

Chairperson and Committee Members
OPERATIONS & FINANCE COMMITTEE

16 AUGUST 2018

Meeting Status: **Public**

Purpose of Report: For Information

FINANCIAL REPORT TO 30 JUNE 2018

PURPOSE OF REPORT

- 1 This report sets out Kāpiti Coast District Council's (Council's) financial performance and financial position for the fourth quarter ended 30 June 2018, 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 2018
 - 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 summarises the component elements that underlie the Council's financial operating performance to the fourth quarter ended 30 June 2018, including our budget and most recent forecast to that date.

Table 1	Full Year 2017/18		
	Actual \$000	Budget \$000	Variance \$000
Rates	60,761	60,501	260
Fees and Charges	9,330	8,870	460
Grants and Subsidies	5,753	5,375	378
Development and Financial Contributions Revenue	3,772	1,075	2,697
Other Operating Revenue	4,280	415	3,865
Interest Income	2,269	1,520	749
Total Income	86,165	77,756	8,409
Personnel, maintenance & operations	51,221	50,322	(899)
Depreciation and Amortisation	19,240	19,240	-
Finance Expense	9,793	9,543	(250)
Total Expenditure	80,254	79,105	(1,149)
Operating (Deficit) / Surplus	5,911	(1,349)	7,260
Revaluation of Property Plant and Equipment	41,163	11,747	29,416
Unrealised gain/(loss) on revaluation of financial derivatives	(1,811)	-	(1,811)
Total Other Comprehensive Income and Expenditure	39,352	11,747	27,605
Net Operating Surplus / (Deficit)	45,263	10,398	34,865

Financial performance summary

- 7 The actual 2017/18 operating surplus was \$7.3 million better than our budgeted \$1.3 million deficit. This is principally because we have seen higher than expected levels of Development contributions from developers towards infrastructure assets (\$2.7 million) and due to the revenue impact (\$3.6 million) from greater vesting of assets built by developers as part of sub-division activity.
- 8 Better than expected recoveries (\$0.3 million) of parking operating costs resulting from fines imposed on parked vehicles not meeting Registration and WOF requirements. Greater rates penalties and higher net interest income (\$0.2 million) from increased prefunding of borrowings has also positively driven our revenue generation. The Council also incurred reduced net interest costs (\$0.2 million) from lower borrowings resulting from a \$7.5 million reduction in its capital expenditure programme in 2017/18. Finally, a legislated

change in the inspection requirements of Earthquake-prone buildings resulted in a \$0.4 million saving. Note that the part below outlining our Treasury Management provides background about our debt issued and placed on term deposit.

- 9 Note that the Council's unrealised loss on revaluation of financial derivatives of \$1.8 million is due to interest rates decreasing since 30 June 2017. 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

10 Fees and charges

Description	Fees and charges includes non-rates revenue earned by the Council for providing services to the Community. This also includes fines and penalties charged.
Comments	Fees and charges revenue is above budget (by \$0.3 million) as we have received additional funding from the Crown. This funding compensated us for the collection cost of issuing fines for parked vehicles with registration and WOF problems. We also imposed greater penalties for late rate payments (\$0.1 million).

11 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 (under Joint Venture arrangements). Grants received from joint venture partners are treated as revenue.
Comments	The Council has been involved in some partnership projects during the year, including works on the Transmission Gully-related projects (\$0.1 million) and the Kapiti Lights development (\$0.2 million). Unplanned activity on NZTA-funded emergency work also contributed \$0.1 million to our revenue performance.

12 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.
Comments	The 2017/18 fiscal year saw a higher than expected level of subdivision and building activity. This has resulted in higher revenue and overall 1.1% growth in the rating base for the 2018/19 year compared to the 0.7% originally forecast. Key developments driving this result include Waikanae North (\$0.7 million), Ngarara (\$1.7 million) and Ōtaki (\$1.0 million).

13 **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.
Comments	Our other operating revenue has exceeded budget – this results from a greater level of vested assets from subdivision activity in the 2017/18 financial year. Notable developments in this category include Hudson Development Stage 3 (\$0.5 million), Sylvan Avenue Waikanae (\$0.3 million), Lupin Road Ōtaki (\$0.3 million), Stage One Ngarara (\$1.0 million), Mawana Street, Ōtaki (\$0.9 million), and a number of smaller initiatives (\$0.6 million).

14 **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.
Comments	The Council has been able to make higher levels of prefunding of borrowings (LGFA), which it has then invested, generating \$0.7 million of additional interest income. The Treasury Management part below (Part H) provides details about the LGFA and the Council access to this facility.

Expenditure performance - commentary15 **Personnel, maintenance & operations**

Description	Includes personnel expenses, maintenance, business-as-usual Council operating expenses, internal recoveries, grants and any other sundry expenses.
Comments	<p>The Council has needed to spend an additional \$0.9 million during the year.</p> <p>This included unplanned emergency management expenses (\$0.5 million) together with additional consultancy work for the PP20 expressway project (\$0.2 million). We received additional funding of \$0.4 million towards these projects.</p> <p>The Council also completed additional work on the Enterprise Risk Management Framework, Procurement, tax and Internal Audit programmes totalling \$170,000</p>

Items reported below the line - commentary16 **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 2017 and 30 June 2018 is treated as either an unrealised gain (fair value has decreased) or an unrealised loss (fair value has increased).
Comments:	The Council realised an unplanned loss of \$1.8 million resulting from unfavourable interest rate movements on our financial derivative contracts.

