mainly due to lower levels of operating expenditure than planned (in areas such as personnel, maintenance and general expenses), and additional rates revenue due to growth in rateable units since the LTP was approved.

34 Overall the council is currently forecasting a favourable variance of \$11,000 against its budgeted rates deficit of \$75,000. This deficit was funded by a portion of the 2017/18 surplus. While the Council's full year performance is subject to change during the next quarter of the financial year, the Council is working hard to ensure that we meet the budget or finish the year with a small rates surplus.

Part E: Water Account Statement

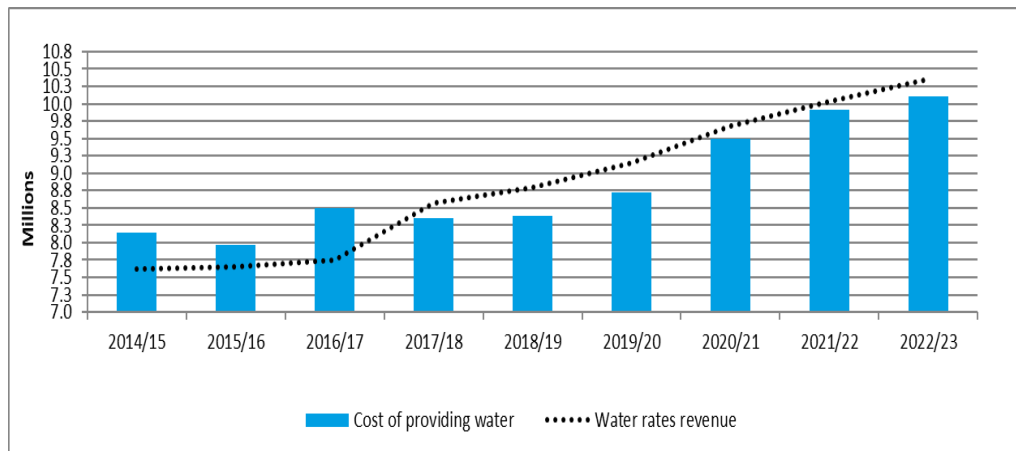
- 35 The Council’s water account since water meters were introduced in 2014 captures the total cost of supplying potable water. This includes reticulation and treatment. Ideally the total cost of supplying potable water is fully recovered by fixed and metered water supply rates each year. The water account is a closed account. This means that any surpluses will be held within the account to fund future costs of providing water. Conversely any deficits will need to be recovered from future water charges.
- 36 Water usage is expected to take a number of years to normalise as districtwide water meter charging for all residential properties commenced from July 2014. Therefore, the Council needs to carefully monitor usage trends to best determine what charges are necessary to fully recover the total costs of providing a treated water supply.
- 37 The water account is currently in deficit. The Council plans to gradually increase the annual water supply rates, to a level that recovers the full cost of providing this service across the District within the next five (or more) years.
- 38 Council water revenue is currently forecasted to cover expenditure for the 2018/19 financial year.



- 39 The table below outlines the water account position. From 2018/19 onwards, the anticipated surpluses will help to ensure that the full cost of water is recovered from water rates. The water account deficit is expected to be nil by 30 June 2023.

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	Actual	Actual	Actual	Actual	Budget	Budget	Budget	Budget	Budget
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Cost of providing water	8.1	8.0	8.5	8.3	8.4	8.7	9.5	9.9	10.1
Water rates revenue	7.6	7.6	7.8	8.6	8.8	9.2	9.7	10.0	10.4
Annual surplus/(deficit)	(0.5)	(0.3)	(0.7)	0.2	0.4	0.4	0.2	0.1	0.3
Balance of water account	(0.5)	(0.8)	(1.6)	(1.4)	(1.0)	(0.5)	(0.4)	(0.2)	0.0
Variable Price (Including GST)	\$0.95	\$0.99	\$1.04	\$1.09	\$1.14	\$1.19	\$1.24	\$1.29	\$1.32
Fixed Price (Including GST)	\$189	\$190	\$199	\$207	\$215	\$222	\$233	\$236	\$240
Fixed Portion	54%	55%	56%	60%	55%	55%	55%	55%	55%

- 40 The chart below outlines the cost of providing water services each year, compared with the water rates revenue received. The overall approach by Council is to gradually increase the water rates revenue to ensure that the full cost of providing water services is recovered by 2023.



Part F: Capital Spending Programme

- 41 A summary of the progress of our capital works programme for 2018/19 and forecast for this year are shown by activity against the full year budget in Table 5 below.

Table 5	Actuals Q3 31 Mar 2019	FY Forecast 2018/19	FY Budget 2018/19	FY Variance - under / (over) 2018/19
	\$000	\$000	\$000	\$000
Access and Transport	3,884	8,372	9,155	783
Coastal Management	618	1,894	1,894	-
Community Facilities and Community Support	624	1,438	1,504	66
Corporate	499	1,156	1,122	(34)
Economic Development	1,096	1,744	2,553	809
Governance and Tangata Whenua	41	141	116	(25)
Parks and Open Spaces	368	1,831	2,152	321
Recreation and Leisure	584	1,134	3,684	2,550
Regulatory Services	11	39	20	(19)
Solid Waste	107	437	586	149
Stormwater Management	998	2,556	2,556	-
Wastewater Management	756	1,281	2,482	1,201
Water Management	909	1,457	1,896	439
Totals	10,495	23,480	29,720	6,240

- 42 The capital works program is 43% completed against the year to date budget of \$24.2 million, and 35% completed against the full year budget of \$29.7 million. Note that the budget includes 2017/18 carry-forwards approved by the Council in August. The proposed carry-forwards from 2018/19 into 2019/20 and future years is outlined in paragraph 45.

