

Chairperson and Committee Members
OPERATIONS & FINANCE COMMITTEE

17 AUGUST 2017

Meeting Status: **Public**

Purpose of Report: For Information

FINANCIAL REPORT TO 30 JUNE 2017

PURPOSE OF REPORT

- 1 This report sets out Kāpiti Coast District Council's (Council's) financial performance and financial position for the year ended 30 June 2017, 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 30 June 2017

Part H: Treasury Management

Part I: Asset Revaluations (new)

Part A: Statement of Comprehensive Revenue and Expense

- 4 The statement of comprehensive revenue and expense covers all of 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 provides Council's actual revenue and expense for the year ended 30 June 2017

Table 1	Full Year 2016/17		
	Actual \$000	Budget \$000	Variance \$000
Rates	56,581	56,868	(287)
Fees and Charges	8,932	7,899	1,033
Grants and Subsidies	4,684	4,567	117
Development and Financial Contributions Revenue	2,000	1,075	925
Other Operating Revenue	679	359	320
Interest Income	1,563	1,140	423
Total Income	74,439	71,908	2,531
Other Operating Expense	47,866	47,468	(398)
Depreciation and Amortisation	18,137	18,184	47
Finance Expense	9,385	9,408	23
Total Expenditure	75,388	75,060	(328)
Operating (Deficit) / Surplus	(949)	(3,152)	2,203
Unrealised Gain/(Loss) from Revaluation of Property Plant and Equipment	113,030	32,633	80,397
Unrealised Gain/(Loss) on Revaluation of Financial Derivatives	7,598	-	7,598
Total Other Comprehensive Income and Expenditure	120,628	32,633	87,995
Net Operating Surplus / (Deficit)	119,679	29,481	90,198

Financial performance summary

- 7 Council's operating deficit of \$949,000 is \$2.20 million favourable to budget. The favourable variance is largely due to increased development contributions (which are used to fund capital works), additional regulatory income from increased subdivision and building activity in the District and lower net interest costs than planned. This is partially offset by less water rates revenue and additional network maintenance, leak detection and repair works than planned.
- 8 Council's unrealised gain on revaluation of financial derivatives of \$7.60 million is due to derivative interest rates increasing further since June 2016. 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.
- 9 Council's unrealised gain from revaluation of above-ground assets (including roading and land under roads) as at 30 June 2017 was significantly higher than planned. Similarly, there is no intention to realise their fair value changes. (See Part I: Asset Revaluations)

Explanation of key revenue variances**10 Rates**

Brief Description:	Rates include all rates earned by the Council, including water rates. Rates remissions and rates billed to Council owned properties are excluded.
Full Year Variance:	\$287,000 unfavourable to budget mainly due to less water rates revenue received during the year than expected. (See Part E: Water Account Statement).

11 Fees and charges

Brief Description:	Fees and charges include all non-rates revenue earned by the Council for providing services to the Community. This also includes fines and penalties charged.
Full Year Variance:	\$1.03 million favourable to budget mainly due to the following: <ul style="list-style-type: none"> • building and resource consents fees were \$684,000 higher than planned due to increased building activity in the District; • an unplanned contribution of \$140,000 from NZTA towards the total costs of renaming SH1; and • Additional Private Plan Change cost recovery revenue of \$157,000.

12 Grants and subsidies

Brief 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.
Full Year Variance:	\$117,000 favourable to budget which is mainly due to unplanned funding from the M2PP Alliance for additional resealing work required.

13 Development and financial contributions

Brief description:	<ol style="list-style-type: none"> 1. Financial contributions are levied under the Resource Management Act and cover Reserves Contributions levied on developers at the time of subdivision. 2. Development contributions are levied under the Local Government Act 2002 and cover all key activities except Parks and Open Space and are levied on developers at the time of subdivision.
Full Year Variance:	\$925,000 favourable to budget due to higher subdivision and building activity than planned. The majority of this development has occurred in Paraparaumu/Raumati.

14 **Other operating revenue**

Brief description:	Includes assets vested to Council, Local government petrol tax, donations and/or sponsorship and realised gains on asset disposals.
Full Year Variance:	\$320,000 favourable to budget. This is mainly due: <ul style="list-style-type: none"> • unplanned revenue of \$67,000 received for sponsorship and donations; • \$87,000 of unplanned assets vested to Council; • An unrealised gain of \$43,000 in the annual revaluation of the Council's forestry assets; and • Unplanned revenue of \$91,000 for works supported by a charitable trust.

15 **Interest income**

Brief description:	Interest income represents the Council's earnings on its term deposits, overnight cash deposits and Borrower Notes held by the Local Government Funding Agency.
Full Year Variance:	\$423,000 favourable to budget due to increased income earned from new debt issued and placed on term deposit. (See Part H: Treasury Management).

Explanation of key expenditure variances16 **Other operating expense**

Brief description:	Includes direct operating costs except for internal rates, finance charges and asset depreciation/amortisation.
Full Year Variance:	\$398,000 unfavourable to budget. This is mainly due to additional expenditure in areas such as consultants and contractors to deal with additional workload in the regulatory team as well as additional unplanned network maintenance, leak detection and repair works in the water network.

Explanation of other comprehensive revenue and expense variances17 **Unrealised gain on revaluation of derivatives**

Brief description:	<ol style="list-style-type: none"> 1. Council recognises its interest rate swaps at fair value on a monthly basis. 2. The change in fair value between 30 June 2017 and 30 June 2016 is treated as either an unrealised gain (fair value has decreased) or an unrealised loss (fair value has increased).
Full Year Variance:	\$7.60 million favourable to budget because swap rates are higher compared to opening rates at 1 July 2016. (See Part H: Treasury Management).

18 **Revaluation of Property Plant and Equipment**

Brief description:	<p>Council has elected to revalue property plant and equipment. This year the following assets categories were revalued:</p> <ul style="list-style-type: none"> • Roading, (including land under roads); • Land and buildings (excluding land under roads revaluations); • Parks and reserves structures
Full Year Variance:	\$80.40 million favourable to budget. (See Part I: Asset Revaluations)

Part B: Statement of Financial Position

- 19 The Council's financial position as at 30 June 2017 and the full year budget for the year are set out in Table 2, followed by summary of the key variances.

