

Chairperson and Committee Members
OPERATIONS & FINANCE COMMITTEE

17 MAY 2018

Meeting Status: **Public**

Purpose of Report: For Information

FINANCIAL REPORT TO 31 MARCH 2018

PURPOSE OF REPORT

- 1 This report sets out Kāpiti Coast District Council's (Council's) financial performance and financial position for the third quarter ended 31 March 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 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 third quarter ended 31 March 2018, with the budget and forecast for the year ended 30 June 2018.

Table 1	2017/18 YTD			Full Year 2017/18		
	Actual \$000	Budget \$000	Variance \$000	Forecast \$000	Budget \$000	Variance \$000
Rates	45,740	45,443	297	60,725	60,502	223
Fees and Charges	7,529	6,767	762	9,518	8,870	648
Grants and Subsidies	3,450	4,049	(599)	5,860	5,375	485
Development and Financial Contributions Revenue	3,542	806	2,736	3,767	1,075	2,692
Other Operating Revenue	2,776	337	2,439	2,840	415	2,425
Interest Income	1,739	1,280	459	2,074	1,520	554
Total Income	64,776	58,682	6,094	84,784	77,757	7,027
Other Operating Expense	36,502	37,932	1,430	50,720	50,015	(705)
Depreciation and Amortisation	13,797	13,779	(18)	19,548	19,548	-
Finance Expense	7,418	7,291	(127)	9,760	9,543	(217)
Total Expenditure	57,717	59,002	1,285	80,028	79,106	(922)
Operating (Deficit) / Surplus	7,059	(320)	7,379	4,756	(1,349)	6,105
Revaluation of Property Plant and Equipment	-	-	-	37,593	11,747	25,846
Unrealised Gain/(Loss) on Revaluation of Financial Derivatives	(1,514)	-	(1,514)	(1,514)	-	(1,514)
Total Other Comprehensive Income and Expenditure	(1,514)	-	(1,514)	36,079	11,747	24,332
Net Operating Surplus / (Deficit)	5,545	(320)	5,865	40,835	10,398	30,437

Financial performance summary

- 7 Council's operating surplus of \$7.06 million is \$7.38 million favourable to budget. This is mainly due to development and financial contributions, assets vested to Council as a result of subdivision activity, additional revenue from parking provision release, resource consent and increased water rates revenue.
- 8 It is also due to lower levels of operating expenditure for the first three quarters of the year (in areas such as Economic development, Parks and Storm water maintenance), as well as some cost savings in areas such as earthquake prone (EQP) assessment & income earned from new debt issued and placed on term deposit. (See Part H: Treasury Management).
- 9 Council's unrealised loss on revaluation of financial derivatives of \$1.51 million is due to derivative 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.

- 10 The Council is currently forecasting a year end rates surplus position of \$769,000. This is largely due to a reduction of \$431,000 for EQP building assessment work due to legislative changes.
- 11 One quarter of the 2017/18 financial year still remain ahead. Council's full year performance is subject to change during the year in light of any new information.

Explanation of key revenue variances

12 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.
Year to Date Variance:	\$762,000 favourable to budget mainly due to the following: <ul style="list-style-type: none"> • Parking infringement provision release of \$303,000 • Additional penalties received for outstanding rates \$112,000 • A contribution of \$228,000 towards PP2O stakeholder engagement costs was received from NZTA earlier than planned.
Forecast Variance:	Expected to be \$648,000 favourable to budget with increased building activity expected, parking infringement parking release and additional rate penalties revenue

13 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.
Year to Date Variance:	\$599,000 unfavourable to budget mainly due to the Roothing Capex Programme occurring later in the year. (Refer to Part F: Capital Spending Programme.)
Forecast Variance:	Expected to be \$485,000 favourable to budget with additional external funding received for the funding agreement for Kapiti Lights project, joint venture with Transmission Gully to move Water sand filters and NZTA funding for Emergency works.

14 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 reserves and are levied on developers at the time of subdivision.
Year to Date Variance:	\$2.74 million favourable to budget due to higher subdivision and building activity than planned. This increased development activity has been in, Waikanae (66%) and Otaki (34%).
Forecast Variance:	Expected to be \$2.69 million favourable to budget.

15 **Other Operating Revenue**

Brief description:	Includes assets vested to Council, local government petrol tax, donations and/or sponsorship and realised gains on asset disposals.
Year to Date Variance:	\$2.44 million favourable to budget due to assets vested to the Council as part of the subdivision process. These relate to the Hudson Development Stage 3, Sylvan Avenue Waikanae, Lupin Road, Ōtaki, Stage One Ngarara and various smaller developments.
Forecast Variance:	Expected to be \$2.43 million favourable to budget.

16 **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.
Year to Date Variance:	\$459,000 favourable to budget due to increased income earned from new debt issued and placed on term deposit as part of the council's prefunding strategy. (See Part H: Treasury Management).
Forecast Variance:	Expected to be \$554,000 favourable to budget due to increased income earned from new debt issued and placed on term deposit

Explanation of key expenditure variances17 **Other operating expense**

Brief description:	Includes direct operating costs except for internal rates, finance charges and asset depreciation/amortisation.
Year to Date Variance:	\$1.43 million favourable to budget. This is mainly a reflection of lower levels of expenditure in the first 9 months of the year in areas such as Parks and Stormwater maintenance planned for May & June, EQP building assessment and Economic development activities.
Forecast Variance:	The forecast unfavourable variance of \$705,000 is mainly due to: <ul style="list-style-type: none"> • Additional staff required for Planning & Regulatory <ul style="list-style-type: none"> - The majority relates to additional resource required in Resource Consents to deal with higher workload and is offset by additional revenue forecast. • Higher insurance premiums due to increased risk assessments for the Wellington region. • Emergency works in Stormwater & Roding • Enterprise risk management • Water Consenting fees unbudgeted • Weather tight claims unbudgeted Offset by <ul style="list-style-type: none"> • EQP Building assessment not proceeding (legislative change) • Identified savings across Council