- 43 The explanation for significant forecast variances in the 2018/19 capital works programme are outlined below:

Activity	Forecast Variance	Summary Explanation
Access and Transport	\$783,000	NZTA have incurred delays in delivering Category 1 of the revocation work on State Highway 1, which have impacted the delivery times on Category 2 & 3.
Parks and Open Spaces	\$321,000	This is mainly due to delays with work on the Paraparaumu Escarpment as KiwiRail have indicated they are not in a position to commence work this financial year.
Recreation and Leisure	\$2,550,000	This is largely related to the \$1.6m capital contribution payment to Kapiti Performing Arts Centre which is not required until January 2020 and \$779k for Waikanae Library building capital budget which will not be spent this financial year as analysis is being completed on solutions for providing library services into the future.
Wastewater Management	\$1,201,000	\$921k is related to Waikanae Duplicate Rising Main due to resource consent delays and \$194k for Paraparaumu Wastewater treatment plant engagement progressing slower than planned.
Water Management	\$439,000	This is due to delays due to the set-up of the professional services panel for Waikanae Stage 2. There is also budget provided in 2019/20, so this funding will be carried forward to 2020/21.

- 44 The Activity Reports 1 January – March 2019 (Corp-19-778) contain more detailed information about the spending variations at the activity level.

45 It is proposed that capital expenditure of \$6.23 million will be carried over from 2018/19 to 2019/20 and future years as outlined below. Further detail on the 2019/20 capital programme is included in paragraph 46 below:

2018/19 Indicative Capital Expenditure Carryovers:

Project	Full Year Forecast	2018/19 Total Budget	Variance	Carryover to 2019/20	Carryover to future years	Explanation
Public Art Acquisition	\$33,402	\$140,540	\$107,138	\$107,138	-	Commencement on design work on the art installation in Maclean Park has been delayed due to issues with undertaking the relevant consultation with local Iwi
Kapiti College Performing Arts Centre	-	\$1,600,000	\$1,600,000	\$1,600,000	-	Capital contribution payment to Kapiti Performing Arts Centre is due on completion. Funding is not required until January 2020.
Fixture & Fittings - Access control system (Districtwide)	\$6,500	\$107,802	\$101,302	\$101,302	-	Project has been delayed because staff resources had been redirected to other urgent capital projects.
Paraparaumu Memorial Hall	\$77,729	\$260,352	\$182,623	\$182,623	-	Professional fees and consent is expected to be completed before 30 June 2019, but the rest of the project has been delayed as other staff resources has been redirected to other urgent capital projects.
EQP Building Remedial Work	\$286,788	\$409,366	\$122,578	\$122,578	-	EQP component of Paraparaumu Memorial Hall delayed due to staff resources being redirected to other urgent capital projects.
Paraparaumu Escarpment	\$2,871	\$203,400	\$200,529	\$200,529	-	KiwiRail have indicated they are not in a position to commence work this financial year.
Otaki Beach Development	-	\$51,765	\$51,765	\$51,765	-	More time required to complete road stopping process associated with the project.
SH1 Revocation Funding	\$362,795	\$1,779,329	\$1,416,534	\$298,000	\$750,000	SH1 revocation Category 1 work is 100% funded & delivered by NZTA, Category 2 is 50/50 split between Council and NZTA, and Category 3 is 100% Council funded. NZTA have incurred delays delivering Category 1 revocation work and has therefore, impacted when Council can start Category 2 and 3. Note that the balance of this budget is being spent in Town Centres.
Ratanui Roundabout	-	-	-	\$750,000	(\$750,000)	Ratanui Roundabout (\$602k funded from SH1 revocation and \$148k from additional NZTA funding received in 2018/19)
Waikanae Duplicate Rising Main	\$50,111	\$971,201	\$921,090	-	\$921,090	The project is delayed due to unresolved land ownership sign off for the pipe alignment in the M2PP corridor. This budget has been carried over into 2020/21.
Water Treatment Plant Stage 2	\$618,114	\$1,250,000	\$631,886	-	\$438,852	The delay to the water safety and resilience programme, including Stage 2 Waikanae water treatment plant upgrade is due to the extended procurement process to set up the Water Supply Panel and award the consultancy. This budget has been carried over into 2020/21.
Aerial Photo Update	-	\$40,800	\$40,800	\$40,800	-	This project was delayed due to other project priorities, and current weather conditions are not suitable for a flyover. This project will be rescheduled to take place next summer.
Waikanae Memorial Park Tennis Courts	\$726	\$71,190	\$70,464	\$70,464	-	The project has been delayed due to unsuccessful contractor negotiations with lead tenderer. Contractor availability now falls in winter months where there are weather issues (cracking risks). The work is recommend to occur during warmer months so that no direct failure is imminent.

