

37 Local Government (Financial Reporting and Prudence) Regulations 2015

Background

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

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

- affordability;
- sustainability;
- predictability.

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

The seven benchmarks and two affordability indicators are described in the table below, including their rationale.

Benchmarks and Affordability Indicators

Component	Benchmark/Indicator	Benchmark Rationale
Affordability Benchmarks	1. Rates Affordability Benchmark	Rates revenue complies with the limits set in the Council's financial strategy.
	2. Debt Affordability Benchmark	Debt complies with the limits set in the Council's financial strategy.
Sustainability Benchmarks	3. Balanced Budget Benchmark	Operating revenue, excluding development and financial contributions and revenue from revaluations, exceeds operating expenditure.
	4. Essential Services Benchmark	Capital expenditure on the five network infrastructure services ¹ exceeds depreciation on those five services.
	5. Debt Servicing Benchmark	Interest expense is less than 10% of operating revenue, as defined in the balanced budget benchmark, except for local authorities with projected population growth greater than or equal to New Zealand's projected population growth. For those local authorities, the benchmark is 15% of operating revenue.
Predictability Benchmarks	6. Operations Control Benchmark	Net cash flow from operations equals or exceeds budget.
	7. Debt Control Benchmark	Net debt is less than or equal to forecast debt in the Long Term Plan.
Affordability Indicators	8. Rates	Rates per rating unit.
	9. Debt	Net debt per rating unit.

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

Annual Report Disclosure Statement for the Year Ending 30 June 2015

What is the purpose of this statement?

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

The Council is required to include this statement in its annual report in accordance with the Local Government (Financial Reporting and Prudence) Regulations 2014, (the regulations). Refer to the regulations for more information, including definitions of some of the terms used in this statement.

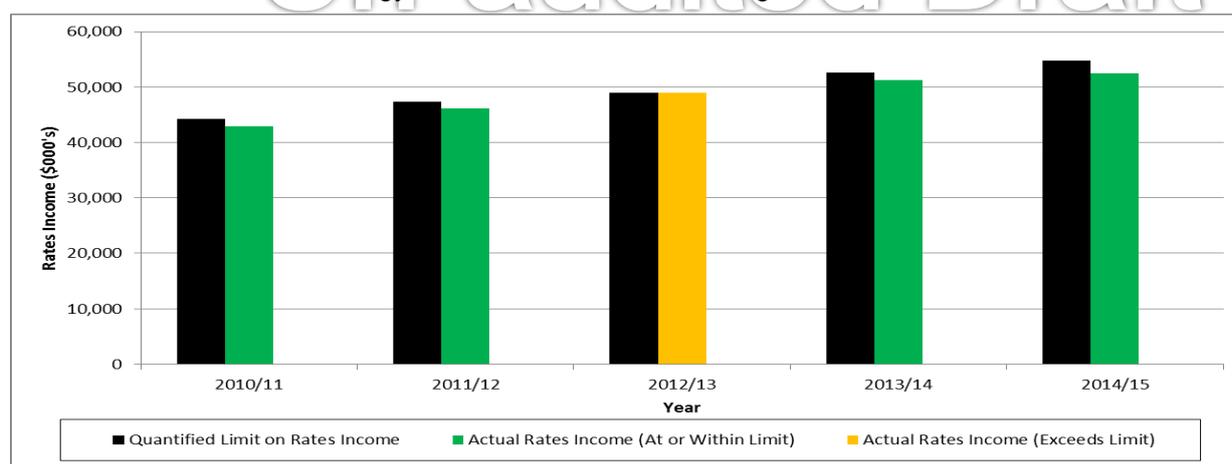
Rates Affordability Benchmark

The Council meets its affordability benchmark if:

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

Rates (Income) Affordability

The following graph compares the Council's actual rates income with a quantified limit on rates contained in the financial strategy included in the Council's Long Term Plan.