Part B: Statement of Financial Position

- 17 The Council's financial position as at 30 June 2018 and full year 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	2017/18		
	YTD actual	Full year budget	Variance
	\$000	\$000	\$000
Assets			
Cash and cash equivalents	4,052	200	3,852
Trade and other receivables	8,620	7,623	997
Inventories	119	148	(29)
Non-current assets held for sale	8	-	8
Property, plant and equipment	1,645,007	1,617,940	27,067
Forestry assets	109	422	(313)
Intangible assets	1,026	2,730	(1,704)
Other financial assets	52,916	18,075	34,841
Loans	526	617	(91)
Total assets	1,712,383	1,647,755	64,628
Liabilities			
Trade and other payables	18,163	17,875	288
Employee benefit liabilities	2,161	2,596	(435)
Deposits	1,237	780	457
Borrowings	205,000	186,548	18,452
Provisions	3,997	4,282	(285)
Derivative financial instruments	13,195	10,914	2,281
Total liabilities	243,753	222,995	20,758
Public equity			
Accumulated funds	570,534	564,749	5,785
Reserves and special funds	3,915	2,583	1,332
Revaluation reserve	894,181	857,428	36,753
Total equity	1,468,630	1,424,760	43,870
Total liabilities and equity	1,712,383	1,647,755	64,628

Year to date Summary

- 18 The Council's only material changes to its financial position for the financial year ended 30 June 2018 were in respect to property, plant and equipment, other financial assets and borrowings.
- 19 Property, plant and equipment is \$27.1 million favourable compared to budget due to the year-end revaluation of the water, wastewater, stormwater, and flood protection assets. (see part I: asset revaluations)
- 20 New debt of \$75 million was issued since 1 July 2017 and \$80 million of borrowings matured during the year. (see part H: Treasury management).

- 21 Other financial assets are \$34.8 million favourable to budget, mainly due to the following:
- An additional \$20 million of unplanned debt that was issued and placed on term deposit to prefund March and September 2019 debt maturities.
 - \$10 million of planned debt was drawn down but was not required due to the approved decrease in the 2017/18 capital works programme and the year-end carry overs (see part F: capital spending programme). These funds were placed on term deposit to further prefund the September 2019 debt maturity.
 - \$4.5 million of surplus cash was placed on short term deposit for payment of the 2017/18 capital works programme when falling due in the early part of the 2018/19 financial year.
- 22 Gross borrowings are \$18.45 million unfavourable to budget mainly due to an additional \$20 million of unplanned debt that was issued to prefund March and September 2019 debt maturities.
- 23 Total equity is \$43.9 million favourable to budget. This is mainly due to the Council's total asset base being higher than planned as a result of the revaluation of the Council's water, wastewater, stormwater and flood protection assets.

Part C: Statement of Cash Flows

- 24 The Council's cash flow for the quarter ended 30 June 2018 and full year budget are set out in Table 3, followed by a summary of key variances.

Table 3	2017/18		
	YTD actual \$000	Full year budget \$000	Full Year Variance \$000
Cash flows from operating activities			
<i>Cash was provided from:</i>			
Kapiti Coast District Council rates	60,729	60,501	228
Greater Wellington Regional Council Rates	11,092	-	11,092
Grants and subsidies - operating	1,658	1,544	114
Interest received	2,956	1,092	1,864
Charges and fees	14,052	10,249	3,803
GST (net)	110	109	1
	90,597	73,495	17,102
<i>Cash was applied to:</i>			
Payments to employees and suppliers	53,517	48,189	5,328
Rates paid to Greater Wellington Regional Council	11,092	-	11,092
	64,609	48,189	16,420
Net cash flows from operating activities	25,988	25,306	682
Cash flows from investing activities			
<i>Cash was provided from:</i>			
Loan repayment/Term deposit maturities	71,311	80,050	(8,739)
Proceeds from sale of property, plant and equipment	317	-	317
Proceeds from capital grants	4,095	3,831	264
	75,723	83,881	(8,158)
<i>Cash was applied to:</i>			
Construction and purchase of property, plant and equipment and intangibles	22,699	36,783	(14,084)
Purchase of investments	60,700	40,000	20,700
	83,399	76,783	6,616
Net cash flows from investing activities	(7,676)	7,098	(14,774)
Cash flows from financing activities			
<i>Cash was provided from:</i>			
Short-term borrowings	25,100	-	25,100
Long-term borrowings	75,000	55,668	19,332
	100,100	55,668	44,432
<i>Cash was applied to:</i>			
Interest on borrowings	9,715	9,352	363
Short-term borrowings	25,100	-	25,100
Long-term borrowings	80,000	78,720	1,280
	114,815	88,072	26,743
Net cash flows from financing activities	(14,715)	(32,404)	17,689
Net increase/(decrease) in cash and cash equivalents	3,597	-	3,597
Add total cash and cash equivalents at 1 July 2016	455	200	255
Total cash and cash equivalents	4,052	200	3,852

Year to date Summary

- 25 The Council's cash on hand as at 30 June 2018 was \$4.1 million. This is \$3.85 million more than planned. This was mainly due to:
- surplus cash of \$2.5 million that was placed on a short term deposit, (maturing August 2018), for the part payment of 2017/18 capital works falling due in the early part of the 2018/19 financial year.
 - receipt of NZTA grant of \$0.5 million on the last day in June 2018.
- 26 The Council's material changes to its cash flow management for the period ended 30 June 2018 were:
- \$80 million of debt matured during the year;
 - \$70 million of prefunded debt held on fixed term deposits matured and was used to refinance the debt roll over;
 - \$75 million of new long term debt was issued during the period;
 - \$59.5 million of cash funds were placed on fixed term deposit with \$49.5 million as at 30 June 2018 with a term of more than three months from year-end;
 - cash payments of \$22.7 million in relation to Council's Capital Works Programme.

Part D: Statement of Rates Funding

- 27 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.
- 28 Table 4 below details the actual year to date rates funding surplus for the quarter ending 30 June 2018

Table 4: Rates revenue requirement	Full Year 2017/18		
	Actual \$000 \$000	Budget \$000	Variance \$000
Operating (deficit)/surplus	5,911	(1,349)	7,260
Adjusted by income and expenditure not funded by rates:			
Net Expenditure funded by reserves and special funds	37	50	(13)
Capital funding and vesting of assets	(10,369)	(3,811)	(6,558)
Revaluation of Council's assets	314	-	314
Unfunded Depreciation	5,145	5,145	-
Underlying net rates surplus/(deficit)	1,038	35	1,003