Table 2	2016/17		
	YTD actual	Full year budget	Variance
	\$000	\$000	\$000
Assets			
Cash and cash equivalents	455	200	255
Trade and other receivables	9,414	7,064	2,350
Inventories	115	100	15
Property, plant and equipment	1,595,622	1,538,602	57,020
Forestry assets	422	435	(13)
Intangible assets	967	875	92
Other financial assets	63,496	42,696	20,800
Loans	514	667	(153)
Derivative financial instruments	360	-	360
Total assets	1,671,365	1,590,639	80,726
Liabilities			
Trade and other payables	19,512	22,222	2,710
Employee benefit liabilities	2,222	2,532	310
Deposits	820	770	(50)
Borrowings	210,000	199,066	(10,934)
Provisions	4,960	2,934	(2,026)
Derivative financial instruments	11,797	16,633	4,836
Total liabilities	249,311	244,157	(5,154)
Public equity			
Accumulated funds	567,619	559,695	7,924
Reserves and special funds	2,904	2,220	684
Revaluation reserve	851,531	784,567	66,964
Total equity	1,422,054	1,346,482	75,572
Total liabilities and equity	1,671,365	1,590,639	80,726

Overall Summary

- 20 Council's material changes to its financial position for the financial year ended 30 June 2017 were in respect to Property, Plant and Equipment, Other financial Assets and Borrowings.
- 21 Property, Plant and Equipment is \$57.02 million favourable to budget, mainly due to the year-end revaluation of above ground assets (See Part I: Asset Revaluations).
- 22 Other financial assets are \$20.80 million favourable to budget, mainly due to an additional \$20 million of debt was issued during the year then planned and placed on fixed term deposit to prefund debt maturing in December 2017 and May 2018. (See Part H: Treasury Management).

- 23 Borrowings are \$10.9 million unfavourable to budget mainly due to the following:
- An additional \$20 million of unplanned debt was issued to prefund debt maturing in 2017/18 (See Part H: Treasury Management).
 - \$9.23 million of planned debt was not issued as the capital work was not completed in 2016/17 and has been carried over to 2017/18 (See Part F: Capital spending Programme).
- 24 Gross borrowings are \$210 million at year end which includes total debt prefunding of \$60 million. Council's \$200 million borrowing limit (as set out in Council's Financial Strategy) excludes debt prefunding. Excluding prefunding, Council's borrowings at year end is \$150 million, which is well within the borrowings limit.
- 25 Council equity is \$75.57 million favourable to budget. This is mainly due to the unplanned increase in the revaluation of Council's above ground assets. (See Part I: Asset revaluations).

Part C: Statement of Cash Flows

- 26 The Council's cash flow for the year ended 30 June 2017 and the full year budget are set out in Table 3, followed by a summary of key variances.

Table 3	2016/17		
	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	56,628	56,866	(238)
Greater Wellington Regional Council Rates	10,346	-	10,346
Grants and subsidies - operating	1,580	1,595	(15)
Interest received	574	940	(366)
Charges and fees	10,768	9,099	1,669
GST (net)	(253)	284	(537)
	79,643	68,784	10,859
<i>Cash was applied to:</i>			
Payments to employees and suppliers	46,716	45,520	(1,196)
Rates paid to Greater Wellington Regional Council	10,346	-	(10,346)
	57,062	45,520	(11,542)
Net cash flows from operating activities	22,581	23,264	(683)
Cash flows from investing activities			
<i>Cash was provided from:</i>			
Loan repayment/Term deposit maturities	15,013	10,088	4,925
Proceeds from sale of property, plant and equipment	165	-	165
Proceeds from capital grants	5,104	4,972	132
	20,282	15,060	5,222
<i>Cash was applied to:</i>			
Construction and purchase of property, plant and equipment	22,706	34,184	11,478
Purchase of investments	60,000	35,120	(24,880)
	82,706	69,304	(13,402)
Net cash flows from investing activities	(62,424)	(54,244)	(8,180)
Cash flows from financing activities			
<i>Cash was provided from:</i>			
Short-term borrowings	32,515	-	32,515
Long-term borrowings	59,040	50,000	9,040
	91,555	50,000	41,555
<i>Cash was applied to:</i>			
Interest on borrowings	9,162	9,220	58
Short-term borrowings	32,515	-	(32,515)
Long-term borrowings	10,022	10,000	(22)
	51,699	19,220	(32,479)
Net cash flows from financing activities	39,856	30,780	9,076
Net increase/(decrease) in cash and cash equivalents	13	(200)	213
Add total cash and cash equivalents at 1 July 2016	442	400	42
Total cash and cash equivalents	455	200	255

Overall summary

- 27 Council's cash on hand as at 30 June 2017 was \$455,000. This is \$255,000 more than planned mainly due to subdivision development levies received in the last week June 2017.
- 28 Council's material changes to its cash flow management for the period ended 30 June 2017 were:
- Issued \$60 million of new debt prefunding during the financial year; and
 - \$10 million debt repayment in December 2016.

Part D: Statement of Rates Funding

- 29 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 Council's operating revenue and expense from all funding sources, including vested assets.
 - The rates surplus/(deficit) only covers Council's revenue and expenses that are rates funded.
- 30 Table 4 below details the actual year to date rates funding deficit for the year ending 30 June 2017.

