

Chairperson and Committee Members
OPERATIONS & FINANCE COMMITTEE

15 AUGUST 2019

Meeting Status: **Public**

Purpose of Report: For Information

FINANCE REPORT AS AT 30 JUNE 2019

PURPOSE OF REPORT

- 1 This report sets out Kāpiti Coast District Council's (Council) financial performance and financial position for the year ended 30 June 2019, with explanations of key results and variances.

DELEGATION

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

BACKGROUND

- 3 The Committee is provided with information on nine broad areas of financial performance each quarter.
 - Part A: Statement of Comprehensive Revenue and Expense
 - Part B: Statement of Financial Position
 - Part C: Statement of Cash Flows
 - Part D: Statement of Rates Funding
 - Part E: Water Account Statement
 - Part F: Capital Spending Programme
 - Part G: Outstanding Rates Debt as at 30 June 2019
 - Part H: Treasury Management
 - Part I: Asset Revaluation

Part A: Statement of Comprehensive Revenue and Expense

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

Table 1	Full Year 2018/19		
	Actual \$000	Budget \$000	Variance \$000
Rates	64,225	63,971	254
Fees and Charges	8,907	9,422	(515)
Grants and Subsidies	5,878	5,691	187
Development and Financial Contributions Revenue	1,536	1,076	460
Other Operating Revenue	1,934	434	1,500
Interest Income	2,164	2,856	(692)
Total Income	84,644	83,450	1,194
Personnel, maintenance & operations	51,238	53,474	2,236
Depreciation and Amortisation	20,569	20,107	(462)
Finance Expense	9,592	10,263	671
Total Expenditure	81,399	83,844	2,445
Operating (Deficit) / Surplus	3,245	(394)	3,639
Unrealised gains/(losses)			
Unrealised gain/(loss) on revaluation of financial derivatives	(8,021)	(478)	(7,543)
Total unrealised gains/(losses)	(4,776)	(872)	(3,904)
Other comprehensive revenue and expense			
Unrealised gain/(loss) from revaluation of property, plant and equipment	16,906	43,367	(26,461)
Total Other comprehensive revenue and expense	16,906	43,367	(26,461)
Total Comprehensive Revenue and Expense	12,130	42,495	(30,365)

Financial performance summary

- 7 The Council's 2018/19 operating surplus of \$3.25 million is \$3.64 million higher than budget. This includes \$1.19 million more revenue and \$2.45 million less expenditure.
- 8 The higher operating surplus is mainly due to vesting of assets to the Council as a result of subdivision activity, more development and financial contributions revenue than planned, and additional rates revenue due to stronger growth in rateable units after the LTP was approved. It is also due to lower levels of operating expenditure in areas such as personnel, maintenance and general expenses.
- 9 The Council's unrealised loss on revaluation of financial derivatives of \$8.02 million is due to derivative interest rates decreasing since 30 June 2018. There is no intention to realise these fair value changes (whether gains or losses). This is recognised for accounting purposes only and does not represent a cash gain or loss.

Revenue performance - commentary**10 Rates**

Description	Rates include all rates earned by the Council, including water rates. Rates remissions and rates billed to the Council owned properties are excluded.
Full Year Variance	<p>The Council received additional rates revenue from additional property development finalised in June 2018 after the rates were set. This development was in Raumati Beach (6 lots), Paraparaumu (17 lots) and Waikanae (15 lots) and increased rates by \$176,000.</p> <p>We also received additional water rates totalling \$140,000 which will go to reduce the water account balance.</p>

11 Fees and charges

Description	Fees and charges includes all non-rates revenue earned by the Council for providing services to the Community. This also includes fines and penalties charged.
Full Year Variance	<p>The lower revenue of \$515,000 was mainly driven by less regulatory income, including building consents and resource consents.</p> <p>The staffing budget in the Regulatory team was managed closely during the year to limit the level of resourcing where possible levels to help offset the reduced income.</p>

12 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.
Full Year Variance	<p>The additional \$187,000 of grant funding was due to partnering well with NZTA to optimise the Council's funding.</p> <p>This is mainly due to additional funding for low cost, low risk category projects which were previously not funded.</p>

13 Development and financial contributions

Description	<p>Financial contributions are levied under the Resource Management Act and cover Reserves Contributions levied on developers at the time of subdivision.</p> <p>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.</p>
Full Year Variance	The additional revenue of \$460,000 is due to increased development activity in Waikanae and Ōtaki.

14 **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.
Full Year Variance	The additional \$1.50 million of income is mainly due to assets vested to the Council as part of the subdivision process. These mainly relate to Ōtaki and Waikanae.

15 **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.
Full Year Variance	The lower interest income of \$692,000 is due to the Council's decision to not progress further with the Kāpiti investment fund. Please note that there is a corresponding reduction in interest expense associated with the managed funds.

Expenditure performance - commentary16 **Personnel, maintenance & operations**

Description	Includes personnel expenses, maintenance, business-as-usual Council operating expenses, internal recoveries, grants and other sundry expenses.
Full Year Variance	Overall spending on personnel, maintenance and operations was \$2.24 million lower than budgeted. This was due to lower levels of expenditure in the following areas: <ul style="list-style-type: none"> Resourcing in the Regulatory Group - \$540,000 of the reduced spending is due to lower resourcing levels in the Planning & Regulatory team during the year in response to lower development and building activity. <p>Maintenance and operations \$1.30 million – due to lower spending on:</p> <ul style="list-style-type: none"> planned earnings from the Kapiti Investment funds due to the Council decision in January to not progress further with the Kāpiti Investment Funds. Iwi Management Plan, Environmental Management and enforcement, Coastal adaptation, Management Projects (Place and Space), Community Grants & Projects. overall maintenance including ICT, and transfer stations overall investigations and Policy & Bylaw works for Water & Wastewater

17 **Depreciation and amortisation**

Description	Depreciation is the amortisation of the cost of property, plant and equipment and intangible assets currently owned by the Council.
Full Year Variance	The additional depreciation of \$462,000 is due to the final 2017/18 revaluation resulting in higher asset values than expected. These higher values give rise to increased depreciation expense.

18 **Finance expense**

Description	Interest expense is incurred on borrowings.
Full Year Variance	The lower finance expense of \$671,000 is mainly due to the Council resolving to not progress further with the Kāpiti Investment funds.

Items reported below the line - commentary19 **Unrealised gain / (loss) on revaluation of derivatives**

Description:	<ol style="list-style-type: none"> 1. The Council recognises its interest rate swaps at fair value on a monthly basis. 2. The change in fair value between 1 July 2018 and 30 June 2019 is treated as either an unrealised gain (fair value has decreased) or an unrealised loss (fair value has increased).
Full Year Variance	\$8.02 million unfavourable to budget because market swap rates are lower compared to opening rates at 1 July 2018. (See Part H: Treasury Management).

20 **Unrealised gain/(loss) from revaluation of property, plant and equipment**

Description:	<ol style="list-style-type: none"> 1. 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. 2. 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.
Full Year Results	<p>Roading assets have been revalued and have increased by \$18.98 million. In addition, the value of the Waikanae Library and Te Newhanga Kāpiti Community Centre have been adjusted to reflect the current conditions of the buildings.</p> <p>(See Part I: Asset Revaluation for further explanation)</p>

Part B: Statement of Financial Position

- 21 The Council's financial position as at 30 June 2019 and full year budget are set out in Table 2, followed by a summary of the key variances.