The quantified limits for rates income are as follows:

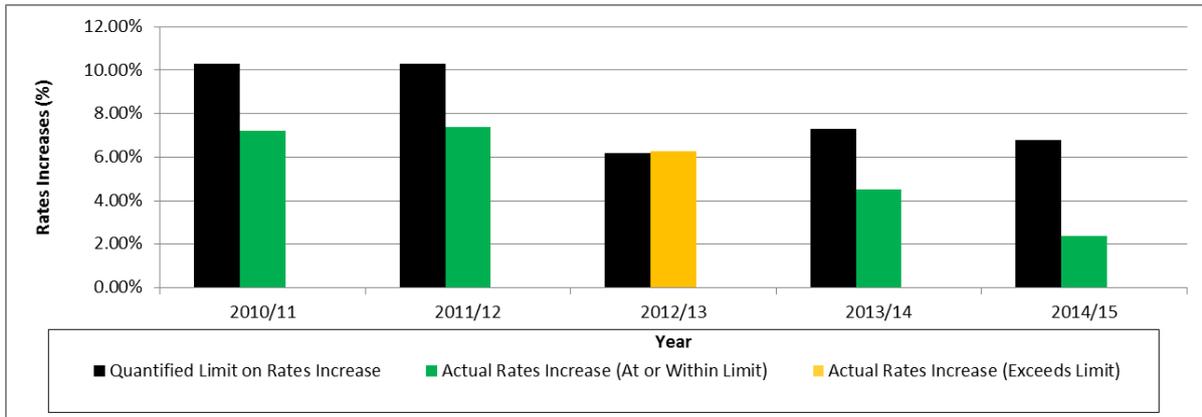
Years	Rates Income Limits (\$000's)	Data Qualifier
2010/11 ⁽¹⁾	\$44,200	Includes recovery of all operating costs incidental to population growth.
2011/12 ⁽¹⁾	\$47,395	
2012/13 ⁽²⁾	\$49,000	
2013/14 ⁽²⁾	\$52,606	
2014/15 ⁽²⁾	\$52,717	

Note 1: Quantified Limits as per Kāpiti Coast District Council's 2009/10 Long Term Council Community Plan.

Note 2: Quantified Limits as per Kāpiti Coast District Council's 2012/13 Long Term Plan.

Rates (Increases) Affordability

The following graph compares the Council’s actual rates increases with a quantified limit on rates increases included in the financial strategy included in the Council’s Long Term Plan.



The quantified limits for rates increases are as follows:

Years	Rates Increase Limits (%)	Data Qualifier
2010/11 ⁽¹⁾	10.28%	Includes population growth for consistency with rates income above.
2011/12 ⁽¹⁾	10.31%	
2012/13 ⁽²⁾	6.20%	
2013/14 ⁽²⁾	7.30%	
2014/15 ⁽²⁾	6.80%	

Note 1: Quantified Limits as per Kāpiti Coast District Council’s 2009/10 Long Term Council Community Plan.

Note 2: Quantified Limits as per Kāpiti Coast District Council’s 2012/13 Long Term Plan.

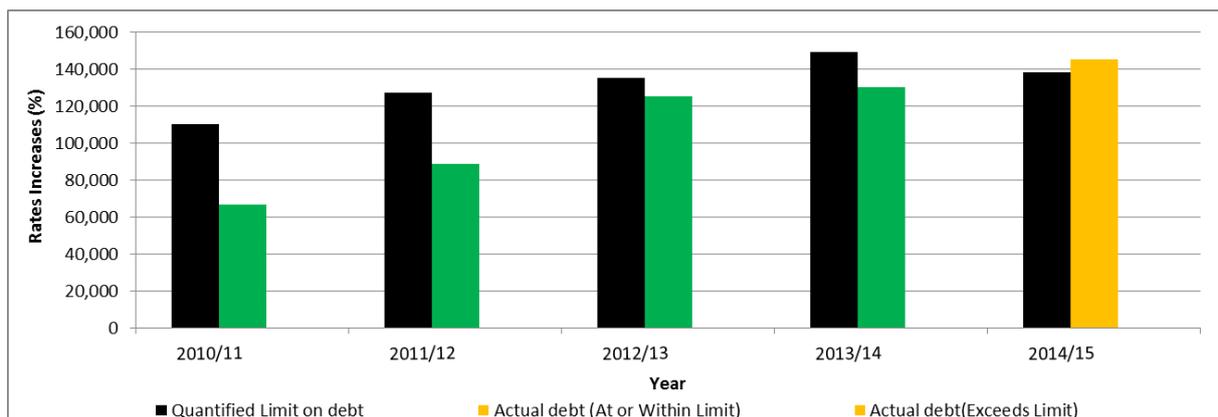
The Council’s long term strategy and quantified limits are revised every three years. 2009/10 is the first year of the 2009/10 Long Term Council Community Plan and similarly, 2012/13 is the first year of the 2012/13 Long Term Plan.