Project	Full Year Forecast	2018/19 Total Budget	Variance	Carryover to 2019/20	Carryover to future years	Explanation
Mountains to Sea	-	\$10,170	\$10,170	\$10,170	-	Delayed due to project partners (D.O.C and Iwi) needing to establish a partnership arrangement as a foundation for the project.
Mahara Gallery	\$194,295	\$200,000	\$5,705	\$5,705	-	Contractors have been engaged and residual funds will need to be carried over.
Paraparaumu Community Centre	\$1,824	\$147,465	\$145,641	\$145,641	-	Council briefing is scheduled in May to set out new direction for the community centre.
Strategic Land Purchases	\$85,227	\$762,500	\$677,273	\$677,273	-	Unspent capital funds required for future property acquisitions.
Otaki Service Centre/Museum	-	\$31,000	\$31,000	\$31,000	-	Unspent funds to be spent on EQP in 2019/20.
Otaki Theatre Renewals	\$2,818	\$50,485	\$47,667	\$47,667	-	Subject to building condition survey, the work is not expected to occur in 2018/19. Remediation plan needs to go to Council.
Waikanae Beach Hall	-	\$21,360	\$21,360	\$21,360	-	Subject to building condition survey, the work is not expected to occur in 2018/19. Remediation plan needs to go to Council.
Waikanae Hall Renewals	-	\$53,235	\$53,235	\$53,235	-	Subject to building condition survey, the work is not expected to occur in 2018/19. Remediation plan needs to go to Council.
Paraparaumu WWTP Consent	\$20,710	\$215,002	\$194,292	\$194,292	-	The professional services contract for the consenting of discharges from the Paraparaumu Wastewater Treatment Plant (WWTP) is underway. Iwi engagement has been sought to shape and finalise the planning stage. This has progressed slowly and the work programmed for this year has not been able to be completed. The project is now on hold amid concerns that excessive advancement of governance and workstream planning will effect stakeholder (especially Iwi) relationships.
Animal Management Centre	\$38,562	\$20,400	(\$18,162)	\$161,700	-	Work on the Animal Shelter is expected to cost \$275k in total. There is currently \$95k budgeted over 2 years (\$20k in 2018/19 and \$75k in 2020/21). The work is scheduled to be completed in 2019/20, so the funds in 2020/21 needs to be brought forward with additional \$162k as carryover.
Total indicative capex carryovers	\$1,782,472	\$8,397,362	\$6,614,890	\$4,872,242	\$1,359,942	
Other capital projects	\$21,695,471	\$21,323,566	(\$371,905)	-	-	
Total capital expenditure programme 2018/19	\$23,477,943	\$29,720,928	\$6,242,985	\$4,872,242	\$1,359,942	Total indicative carryovers \$6.23 million

- 46 The proposed carryover of \$4.87m into 2019/20 will increase the proposed capital programme for 2019/20 to \$35.82 million. The Council will continue to monitor the deliverability of the 2019/20 capital programme and is proposing to complete a review of the capital budget during the first quarter of 2019/20 which will be presented to the Operations and Finance Committee for consideration.
- 47 It is important to note that the proposed 2019/20 capital programme includes a few significant projects which make up just over 30% of the programme and contribute to the programme size but will not require the same level of internal resource as other capital projects. Excluding these projects, the capital programme is similar to the level of capital work completed in 2018/19 and 2017/18.

Proposed 2019/20 Capital Programme	35,818,446
Significant expenditure explained by:	
Strategic land and property	1,879,000
Kapiti College – Performing arts centre	1,600,000
Waikanae water treatment plant - Stage 2	7,354,347
Waterfront Bar - Roof	505,000
Proposed normalised 2019/20 Capital Programme - excluding significant projects	24,480,099
<i>Forecast capital expenditure for 2018/19</i>	<i>23,477,943</i>
<i>Actual capital expenditure for 2017/18</i>	<i>23,787,475</i>

- 48 There have been challenges within the Community Facilities programme this year which has led to reprioritisation of the existing capital programme. Below is a summary of the Community Facilities capital programme for 2018/19 including the budget and current proposed forecast and carryforwards into 2019/20:

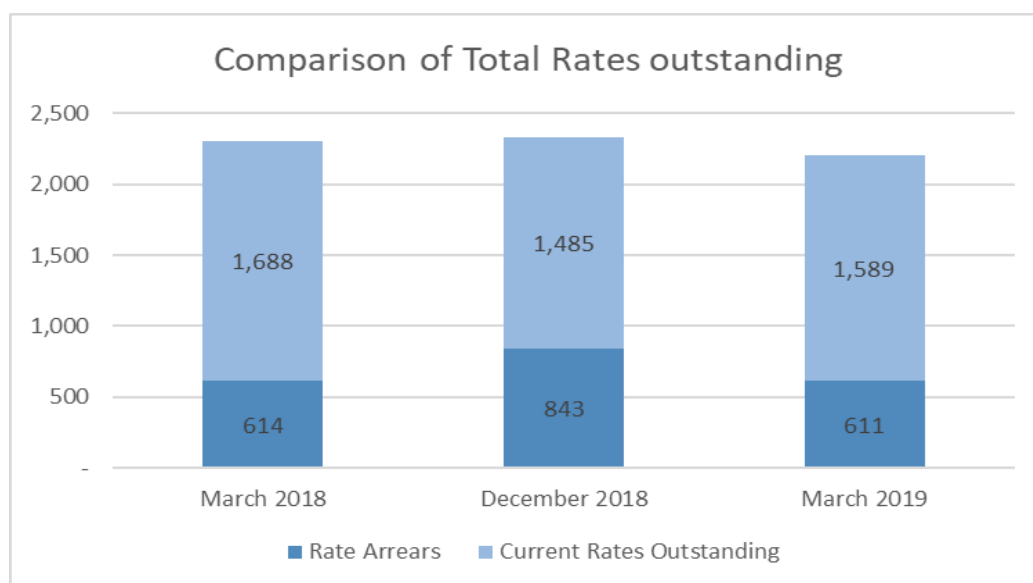
Community Facilities Capital Programme	Total Forecast	Total Budget 2018/19	Variance	Proposed Carryover to 2019/20
Kapiti College Performing Arts Centre	-	1,600,000	1,600,000	1,600,000
Otaki theatre renewals	2,818	50,485	47,667	47,667
Mahara Gallery - Council funded	194,295	200,000	5,705	5,705
Paraparaumu housing renewals	392	9,166	8,774	-
Otaki housing renewals	15,317	23,036	7,720	-
Districtwide housing renewals	549,403	244,200	(305,203)	-
Rental property renewals	66,208	56,342	(9,866)	-
EOC building renewal	57,572	22,950	(34,622)	-
Otaki new toilets	78,630	25,000	(53,630)	-
Otaki building renewals	36,086	25,425	(10,661)	-
Waikanae library building upgrade	166,218	945,000	778,782	-
Paraparaumu/Raumati Community Centre	1,823	147,465	145,642	145,642
Paraparaumu - Memorial hall renewals	77,729	260,352	182,623	182,623
Raumati - Poolside Restaurant	112,368	50,850	(61,518)	-
Waikanae - hall renewals	51	21,360	21,309	21,309
Reikorangi hall planned renewals	29,729	-	(29,729)	-
Waikanae hall planned renewals	-	53,235	53,235	53,235
Waikanae senior citizens hall	4,160	4,160	-	-
Otaki hall	22,777	22,777	-	-
Otaki College gymnasium	3,765	-	(3,765)	-
Animal Management Centre	38,562	20,400	(18,162)	161,700
Matatua Road house upgrade	15,656	12,558	(3,098)	-
Access control system	6,500	107,802	101,302	101,302
EQP building remedial work	286,788	409,366	122,579	122,579
Otaki service centre/museum	102	31,000	30,898	30,898
Takiri house fitout	127,396	-	(127,396)	-
Otaki theatre	26,411	26,411	-	-
Capex spend funded from Parks (Reikorangi Hall)	-	29,729	29,729	-
Total 2018/19 Community Facilities budget	1,920,756	4,399,069	2,478,313	2,472,659

Part G: Outstanding Rates Debt as at 31 March 2019

- 49 As part of the bigger picture of continuing to better manage and reduce the Council's debt we need to ensure that everyone is paying their fair share when it comes to general property rates and water rates.
- 50 Our rates team has always performed a debt collection role when it comes to unpaid rates. Like a number of other councils around the country we are now using the services of a Local Government Shared Services agency, Debt Management Central, to assist our team with collecting outstanding rates debts.
- 51 Debt Management Central is working with the Council and within its rating policies, following the same process our own debt collection staff use. This framework for recovery of unpaid rates is set out in the Local Government (Rating) Act 2002.
- 52 We expect this assistance, which started in mid-September, to be over six to twelve months.

Property rates outstanding (Excluding water rates)

- 53 The total property rates outstanding as at 31 March 2019 was \$2.20 million (31 March 2018: \$2.30 million).

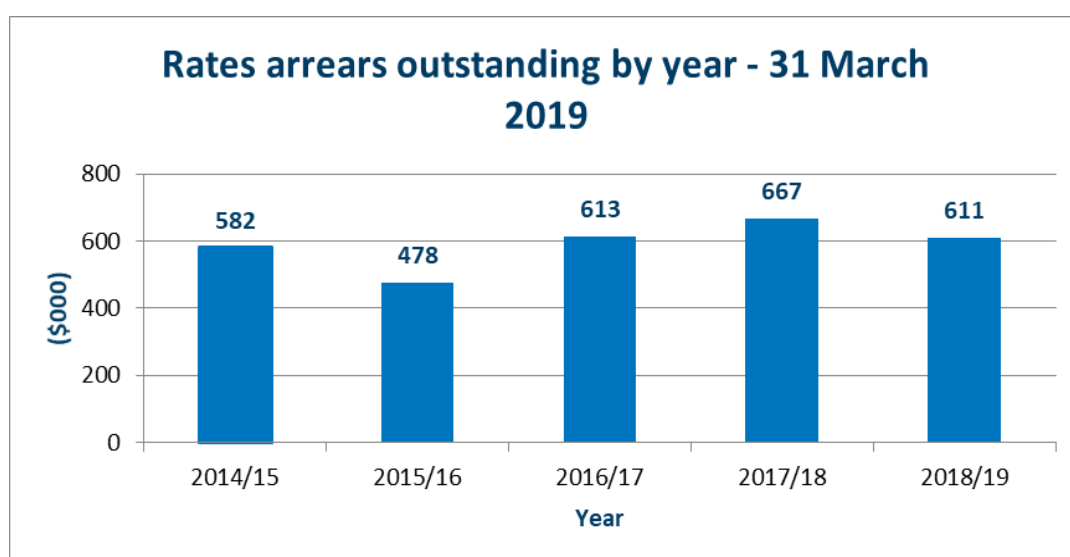


- 54 The Council has collected \$1.59 million of rate arrears since 1 July 2018. DMC have worked with ratepayers to firstly set up workable payment arrangements, and have also issued mortgagee notifications where appropriate. This will ensure that an increased level of outstanding rates will be collected over the remaining rating year, allowing the Council to reduce its borrowing levels.