Table 2	2018/19		
	Full year actual \$000	Full year budget \$000	Variance \$000
Assets			
Cash and cash equivalents	9,086	200	8,886
Trade and other receivables	10,520	8,062	2,458
Inventories	159	116	43
Non-current assets held for sale	761	-	761
Property, plant and equipment	1,664,078	1,694,609	(30,531)
Forestry assets	79	429	(350)
Intangible assets	980	2,583	(1,603)
Other financial assets	53,496	63,755	(10,259)
Loans	481	466	15
Total assets	1,739,640	1,770,220	(30,580)
Liabilities			
Trade and other payables	21,038	19,894	(1,144)
Employee benefit liabilities	2,038	2,778	740
Deposits	1,119	820	(299)
Borrowings	210,000	226,175	16,175
Provisions	3,434	4,183	749
Derivative financial instruments	21,249	11,392	(9,857)
Total liabilities	258,878	265,242	6,364
Public equity			
Accumulated funds	565,034	565,116	82
Reserves and special funds	4,914	3,021	(1,893)
Revaluation reserve	910,814	936,841	26,027
Total equity	1,480,762	1,504,978	24,216
Total liabilities and equity	1,739,640	1,770,220	30,580

Full year Summary

- 22 The Council's material changes to its financial position since 30 June 2018 were in respect to Property, Plant and Equipment, Other financial assets, Gross borrowings and Derivative financial instruments.
- 23 Property, Plant and Equipment is \$30.5 million unfavourable to budget due to:
- Lower capital spending of \$7.16 million for the 2018/19 year (See part F: Capital Spending Programme);

- \$31.3 million relates to Land Under Roads (a non-depreciated asset) which was included in the 2018/19 budget. This asset class will now be revalued in 2019/20 with the revaluation of all the Council's other land and building asset classes;
 - The reduction in the Property, Plant and Equipment balance was offset by a \$6.72 million higher than planned uplift in the revaluation of Roading assets (See part I: Asset Revaluation)
- 24 Other financial assets are \$10.26 million lower than planned. This is mainly due to the Council not progressing with in the Kapiti Investment Funds (\$20 million), offset by an increase in the level of prefunding (\$10 million).
- 25 Borrowings are \$16.18 million favourable to budget. This is mainly due to the Council not progressing with in the Kapiti Investment Funds (\$20 million).
- 26 Derivative financial instruments are \$9.86 million unfavourable to budget. This is mainly due to the fall in fixed interest rate swap rates since 1 July 2018.

Part C: Statement of Cash Flows

- 27 The Council's cash flow for the year ended 30 June 2019 and full year budget are set out in Table 3, followed by a summary of key variances.

Table 3	2018/19		
	Full year 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	64,176	64,075	101
Greater Wellington Regional Council Rates	12,202	-	12,202
Grants and subsidies - operating	1,996	1,701	295
Interest received	1,538	2,799	(1,261)
Charges and fees	10,975	10,828	147
GST (net)	(59)	206	(265)
	90,828	79,609	11,219
<i>Cash was applied to:</i>			
Payments to employees and suppliers	50,213	53,589	(3,376)
Rates paid to Greater Wellington Regional Council	12,202	-	12,202
	62,415	53,589	8,826
Net cash flows from operating activities	28,413	26,020	2,371
Cash flows from investing activities			
<i>Cash was provided from:</i>			
Loan repayment/Term deposit maturities	51,026	30,631	20,395
Proceeds from sale of property, plant and equipment	747	-	747
Proceeds from capital grants	3,882	3,990	(108)
	55,655	34,621	21,034
<i>Cash was applied to:</i>			
Construction and purchase of property, plant and equipment and intangibles	22,965	29,439	(6,474)
Purchase of investments	51,560	30,000	21,560
	74,525	59,439	15,086
Net cash flows from investing activities	(18,870)	(24,818)	729
Cash flows from financing activities			
<i>Cash was provided from:</i>			
Short-term borrowings	34,772	-	34,772
Long-term borrowings	35,000	38,856	(3,856)
	69,772	38,856	30,916
<i>Cash was applied to:</i>			
Interest on borrowings	9,509	10,058	(549)
Short-term borrowings	34,772	-	34,772
Long-term borrowings	30,000	30,000	-
	74,281	40,058	34,223
Net cash flows from financing activities	(4,509)	(1,202)	(3,100)
Net increase/(decrease) in cash and cash equivalents	5,034	-	5,034
Add total cash and cash equivalents at 1 July 2018	4,052	200	3,852
Total cash and cash equivalents	9,086	200	8,886

Full year Summary

- 28 The Council's cash on hand as at 30 June 2019 was \$9.09 million. This is \$8.89 million more than planned. This is mainly due to:
- Surplus cash of \$5million that was placed on short term deposit (maturing September 2019), for the part payment of 2018/19 capital works falling due in the early part of the 2019/20 financial year;
 - Receipt of NZTA grant of \$931,000 on the last business day in June; and
 - \$3.14 million was kept on call for year-end supplier payments due early July 2019.
- 29 The Council's material changes to its cash flow management for the year ended 30 June 2019 were:
- \$35 million of new long term debt was issued during the year;
 - \$51 million of funds were placed on fixed term deposit (\$35 million new debt and \$16 million surplus cash) during the year;
 - \$30 million of long term debt matured during March 2019;
 - \$50.5 million of term deposits matured (\$30 million prefunded for the repayment of the debt maturity and \$20.5 million of surplus cash that was placed on fixed deposit); and
 - \$22.97 million was paid in relation to the Council's capital expenditure programme.

Part D: Statement of Rates Funding

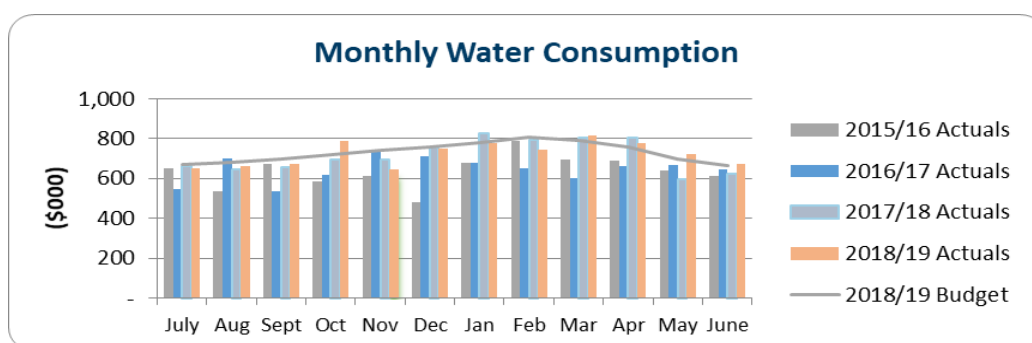
- 30 The rates surplus/(deficit) is different to the operating surplus/(deficit) per the Statement of Comprehensive Revenue and Expense as shown on page 2, due to the following:
- operating surplus/(deficit) covers all of the Council's operating revenue and expense from all funding sources, including vested assets.
 - the rates surplus/(deficit) only covers the Council's revenue and expenses that are rates funded.
- 31 Table 4 below details the actual rates funding surplus/(deficit) for the year ending 30 June 2019.