Actual rates income (\$) and rates increases (%) exceeded the quantified limits in the 2009/10 and 2012/13 financial years due to actual rate penalties exceeding budget.

Debt Affordability Benchmark

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

The following graph compares the Council’s actual borrowing with a quantified limit on borrowing stated in the financial strategy included in the Council’s Long Term Plan.



The quantified limits on borrowings per year are as follows:

Years	Borrowing Limits \$000
2010/11 ⁽¹⁾	\$110,000
2011/12 ⁽¹⁾	\$127,000
2012/13 ⁽²⁾	\$135,000
2013/14 ⁽²⁾	\$149,000
2014/15 ⁽²⁾	\$138,000

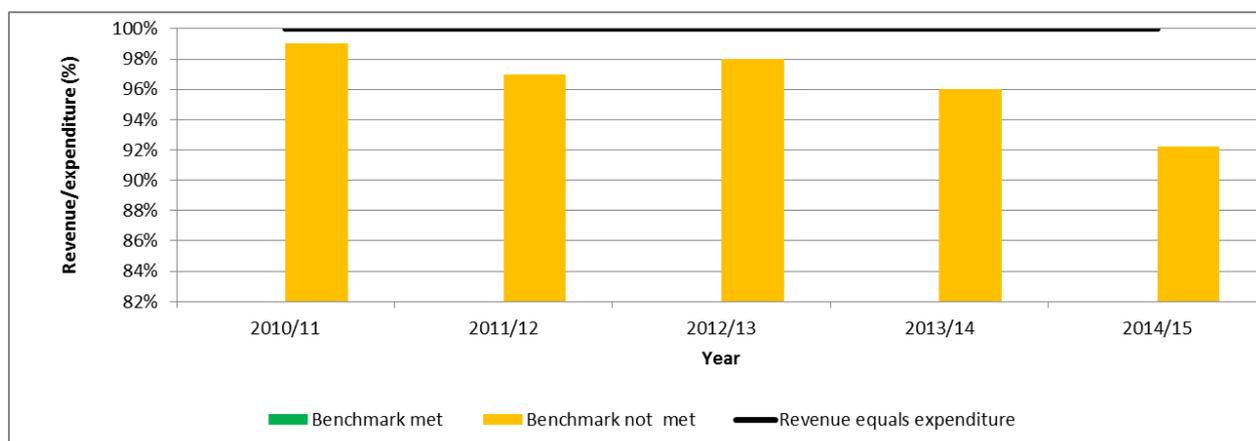
Note 1: Quantified Limits as per Kāpiti Coast District Council's 2009/10 Long Term Council Community Plan.

Note 2: Quantified Limits as per Kāpiti Coast District Council's 2012/13 Long Term Plan.

Balanced Budget Benchmark

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

The Council meets this benchmark if its revenue equals or is greater than its operating expenses



