

Chairperson and Committee Members
CORPORATE BUSINESS COMMITTEE

12 MAY 2016

Meeting Status: **Public**

Purpose of Report: For Information

FINANCIAL REPORT TO 31 MARCH 2016

PURPOSE OF REPORT

- 1 This report sets out Kāpiti Coast District Council's (Council's) financial performance and financial position for the nine months ended 31 March 2016, with explanations of key results and variances.

DELEGATION

- 2 The Corporate Business Committee has delegated authority to consider this report under the following delegation in the Governance Structure, Section B.3.7.

Without limiting the generality of this delegation, the committee has the following functions, duties and powers.

Financial and Asset Management

- 7.5 *Authority to monitor performance of the Council's financial activities, including income, operating and capital expenditure against budgets, remissions, key financial indicators and investment and debt/borrowings management.*

BACKGROUND

- 3 The Committee is provided with information on eight 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 2016

Part H: Treasury Management

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 The Statement of Comprehensive Revenue and Expense for the period ended 31 March 2016 and the full year forecast are set out in Table 1, followed by an overview of the key variances to budget.

Table 1	YTD 2015/16			Full Year 2015/16		
	Actual \$000	Budget \$000	Variance \$000	Forecast \$000	Budget \$000	Variance \$000
Rates	40,265	40,492	(166)	53,846	53,989	(144)
Fees and Charges	6,372	5,913	459	8,155	7,558	598
Grants and Subsidies	1,548	3,216	(1,668)	3,312	4,277	(965)
Development and Financial Contributions Revenue	1,282	791	372	1,488	1,055	433
Other Operating Revenue	1,899	196	1,703	2,058	261	1,797
Interest Income	312	162	150	420	216	204
Total Income	51,677	50,770	850	69,278	67,355	1,923
Other Operating Expense	33,621	35,327	1,706	47,542	46,481	(1,061)
Depreciation and Amortisation	12,532	12,210	(322)	16,705	16,280	(425)
Finance Expense	6,187	6,087	(100)	8,300	8,116	(184)
Total Expenditure	52,340	53,624	1,284	72,547	70,877	(1,670)
Operating Surplus/ (Deficit)	(662)	(2,854)	2,134	(3,268)	(3,522)	254
Revaluation of Property Plant and Equipment	-	15,246	(15,246)	43,000	20,328	22,672
Unrealised Gain/(Loss) on Revaluation of Financial Derivatives	(7,535)	(366)	(7,169)	(7,535)	(488)	(7,047)
Total Other Comprehensive Income and Expenditure	(7,535)	14,880	(22,415)	35,465	19,840	15,625
Net Operating (Deficit)/Surplus	(8,197)	12,026	(20,281)	32,197	16,318	15,879

Financial Performance Summary

Year-to-Date Performance

- 7 Council's net operating expenditure is \$2.13 million favourable to budget. Total income remains favourable to budget mainly due to \$1.5 million of unbudgeted vested assets. Similarly, total expenditure also remains favourable to budget mainly due to temporary timing differences regarding planned maintenance and other operational costs across several Council activities.
- 8 Council's unrealised loss of \$7.54 million on financial derivatives is due to a series of interest rates reductions since 30 June 2015. 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 loss.

Forecast Full Year Performance

- 9 Excluding unrealised losses on financial derivatives and asset revaluations, Council is forecasting a full year operating deficit to be \$254,000 favourable to budget.

Explanation of Key Revenue Variances**10 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:	\$459,000 favourable to budget mainly due to additional revenue from building and resource consents.
Forecast Full Year Variance:	\$598,000 favourable to budget mainly due to additional building and resource consents.

11 Grants and Subsidies

Brief Description:	Includes grants received by the Council for operating and capital spending. The majority of grants revenue is received from New Zealand Transport Agency (NZTA) for their share of our roading maintenance and capital spending programmes.
Year to Date Variance:	\$1.67 million unfavourable to budget due to temporary timing differences with planned capital works and an NZTA subsidy error (see below).
Forecast Full Year Variance:	\$965,000 unfavourable to budget. This is mainly due to erroneously budgeting a subsidy of \$767,000 from NZTA for the planned \$1.5 million road extension (200 metres) between Nga Manu Nature Reserve and the link road running over the expressway through to Nga Manu. The remaining subsidy shortfall of \$198,000 relates to re-programming the CWB Project to best integrate with the Kapiti Road Upgrade project.