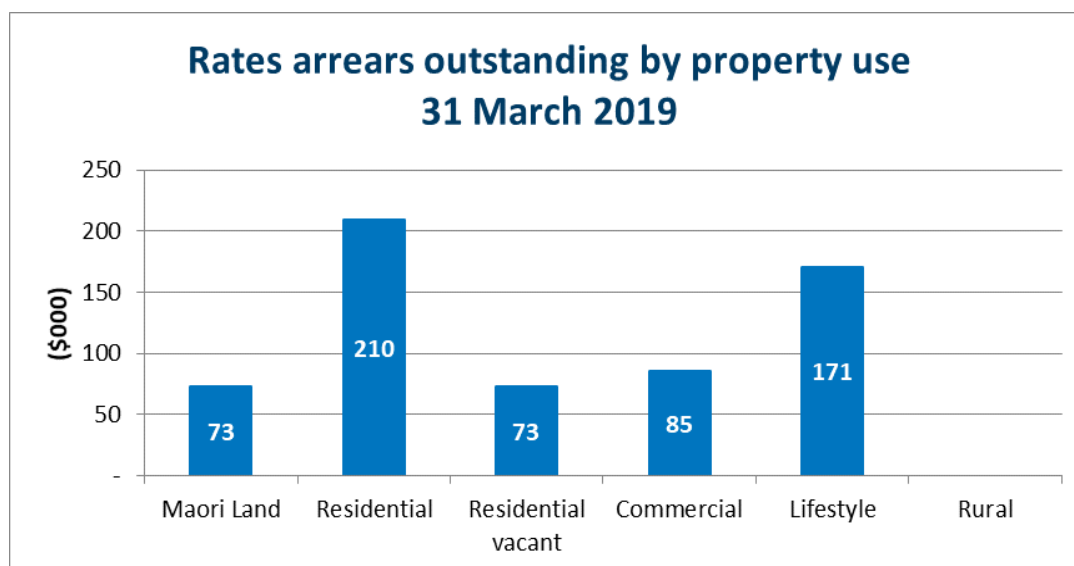
- 55 The Council collects rates on behalf of the Greater Wellington Regional Council. There is \$1.59 million of current rates outstanding as at 31 March 2019 split as follows:

Breakdown of current rates outstanding	Rates	Penalties	Current rates outstanding
	\$000	\$000	\$000
Kāpiti Coast District Council rates	1,075	278	1,353
Greater Wellington Regional Council	187	50	236
Total	1,262	328	1,589

- 56 The graph below shows a comparison of the \$611,000 of rate arrears outstanding as at 31 March 2019 and for the previous 4 years.



- 57 The graph below details the rates arrears of \$611,000 by property use category. The majority of the total rate arrears are from residential properties, followed by lifestyle properties.

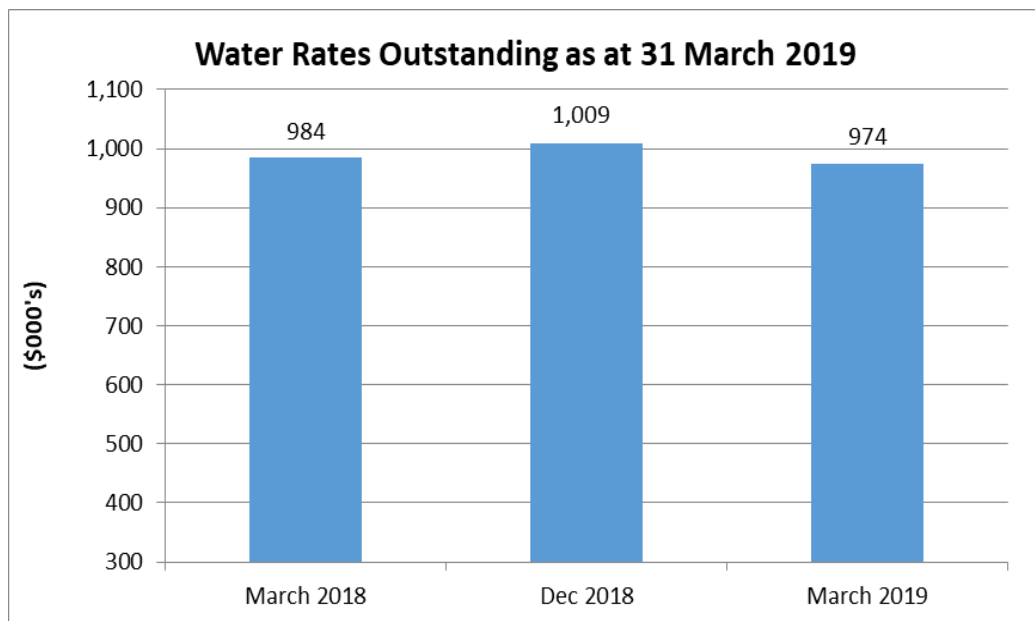


58 The rates arrears from Māori freehold land rate is arrears owed to Greater Wellington Regional Council, as well as Kapiti Coast District Council rates charged for the current rating year which have not yet been recommended for remission for the 2018/19 rating year.