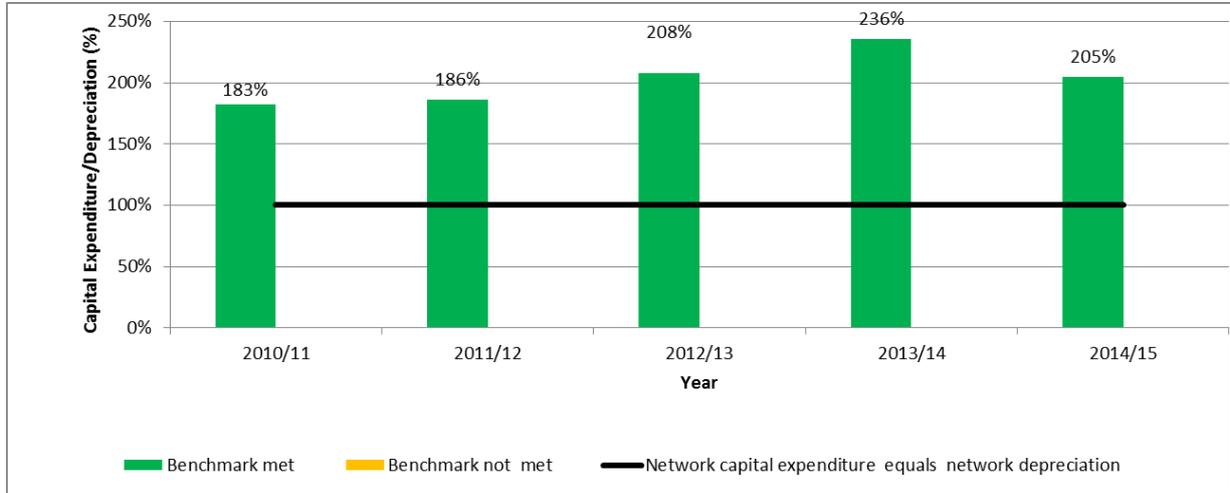
Kāpiti Coast District Council has not met this benchmark in the reported years due to its policy of non-funded depreciation of infrastructure assets.

This Council manages its non-funded depreciation prudently via the following limits:

1. The total amount of depreciation funded over the period (or partial non-funding of depreciation), must be sufficient to fund the asset renewal programme over that period.
2. Non-funding of depreciation can only be applied to longer term assets where the asset lives are at least 30 years.
3. Non-funding of depreciation must be repaid over the 20 year period of the 2012/13 Long Term Plan.

Essential Services Benchmark

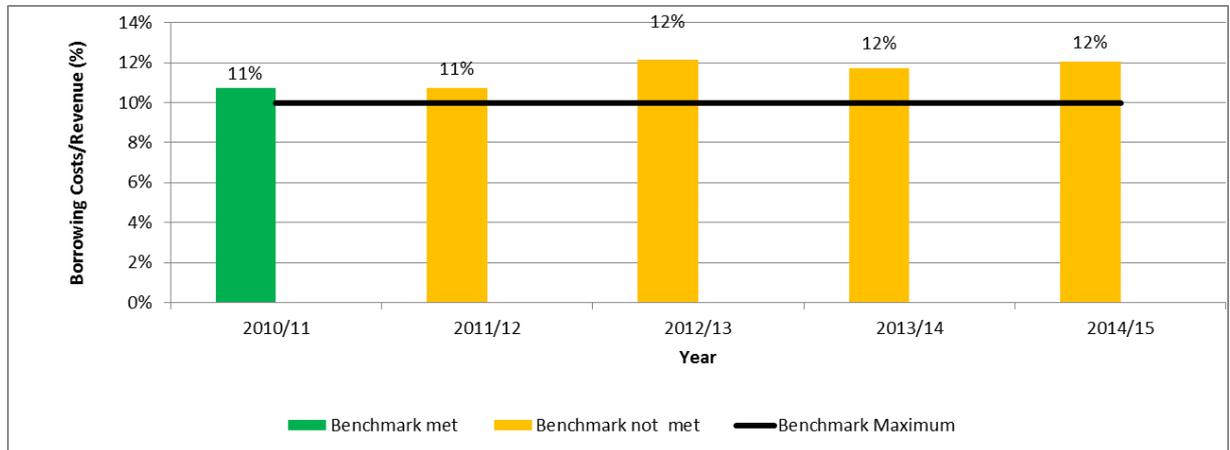
The following graph displays the Council’s capital expenditure on network services as a proportion of depreciation on network services. The Council meets this benchmark if its capital expenditure on