Explanation of other comprehensive revenue and expense variances**18 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 1 July 2017 and 31 March 2018 is treated as either an unrealised gain (fair value has decreased) or an unrealised loss (fair value has increased).
Year to Date Variance:	\$1.5 million unfavourable to budget because swap rates are lower compared to opening rates at 1 July 2017. (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

- 19 The Council's financial position as at 31 March 2018 and the forecast for the year ended 30 June 2018 are set out in Table 2, followed by a summary of the key variances. Note that Council does not prepare a monthly budget for the statement of financial position.

Table 2	2017/18			
	YTD actual	Full year forecast	Full year budget	Variance
	\$000	\$000	\$000	\$000
Assets				
Cash and cash equivalents	664	200	200	-
Trade and other receivables	7,470	8,543	7,623	920
Inventories	125	148	148	-
Property, plant and equipment	1,600,238	1,632,893	1,617,940	14,953
Forestry assets	422	422	422	-
Intangible assets	714	2,730	2,730	-
Other financial assets	57,916	42,916	18,075	24,841
Loans	469	617	617	-
Total assets	1,668,016	1,688,469	1,647,755	40,714
Liabilities				
Trade and other payables	12,512	16,352	17,875	1,523
Employee benefit liabilities	2,442	2,596	2,596	-
Deposits	1,061	780	780	-
Borrowings	205,000	195,000	186,548	(8,452)
Provisions	5,371	4,282	4,282	-
Derivative financial instruments	12,917	12,917	10,914	(2,003)
Total liabilities	239,303	231,927	222,995	8,932
Public equity				
Accumulated funds	572,988	570,685	564,749	5,936
Reserves and special funds	2,904	2,583	2,583	-
Revaluation reserve	852,821	883,274	857,428	25,846
Total equity	1,428,713	1,456,542	1,424,760	31,782
Total liabilities and equity	1,668,016	1,688,469	1,647,755	40,714

Year to date Summary

- 20 Council's only material changes to its financial position for the nine months ended 31 March 2018 were in respect to Other financial Assets and Borrowings.
- 21 New debt of \$55 million was issued since 1 July 2017 and \$60 million of borrowings matured mid-December 2017. (see part H: Treasury management)

- 22 As at 31 March 2018, the Council had \$54.5 million of term deposits. This is broken down as follows:

Term deposits	Prefunding	Capex
	\$000	\$000
LGFA debt maturing May 2018	20,000	
LGFA debt maturing March 2019	20,000	
2017/18 Capital works programme maturing May 2018		7,000
First quarter rates instalment placed on TD for 2017/18 Capital works programme maturing April 2018		5,000
Surplus cash placed on TD for 2017/18 Capital works programme maturing August 2018		2,500
Total	40,000	14,500

- 23 Council's borrowings at 31 March 2018 are \$150.5 million which includes gross borrowings of \$205 million and prefunding of \$54.5 million. Council's \$200 million borrowing limit (as set out in Council's Financial Strategy) excludes debt prefunding.

Full year forecast Summary

- 24 Total equity is forecast to be \$31.8 million favourable to budget. This is mainly due to Council's total asset base expected to be higher than planned as a result of the revaluation of the Council's water, wastewater, stormwater and flood protection assets
- 25 Property, Plant and Equipment is expected to be \$15 million higher than budget at year end (see Part I : Asset Revaluation). This is further explained below:

Variance \$000	Explanatory Notes
25,846	Draft Opus revaluation report – Uplift in asset value of 3 waters network (unplanned)
(3,393)	Forecast of capital works carry forwards to 2018/2019
(7,500)	Approved reduction of the 2017/2018 Capital Works Programme
14,953	

- 26 Gross borrowings are forecast to be \$195 million at year end which is \$8.5 million higher than the full year budget. This is due to additional debt prefunding, which is expected to be \$10 million higher than planned to secure lower borrowing cost. (see part H: Treasury management)
- 27 Other financial assets are forecast to be \$24.8 million favourable to budget, mainly due to the additional debt prefunding as mentioned above. (see part H: Treasury management)

Part C: Statement of Cash Flows

- 28 The Council's cash flow for the quarter ended 31 March 2018 and the forecast for the year ended 30 June 2018 are set out in Table 3, followed by a summary of key variances.