Table 4	Full Year 2018/19		
	Actual \$000	Budget \$000	Variance \$000
Operating (deficit)/surplus	3,245	(395)	(3,640)
Adjusted by income and expenditure not funded by rates:			
<i>Less:</i> Net Expenditure funded by reserves and special funds	(221)	58	279
<i>Less:</i> Capital funding and vesting of assets	(5,117)	(3,607)	1,510
<i>Less:</i> Gain/Loss on Sale of Assets	(61)	-	61
<i>Add:</i> Revaluation of Council's assets	30	-	(30)
<i>Add:</i> Unfunded Depreciation	3,868	3,868	(0)
Underlying net rates surplus/(deficit)	1,744	(76)	(1,820)
Represented by:			
Water account surplus	864	395	(469)
Net underspend across the organisation	880	(471)	(1,351)
Rates surplus / (deficit)	1,744	(76)	(1,820)

- 32 The full year actual rates surplus of \$1.74 million is mainly due to partnering well with New Zealand Transport Agency (NZTA) to optimise our funding and reducing our energy costs through the LED streetlight conversion as well as lower net costs of our water activity for the year.
- 33 This year's rates funding surplus can be used to either reduce rates in future years, or further pay back borrowings. The surplus in the water activity has been applied to reduce the balance in the water account (See part E: Water Account Statement)

Part E: Water Account Statement

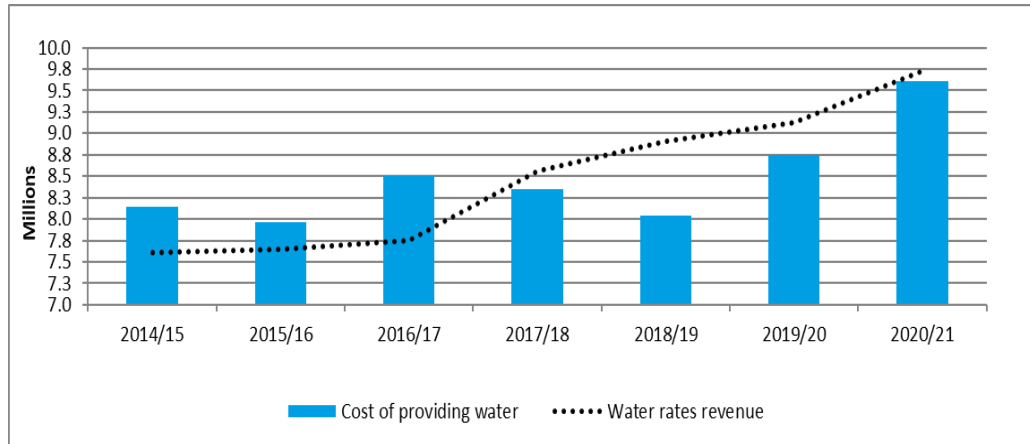
- 34 The Council’s water account since water meters were introduced in 2014 captures the total cost of supplying potable water. This includes reticulation and treatment. Ideally the total cost of supplying potable water is fully recovered by fixed and metered water supply rates each year. The water account 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.
- 35 Water usage is expected to take a number of years to normalise as districtwide water meter charging for all residential properties commenced from July 2014. Therefore, the Council needs to carefully monitor usage trends to best determine what charges are necessary to fully recover the total costs of providing a treated water supply.
- 36 The water account is currently in surplus. The Council has been adjusting prices gradually over several years, rather than in a larger amount in a single year. 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.
- 37 The Council’s water revenue currently covers expenditure for the 2018/19 financial year.



- 38 The table below outlines the water account position. At the end of 2018/19, the deficit is now \$0.5 million, compared to the budgeted \$1.0 million deficit. The additional surplus is likely to lead to the water account deficit being nil by 30 June 2021, which is two years earlier than originally planned.
- 39 Current year water surplus is largely due to underspending in condition assessments, and maintenance within the Water activity.

Table 5	2014/15 Actual \$m	2015/16 Actual \$m	2016/17 Actual \$m	2017/18 Actual \$m	2018/19 Actual \$m	2018/19 Budget \$m	2019/20 Budget \$m	2020/21 Budget \$m
Cost of providing water	8.1	8.0	8.5	8.3	8.0	8.4	8.7	9.6
Water rates revenue	7.6	7.6	7.8	8.6	8.9	8.8	9.1	9.7
Annual surplus/(deficit)	(0.5)	(0.3)	(0.7)	0.2	0.9	0.4	0.4	0.1
Balance of water account	(0.5)	(0.8)	(1.6)	(1.4)	(0.5)	(1.0)	(0.1)	(0.0)
Variable Price (Including GST)	\$0.95	\$0.99	\$1.04	\$1.09	\$1.14	\$1.14	\$1.19	\$1.24
Fixed Price (Including GST)	\$189	\$190	\$199	\$207	\$215	\$215	\$222	\$233
Fixed Portion	54%	55%	57%	54%	54%	55%	55%	55%

- 40 The chart below outlines the cost of providing water services each year, compared with the water rates revenue received. From 2017/18, we have been fully covering the annual cost of providing water services and are gradually increasing water rates to ensure that the full cost of providing water services is recovered.



Part F: Capital Spending Programme

- 41 A summary of our capital spending programme for 2018/19 is shown by activity against the full year budget in Table 5 below.

Table 6	Full Year 2018/19					
	Actual	Budget	Variance to Budget	Revised Proposed Carryovers to 2019/20	Revised Proposed Carryovers to future years	Variance after Carryovers
	\$000	\$000	\$000	\$000	\$000	\$000
Access and Transport	7,316	9,155	1,839	905	-	934
Coastal Management	1,994	1,894	(100)	-	-	(100)
Community Facilities and Community Support	1,382	1,504	122	655	-	(533)
Corporate	804	1,122	318	334	-	(16)
Economic Development	2,872	2,553	(319)	246	-	(565)
Governance and Tangata Whenua	91	116	25	-	-	25
Parks and Open Spaces	1,630	2,152	522	333	-	189
Recreation and Leisure	1,217	3,684	2,467	1,755	-	712
Regulatory Services	24	20	(4)	162	-	(166)
Solid Waste	346	586	240	-	-	240
Stormwater Management	2,562	2,556	(6)	-	-	(6)
Wastewater Management	823	2,482	1,659	194	921	544
Water Management	1,496	1,896	400	-	404	(4)
Totals	22,557	29,720	7,163	4,583	1,325	1,255

- 42 The Council completed \$22.56 million of the \$29.7 million capital works program for 2018/19 (76%). The proposed carry-forwards from 2018/19 into 2019/20 and future years is outlined in the next table.
- 43 The Activity Reports 1 March – June 2019 (Corp-19-868) contains more detailed information about the spending variations at the activity level.

44 It is proposed that capital expenditure of \$5.91 million will be carried over from 2018/19 to 2019/20 and future years, as outlined below.