network services equals or is greater than depreciation on network services

Debt Servicing Benchmark

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



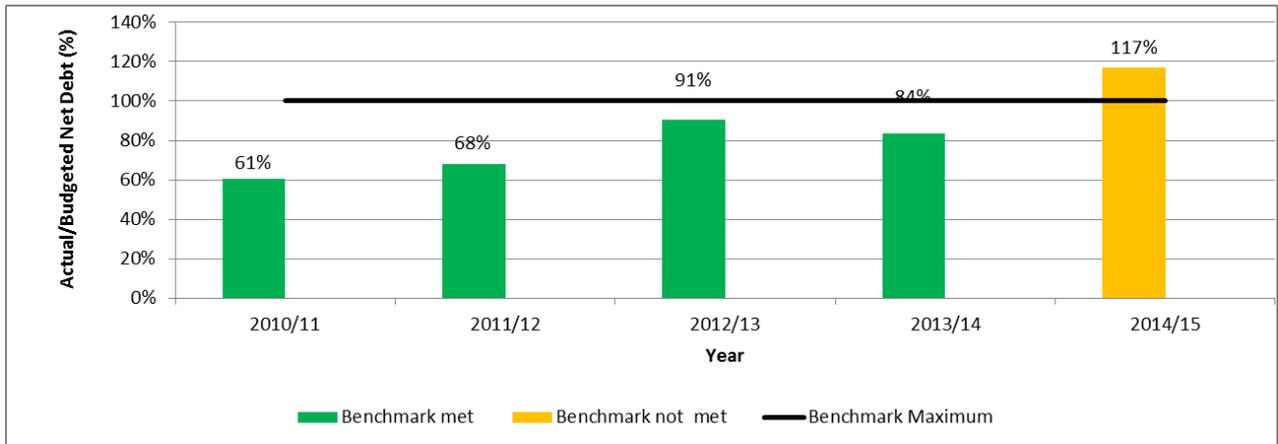
Because Statistics New Zealand projects the Council’s population will grow more slowly than the national population is projected to grow, the Council meets the debt servicing benchmark if its planned borrowing costs equal or are less than 10% of its revenue.

Kāpiti Coast District Council is not deemed a high growth local authority by Statistics New Zealand for the 2013/14 financial year. As per the 2006 Census (October 2012 Update), the expected population growth for the Kāpiti District for the 2013/14 financial year was 0.7% compared to the national population growth rate of 0.9%.

There has been significant capital investment in the Kāpiti District over the past four years, in response to the community’s needs.

This includes:

1. Waikanae borefield expansion to use ground water to “recharge” the Waikanae River as part of the long term sustainability for the District’s water supply.
2. Upgrade and earthquake strengthening of the Civic Administration Building.
3. Marine Gardens, Raumati Beach upgrade.
4. Construction of the Coastlands Aquatic Centre.
5. Water meter installation (ongoing).