Table 3	YTD actual	2017/18 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	45,459	60,601	60,501	100
Greater Wellington Regional Council Rates	8,336	-	-	-
Grants and subsidies - operating	1,873	1,544	1,544	-
Interest received	1,884	1,392	1,092	300
Charges and fees	11,458	11,649	10,249	1,400
GST (net)	37	109	109	-
	69,047	75,295	73,495	1,800
<i>Cash was applied to:</i>				
Payments to employees and suppliers	40,549	48,739	48,189	550
Rates paid to Greater Wellington Regional Council	8,336	-	-	-
	48,885	48,739	48,189	550
Net cash flows from operating activities	20,162	26,556	25,306	1,250
Cash flows from investing activities				
<i>Cash was provided from:</i>				
Loan repayment/Term deposit maturities	51,004	83,340	80,050	3,290
Proceeds from sale of property, plant and equipment	41	-	-	-
Proceeds from capital grants	1,577	4,231	3,831	400
	52,622	87,571	83,881	3,690
<i>Cash was applied to:</i>				
Construction and purchase of property, plant and equipment and intangibles	14,810	27,035	36,783	(9,748)
Purchase of investments	45,380	62,540	40,000	22,540
	60,190	89,575	76,783	12,792
Net cash flows from investing activities	(7,568)	(2,004)	7,098	(9,102)
Cash flows from financing activities				
<i>Cash was provided from:</i>				
Short-term borrowings	21,900	-	-	-
Long-term borrowings	55,000	65,000	55,668	9,332
	76,900	65,000	55,668	9,332
<i>Cash was applied to:</i>				
Interest on borrowings	7,385	9,552	9,352	200
Short-term borrowings	21,900	-	-	-
Long-term borrowings	60,000	80,000	78,720	1,280
	89,285	89,552	88,072	1,480
Net cash flows from financing activities	(12,385)	(24,552)	(32,404)	7,852
Net increase/(decrease) in cash and cash equivalents	209	-	-	-
Add total cash and cash equivalents at 1 July 2016	455	200	200	-
Total cash and cash equivalents	664	200	200	-

Year to date Summary

29 Council's material changes to its cash flow management for the 9 months ended 31 March 2018 were:

- \$60 million of debt matured on 15 December 2017;
- \$50 million of prefunded debt held on fixed term deposits matured and was used to refinance the debt roll over;
- \$55 million of new long term debt was issued during the period;
- \$44.5 million of cash funds were placed on fixed term deposit consisting of \$14.5 million towards the 2017/18 Capital works programme and \$30 million towards Council's prefunding strategy; and
- Cash payments of \$14.81 million in relation to Council's Capital Works Programme.

Full year forecast Summary

30 Cash and cash equivalents are currently planned to be \$10.5 million favourable to full year budget. This is mainly due to the approved decrease in the 2017/18 capital works programme, combined with an increase in development contributions as a result of increased development activity. Any surplus cash will be placed on term deposit at the most favourable rates.

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 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.

32 Table 4 below details the actual year to date rates funding surplus for the quarter ending 31 March 2018

Table 4: Rates revenue requirement	2017/18 Actual \$000	2017/18 Forecast \$000
Operating (deficit)/surplus	7,059	4,756
Adjusted by income and expenditure not funded by rates:		
Net Expenditure funded by reserves and special funds	50	79
Capital funding and vesting of assets	(6,972)	(9,212)
Revaluation of Council's assets	-	-
Unfunded Depreciation	3,859	5,145
Underlying net rates surplus/(deficit)	3,996	769
Represented by:		
Net underspend across the organisation	3,996	769
Rates surplus	3,996	769

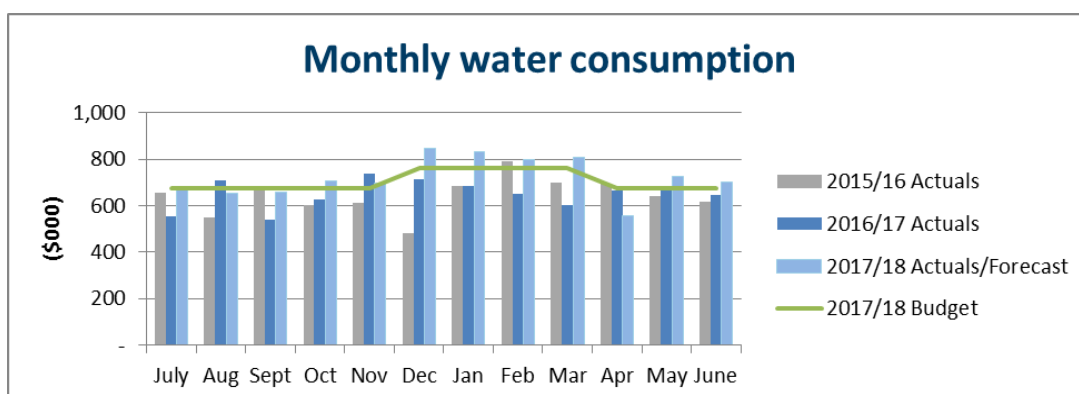
33 The rates surplus is currently \$4 million mainly due to additional revenue from the parking provision, rates penalties and unbudgeted income from joint projects and income earned from new debt issued and placed on term deposit.

34 It is also due to lower levels of operating expenditure for the third quarter of the year (in areas such as economic development and parks and stormwater maintenance) as well as some cost savings in areas such as earthquake prone (EQP) assessment.

35 The Council is currently forecasting a year end rates surplus position of \$769,000. This is largely due to a reduction of \$431,000 for earthquake prone building assessment work due to legislative changes and together with reduced expenditure across the council.

Part E: Water Account Statement

- 36 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.
- 37 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.
- 38 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 five (or more) years. This approach will be confirmed during the finalisation of the 2018-38 Long Term Plan.



- 39 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. Currently the Council water revenue is forecast to cover expenditure for the 2018/19 financial year.