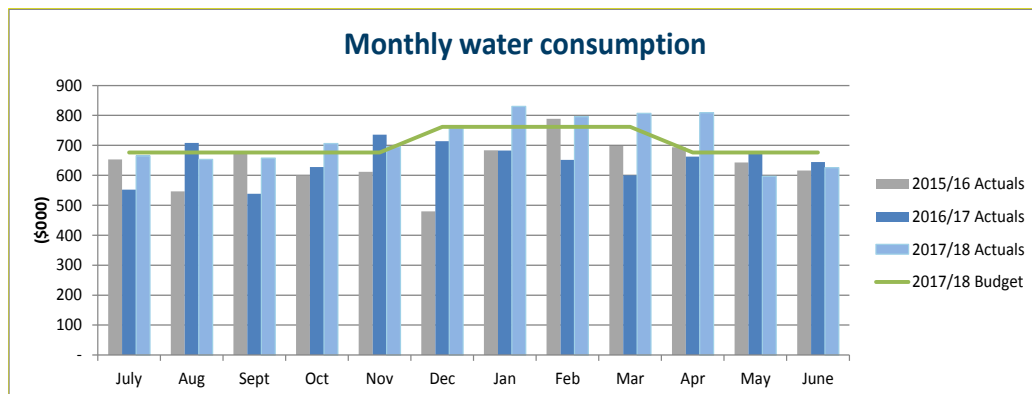
- 29 The Council realised a \$1 million rates surplus in 2017/18. This resulted from the **positive** impact of:
- a) higher net interest income (\$0.2 million) from increased prefunding of borrowings
 - b) better than expected recoveries (\$0.3 million) of parking operating costs from the Police resulting from fines imposed on parked vehicles not meeting Registration and WOF requirements.
 - c) reduced net interest costs (\$0.2 million) from lower borrowings resulting from a \$7.5 million reduction in its' capital expenditure programme in 2017/18
 - d) lower inspection costs (\$0.4 million) on earthquake-prone buildings (due do a change in legislation).

Part E: Water Account Statement

- 30 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.

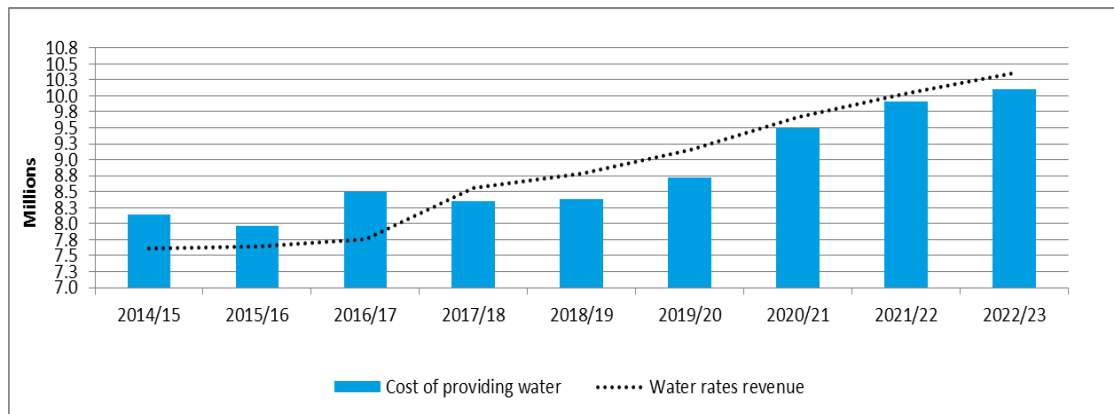
- 31 Water usage is expected to take a number of years to normalise as districtwide water meter charging for all residential properties commenced from July 2014. Therefore, Council needs to carefully monitor usage trends to best determine what charges are necessary to fully recover the total costs of providing a treated water supply.

- 32 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. The water account made a surplus (\$0.2 million) in 2017/18.



33 The table below outlines the current 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 Council water account revenue is expected to fully recover cost over five years (i.e. by 2023/24).

	2014/15 Actual \$m	2015/16 Actual \$m	2016/17 Actual \$m	2017/18 Actual \$m	2018/19 Budget \$m	2019/20 Budget \$m	2020/21 Budget \$m	2021/22 Budget \$m	2022/23 Budget \$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%



Part F: Capital Spending Programme

- 34 On 17 August 2017, the Operations and Finance Committee resolved to reduce the 2017/18 planned capital works programme by \$7.5 million, noting that this planned reduction did not change the 2017/18 Annual Plan budget of \$34.6 million.
- 35 A summary of the completed 2017/18 capital works programme by activity against the revised full year budget are set out in Table 5 below.

Table 5	Full Year 2017/18				
	Actual	Revised Budget	Variance	Proposed carry-overs into 2018/19	Variance after carry-overs
	\$000	\$000	\$000	\$000	\$000
Access and Transport	7,372	8,109	737	-	737
Arts & Museums	-	-	-	82	(82)
Coastal Management	658	1,589	931	1,119	(188)
Community Facilities and Community Support	463	812	349	575	(226)
Corporate	863	1,153	290	351	(61)
Economic Development	4,066	3,162	(904)	352	(1,256)
Governance and Tangata Whenua	504	489	(15)	-	(15)
Parks and Open Spaces	1,211	1,578	367	118	249
Recreation and Leisure	4,188	4,258	70	-	70
Regulatory Services	65	58	(7)	-	(7)
Solid Waste	512	518	6	-	6
Stormwater Management	1,501	1,452	(49)	-	(49)
Wastewater Management	2,132	3,156	1,024	971	53
Water Management	758	768	10	-	10
Totals	24,293	27,102	2,809	3,568	(759)

Our capital spending in '17/18 includes unplanned items which have no net fiscal impact on the Council. These had no impact in '17/18 because outlays had equal and offsetting revenue inflows.

Explained by:

Unplanned revenue-funded capital expenditures

Roading Emergency works - extra funding	398
Strategic Land swap	
Value of land	257
Less financial compensation received from recipient of land	(52)
Strategic land: net impact on capital spending	205
Otaki Pool - extra spending	163

Over / (under) spend after unplanned revenue-funded items

7

- 36 The capital works program is 90% completed against the revised budget of \$27.1 million, noting that there was the \$7.5 million reduction in the 2017/18 capital works programme. It is subject to a Council decision carry over more than what is unspent against the revised budget. The effect of unplanned expenditures which have no fiscal impact on the Council is also shown above.