12 Development and/or Financial Contributions

Brief Description:	<ol style="list-style-type: none"> 1. Financial Contributions are levied under the Resource Management Act and cover Reserves Contributions levied on developers at the time of subdivision. 2. Development Contributions are levied under the Local Government Act 2002 and cover all key activities except Parks and Open Space and are levied on developers at the time of subdivision.
Year to Date Variance:	\$372,000 favourable to budget due to higher subdivision activity in Paraparaumu and Waikanae than expected.
Forecast Full Year Variance:	\$433,000 favourable to budget mainly due to increased subdivisions. The full year budget provided for 125 new lots or dwellings across the district. Year to date, Council has approved 194 new lots and some of this revenue is expected to be recognised in the coming months.

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:	\$1.7 million favourable to budget mainly due to \$1.5 million of unbudgeted infrastructure assets vested to Council as part of subdivision activity.
Forecast Full Year Variance:	\$1.8 million favourable to budget due to infrastructure assets vested to Council.

Explanation of Key Expenditure Variances**13 Other Operating Expense**

Brief Description:	Includes direct operating costs except for internal rates, finance charges and asset depreciation/amortisation.
Year to Date Variance:	\$1.71 million favourable to budget. This is mainly due to temporary timing differences regarding planned maintenance and other operational costs across Council, rather than cost savings that will impact on the full year result.
Full Year Forecast Variance:	\$1.06 million unfavourable to budget. This is largely due to a number of unplanned cost impacts, and some planned projects running over budget. More detail is in the activity report.

14 Depreciation

Brief Description:	Includes depreciation costs associated with ownership of the Council's assets
Year to Date Variance:	\$322,000 unfavourable to budget. This is mainly due to: <ol style="list-style-type: none"> 1. More assets were vested to Council in 2014/15 than expected. 2. Actual useful lives for the Waikanae Water Treatment Plant and the River Re-charge Scheme are less than that used in the budget assumptions. 3. \$1.1 million of assets have been capitalised earlier than planned following detailed Council-wide asset reviews.
Full Year Forecast Variance:	\$425,000 unfavourable to budget. This is due to the full year impacts of the items above.

Explanation of Key Interest Variances**15 Interest Income**

Brief Description:	Interest income represents the Council's earnings on its term deposits, overnight cash deposits and Borrower Notes held by the Local Government Funding Agency.
Year to Date Variance:	\$150,000 favourable to budget. This is due to expected earnings from \$20 million of pre-funded debt issued during November and December 2015. (See Part H: Treasury Management)
Full Year Forecast Variance:	\$204,000 favourable to budget. This is due to expected earnings from the additional \$20 million debt.

16 Interest Expense

Brief Description:	Council's debt servicing cost on its total borrowings, including interest rate swap margins and call facility utilisation.
Year to Date Variance:	\$100,000 unfavourable to budget due to the cost of the additional \$20 million debt.
Full Year Forecast Variance:	\$184,000 unfavourable to budget due to the cost of the additional \$20 million debt.

Explanation of Key Other Gains / (Losses) Variances**17 Unrealised Loss on Revaluation of Derivatives**

Brief Description:	<ol style="list-style-type: none"> 1. Council recognises its interest rate swaps at fair value on a monthly basis. 2. The change in fair value between 30 June 2015 and the end of the reporting period is treated as either an unrealised gain (fair value has decreased) or an unrealised loss (fair value has increased).
Year to Date Variance:	\$7.54 million unfavourable to budget because the majority of Council's committed fixed swap rates are higher than fixed swap rates currently available on the open market. (See Part H: Treasury Management).
Full Year Forecast Variance:	Given the uncertainty of the financial markets, the full year forecast is aligned to the actual year to date fair value movement.

Explanation of Other Comprehensive Revenue and Expense Variances**18 Revaluation of Property, Plant and Equipment**

Brief Description:	Council records its significant assets at fair value. Amongst other aspects, fair value also considers asset obsolescence and impairment. To ensure fair value is best achieved, Council transitioned to an annual asset revaluation programme on a rolling basis as follows: <ol style="list-style-type: none"> 1. Three Waters Assets (Water, Wastewater, Stormwater, Flood Protection) every two years starting 31 March 2016; 2. Roading (including land under roads), every two years starting 31 December 2016; and 3. Land and Buildings (including Parks and Open Spaces), every three years, starting 31 December 2016.
Year to Date Variance:	\$15.25 million unfavourable to budget. This is a timing difference as the budget has been incorrectly spread over the year.
Full Year Forecast Variance:	\$22.67 million favourable to budget. This is mainly due to a significant increase to the unit costs of pipe replacement (\$ cost per meter). This is subject to further change as the final revaluation will be set at year end.