2018/19 Revised indicative Capital Expenditure Carry-forwards:

Project	Full Year 2018/19 Actual (\$000)	Full Year 2018/19 Budget (\$000)	Variance (\$000)	Carry-forwards to 2019/20 approved in Q3 (\$000)	Carry-forwards to future years approved in Q3 (\$000)	Revised carry-forwards to 2019/20 (\$000)	Revised carry-forwards to future years (\$000)	Explanation
Aerial Photo Update	-	41	41	41	-	41	-	This project was delayed due to other project priorities, and current weather conditions are not suitable for a flyover. This project will be rescheduled to take place next summer.
Animal Management Centre	24	20	(4)	162	-	162	-	Work on the Animal Shelter is expected to cost \$275k in total. There is currently \$95k budgeted over 2 years (\$20k in 2018/19 and \$75k in 2020/21). The work is scheduled to be completed in 2019/20, so the funds in 2020/21 need to be brought forward with additional \$162k as carryover.
EQP Building Remedial Work	191	409	218	123	-	123	-	EQP component of Paraparaumu Memorial Hall delayed due to staff resources being redirected to other urgent capital projects.
Fixture & Fittings - Access control system (Districtwide)	6	108	101	101	-	101	-	Project has been delayed because staff resources had been redirected to other urgent capital projects.
Kāpiti College Performing Arts Centre	-	1,600	1,600	1,600	-	1,600	-	Capital contribution payment to Kāpiti Performing Arts Centre is due on completion. Funding is not required until January 2020.
Mahara Gallery	222	200	(22)	6	-	-	-	No funds to carryover as fully spent.
Mountains to Sea	-	10	10	10	-	10	-	Delayed due to project partners (D.O.C and Iwi) needing to establish a partnership arrangement as a foundation for the project.
Otaki Beach Development	-	52	52	52	-	52	-	More time required to complete road stopping process associated with the project.
Otaki Service Centre/Museum	1	31	30	31	-	30	-	Unspent funds to be spent on EQP in 2019/20.
Otaki Theatre Renewals	3	50	48	48	-	48	-	Subject to building condition survey, the work did not occur in 2018/19. Remediation plan needs to go to Council.
Paraparaumu Community Centre	4	147	144	146	-	144	-	Developing options for ongoing Community needs in Paraparaumu Ward, Council decision to continue is required.
Paraparaumu Escarpment	1	203	203	201	-	201	-	KiwiRail have indicated they are not in a position to commence work this financial year.
Paraparaumu Memorial Hall	65	260	195	183	-	183	-	Detailed drawings completed ready for building consent. Developing options for ongoing Community needs in Paraparaumu Ward, Council decision to continue is required.
Paraparaumu WWTP Consent	21	215	194	194	-	194	-	The professional services contract for the consenting of discharges from the Paraparaumu Wastewater Treatment Plant (WWTP) is underway. Iwi engagement has been sought to shape and finalise the planning stage. This has progressed slowly and the work programmed for this year has not been able to be completed. The project is now on hold amid concerns that excessive advancement of governance and work stream planning will effect stakeholder (especially Iwi) relationships.

Project	Full Year 2018/19 Actual (\$000)	Full Year 2018/19 Budget (\$000)	Variance (\$000)	Carry-forwards to 2019/20 approved in Q3 (\$000)	Carry-forwards to future years approved in Q3 (\$000)	Revised carry-forwards to 2019/20 (\$000)	Revised carry-forwards to future years (\$000)	Explanation
Public Art Acquisition	24	141	117	107	-	107	-	Commencement on design work on the art installation in Maclean Park has been delayed due to issues with undertaking the relevant consultation with local Iwi
Ratanui Roundabout	342	364	22	750	-	750	-	Ratanui Roundabout (\$602k funded from SH1 revocation and \$148k from additional NZTA funding received in 2018/19)
SH1 Revocation Funding	311	1,779	1,469	298	750	155	750	SH1 revocation Category 1 work is 100% funded & delivered by NZTA, Category 2 is 50/50 split between Council and NZTA, and Category 3 is 100% Council funded. NZTA have incurred delays delivering Category 1 revocation work and has therefore, impacted when Council can start Category 2 and 3. Note that the balance of this budget is being spent in Town Centres.
Strategic Land Purchases	517	763	246	677	-	246	-	Unspent capital funds required for future property acquisitions.
Waikanae Beach Hall	0	21	21	21	-	21	-	Subject to building condition survey, the work did not occur in 2018/19. Remediation plan needs to go to Council.
Waikanae Duplicate Rising Main	(190)	971	1,161	-	921	-	921	The project is delayed due to unresolved land ownership sign off for the pipe alignment in the M2PP corridor. This budget has been carried over into 2020/21.
Waikanae Hall Renewals	-	53	53	53	-	53	-	Subject to building condition survey, the work did not occur in 2018/19. Remediation plan needs to go to Council.
Waikanae Memorial Park Tennis Courts	1	71	70	70	-	70	-	The project has been delayed due to unsuccessful contractor negotiations with lead tenderer. Contractor availability now falls in winter months where there are weather issues (cracking risks). The work is recommend to occur during warmer months so that no direct failure is imminent.
Water Treatment Plant Stage 2	618	1,250	632	-	439	-	404	The delay to the water safety and resilience programme, including Stage 2 Waikanae water treatment plant upgrade is due to the extended procurement process to set up the Water Supply Panel and award the consultancy. This budget has been carried over into 2020/21.
Health & Safety Capex Fund	-	40	40	-	-	40	-	Unspent capital funds required for future Health & Safety Related contingency spending.
Self-Insurance Contingency Capex Fund	-	254	254	-	-	254	-	Unspent capital funds required for future contingency spending.
Total indicative capex carry-forwards	2,160	9,055	6,895	4,873	1,360	4,583	1,325	
Other capital projects	20,397	20,665	268	-	-	-	-	
Total capital expenditure programme 2018/19	22,557	29,720	7,163	4,873	1,360	4,583	1,325	Total revised carry-forwards \$5.91 million

- 45 The proposed carry-forwards of \$4.58 million into 2019/20 will reduce the capital programme for 2019/20 to \$35.38 million from the \$35.82 million approved in the 2019/20 Annual Plan. The Council will complete a review of the capital budget during the first quarter of 2019/20 as agreed and this will be presented to the Operations and Finance Committee for consideration as part of the Q1 2019/20 Finance Report.
- 46 There have been challenges within the Community Facilities programme this year which has led to reprioritisation of the existing capital programme. Below is a summary of the Community Facilities capital programme for 2018/19 including the revised proposed carry-forwards into 2019/20.
- 47 \$2.473 million carry-forwards was approved in Quarter 3 for the Community Facilities programme. This is now revised to \$2.465 million and forms part of the 2019/20 budget for Community Facilities Capital Programme totalled to \$4.52 million as a result of more spending in 2018/19 than planned.
- 48 The Council received \$50,000 from Greater Wellington Regional Council towards the installation of the Otaki Rivermouth Toilets.