37 A summary of the draft carryovers for 2017/18:

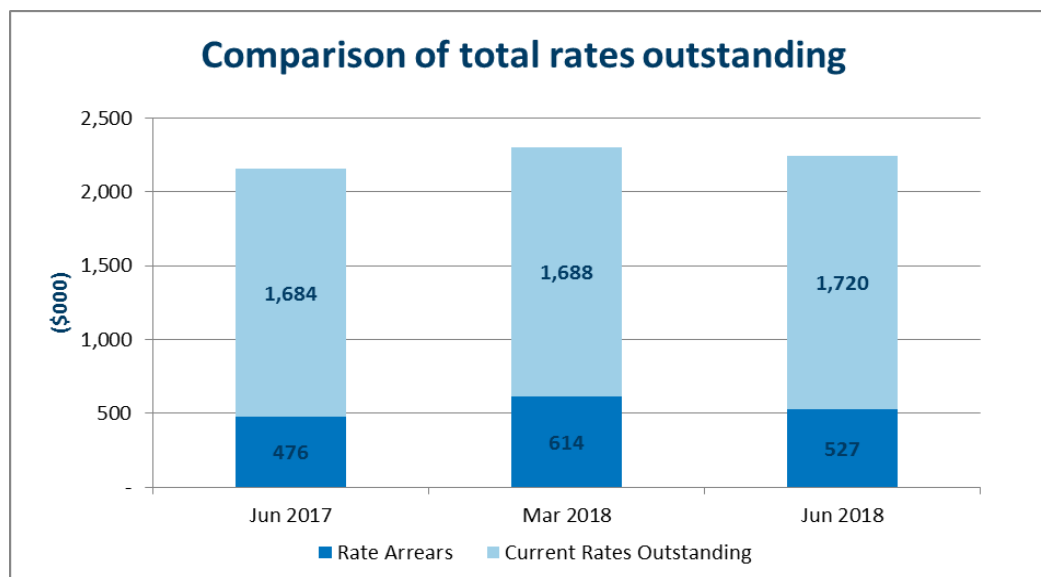
Proposed Carryovers				
Group	Business Unit	Description	Amount	Description
Infrastructure	Coastal	Paekakariki seawall	854	Project on hold until further consultation
Infrastructure	Coastal	Whareamauku block wall	265	Project on hold
Infrastructure	Wastewater	Waikane Duplicate Rising main	971	Project on hold
Community Services	Arts & Museums	Public art acquisition	111	New Public Art Panel formed September 2017 under new TOR, and are in early stages of developing a public art programme for Council's approval. Previous carry over (\$80k) relates to Maclean Park public art, which was subject to Management Plan approval and its future implementation, and will therefore be delivered progressively from FY 18-19 onwards.
Community Services	Community Facilities	EQP	208	EQP Remediation being undertaken districtwide from 2018/19 onwards
Community Services	Community Facilities	Mahara Gallery	200	Project scoping and planning deferred until consultation on LTP and gallery is completed.
Community Services	Community Facilities	Waikanae Library	45	Whilst separate to Mahara, the intention is that same professional advisors assist with the Project
Community Services	Parks & Open Spaces	Awatapu Cemetery(road)	67	Resource constraint to undertake this project in 17/18.
Community Services	Parks & Open Spaces	Awatapu Cemetery(beams and seating)	51	Resource constraint to undertake this project in 17/18.
Community Services	Community Facilities	Waikanae Beach Hall	11	Roof replacement on EQP remediation
Community Services	Arts & Museums	Otaki Museum	31	Deferred until further decisions on EQP remediation
Community Services	Arts & Museums	Otaki Theatre	51	Roof replacement on EQP remediation
Corporate Services	ICT	Website Development	61	Capacity constraints to undertake this project in 17/18.
Corporate Services	ICT	Software Upgrades	36	Magiq version 4 software upgrade delayed until Sep 18 due to staff changes within Corporate Services
Council wide	Council Wide	Capex Contingency Fund	254	This contingency fund will be held in reserve to be available for future unplanned/emergency work across the Council.
Council wide	Council Wide	Health & Safety fund	14	To allow for approved acquisitions for 2018/19.
Council wide	Council Wide	Strategic Land	338	Budget ringfenced for the purchase of land
Grand Total			3,567	

38 Please refer to the Activity Reports 1 April – 30 June 2018 (SP-18-564) for more detailed information.

Part G: Outstanding Rates Debt as at 30 June 2018

Property rates outstanding (Excluding water rates)

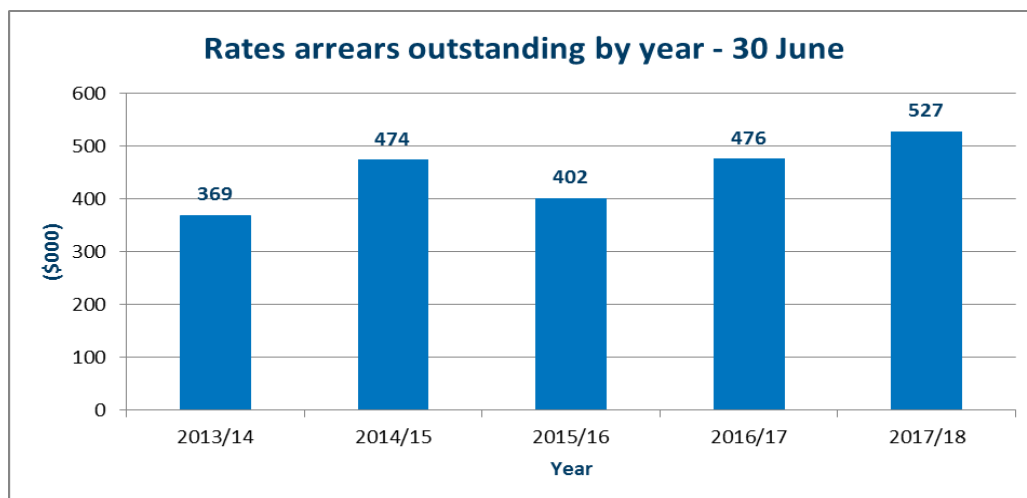
- 39 The total property rates outstanding as at 30 June 2018 was \$2.25 million (31 March 2018: \$2.30 million).