	2014/15 Actual \$m	2015/16 Actual \$m	2016/17 Actual \$m	2017/18 Forecast \$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
Cost of providing water	8.1	8.0	8.5	8.4	8.2	8.5	9.3	9.7	9.9	9.9	10.3
Water rates revenue	7.6	7.7	7.8	8.4	8.8	9.1	9.6	9.9	10.1	10.0	10.1
Annual surplus/(deficit)	(0.5)	(0.3)	(0.8)	0.0	0.6	0.6	0.2	0.1	0.1	0.2	(0.1)
Balance of water account	(0.5)	(0.8)	(1.6)	(1.6)	(1.0)	(0.4)	(0.2)	(0.0)	0.1	0.2	0.0
Variable Price (Including GST)	\$0.95	\$0.99	\$1.04	\$1.09	\$1.14	\$1.19	\$1.24	\$1.27	\$1.29	\$1.27	\$1.27
Fixed Price (Including GST)	\$189	\$190	\$199	\$207	\$215	\$222	\$230	\$233	\$233	\$233	\$233
Fixed Portion	54%	55%	57%	56%	55%	55%	55%	55%	55%	55%	55%
Price based on 100% fixed charge				\$373	\$388	\$402	\$417	\$424	\$427	\$423	\$423
Assumed Usage for a residential low water user (104m3) - 73% of properties				\$321	\$334	\$346	\$359	\$365	\$367	\$365	\$365
Assumed Savings				\$52	\$54	\$56	\$58	\$59	\$60	\$58	\$58

Part F: Capital Spending Programme

40 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.

41 A summary of the revised 2017/18 capital works programme by activity and the revised full year budget are set out in Table 5 below.

Table 5	YTD Actuals 2017/18 \$000	Revised Budget 2017/18 \$000	Total forecast 2017/18	Total Variance 2017/18	Proposed Carryovers 2017/18	Savings/ Overspend 2017/18
Access and Transport	4,258	8,109	7,644	466	-	466
Coastal Management	276	1,589	601	988	1,161	(173)
Community Facilities and Community Support	444	812	556	255	525	(270)
Corporate	484	1,153	824	329	342	(13)
Economic Development	2,465	3,162	3,606	(444)	317	(761)
Governance and Tangata Whenua	101	489	489	-	-	-
Parks and Open Spaces	712	1,578	1,329	249	67	182
Recreation and Leisure	3,615	4,258	4,138	120	-	120
Regulatory Services	10	58	63	(6)	-	(6)
Solid Waste	320	518	543	(25)	-	(25)
Stormwater Management	686	1,452	1,464	(12)	-	(12)
Wastewater Management	952	3,156	2,205	951	981	(30)
Water Management	486	768	793	(25)	-	(25)
Grand Total	14,810	27,103	24,255	2,847	3,393	(546)

Note: Roading & Economic Development variances are combined for Stride N Ride and Town centres allocation.

42 2017/18 planned capital works programme was reduced from \$34.6 million to \$27.1 million in the Operations and Finance Committee meeting on 17 August 2017.

43 The capital works programme is forecast to be \$546,000 overspend 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 Council decision if we carry over more than what is unspent against the revised budget.

44 A summary of the draft carryovers for 17/18:

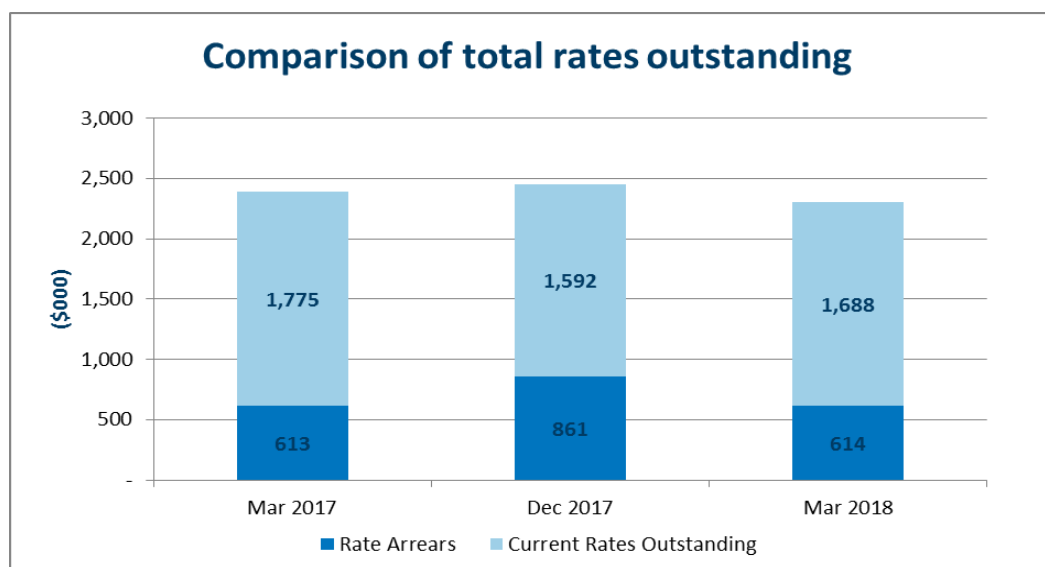
Proposed Carryovers			
Group	Business Unit	Description	Amount Description
Infrastructure	Coastal	Paekakariki seawall	854 Project on hold until further consultation
Infrastructure	Coastal	Whareamauku block wall	307 Project on hold
Infrastructure	Wastewater	Waikane Duplicate Rising main	981 Project on 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	175 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	40 Whilst separate to Mahara, the intention is that same professional advisors assist with the Project
Community Services	Parks & Open Spaces	Awatapu Cemetery	67 Resource constraint to undertake this project in 17/18.
Corporate Services	ICT	Website Development	45 Capacity constraints to undertake this project in 17/18.
Corporate Services	ICT	Software Upgrades	44 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	Strategic Land	317 To allow for approved acquisitions for 2018/19.
Grand Total			3,393