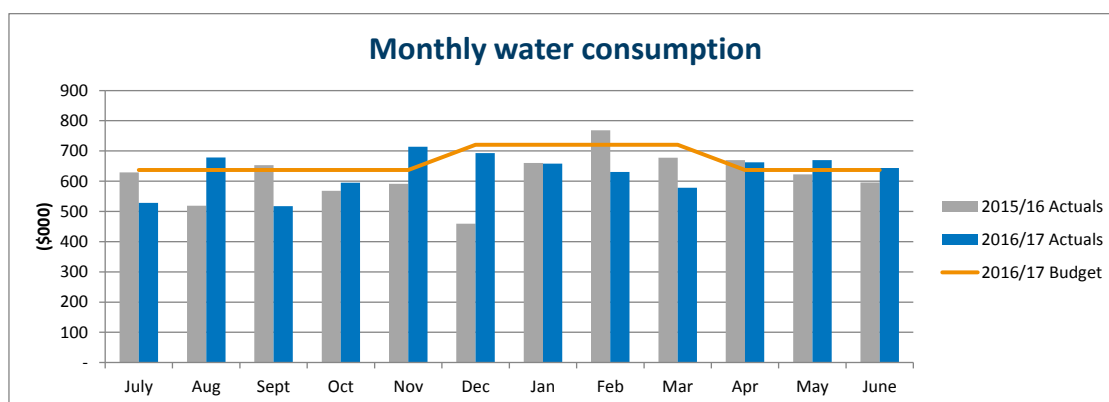
Table 4: Rates revenue requirement	2016/17 actual \$000
Operating (deficit)/surplus	(949)
Adjusted by income and expenditure not funded by rates:	
Net expenditure funded by reserves and special funds	67
Capital funding and vesting of assets	(4,248)
Revaluation of Council's assets	(43)
Unfunded depreciation	5,615
Underlying net rates surplus/(deficit)	441
Represented by:	
Water Account Deficit	(788)
Net underspend across the organisation	1,229
Rates surplus	441

- 31 The rates surplus of \$441,000 is mainly due to increased regulatory income from increased subdivision and building activity in the District and lower net interest costs than planned. This surplus is available for offsetting future rate increases during the setting of the 2018-38 Long Term Plan.

Refer to the Part E: Water Account Statement for further explanation of the water account deficit.

Part E: Water Account Statement

- 32 A water account is a mechanism that 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.
- 33 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.
- 34 The water account is currently in deficit. 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 ten years. This approach will be confirmed during the 2018-38 Long Term Plan.
- 35 The 2016/17 budget assumed a water account deficit of \$169,000 however the actual deficit increased to \$788,000 at 30 June 2017. This \$619,000 unfavourable variance was due to lower water consumption of \$471,000 and additional operating expenditure of \$148,000 mainly due to unplanned network maintenance, leak detection and repair works.



- 36 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.

Option 1	2014/15 Actual \$m	2015/16 Actual \$m	2016/17 Actual \$m	2017/18 Budget \$m	2018/19 Budget \$m	2019/20 Budget \$m	2020/21 Budget \$m	2021/22 Budget \$m	2022/23 Budget \$m	2023/24 Budget \$m	2024/25 Budget \$m	2025/26 Budget \$m	2026/27 Budget \$m
Cost of providing water	8.1	8.0	8.6	8.4	8.8	9.0	9.2	9.4	9.5	9.6	9.7	9.9	10.2
Water rates revenue	7.6	7.7	7.8	8.4	8.8	9.2	9.3	9.5	9.7	9.8	9.9	10.0	10.3
Annual surplus/(deficit)	(0.5)	(0.3)	(0.8)	(0.0)	0.1	0.2	0.2	0.1	0.2	0.2	0.3	0.2	0.2
Balance of water account	(0.5)	(0.8)	(1.6)	(1.6)	(1.5)	(1.3)	(1.1)	(1.0)	(0.9)	(0.7)	(0.5)	(0.3)	(0.1)

Part F: Capital Spending Programme

- 37 A summary of the 2016/17 capital works programme completed by activity and the full year budget are set out in Table 5 below

Table 5	Actuals 2016/17 \$000	Budget 2016/17 \$000	Variance 2016/17 \$000	Carry forward approved 2017/18 AP	Revised Carryforward	Change in Carryforward
Access and Transport	7,420	8,262	842	450	400	(50)
Coastal Management	960	1,635	674	840	757	(83)
Community Facilities and Community Support	284	962	678	574	571	(2)
Corporate	959	1,136	177	95	95	-
Economic Development	2,177	3,316	1,139	2,075	1,932	(143)
Governance and Tangata Whenua	512	554	42	-	-	-
Parks and Open Spaces	1,374	1,880	506	570	567	(3)
Recreation and Leisure	2,261	6,008	3,748	3,678	3,663	(15)
Solid Waste	500	522	22	-	-	-
Stormwater Management	2,869	2,862	(7)	-	-	-
Wastewater Management	2,007	4,280	2,273	1,243	1,243	-
Water Management	938	1,005	67	-	-	-
Grand Total	22,261	32,422	10,161	9,524	9,228	(296)

- 38 Please refer to the Activity Report: 1 April to 30 June 2017 (SP-17-273) for more detailed information. The Council completed \$22.26 million of capital works in 2016/17 and therefore the carry forward required is slightly lower than the Council approved carry-over of \$9.52 million to 2017/18. The difference is mainly due to Council actually completing more capital works than expected. However, there is also a project that experienced unforeseen delays and consequently, will be completed in the first quarter of 2017/18, provided the carry-over request is approved (see below)
- 39 The table below outlines those projects seeking approval for revised carry-over budgets to 2017/18:

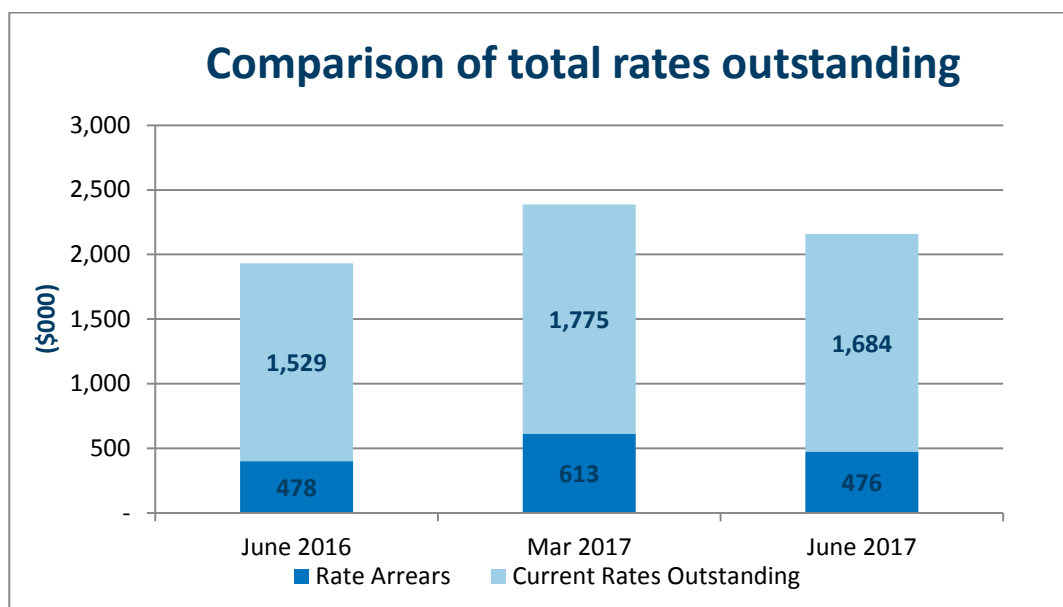
Activity	Project	Carry forward Final AP \$000	Carry forward Final Revised AP	Change \$000	Note
Community Facilities and Community Support	WAIKANAE NEW TOILETS CAPEX	88	87	(1)	
	OTAKI LIBRARY	50	49	(1)	
Parks and Open Spaces	OTARAU	20	17	(3)	
Recreation and Leisure	MAHARA GALLERY - COUNCIL FUNDED	240	225	(15)	
Coastal Management	COASTAL PROTECTION PAEKAKARIKI	840	757	(83)	
Economic Development	STRATEGIC LAND PURCHASE	1,380	1,372	(8)	
	TOWN CENTRE MAJOR CONNECTORS	695	560	(135)	
Access and Transport	CWB CAPITAL UCF	200	-	(200)	
Access and Transport	WAITOHU VALLEY ROAD	-	150	150	1
Projects not requiring a change to carryforwards		6,011	6,012	-	
Total Carry forwards		9,524	9,228	(296)	

Note 1 - It was originally assumed that the project would be completed in 2016/17. Work will now continue into 2017/18 and be completed mid to late August 2017 and therefore a carry forward is required to enable project completion. The budget is available in 2016/17 to be carried forward.

Part G: Outstanding Rates Debt as at 30 June 2017

Property rates outstanding (Excluding water rates)

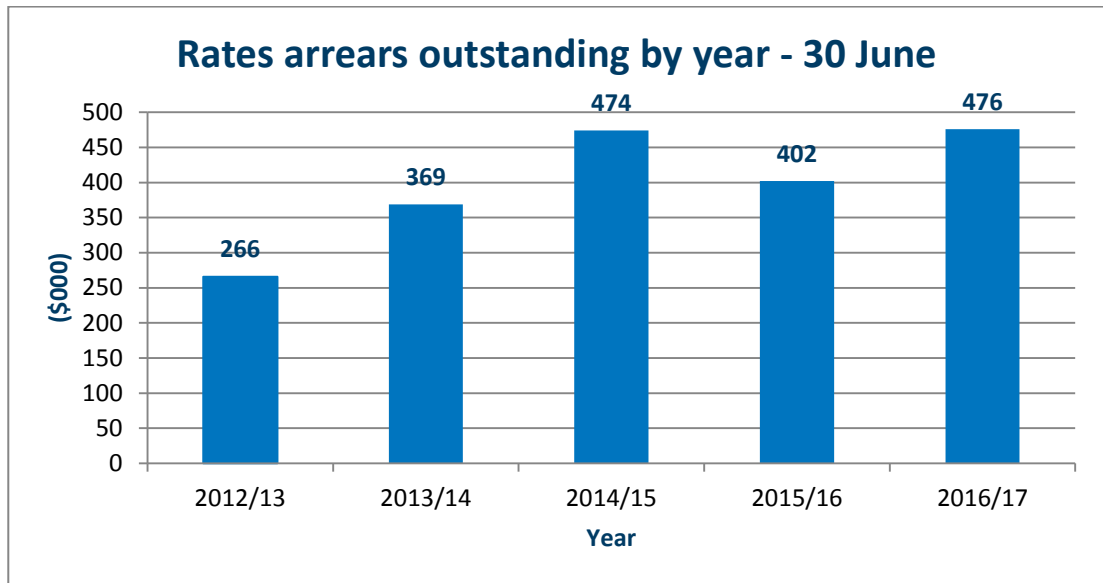
- 40 The total property rates outstanding as at 30 June 2017 was \$2.16 million (30 June 2016: \$1.93 million).



- 41 Rate payments received are first applied to rates arrears. Council's rates collection process involves follow up with outstanding debtors and payment arrangements to ensure debts are settled over a reasonable time period.
- 42 As can be seen, Council has collected \$137,000 of rates arrears since 31 March 2017. This has been mainly from mortgagee demands and payment arrangements.
- 43 Council collects current year rates on behalf of the Greater Wellington Regional Council. \$1.68 million of current rates outstanding as at 30 June 2017 is split as follows:

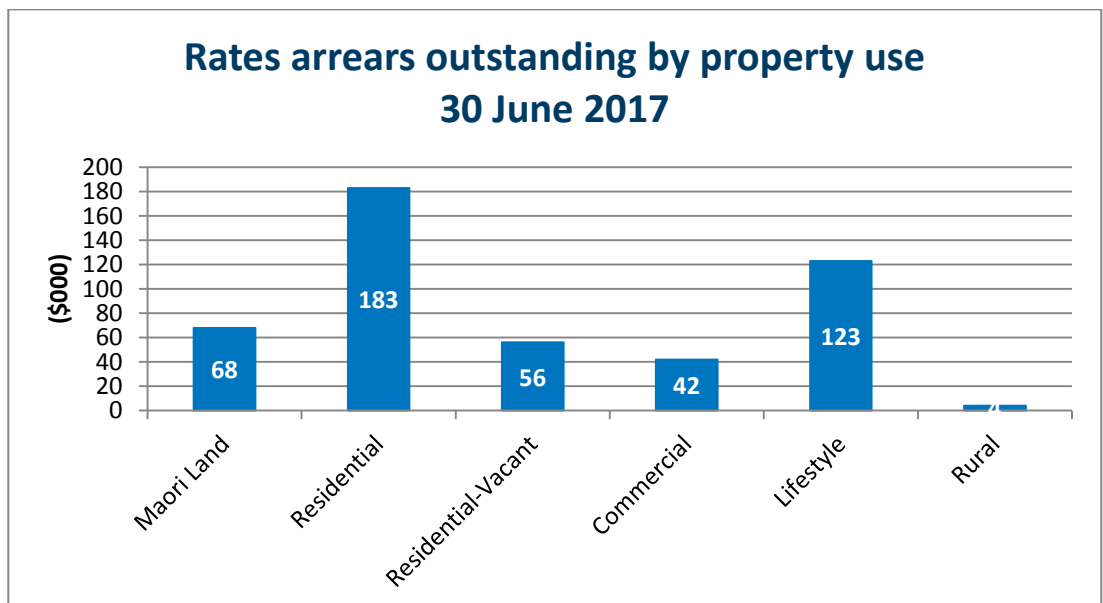
Breakdown of total rates outstanding	Rates	Penalties	Total current years rates outstanding
	\$000	\$000	\$000
Kāpiti Coast District Council rates	1,167	278	1,445
Greater Wellington Regional Council	189	49	238
Total	1,356	327	1,684