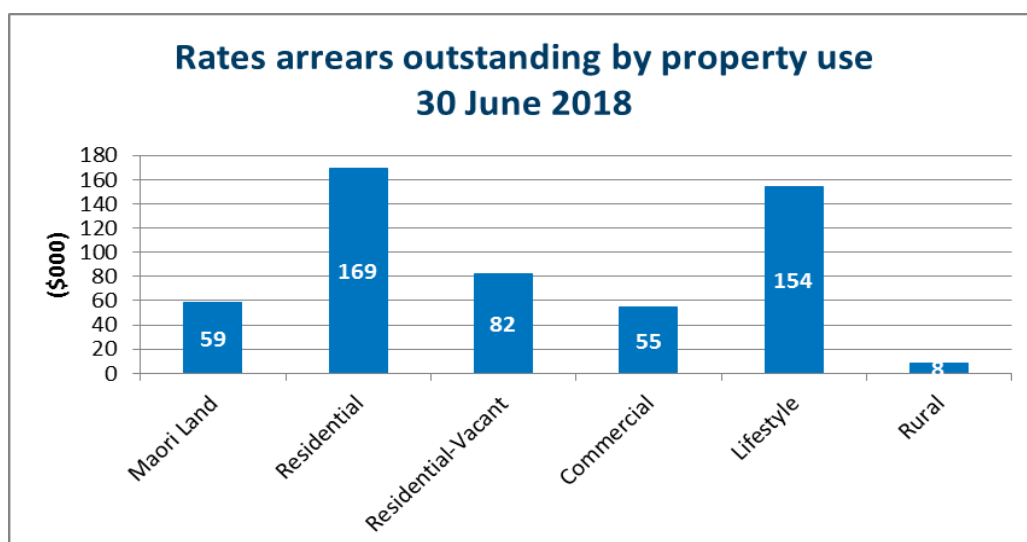
- 40 Rate payments received are first applied to rate arrears. The Council's rates collection process involves follow up with outstanding debtors to make payment arrangements to ensure debts are settled over a reasonable time period, and mortgagee demands if payment arrangements cannot be made.
- 41 The Council has collected \$1.63 million of rate arrears since 1 July 2017. This has been mainly from mortgagee demands and payment arrangements. The Council has been working closely with ratepayers over the last quarter to establish payment plans that will ensure that the outstanding rates will be collected over the next year.
- 42 The Council collects rates on behalf of the Greater Wellington Regional Council. There is \$1.72 million of current rates outstanding as at 30 June 2018 is split as follows:

Breakdown of current rates outstanding	Rates	Penalties	Current rates outstanding
	\$000	\$000	\$000
Kāpiti Coast District Council rates	1,186	291	1,478
Greater Wellington Regional Council	191	52	243
Total	1,377	343	1,720

- 43 The graph below shows a comparison of the rate arrears outstanding as at 30 June 2018 and for the previous 4 years.



- 44 The graph below details the rates arrears of \$527,000 by property use category. The majority of the total rate arrears are from residential properties, followed by lifestyle properties.

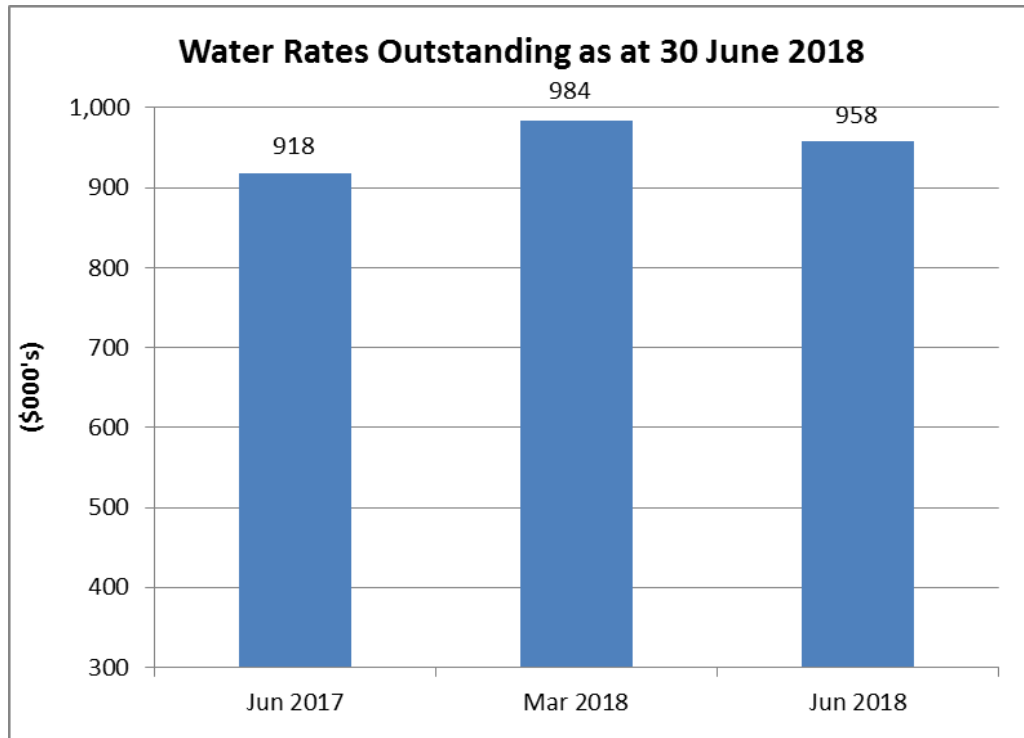


- 45 The rates arrears from Māori freehold land rate is arrears owed to Greater Wellington Regional Council.
- 46 Māori freehold land recommended rate remissions for the 2017/18 rating year of \$50,977.10 were presented for review and approval to the Group Manager Corporate Services and the Chairperson of the Operations and Finance Committee after the meeting on the 5 July 2018.