45 Please refer to the Activity Reports 1 January – 31 March 2018 (SP-18-434) for more detailed information.

Part G: Outstanding Rates Debt as at 31 March 2018

Property rates outstanding (Excluding water rates)

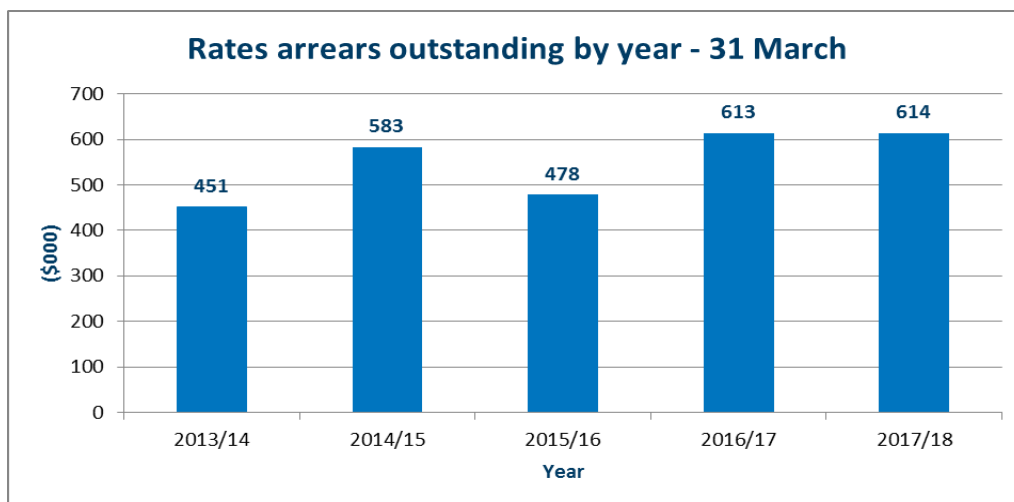
- 46 The total property rates outstanding as at 31 March 2018 was \$2.30 million (30 December 2017: \$2.45 million).



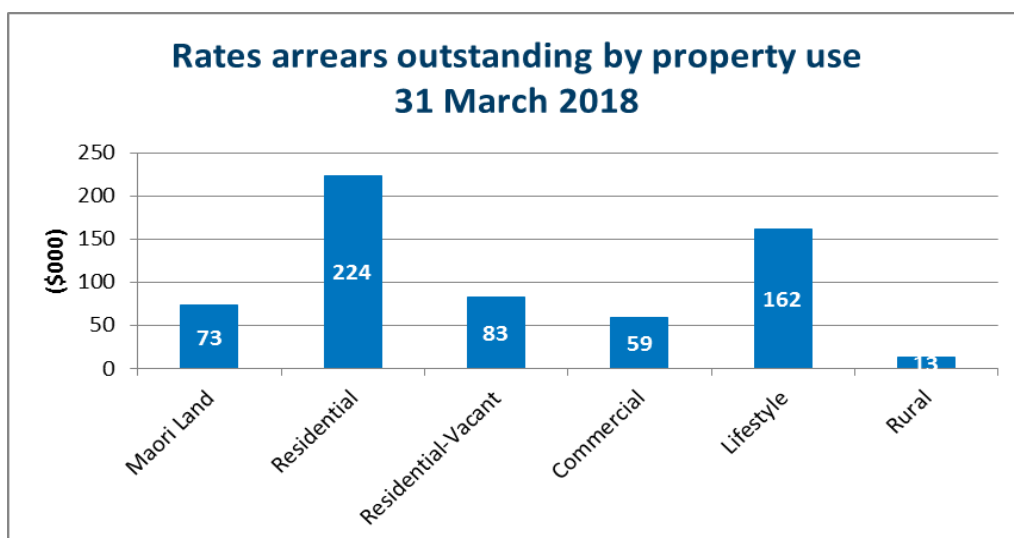
- 47 Rate payments received are first applied to rate arrears. Council's rates collection process involves follow up with outstanding debtors and payment arrangements to ensure debts are settled over a reasonable time period.
- 48 Council has collected \$1.55 million of rate arrears outstanding since 1 July 2017. This has been mainly from mortgagee demands and payment arrangements.
- 49 Council collects rates on behalf of the Greater Wellington Regional Council. There is \$1.69 million of current rates outstanding as at 31 March 2018 is split as follows:

Breakdown of current rates outstanding	Rates	Penalties	Current rates outstanding
	\$'000	\$'000	\$'000
Kāpiti Coast District Council rates	1,162	288	1,450
Greater Wellington Regional Council	186	51	238
Total	1,348	339	1,688

50 The graph below shows a comparison of the rate arrears outstanding as at 31 March 2018 and for the previous 4 years.



51 The graph below details the rates arrears of \$614,000 by property use Category. The majority of the total rate arrears are from residential properties.