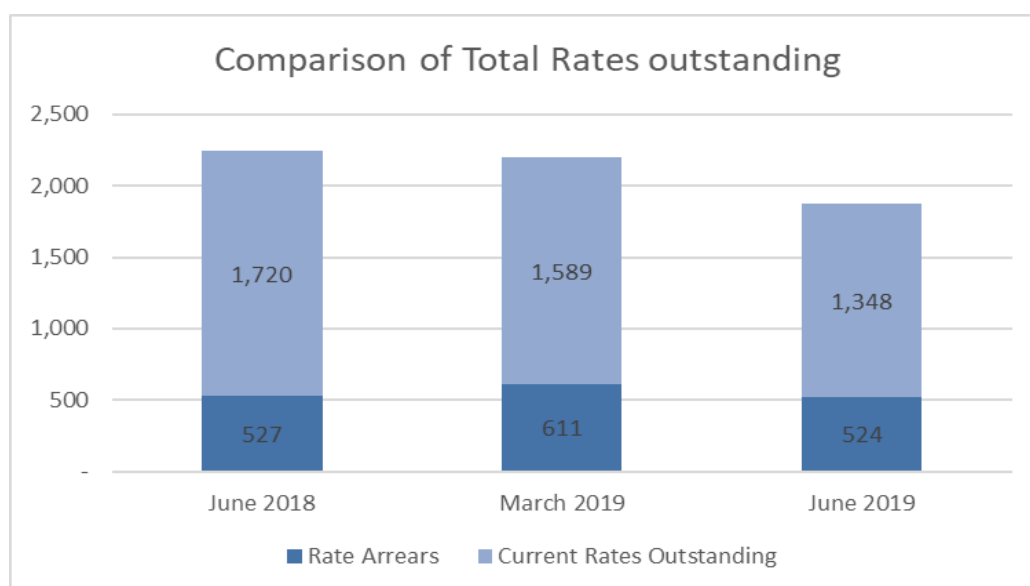
Community Facilities Capital Programme						
Project	Full Year 2018/19 Actual (\$000)	Full Year 2018/19 Budget (\$000)	Variance (\$000)	Carry-forwards to 2019/20 approved in Q3 (\$000)	Revised carry-forwards to 2019/20 (\$000)	Full Year 2019/20 Budget (incl Revised carry-forwards) (\$000)
Animal Management Shelter	24	20	(4)	162	162	238
Districtwide Housing Renewals	693	244	(449)	-	-	587
Districtwide Toilets Planned Renewals	25	-	(25)	-	-	-
Eoc Building Renewal	42	23	(19)	-	-	3
Eop Building Remedial Work - Districtwide	191	409	218	123	123	123
Exterior Upgrade	-	-	-	-	-	3
Furniture & Fittings	6	108	101	101	101	139
Kapiti College Performing Arts Centre	-	1,600	1,600	1,600	1,600	1,600
Mahara Gallery - Council Funded	222	200	(22)	6	-	270
Matatua Rd House Upgrade	-	13	13	-	-	16
Matatua Road	15	-	(15)	-	-	-
Old Otaki Service Centre/Museum	1	31	30	31	30	30
Otaki Building Renewals	12	25	14	-	-	-
Otaki College Gymnasium	2	-	(2)	-	-	52
Otaki Hall Planned Renewals	-	23	23	-	-	-
Otaki Housing Renewals	40	23	(17)	-	-	-
Otaki New Toilets	100	25	(75)	-	-	-
Otaki Theatre	-	26	26	-	-	-
Otaki Theatre Renewals	3	50	48	48	48	116
Paekakariki - Hall Furniture Renewals	-	-	-	-	-	3
Paekakariki - Reroof	-	-	-	-	-	2
Paraparaumu - Memorial Hall Renewals	65	260	195	183	183	327
Paraparaumu - Sports Hall Renewals	-	-	-	-	-	255
Paraparaumu Housing Renewals	0	9	9	-	-	-
Paraparaumu/Raumati-Community Centre Entry	4	147	144	146	144	144
Planned Renewals - Paraparaumu	42	-	(42)	-	-	-
Raumati - Poolside Restaurant	52	51	(1)	-	-	505
Reikorangi Hall Planned Renewals (Capex funded fom Parks)	4	30	26	-	-	-
Rental Properties Renewals	30	56	27	-	-	-
Takiri House Capex	130	-	(130)	-	-	-
Waikanae - Beach Hall Planned Renewals	0	21	21	21	21	21
Waikanae - Hall Renewals	-	53	53	53	53	63
Waikanae - Public Toilet Renewals	7	-	(7)	-	-	-
Waikanae Housing Renewals	-	-	-	-	-	5
Waikanae Library Building Upgrade	262	945	683	-	-	-
Waikanae Memorial Hall - Small Projects	-	-	-	-	-	18
Waikanae Senior Citizen Hall Renewals	-	4	4	-	-	-
Total Community Facilities Capex	1,971	4,399	2,428	2,473	2,465	4,521

Part G: Outstanding Rates Debt as at 30 June 2019

- 49 As part of the wider strategy of continuing to better manage and reduce the Council’s debt we need to ensure that everyone is paying their fair share when it comes to general property rates and water rates.
- 50 The Council’s rates team has always performed a debt collection role when it comes to unpaid rates. Like a number of other councils around the country we are now using the services of a Local Government Shared Services agency, Debt Management Central (DMC), to assist our team with collecting outstanding rates debts.
- 51 DMC is working with the Council and within its rating policies, following the same process our own debt collection staff use. This framework for recovery of unpaid rates is set out in the Local Government (Rating) Act 2002.

Property rates outstanding (Excluding water rates)

- 52 The total property rates outstanding as at 30 June 2019 was \$1.87 million (30 June 2018: \$2.25 million).

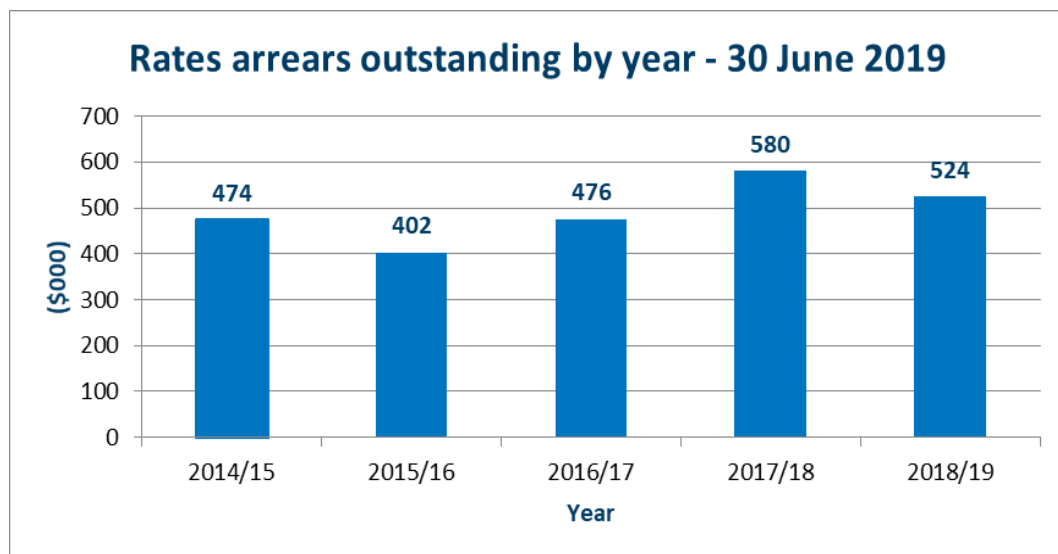


- 53 The Council has collected \$1.78 million of rate arrears since 1 July 2018. DMC have worked with ratepayers to firstly set up workable payment arrangements, and have also issued mortgagee notifications where appropriate. This will continue during the 2019/20 year, allowing the Council to reduce its borrowing levels.