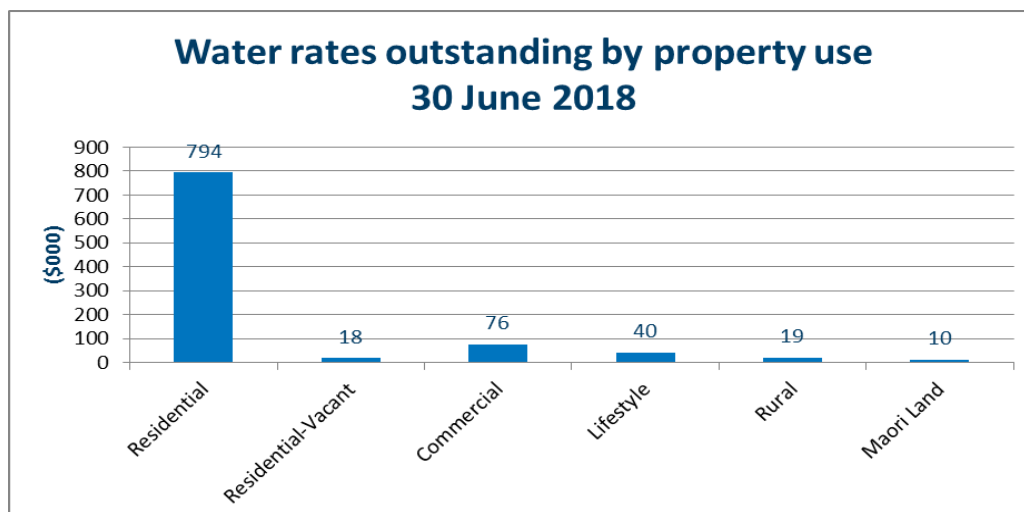
Water rates outstanding

47 A total of \$957,000 of water rates is outstanding as at 30 June 2018 (\$984,000 as at 31 March 2018).

48 Similarly, water rate payments received are first applied to water rate arrears. The chart below reflects the overall water rates debt as at 30 June 2018 compared to 31 March 2018 and 31 December 2017.

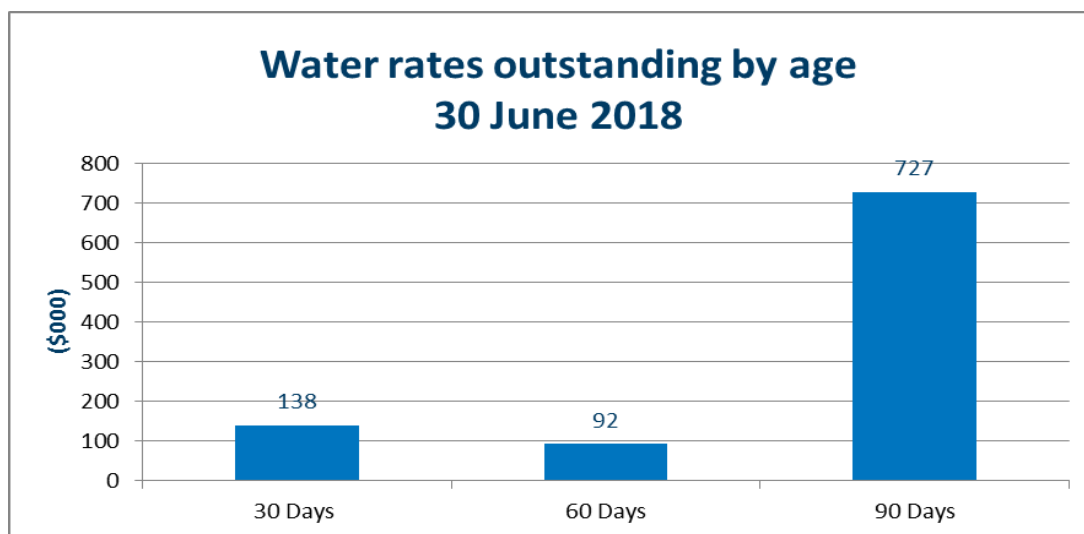


49 The graph below details the total water rates outstanding by property use category. The majority of the outstanding water rates are from residential properties.



50 \$563,000 or 59% of outstanding water rates relate to individual debtor balances of less than \$1,000. The total water rates outstanding represent 3% of total water rates invoiced since 1 July 2014.

- 51 The graph below details the ageing of the total water rates outstanding. \$727,000 or 76% of the Council’s outstanding water rates are 90 days or older. The Council will significantly increase the focus and resource on debt collection over the next 6 months to improve this position.



- 52 Table 7 below details the total rate remissions issued to 30 June 2018 against the full year budget.

Table 7	Actual \$000	Forecast \$000	Budget \$000	Variance \$000
Community properties (Council and private ownership), sporting, recreational and other community organisations	52	55	192	38
Residential rating units containing two separately habitable units	103	81		
Financial hardship	144	132	127	(17)
One off expenditure relating to the repairs to water leaks, serious health issue or essential housing maintenance	3	5	25	22
High water consumption for larger families	1	1	25	0
Total	302	293	370	44

- 53 Central Government rate rebates of \$1.20 million (2,027 properties) have been granted up to 30 June 2018. Council provides the approved rates rebate (up to \$620 per rateable property) to the successful applicants and recovers the costs directly from the Department of Internal Affairs.
- 54 The Council actively promotes its remissions on radio, Facebook and through adverts in the local papers.

Part H: Treasury Management

SUMMARY

- 55 During the past twelve months, the Council issued \$75 million of new debt, with \$80 million of debt maturing.
- 56 The Table below shows the movement in the Council's debt balance for the year.

Borrowings	Gross borrowings	Explained by:						Pre-funding capex Capital works programme 2017/18 Spend \$000
		Refinancing borrowings	Pre-funding borrowings					
		December 2017 maturity	TD December 2017	TD May 2018	TD March 2019	TD September 2019		
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	
Opening balance 1 July 2017	210,000	-	45,000	15,000	-	-	-	
New Debt issued YTD	75,000	10,000	5,000	5,000	30,000	15,000	10,000	
Maturities	(80,000)	(10,000)	(50,000)	(20,000)	-	-	-	
Total	205,000	-	-	-	30,000	15,000	10,000	