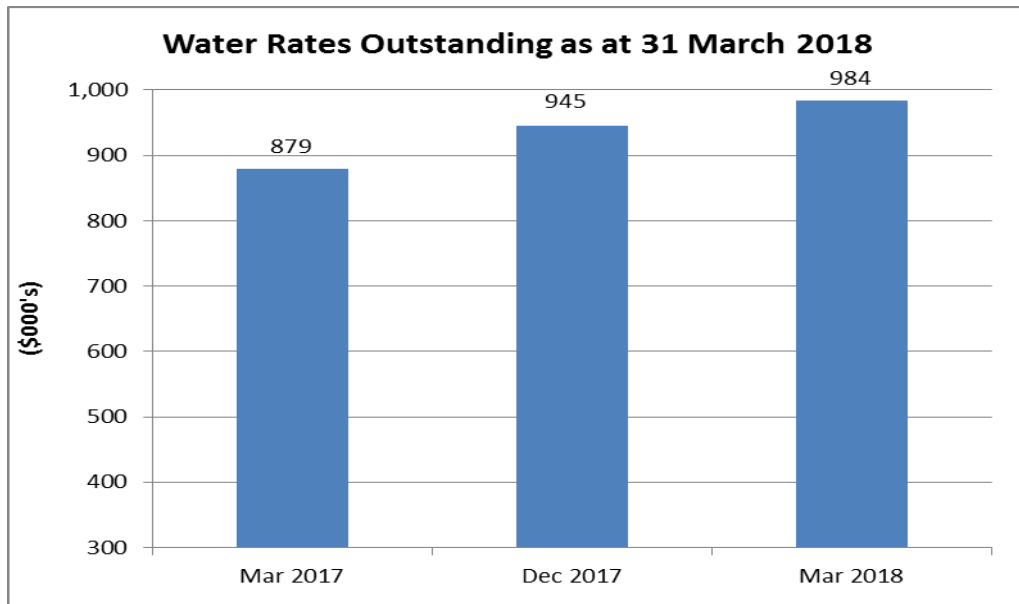
52 The rates arrears from Māori freehold Land rate is arrears owed to Greater Wellington Regional Council.

53 Maori freehold land recommended rate remissions for the 2017/18 rating year will be presented for review and approval to the Group Manager Corporate Services and the Chairperson of the Operations and Finance Committee at the Operations and Finance Committee meeting on the 5 July 2018.

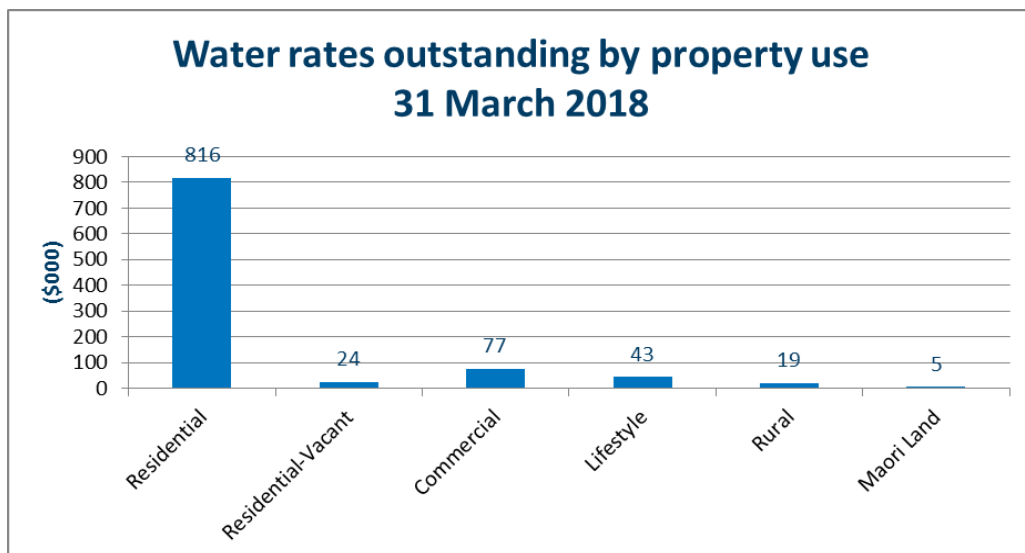
Water rates outstanding

54 A total of \$984,000 of water rates is outstanding as at 31 March 2018 (\$945,000 as at 31 December 2017).

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

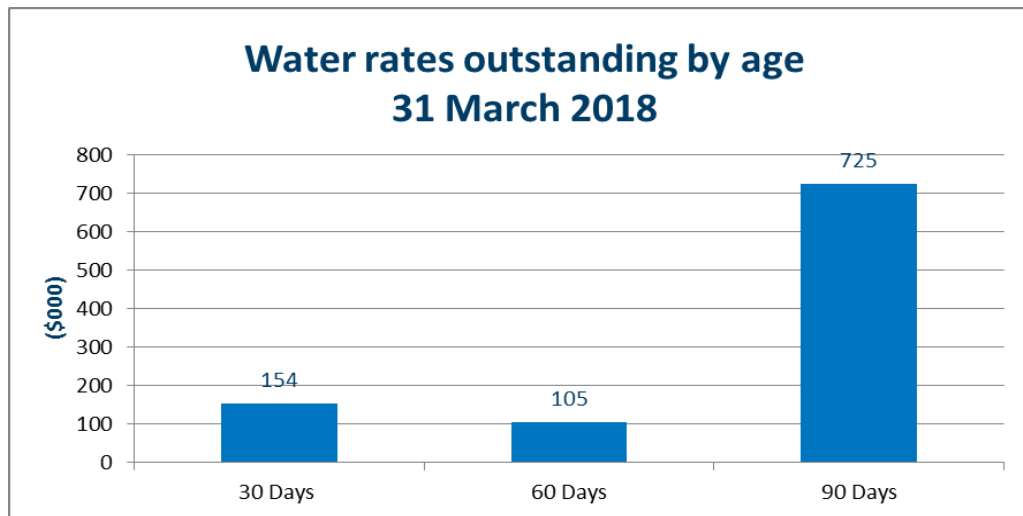


56 The graph below details the total water rates outstanding by property use category. The majority of the outstanding water rates are from residential properties.