- 44 The graph below shows a comparison of the rates arrears outstanding as at 30 June 2017 and for the previous 4 years.



- 45 Outstanding rate collections have increased compared to prior years due to refocusing fewer resources on higher demand activities such as subdivisions and sales notices.

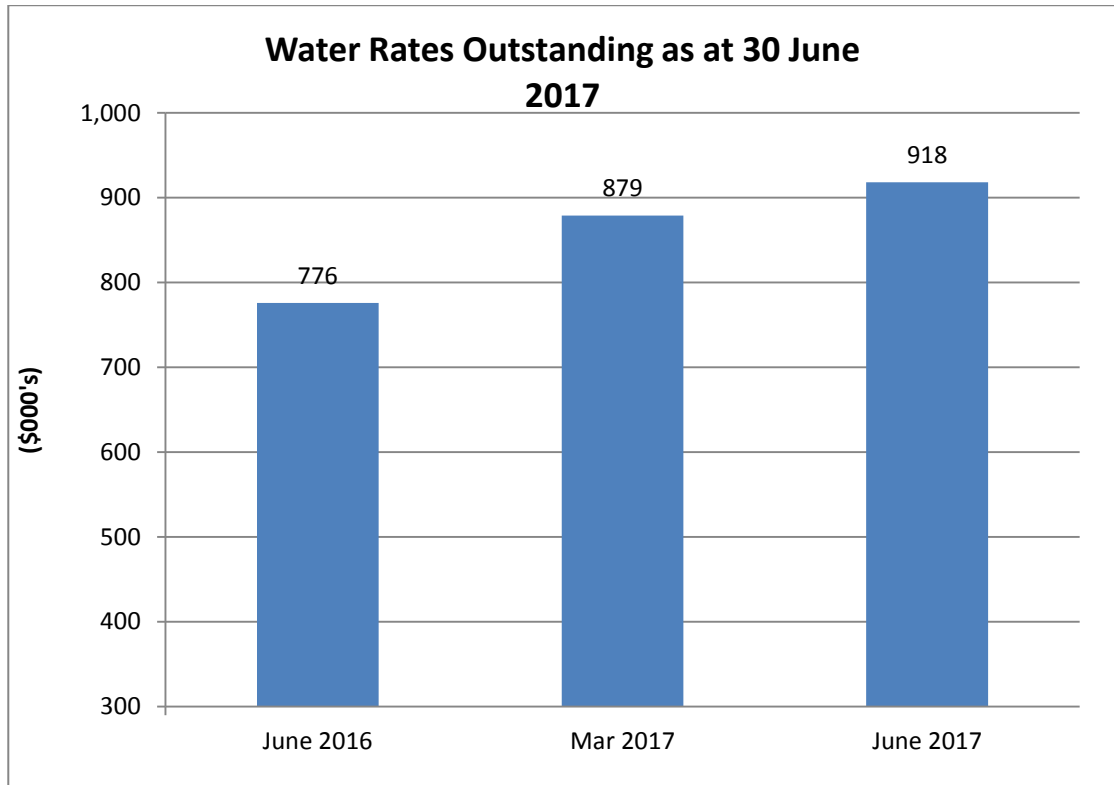
- 46 The graph below details the total rates arrears of \$476,000 by Property Use Category. The majority of the total rates arrears are from residential properties.



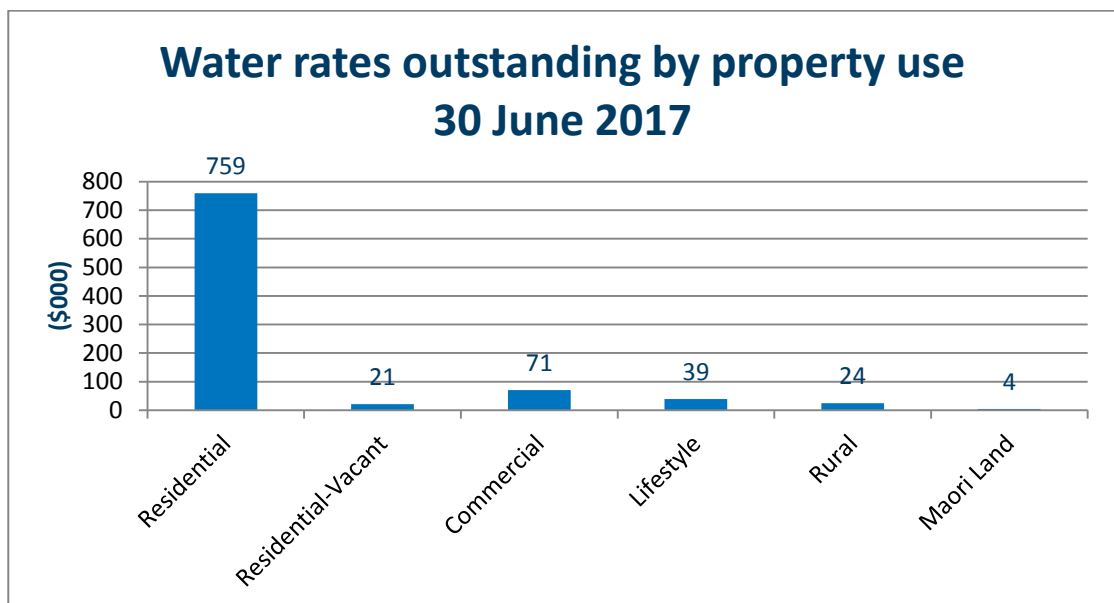
- 47 The rates arrears from Māori freehold Land are rate arrears owed to Greater Wellington Regional Council.