- 57 As previously noted, \$80 million of borrowings matured during the year with \$60 million in December 2017 and \$20 million in May 2018. \$70 million of the matured debt was prefunded and held on term deposit with the remaining \$10 million refinanced on the day.
- 58 \$10 million of debt issued during the period was applied to the 2017/18 capital works programme.
- 59 The Council's strategy has been to secure prefunding early to take advantage of lower interest rates and as a result an additional \$20 million of unplanned debt was issued to prefund March and September 2019 debt maturities.
- 60 As mentioned before, an additional \$10 million of planned debt was drawn down but due to the approved decrease in the 2017/18 capital works programme and the year-end carry overs (see part F: capital spending programme) these funds were placed on term deposit to further prefund the September 2019 debt maturity, resulting in a total debt prefunding placed on term deposit of \$45 million at 30 June 2018. All prefunding is invested on term deposits at the most favourable rate of return.
- 61 As at 30 June 2018, the Council had \$56.8 million of cash, term deposits and borrower notes. This is broken down as follows:

Term deposits & Borrower Notes	Prefunding borrowings	Prefunding capex	Borrower notes	Cash	Total cash, term deposits and borrower notes
	\$000	\$000	\$000	\$000	\$000
LGFA debt maturing March 2019	30,000	-	-	-	30,000
LGFA debt maturing September 2019	15,000	-	-	-	15,000
Surplus cash placed on TD for Capital Works Programme maturing August (\$2.5m) and October (\$4.5m)	-	7,000	-	-	7,000
Surplus cash	-	-	-	1,552	1,552
Borrower notes held	-	-	3,280	-	3,280
Total	45,000	7,000	3,280	1,552	56,832

- 62 Since August 2016, the RBNZ has kept the official cash rate (OCR) at 1.75% with no change for the year.
- 63 The Council’s weighted average cost of funds has improved slowly as the Council takes advantage of lower interest rates. The weighted average cost of borrowing for the quarter ended 30 June 218 was 4.52% compared to the budget of 4.8%.

Net debt

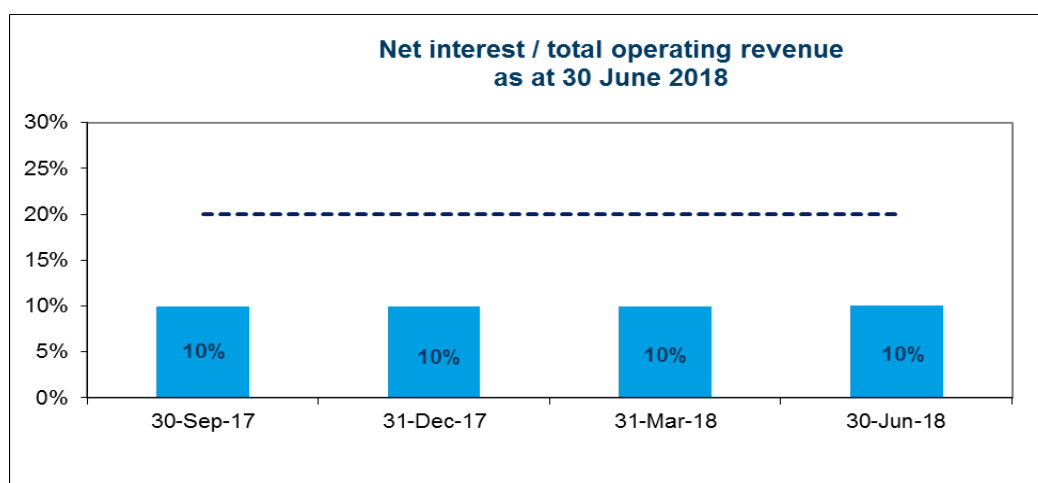
- 64 Net debt is the measure of Council’s total borrowings less cash on hand and cash investments (including Local Government Funding Agency (LGFA) borrower notes). Net debt is used to calculate two of Council’s treasury policy limits.
- 65 Table 8 below shows the Council’s net debt for the year ended 30 June 2018 against full year budget.

Table 8	June YTD Actual \$000's	Full Year Budget \$000's	Full Year Variance \$000's	Full Year 2016/17 \$000's
External debt	205,000	186,548	(18,452)	210,000
/less borrower notes	(3,280)	(2,960)	320	(3,360)
/less cash investments	(53,552)	(15,200)	38,352	(60,455)
Net debt	148,168	168,388	20,220	146,185

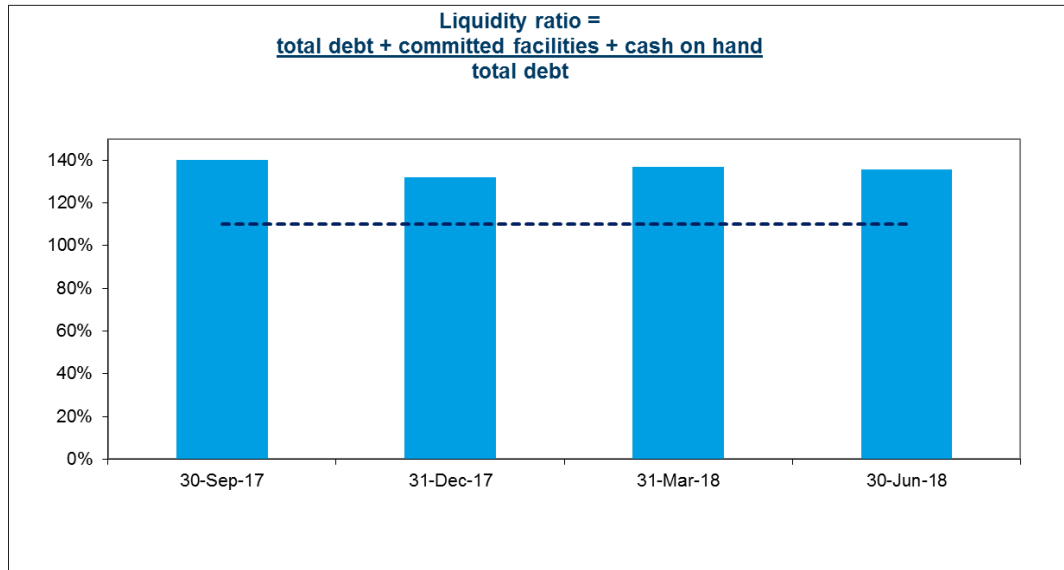
- 66 The Council is targeting through its financial strategy to bring net borrowings below 200% of operating income. As of the end of June the Council’s net borrowings as a share of operating income is 198%. This is a good result for the Council and show’s that reducing the capital programme in 2017/18 went a significant way towards achieving the aims of the financial strategy.