57 \$602,000 or 61% 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.

- 58 The graph below details the ageing of the total water rates outstanding. \$725,000 or 74% 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.



- 59 Table 7 below details the total rate remissions issued to 31 March 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	44	55	192	37
Residential rating units containing two separately habitable units	81	101		
Financial hardship	104	132	127	(5)
One off expenditure relating to the repairs to water leaks, serious health issue or essential housing maintenance	1	5	25	20
High water consumption for larger families	-	1	25	24
Total	230	293	370	76

- 60 Central Government rate rebates of \$1.03 million (1,738 properties) have been granted up to 31 March 2018. Council provides the approved rates remission (up to \$620 per rateable property) to the successful applicants and recovers the costs directly from the Department of Internal Affairs.
- 61 The Council actively promotes its remissions on radio, Facebook and through adverts in the local papers.

Part H: Treasury Management

Summary

- 62 New debt of \$10 million was issued in the last quarter, bringing the total amount of debts issued during the past nine months to \$55 million.
- 63 The Table below shows the movement in Council's debt balance for the year to date.

Borrowings	Amount	Prefunding TD May 2018	Prefunding TD March 2019	Prefunding TD December 2017	Prefunding TD Capital works programme	Refinancing December 2017	Capital works programme 2017/18
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Opening balance 1 July 2017	210,000	15,000	-	45,000	-	-	-
New Debt issued YTD	55,000	5,000	20,000	5,000	7,000	10,000	8,000
	265,000	20,000	20,000	50,000	7,000	10,000	8,000
Debt maturity - December 2017	(60,000)	-	-	(50,000)	-	(10,000)	-
Total	205,000	20,000	20,000	-	7,000	-	8,000

- 64 As previously noted, \$60 million of borrowings matured in December 2017 of which \$50 million was prefunded and held on term deposit with the remaining \$10 million refinanced on the day.
- 65 Council's strategy has been to secure prefunding early to take advantage of lower interest rates and as at 31 March 2018, \$40 million of debt is held on term deposit. \$20 million of this balance is to prefund debt maturing in May 2018, with the remaining \$20 million partly funding the March 2019 debt maturity. Furthermore, \$7 million of debt was drawn down and placed on term deposit maturing May 2018 to fund more of the 2017/18 capital works programme, as typically most works are completed during the summer months.
- 66 As noted in paragraph 22, Council has \$54.5 million of term deposits consisting of the \$47 million debt prefunding mentioned above plus \$7.5 million of surplus cash that was paced on term deposit until April 2018 (\$5 million) and August 2018 (\$2.5 million) for the payment of the 2017/18 capital works programme.
- 67 Since August 2016, the RBNZ has kept the official cash rate (OCR) at 1.75% with no change year to date.
- 68 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 31 March 2018 was 4.50% compared to the budget of 4.8%.

Net debt

- 69 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.

70 Table 8 below shows the Council’s net debt for the third quarter ended 31 March 2018 against full year budget.

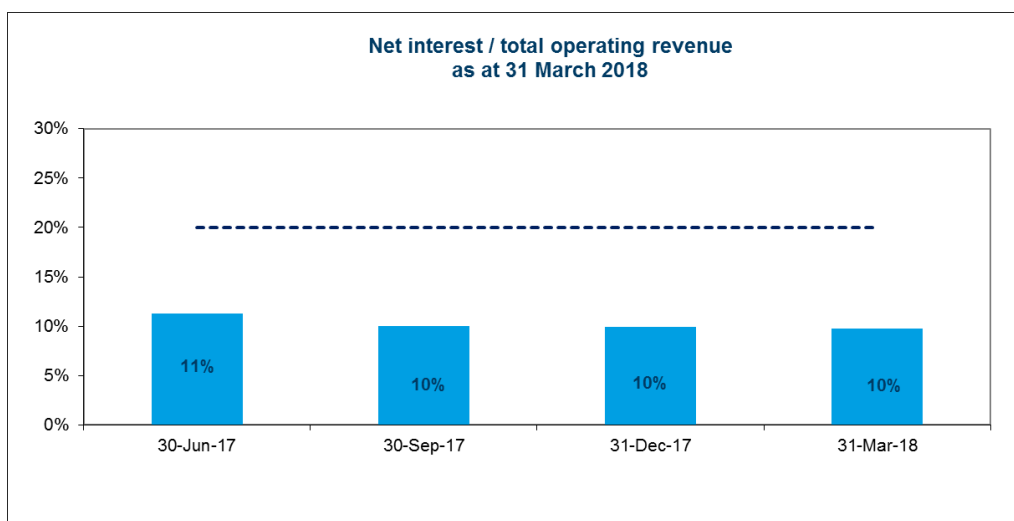
Table 8	March YTD Actual \$000's	Full Year Forecast \$000's	Full Year Budget \$000's	Full Year Variance \$000's	Full Year 2016/17 \$000's
External debt	205,000	195,000	186,548	(8,452)	210,000
/less borrower notes	(3,280)	(3,120)	(2,960)	160	(3,360)
/less cash investments	(55,164)	(39,500)	(15,200)	24,300	(60,455)
Net debt	146,556	152,380	168,388	16,008	146,185

71 As previously noted, the Council’s \$200 million borrowing limit (as set out in Council’s Financial Strategy) excludes debt prefunding. Excluding only debt prefunding, Council’s net borrowings at 31 March 2018 are \$150.5 million which is well within the borrowings limit. The \$4 million difference to the table above relates to the LGFA borrow notes.