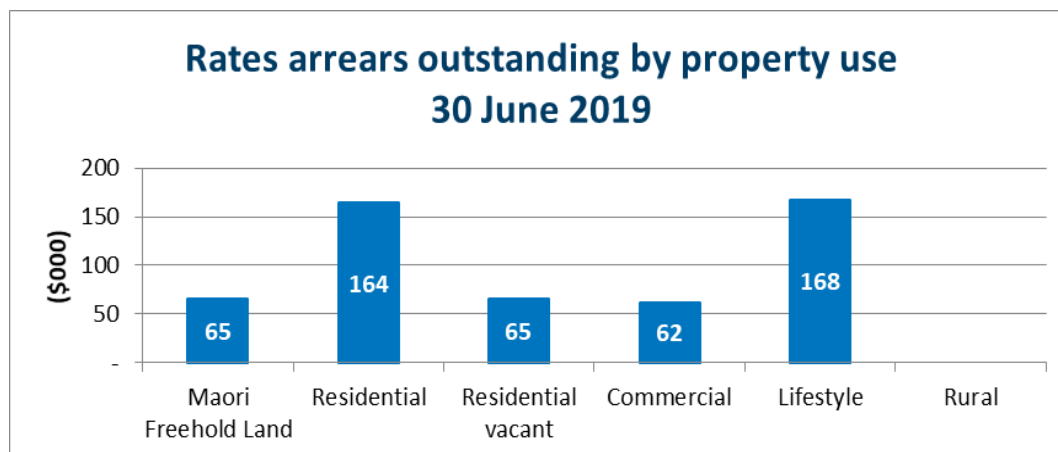
- 54 The Council collects rates on behalf of the Greater Wellington Regional Council. There is \$1.35 million of current rates outstanding as at 30 June 2019 split as follows:

Breakdown of current rates outstanding	Rates	Penalties	Current rates outstanding
	\$000	\$000	\$000
Kāpiti Coast District Council rates	899	247	1,146
Greater Wellington Regional Council	159	44	202
Total	1,057	291	1,348

- 55 The graph below shows a comparison of the \$524,000 of rate arrears outstanding as at 30 June 2019 and for the previous 4 years.



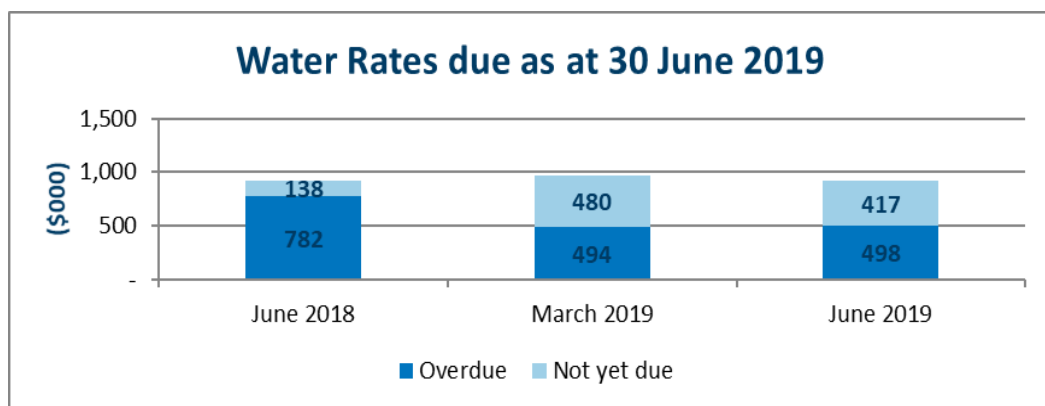
- 56 The graph below details the rates arrears of \$524,000 by property use category. The majority of the total rate arrears are from residential and lifestyle properties.



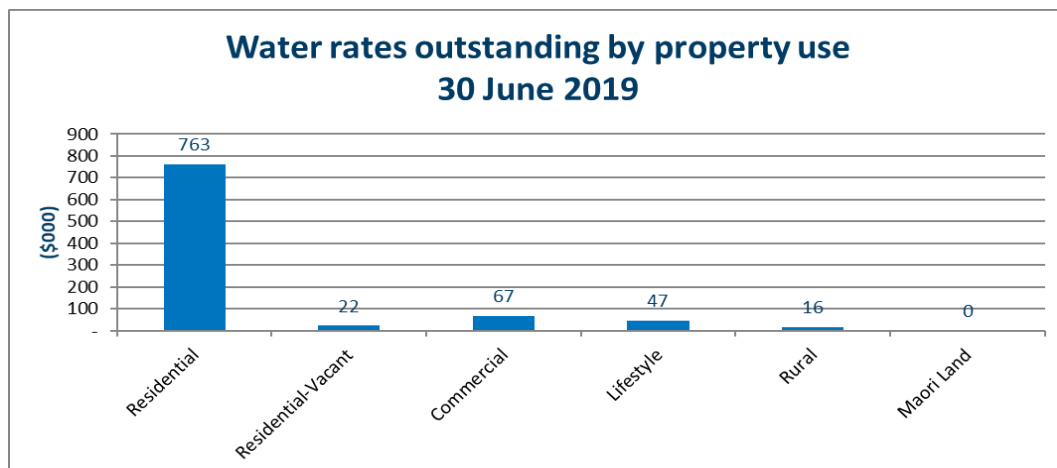
- 57 The rates arrears from Māori freehold land rate is arrears owed to Greater Wellington Regional Council.
- 58 There are a small number of properties with significant outstanding arrears over a number of years which we have started work to address. Further information will be provided to the Committee as we work through the required legal steps for collection of this long outstanding debt.

Water rates outstanding

- 59 A total of \$498,000 of water rates is overdue as at 30 June 2019 (\$782,000 as at 30 June 2019).
- 60 Water rate payments received are first applied to water rate arrears. The chart below reflects the overall water rates debt as at 30 June 2019, 31 March 2019 and 30 June 2018;

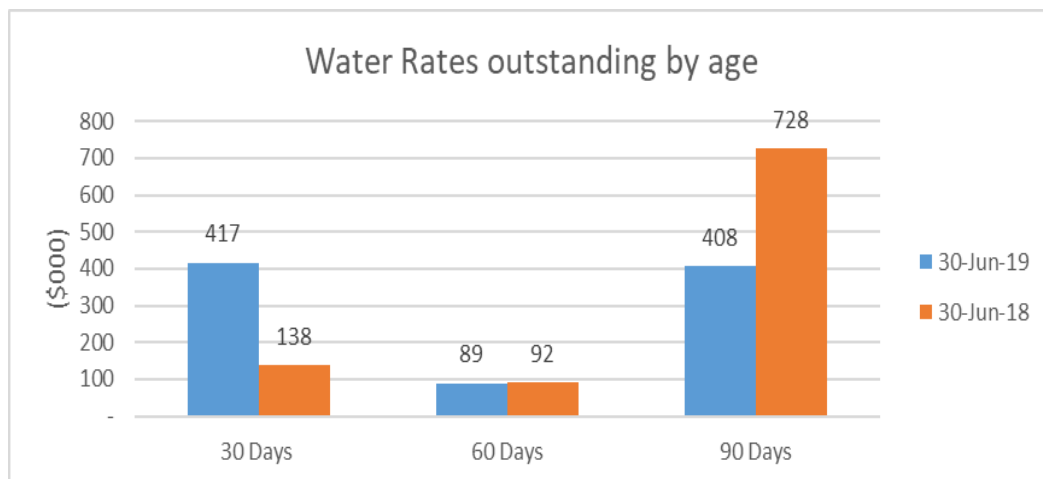


- 61 The graph below details the total water rates outstanding by property use category. The majority of the outstanding water rates are from residential properties.