Water rates outstanding

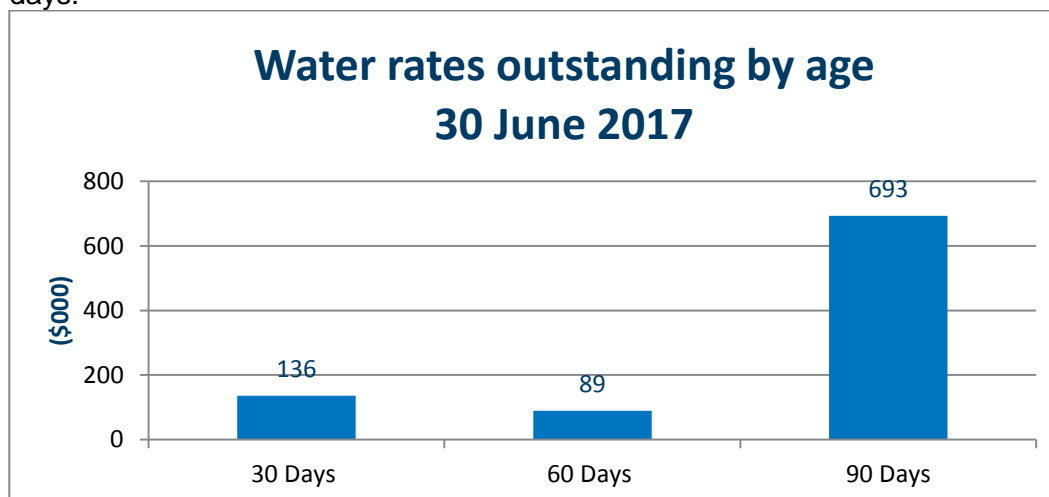
- 48 A total of \$918,000 of water rates is outstanding as at 30 June 2017 (\$776,000 as at June 2016).
- 49 Similarly, water rate payments received are first applied to water rate arrears. The chart below reflects the overall water rates debt as at 30 June 2017 compared to 31 March 2017 and 30 June 2016.



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



- 51 \$615,000 or 67% of outstanding water rates relate to individual debtor balances of less than \$1,000. The total water rates outstanding represent less than 5% of total water rates invoiced since 1 July 2014.
- 52 The graph below details the ageing of the total water rates outstanding. \$693,000 or 75% of the Council's outstanding water rates are older than 90 days.



- 53 Table 7 below details the total rate remissions issued for the year ended 30 June 2017 against the full year budget.

Table 7	Actual	Budget	Variance
	\$000	\$000	\$000
Community properties (Council and private ownership), sporting, recreational and other community organisations	57	160	(19)
Residential rating units containing two separately habitable units	122		
Financial hardship	130	125	(5)
One off expenditure relating to the repairs to water leaks, serious health issue or essential housing maintenance	4	25	21
High water consumption for larger families	-	25	25
Total	313	335	22

- 54 Central Government rate rebates of \$1.2 million (2,099 properties) have been granted in the year ended 30 June 2017. Council provides the approved rates remission (up to \$610 per rateable property) to the successful applicants and recovers the costs directly from the Department of Internal Affairs.
- 55 The Council actively promotes its remissions on radio, Facebook and through adverts in the local papers. During June 2017, Council actively promoted the uptake of the water rates remission for larger families and the deadlines of the 2016/17 Rates Rebate applications, via newspaper, radio and online advertising channels.
- 56 Council has started preparing a standard communications plan that will be used from 2017/18 to promote the full range of Council remissions and the Government Rates Rebate each year.
- 57 As part of preparing the 2018-38 Long term plan, the Council will also consider consolidating the remission categories for financial hardship to make the application process simpler and more accessible.

Part H: Treasury Management

Summary

- 58 New debt of \$15 million was issued in the last quarter, bringing the total amount of debt issued during the past twelve months to \$60 million.
- 59 Council's strategy has been to secure prefunding early to take advantage of lower interest rates and as a result, Council's prefunding for the year is \$20 million higher than planned.
- 60 The total \$60 million of debt raised during this year is for the prefunding of debt maturing in December 2017 and May 2018. All prefunding is invested on term deposits at the most favourable rate of return.
- 61 \$10 million of debt matured in December 2016. This was repaid from funds held on fixed term deposit as planned.
- 62 Since August 2016, the RBNZ has reduced the official cash rate (OCR) by 50 basis points, from 2.25% to 1.75%. The OCR remains at 1.75% as at 30 June 2017.
- 63 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 year ended 30 June 2017 was 4.89% compared to the budget of 5.60%.

Net debt

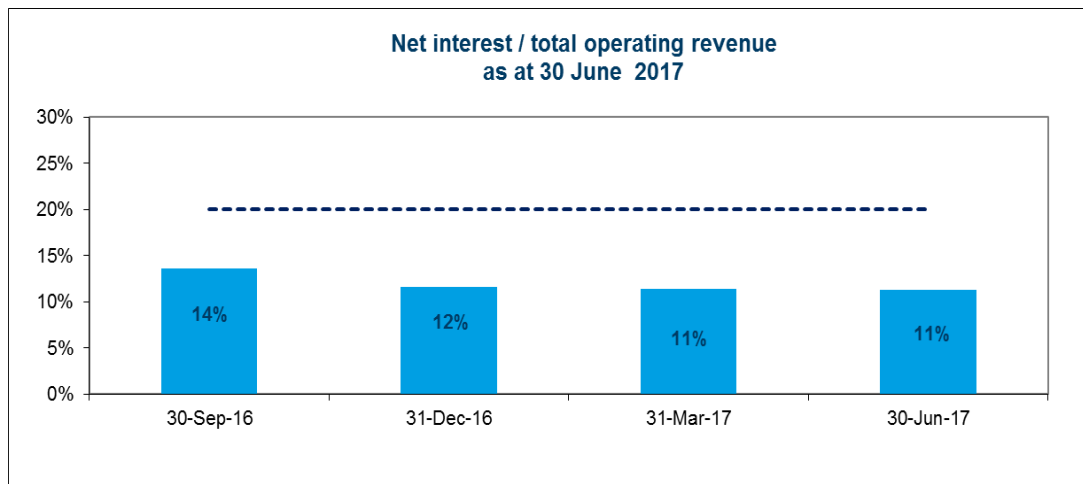
- 64 Net debt is the measure of Council's total borrowings less cash on hand and cash investments (including Local Government Funding Agency (LGFA) Borrower Notes). Net debt is used to calculate two of Council's Treasury Policy Limits.
- 65 Table 8 below shows the Council's net debt for the year ended 30 June 2017 against full year budget.