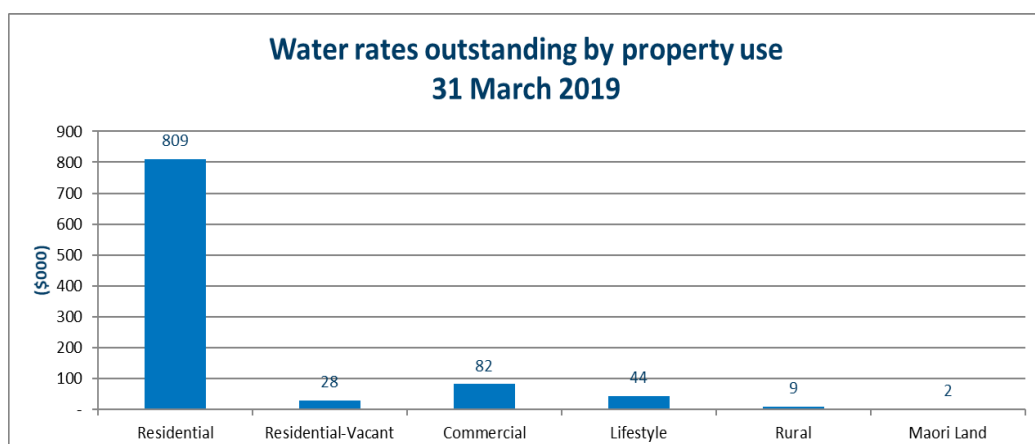
Water rates outstanding

59 A total of \$974,000 of water rates is outstanding as at 31 March 2019 (\$1.01 million as at 31 December 2018).

60 Water rate payments received are first applied to water rate arrears. The chart below reflects the overall water rates debt as at 31 March 2019, 31 December 2018 and 31 March 2018;

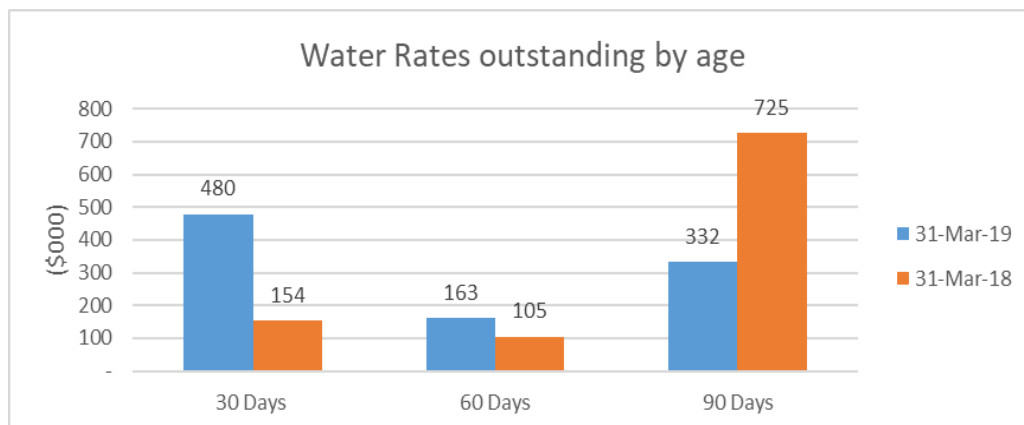


61 The graph below details the total water rates outstanding by property use category. The majority of the outstanding water rates are from residential properties.



62 \$715,000 or 73% of outstanding water rates relate to individual debtor balances of less than \$500.

63 The graph below details the ageing of the total water rates outstanding. \$332,000 (31 March 2018: \$725,000) or 34% of the Council’s outstanding water rates are 90 days or older. The Council has seen a 46% reduction in balances 90 days or older when compared to the prior year as a result of the increased focus on collection.



64 Table 7 below details the total rate remissions approved to 31 March 2019 against the full year budget. Applications for Rates Assistance were posted to eligible property owners in December 2018. Applications received during January and February were processed in Q3. Applications received since will be processed in Q4 dependent on remaining budget.

65

Table 7	Actual \$'000	Forecast \$'000	Budget \$'000	Variance \$'000
Community properties (Council and private ownership), sporting, recreational and other community organisations	42	112	195	-
Residential rating units containing two separately habitable units	68	83		
Rates Assistance including ongoing financial assistance, temporary financial assistance and water rate remission for vulnerable households	156	200	200	-
Total	266	395	395	-

66 Central Government rate rebates of \$1.157 million (1,937 properties) have been granted up to 31 March 2019. The Council provides the approved rates rebate (up to \$630 per rateable property) to the successful applicants and recovers the costs directly from the Department of Internal Affairs.

67 The Council actively promotes the Government rates rebate and remissions on radio, Facebook and through adverts in the local papers and has worked with Grey Power and the Older Persons’ Council to promote remissions and rebates more widely.

Part H: Treasury Management

SUMMARY

- 68 During the past quarter, the Council has issued \$5 million of new debt towards prefunding the April 2020 debt maturity, bringing the total amount of new debt acquired during the past nine months to \$20 million. The funds were placed on term deposit as part of Council's prefunding programme, at the most favourable rates available in the market.
- 69 \$30 million of long term debt matured during March 2019. The full amount was funded through our prefunding programme and repaid from term deposits maturing on the day.
- 70 The Table below shows the movement in the Council's debt balance for the past nine months.