Treasury policy limits

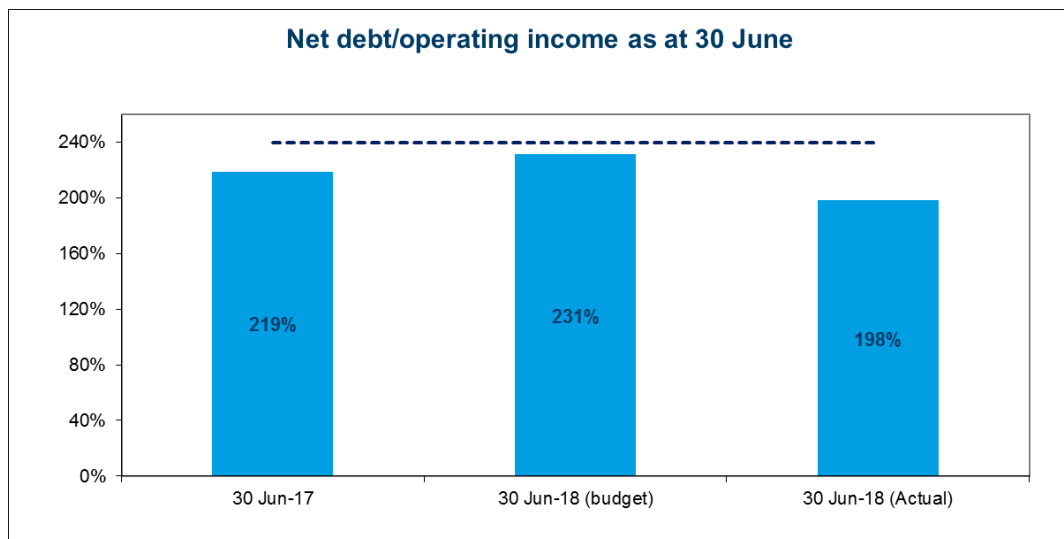
- 67 The treasury management policy (Policy) contains three financial ratios with either a maximum or minimum policy limit.
- 68 The Policy sets the maximum limit for the ratio of net interest expense to total operating revenue of 20%. The chart below shows actual limits achieved for each quarter.



- 69 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.



- 70 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

- 71 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.
- 72 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.
- 73 From 1 July 2015, Council transitioned to an annual rolling asset revaluation programme as set out below:

Asset classification	Revaluation date	Subsequent revaluation
Water, wastewater and stormwater (including seawalls and river control)	30 June 2018	Every two years thereafter
Roading, (including land under roads)	30 June 2019	Every two years thereafter
Land and buildings (excluding land under roads revaluations)	30 June 2020	Every three years thereafter
Parks and reserves structures	30 June 2020	Every three years thereafter

- 74 The Council's water, wastewater, stormwater and flood protection assets were revalued during this year. (previously June 2016).
- 75 The table below details the increase per asset type due to the revaluation:

Asset Type	Valuer	Carry	Revaluation	Revaluation	Change
		amount 30	30 June	uplift	
		June 2018	30 June	uplift	
		\$000	\$000	\$000	
River Control	Opus	1,007	1,111	104	10%
Seawalls	Opus	4,447	5,146	699	16%
Stormwater	Opus	65,091	63,356	(1,735)	-3%
Wastewater	Opus	112,019	139,391	27,372	24%
Water	Opus	103,387	118,307	14,920	14%
Total		285,952	327,311	41,359	14.5%

- 76 In general, the fair value of all asset types increased mainly due to:
- The increase in on-cost allowance (i.e. professional fees including planning, investigation, design, performance and quality monitoring and specialist advice) from 8% (2016) to 11% (2018).

- The increase in the composite construction cost index of 5.77% from 2016. The composite index is an overall indicator of the construction sector cost increases and is calculated as follows:

Index	Weighting	Increase since 2016	Weighted rate
Product Price Index (PPI)	50%	6.1%	3.05%
Labour Index	15%	3.4%	0.51%
Capital Good Price	35%	6.3%	2.21%
Weighted increase			5.77%

*All Index values were sourced from Statistics New Zealand

- 77 In addition, 2016 pipe rates for water, wastewater and stormwater pipes were compared with similar data available for other local authorities. The initial rates proposed by the valuers have been adjusted downwards significantly in the 2018 valuation from what was originally proposed to bring them into line with local rates where possible.
- 78 The decrease in the stormwater assets is due to reclassification of manhole assets to roading assets.
- 79 The increase in asset values often results in higher depreciation costs in the out-years. This was fully considered during the 2018-38 LTP determination process but despite best efforts the final 30 June revaluation at this stage is \$81,000 more than planned.
- 80 The Council's due diligence of the final asset revaluations as at 30 June 2018 is still in progress at the time of writing this report. The table below details the draft revaluation depreciation charge per asset category, compared to the 2018/19 financial year in the 2018-38 LTP.

Asset Type	Valuer	2018/19 Depreciation of revalued \$000	2018/19 2018-38 LTP \$000	Variance Fav/(Unfav) \$000
River Control	Opus	18	18	-
Seawalls	Opus	400	394	(6)
Stormwater	Opus	843	867	24
Wastewater	Opus	3,438	3,388	(50)
Water	Opus	2,976	2,927	(49)
Totals		7,675	7,594	(81)

CONSIDERATIONS

Financial Consideration

- 81 The financial information as detailed in Parts A to I of this report (Corp-18-558) 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

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

Consultation

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

Policy Implications

84 There are no policy implications arising from this report.

Tāngata Whenua

85 There are no tāngata whenua considerations arising from this report.

SIGNIFICANCE AND ENGAGEMENT POLICY

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

Publicity Considerations

87 There are no publicity considerations arising from this report.

RECOMMENDATIONS

88 That the Operations and Finance Committee notes the actual financial performance and position of Council for the year ended 30 June 2018 as contained in this report (Corp-18-558).

Report prepared by:

Jacinta Straker
Chief Financial Officer

Approved for Submission:

Approved for Submission:

Janice McDougall
Acting Group Manager Corporate Services

Sean Mallon
Group Manager Infrastructure Services