Table 8	June YTD Actual	Full Year Budget	Full Year Variance
	\$000's	\$000's	\$000's
External debt	210,000	199,066	(10,934)
/less borrower notes	(3,360)	(3,200)	160
/less cash investments	(60,455)	(39,560)	20,895
Net debt	146,185	156,306	10,121

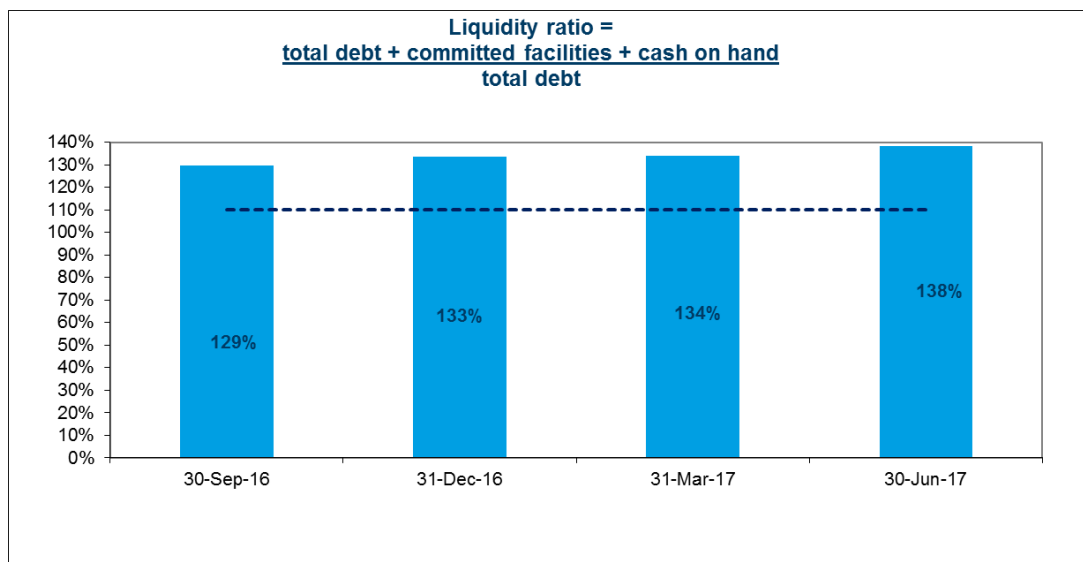
- 66 As already noted in paragraph 24, Council's gross borrowings are \$210 million at year end. Council's \$200 million borrowing limit (as set out in Council's Financial Strategy) excludes debt prefunding.
- 67 Council's actual net debt has not increased in 2016/17. The capital works programme for 2016/17 was funded from a combination of the following sources:
- Grant and subsidies \$ 3 million
 - Development and Financial Contributions \$ 2 million
 - Funded Depreciation and Amortisation \$13 million
 - Maturing Term deposit \$5 million
- \$23 million

Treasury policy limits

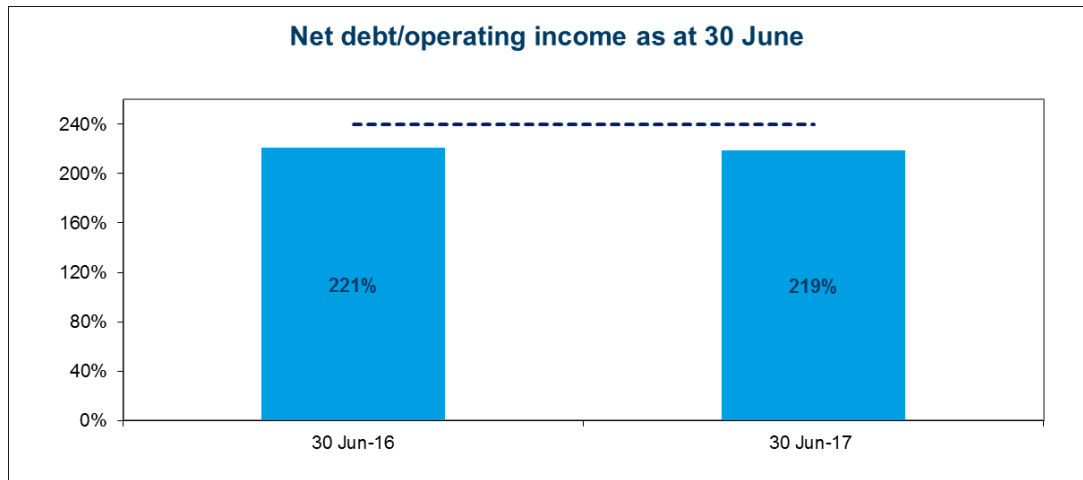
- 68 The treasury management policy (Policy) contains four financial ratios with either a maximum or minimum policy limit.
- 69 The Policy sets the maximum limit for the ratio of net interest expense to total operating revenue of 20%. The chart below shows actual limits achieved for each quarter.