Borrowings	Gross borrowings \$000	Explained by:			
		Pre-funding borrowings			Short term funding
		TD March 2019 \$000	TD September \$000	TD April 2020 \$000	MOCL \$000
Opening balance 1 July 2018	205,000	30,000	15,000		
New Long term debt issued YTD	20,000	-	5,000	15,000	
Matured Long term debt	(30,000)	(30,000)			
Short term working capital funding	300	-	-	-	300
Total	195,300	-	20,000	15,000	300

- 71 As at 31 March 2019, the Council had \$51.29 million of cash, term deposits and borrower notes on hand. This is broken down as follows:

Term deposits & Borrower Notes	Prefunding borrowings \$000	Prefunding capex \$000	Borrower notes \$000	Cash \$000	Total cash, term deposits and borrower notes \$000
LGFA debt maturing September 2019	20,000	-	-	-	20,000
LGFA debt maturing April 2020	15,000	-	-	-	15,000
Surplus cash placed on TD for 18/19 Capital Works Programme	-	13,000	-	-	13,000
Surplus cash	-	-	-	167	167
Borrower notes held	-	-	3,120	-	3,120
Total	35,000	13,000	3,120	167	51,287

- 72 Since August 2016, the RBNZ has kept the official cash rate (OCR) at 1.75% with no change for the year.
- 73 The Council's weighted average cost of borrowing for the quarter ended 31 March 2019 was 4.46% compared to the budget of 4.8%.

Net debt

74 Net debt is the measure of the 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 two of the Council’s treasury policy limits.

75 The table below shows the Council’s net debt as at 31 March 2019 against full year forecast and budget.

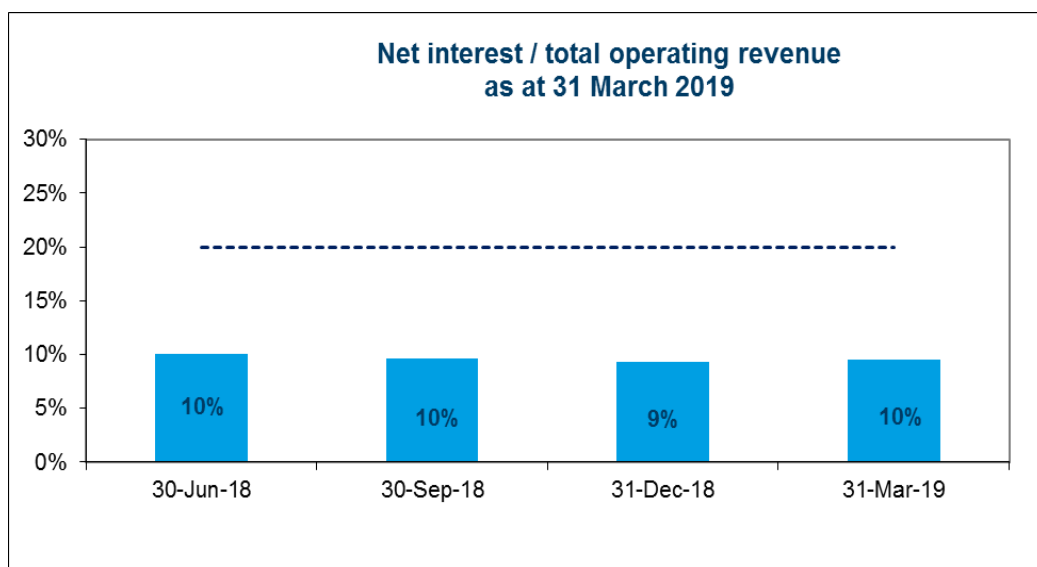
	Mar YTD Actual \$000's	Full Year Forecast \$000's	Full Year Budget \$000's	Full Year Variance \$000's
External debt	195,300	210,000	226,175	(16,175)
less borrower notes	(3,120)	(3,360)	(3,619)	259
less cash investments	(48,167)	(55,200)	(60,000)	4,800
Net debt	144,013	151,440	162,556	(11,116)

76 The Council is targeting through its financial strategy to keep net borrowings below 200% of operating income. The Council is currently forecasting net borrowings as a share of operating income to be 196% at the end of June 2019.

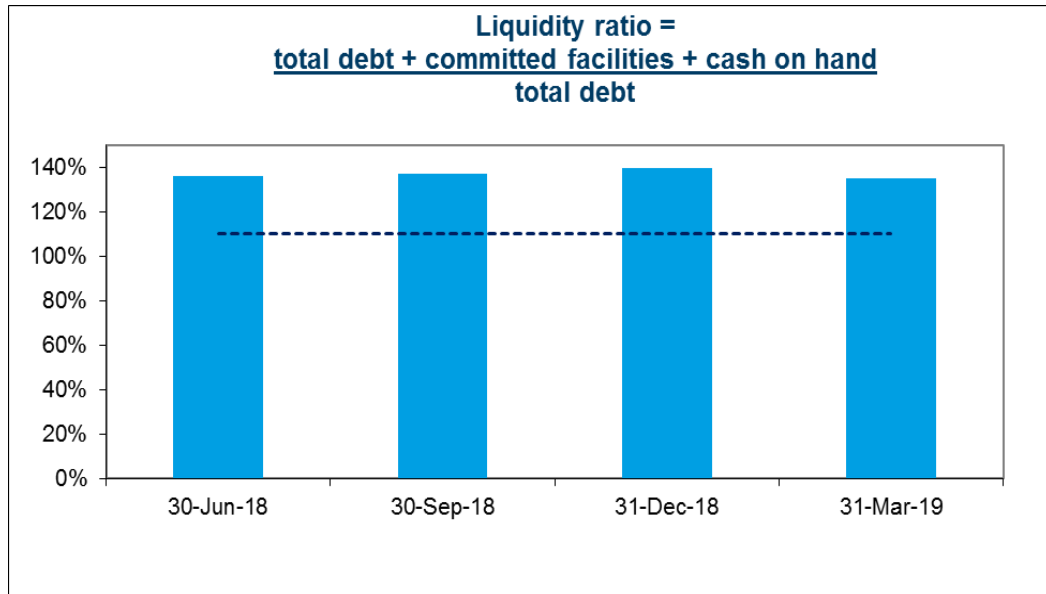
Treasury policy limits

77 The treasury management policy (Policy) contains three financial ratios with either a maximum or minimum policy limit.