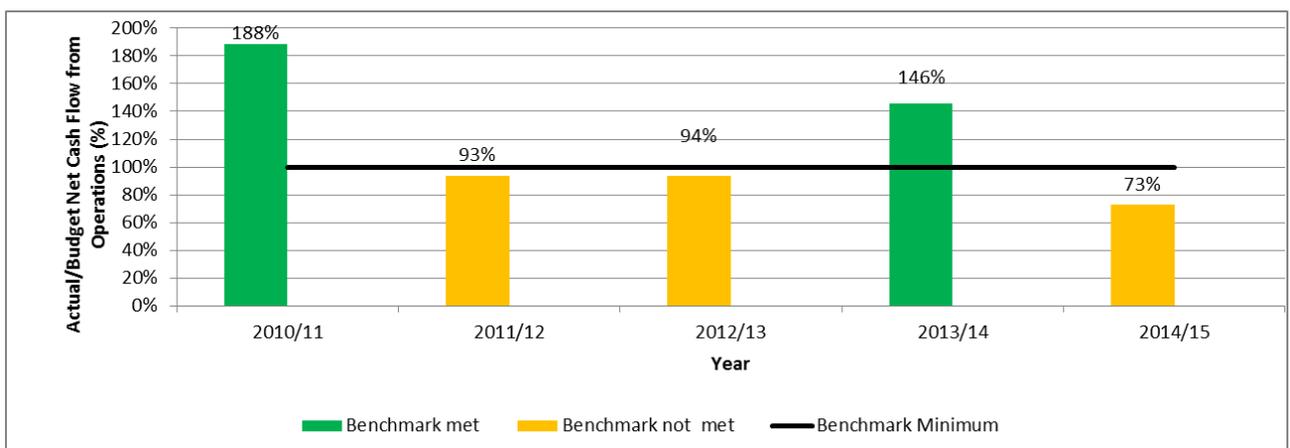
Debt Control Benchmark

The following graph displays the Council’s actual net debt as a proportion of planned net debt. In this statement, net debt means financial liabilities less financial assets (excluding trade and other receivables).

The Council meets the debt control benchmark if its actual net debt equals or is less than its planned net debt.

Operations Control Benchmark

This graph displays the Council’s actual net cash flow from operations as a proportion of its planned net cash flow from operations.



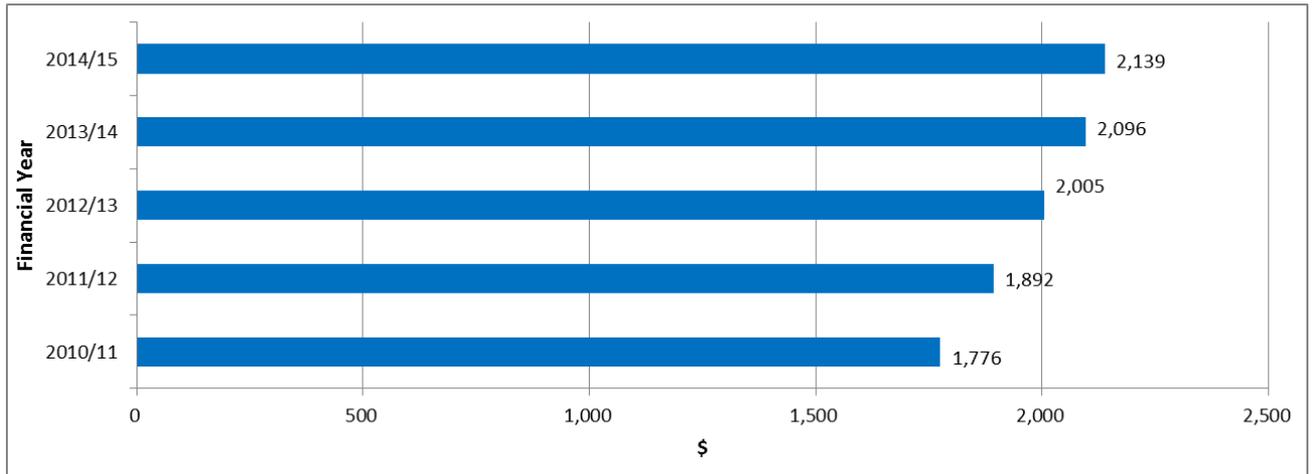
The Council meets the operations control benchmark if its actual net cash flow from operations equals or is greater than its planned net cash flow from operations.

Cash received from fees and user charges was significantly below budget in 2011/12 and 2012/13. Reduced activity was a direct result of the extended market slowdown from the economic recession.

Affordability Indicators

The Department of Internal Affairs does not currently regulate or provide particular targets for both the rates and debt affordability indicators. Absolute benchmarks may be prescribed in the future. Notwithstanding this, Kāpiti Coast District Council presents its actual affordability indicator results below for the benefit of comparative purposes.

Rates Affordability Indicator



This graph displays the average rates per rating unit for the Kāpiti Coast District.

Debt Affordability Indicator

This graph displays the average debt per Rating Unit for the Kāpiti Coast District. The Department of Internal Affairs does not currently regulate or provide a particular target for this indicator. Absolute benchmarks may be prescribed in the future.