- 62 \$654,615.17 or 72% of outstanding water rates relate to individual debtor balances of less than \$500.

- 63 The graph below details the ageing of the total water rates outstanding. \$408,000 (30 June 2018: \$728,000) or 45% of the Council’s outstanding water rates are 90 days or older. The Council has seen a 31% reduction in balances 90 days or older when compared to the prior year as a result of the increased focus on collection.



- 64 Table 7 below details the total rate remissions approved to 30 June 2019 against the full year budget. Applications for rates assistance were posted to eligible property owners in December 2018. Applications received during January and February were processed in Q3. Applications received since February were processed in Q4.

Table 7	Actual \$000	Forecast \$000	Budget \$000	Variance \$000
Community properties (Council and private ownership), sporting, recreational and other community organisations	96	96	195	20
Residential rating units containing two separately habitable units	79	79		
Rates Assistance including ongoing financial assistance, temporary financial assistance and water rate remission for vulnerable households	195	195	200	5
Total	370	370	395	25

- 65 Central Government rate rebates of \$1.408 million (2,370 properties) have been granted up to 30 June 2019. (\$1.20 million (2,027 properties) to 30 June 2018). The Council provides the approved rates rebate (up to \$630 per rateable property) to the successful applicants and recovers the costs directly from the Department of Internal Affairs.
- 66 The Council actively promotes the Government rates rebate and remissions on radio, Facebook and through adverts in the local papers and has worked with Grey Power and the Older Persons’ Council to promote remissions and rebates more widely.

- 67 Kapiti was one of three Council's invited to take part in an online rates rebate trial during June 2019 with the Department of Internal Affairs (DIA) Innovation lab. The other Councils involved in the trial were Tauranga and Hutt City. The online application form provided an alternative to the current paper form, allowing customers to complete and submit an application at home without the need to provide supporting income information. As with the paper form customers were still required to sign the online application in front of a witness at Council before the application could be processed.
- 68 A total of 51 applications were submitted online during the month of June 2019, of which 21 were approved by DIA. We are awaiting confirmation that the trial will continue through August and September.

Part H: Treasury Management

SUMMARY

- 69 During the past twelve months, the Council issued \$35 million of new debt and \$30 million of long term debt matured.
- 70 The Table below shows the movement in the Council's debt balance for the past twelve months.

Borrowings	Gross borrowings \$000	Explained by:			
		Pre-funding borrowings			
		TD March 2019 \$000	TD Sept 2019 \$000	TD April 2020 \$000	TD Oct 2020 \$000
Opening balance 1 July 2018	205,000	30,000	15,000		
New Long term debt issued YTD	35,000	-	5,000	20,000	10,000
Matured Long term debt	(30,000)	(30,000)			
Total	210,000	-	20,000	20,000	10,000

- 71 As at 30 June 2019, the Council had \$62.44 million of cash, term deposits and borrower notes on hand. This is broken down as follows:

Term deposits & Borrower Notes	Prefunding borrowings \$000	Prefunding capex \$000	Borrower notes \$000	Cash \$000	Total cash, term deposits and borrower notes \$000
LGFA debt maturing September 2019	20,000	-	-	-	20,000
LGFA debt maturing April 2020	20,000	-	-	-	20,000
LGFA debt maturing Oct 2020	10,000	-	-	-	10,000
Surplus cash placed on TD for 18/19 Capital Works Programme	-	5,000	-	-	5,000
Surplus cash	-	-	-	4,081	4,081
Borrower notes held	-	-	3,360	-	3,360
Total	50,000	5,000	3,360	4,081	62,441

- 72 The RBNZ has cut the official cash rate (OCR) by 0.25% to 1.5% in May 2019.
- 73 The Council's weighted average cost of borrowing for the quarter ended 30 June 2019 was 4.46% compared to the budget of 4.8%.

Net debt

- 74 Net debt is the measure of the Council's total borrowings less cash on hand and cash investments (including Local Government Funding Agency (LGFA) borrower notes). Net debt is used to calculate two of the Council's treasury policy limits.

75 The table below shows the Council’s net debt as at 30 June 2019 against full year forecast and budget.

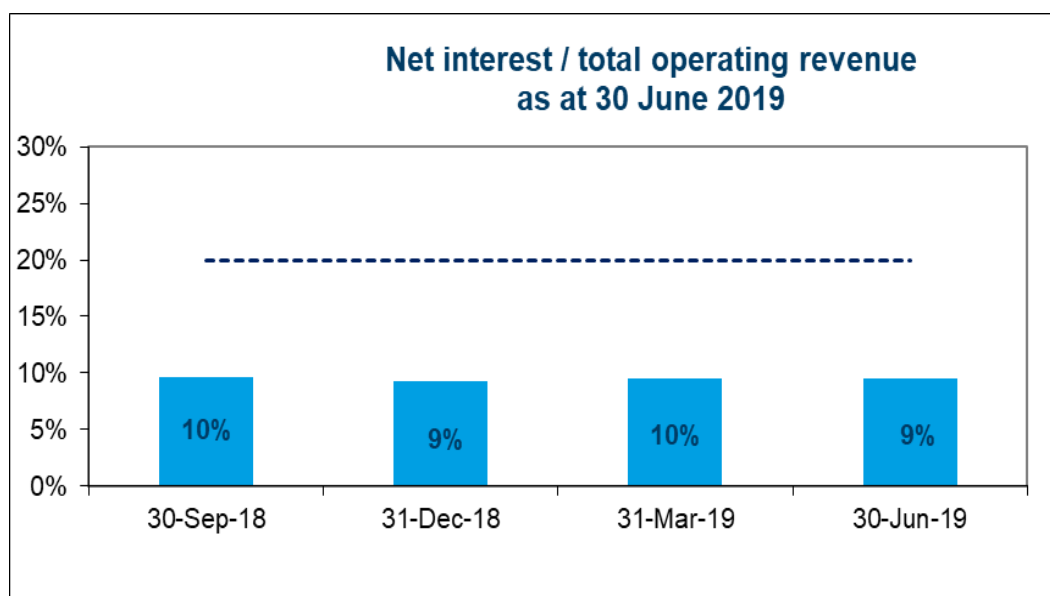
	Full Year Actuals 2018/19 \$000's	Full Year Budget 2018/19 \$000's	Full Year Variance 2018/19 \$000's	Full Year 2017/18 \$000's
External debt	210,000	226,175	(16,175)	205,000
/less borrower notes	(3,360)	(3,619)	259	(3,280)
/less cash investments	(59,086)	(60,000)	914	(53,552)
Net debt	147,554	162,556	(15,002)	148,168

76 The Council is targeting through its financial strategy to keep net borrowings below 200% of operating income. The Council has achieved net borrowings as a share of operating income of 180% at the end of June 2019.