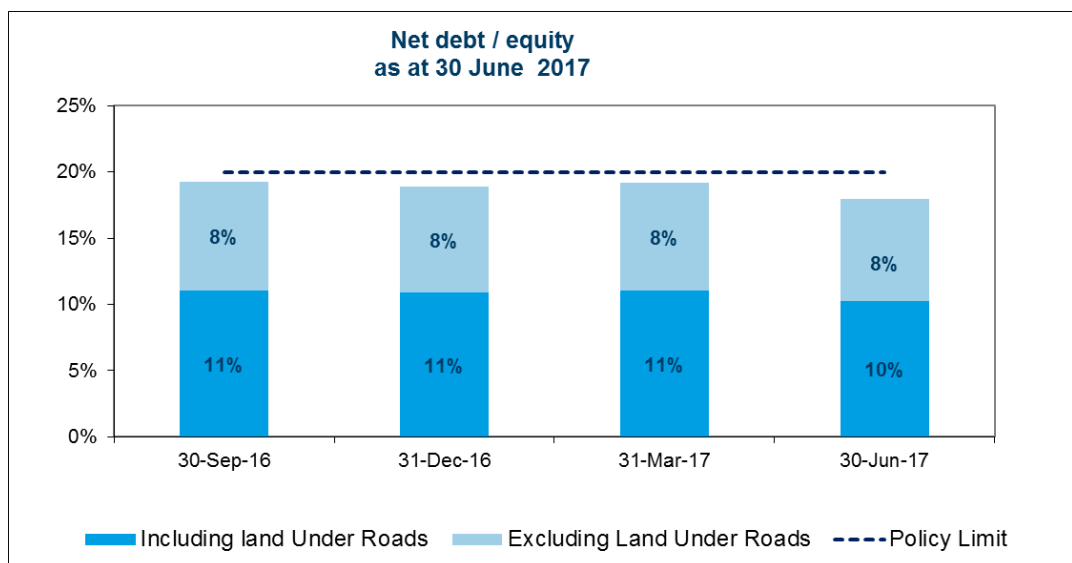
- 70 The Policy sets the minimum limit for the liquidity ratio of 110%. This is a measure of Council's available financial facilities compared to its current debt levels. The chart below shows actual limits achieved for each quarter.



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



- 72 The policy sets the maximum limit for net debt to equity ratio of 20%. The chart below shows actual limits achieved for each quarter and also includes the uplift to the treasury ratio when excluding land under roads.



Part I: Asset Revaluation

- 73 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.
- 74 By maintaining asset values at fair value, 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.
- 75 From 1 July 2015, Council transitioned to an annual rolling asset revaluation programme as set out below:

Asset classification	Revaluation date	Subsequent revaluation
Roading, (including land under roads)	30 June 2017	Every two years thereafter
Land and buildings (excluding land under roads revaluations)	30 June 2017	Every three years thereafter
Parks and reserves structures	30 June 2017	Every three years thereafter
Water, wastewater and stormwater (including seawalls and river control)	30 June 2016	Every two years thereafter

- 76 Roothing (including land under roads) and above ground assets were last revalued in June 2014.
- 77 The table below details the increase per asset type due to the revaluation:

Asset Type	Valuer	Carry amount 30 June 2017 \$000	Revaluation 30 June \$000	Revaluation uplift \$000	Change
Land assets					
Land Under Road	Aon	733,965	795,759	61,794	8%
Council Land	Aon	77,473	90,944	13,470	17%
Subtotal		811,438	886,703	75,264	
Non Land assets					
Roothing	MWH	254,474	291,085	36,611	14%
Roothing Bridges & Culverts	MWH	13,242	12,381	(860)	-6%
Park Assets	Aon	13,561	13,733	172	1%
Park Bridges	Aon	1,164	1,313	149	13%
Council Buildings	Aon	67,353	69,047	1,693	3%
Subtotal		349,795	387,560	37,766	
Total		1,161,233	1,274,263	113,030	

- 78 Land assets increased by \$75.26 million and contribute to 67% of the total increase in asset value. Land is a non-depreciable asset and this uplift in value does not translate into an increase in future depreciation.

- 79 Roothing assets increased by \$36.61 million and this is mainly due to:
- Improved quality and completeness of the asset data within the Roothing Asset Management System (RAMM). Since the 2014 revaluation, extensive reviews and external audits were completed of street lighting, surface water channels, islands, retaining walls and sumps resulting in more than 1,000 additional assets being added to the RAMM; and
 - An additional 2.5km of rooding has been added to the Council's rooding network, mostly from subdivisions.
- 80 Roothing assets comprise of a number of different asset components with some being non-depreciable, including for example, formation costs.
- 81 The increase in asset values often results in higher depreciation costs in the out-years. This was fully considered during the 2017/18 annual plan determination process and the resultant increase in depreciation remains within budget at this stage.
- 82 Council's due diligence of the final asset revaluations as at 30 June 2017 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 2017/18 annual plan.

Asset Type	Valuer	2017/18	2017/18	Variance Fav/(Unfav)
		Depreciation of revalued assets	Annual Plan Depreciation forecast	
		\$000	\$000	\$000
Land Under Road	Aon	-	-	-
Council Land	Aon	-	-	-
Roothing	MWH	4,982	4,903	(79)
Roothing Bridges & Culverts	MWH	271	273	2
Park Bridges	Aon	38	25	(13)
Park Assets	Aon	1,282	1,150	(132)
Council Buildings	Aon	2,633	2,329	(304)
Forecast revaluation Increase			600	600
Totals		9,206	9,280	74

CONSIDERATIONS

Financial Consideration

- 83 The financial information as detailed in Parts A to I of this report (Corp-17-262) 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

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

Consultation

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

Policy Implications

86 There are no policy implications arising from this report.

Tāngata Whenua

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

SIGNIFICANCE AND ENGAGEMENT POLICY

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

Publicity Considerations

89 Whilst this report has no specific publicity considerations, the Council is scheduled to adopt its audited Annual Report on 28 September 2017.

RECOMMENDATIONS

90 That the Operations and Finance Committee notes the actual financial performance and position of Council for the year ended 30 June 2017 as contained in this report (Corp-17-262).

91 That the Operations and Finance Committee approve the proposed changes to the capital carry forwards from 2016/17 of \$9.52 million to \$9.23 million, as outlined in Paragraph 39 of this report (Corp-17-262).

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