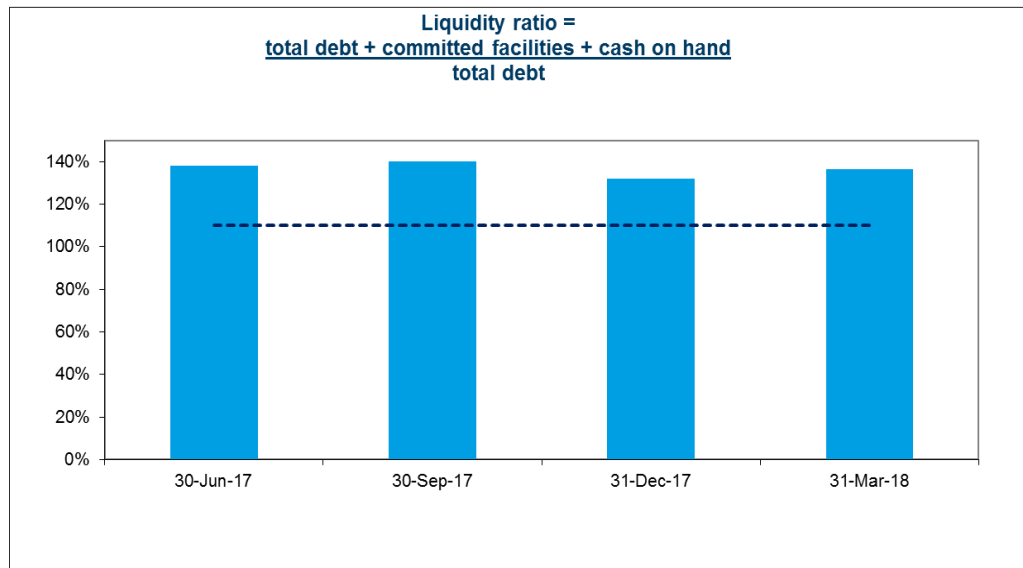
Treasury policy limits

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

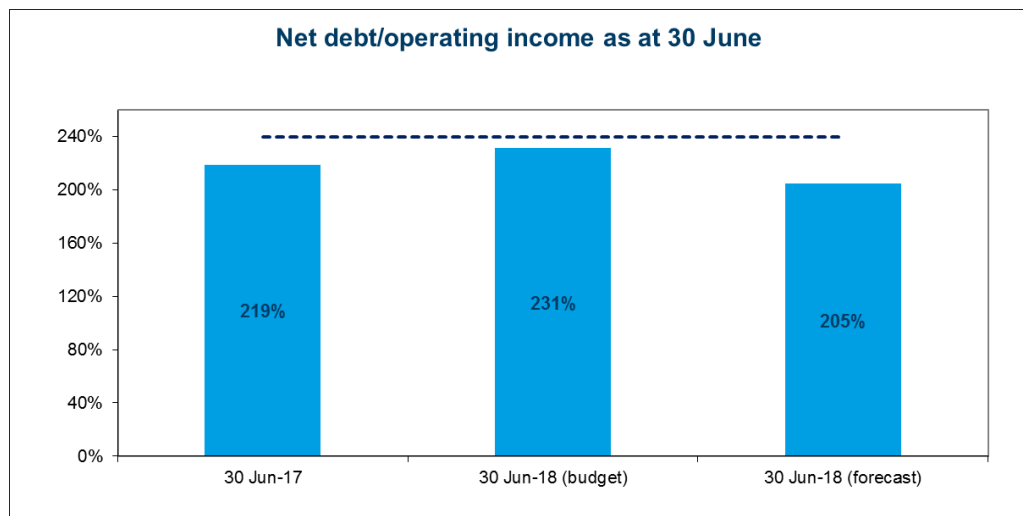
73 The Policy sets the maximum limit for the ratio of net interest expense to total operating revenue of 20%. The chart below shows actual limits achieved for each quarter.



74 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.



75 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.



Part I: Asset Revaluation

- 76 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.
- 77 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.
- 78 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

- 79 As seen from the table above, Council's water, wastewater, stormwater and flood protection assets are scheduled to be revalued in the 2017/18 financial year. This group of assets were previously revalued in June 2016.
- 80 Through a syndicated procurement process with Porirua City Council, Council has again engaged Opus International Consultants Ltd to perform this revaluation. As with previous asset revaluations, Council will perform a comprehensive due diligence review of the revaluations provided by independent valuers.
- 81 As changes in asset values can significantly impact depreciation costs in the out-years, and to best determine the likely asset depreciation cost for the 2018-38 Long Term Plan, Council has requested an early draft of the asset revaluation of the 3 waters network and flood protection assets.
- 82 The draft revaluation report was received during quarter three and indicates a substantial increase in the replacement value and resultant depreciation of these assets, compared to the budget revaluation values that were based on BERL Water inflation indices. Subsequent to the draft report, Council officers have been working closely with our external valuers and provided them with additional independent support of local contract rates. Based on this evidence, Opus has re-assessed Council's draft asset valuation and this has reduced the overall increase in asset valuation considerably. We are working to finalise the revaluation impact for presentation to Council as part of the LPT workshop on 31 May 2018.

CONSIDERATIONS

Financial Consideration

83 The financial information as detailed in Parts A to I of this report (Corp-18-480) 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 There are no publicity considerations arising from this report.

RECOMMENDATIONS

90 That the Operations and Finance Committee notes the actual financial performance and position of Council for the third quarter ended 31 March 2018 as contained in this report (Corp-18-480).

Report prepared by:

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Approved for Submission:

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Acting Group Manager
Corporate Services

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