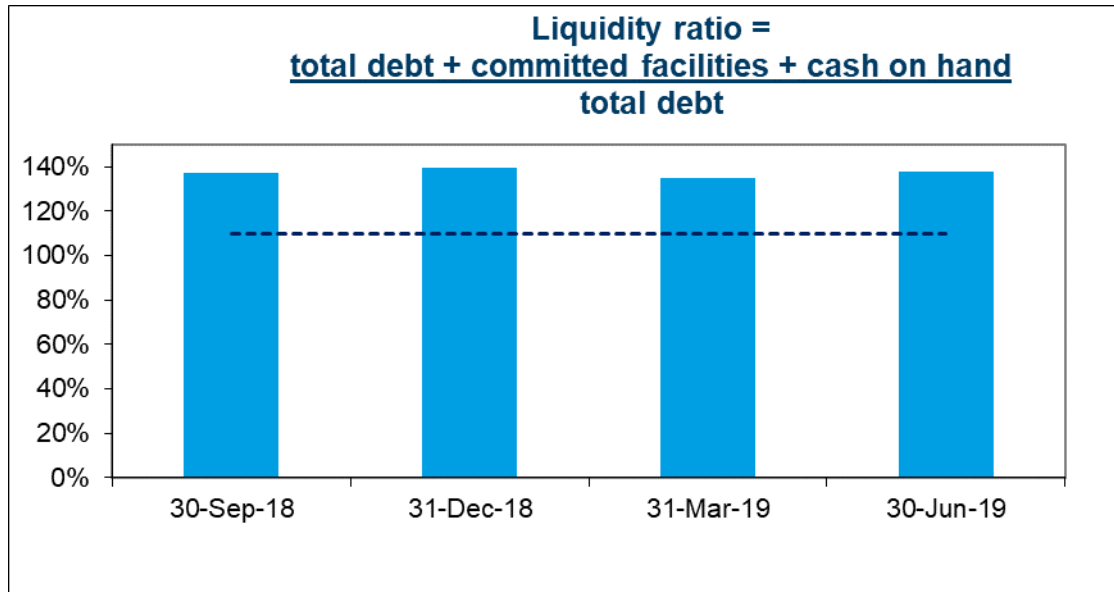
Treasury policy limits

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

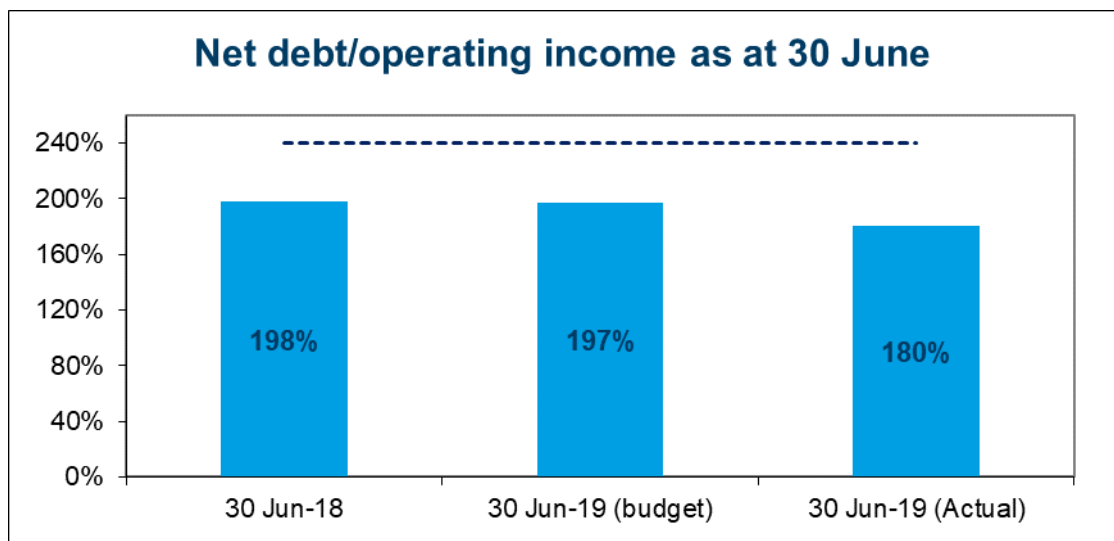
78 The Policy sets the maximum limit for the ratio of net interest expense to total operating revenue of 20%. The chart below shows actual limits achieved for each quarter.



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



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



Part I: Asset Revaluation

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

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

- 84 Roothing assets including bridges and culverts were last revalued by Stantec New Zealand (formally MWH) in June 2017.
- 85 The table below details the increase per asset type due to the revaluation:

Asset Classification	Valuer	Carrying Amount 30 June 2019 \$000	Revaluation 30 June 2019 \$000	Revaluation Uplift \$000	Change	LTP 18/19 Reval Uplift \$000
Roothing	Stantec	303,039,587	321,231,072	18,191,485	6%	11,726,334
Roothing Bridges & Culverts	Stantec	11,849,495	12,641,598	792,103	7%	539,293
		314,889,082	333,872,670	18,983,588	6%	12,265,627
Land Under Roads	Not revalued					31,101,730
						43,367,357

- 86 To be consistent with the Council's other asset classes of land and buildings, we have elected to revalue land under roads at the same time in 30 June 2020.
- 87 Roothing assets have increased by \$18.98 million and is mainly due to:
- Changes within the roading network due to the State Highway improvements
 - Since the 2017 revaluation, Council has had a change in Roothing Contractor from Downer to Higgins with an increase in unit contact rates.
 - Stantec have used the actual unit contract rates in this valuation where they have been available. The increase in unit contract rates has seen some asset such manholes and sumps value double since the 2017 valuation.
 - Continuous improvement of the asset management and data quality held in the Roothing Asset Management System (RAMM).

- 88 Roading assets comprise of a number of different asset components with some being non-depreciable, including for example, formation costs.
- 89 The increase in asset values often results in higher depreciation costs in the out-years. This was fully considered during the 2019/20 Annual Plan determination process and the resultant increase in depreciation remains within budget at this stage.
- 90 In addition, the value of the Waikanae Library and Te Newhanga Kāpiti Community Centre have been adjusted to reflect the current conditions of the buildings.

CONSIDERATIONS

Financial Consideration

- 91 The financial information as detailed in Parts A to I of this report (Corp-19-865) 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

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

Consultation

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

Policy Implications

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

Tāngata Whenua

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

SIGNIFICANCE AND ENGAGEMENT POLICY

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

Publicity Considerations

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

RECOMMENDATIONS

98 That the Operations and Finance Committee notes the actual financial performance and position of the Council for the year ended 30 June 2019 as contained in this report (Corp-19-865).

Report prepared by:

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