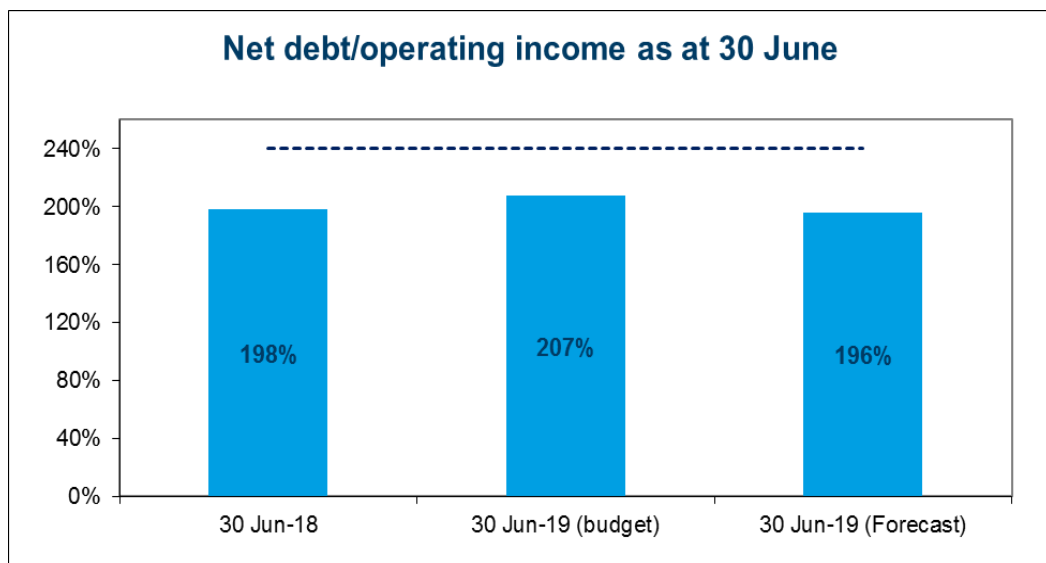
78 The Policy sets the maximum limit for the ratio of net interest expense to total operating revenue of 20%. The chart below shows actual limits achieved for each quarter.



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



- 80 The Policy sets the maximum limit for net debt to operating income of 240%. This is a measure of the Council's ability to repay its debt from the operating revenue it receives during a given financial year.



Part I: Asset Revaluation

- 81 The Council's asset valuations are performed with sufficient regularity to ensure the carrying amounts are maintained at fair value. All valuations are performed by independent qualified valuers.
- 82 By maintaining asset values at fair value, the Council ensures that it best achieves intergenerational equity whereby ratepayers pay their fair share, and only their fair share, of the assets they use and benefit from.
- 83 From 1 July 2015, the Council transitioned to an annual rolling asset revaluation programme as set out below:

Asset classification	Next Revaluation date	Subsequent revaluation
Water, wastewater and stormwater (including seawalls and river control)	30 June 2020	Every two years thereafter
Roading (excluding land under roads)	30 June 2019	Every two years thereafter
Land and buildings (including land under roads revaluation)	30 June 2020	Every three years thereafter
Parks and reserves structures	30 June 2020	Every three years thereafter

- 84 As seen from the table above, the Council's Roding assets (excluding land under roads) are scheduled to be re-valued in the 2018/19 financial year. This group of assets were previously re-valued in June 2017.
- 85 The Council has again engaged Stantec New Zealand Limited (formerly MWH New Zealand Limited) to perform this revaluation. As with previous valuations, the Council will perform a comprehensive due diligence review of the revaluations provided by independent valuers.
- 86 As changes in the asset values can significantly impact depreciation costs in out years, the Council has requested a draft asset valuation of the Roding assets at 31 January 2019.
- 87 We are currently finalising our due diligence on the draft January revaluation. Based on the impacts of the draft results, an additional \$163,808 of depreciation has been forecast to what was assumed in the 2019/20 LTP. This is due to the significant level of assets vested to the Council this year for subdivisions and local link roads associated with the expressway. The additional depreciation has been included in the 2019/20 Draft Annual Plan.
- 88 The annual report accounting policy relating to the revaluation of Council assets for the 2018/19 year programme included land under roads together with all other roading assets.
- 89 To be consistent with Councils other asset classes of land and buildings, we have elected to revalue land under roads at the same time in 30 June 2020.

CONSIDERATIONS

Financial Consideration

- 90 The financial information as detailed in Parts A to I of this report (Corp-19-771) 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.

Legal Considerations

- 91 There are no legal considerations arising from this report.

Consultation

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

Policy Implications

- 93 There are no policy implications arising from this report.

Tāngata Whenua

- 94 There are no tāngata whenua considerations arising from this report.

SIGNIFICANCE AND ENGAGEMENT POLICY

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

Publicity Considerations

- 96 There are no publicity considerations arising from this report.

RECOMMENDATIONS

- 97 That the Operations and Finance Committee notes the actual financial performance and position of the Council for the year ended 31 March 2019 as contained in this report (Corp-19-771).

Report prepared by:

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Principal Advisor - Finance

Approved for Submission:

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Group Manager
Corporate Services

Approved for Submission:

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Infrastructure Services