Part B: Statement of Financial Position

- 19 The Statement of Financial Position as at 31 March 2016 and the full year forecast are set out in Table 2, followed by an overview of the key variances to budget.

Table 2	2015/16 YTD Actual \$000	2015/16 Year End Forecast \$000	2015/16 Year End Budget \$000	2015/16 Year End Variance \$000
Assets				
Cash and Cash Equivalents	3,488	400	200	200
Trade and Other Receivables	5,144	6,617	6,617	-
Inventories	106	142	142	-
Non-Current Assets Held for Sale	-	-	-	-
Property Plant and Equipment	1,441,053	1,489,444	1,470,772	18,672
Forestry Assets	218	218	77	141
Intangible Assets	700	923	923	-
Other Financial Assets	17,536	16,278	2,278	14,000
Loans	585	756	756	-
TOTAL ASSETS	1,468,830	1,514,778	1,481,765	33,013
Liabilities				
Trade and Other Payables	7,129	15,861	15,661	200
Employee Benefit Liabilities	2,239	2,478	2,478	-
Deposits	707	900	900	-
Borrowings	160,026	158,848	148,848	10,000
Provisions	4,877	4,133	4,133	-
Derivative Financial Instruments	16,728	16,728	6,455	10,273
TOTAL LIABILITIES	191,706	198,948	178,475	20,473
Public Equity				
Accumulated Funds	565,555	560,751	570,883	(10,132)
Reserves and Special Funds	2,962	3,389	3,389	-
Revaluation Reserve	708,607	751,690	729,018	22,672
TOTAL EQUITY	1,277,124	1,315,830	1,303,290	12,540
TOTAL LIABILITIES AND EQUITY	1,468,830	1,514,778	1,481,765	33,013

Financial Position Summary

Year-to-date Position

- 20 Council's only material changes to its financial position for the nine months ended 31 March 2016 were in respect to financial investments, borrowings and financial derivatives.
- 21 New debt of \$20 million was issued during November and December 2015 to secure lower borrowing costs. (See Part H: Treasury Management)
- 22 Interest rates have continued to fall since 30 June 2015. Consequently, the total cost of Council's financial derivatives to maturity has increased, as reflected in the year to date valuation.

Full Year Forecast Position

- 23 Council's assets are forecast to be \$33.01 million favourable to budget. This is mainly due to the following:
- The three waters infrastructure assets revaluation is likely to be \$22.67 million higher than expected mainly due to a significant increase in the cost of pipe construction (\$ per meter). This is off-set by \$4 million of capital works expected to be carried over to 2016/17.
 - \$14 million of cash is expected to remain on fixed term deposit at year end (\$10 million debt maturity in December 2016 and \$4 million of unspent capital works).
- 24 Council's liabilities are expected to be \$20.47 million unfavourable to budget. This is mainly due to the following reasons:
- Pre-funding \$10 million of debt maturing in December 2016.
 - The fair value of Council's committed derivative financial instruments is estimated to be \$10.27 million unfavourable to budget due to low interest rates.
- 25 Total equity is forecast to be \$12.54 million favourable to budget. This is mainly due to the three waters infrastructure assets revaluation exceeding budget. However, this is expected to be off-set by forecast unrealised losses in financial derivatives.

Part C: Statement of Cash Flows

- 26 The Statement of Cash Flows for the nine months ended 31 March 2016 and the full year forecast are set out in Table 3, followed by an overview of the key variances to budget.

Table 3	2015/16 YTD Actual \$000	2015/16 Full Year Forecast \$000	2015/16 Full Year Budget \$000	2015/16 Full Year Variance \$000
<i>Cash was provided from:</i>				
Kapiti Coast District Council Rates	40,354	45,976	45,976	-
Greater Wellington Regional Council Rates	7,476	-	-	-
Grants and Subsidies - Operating	923	2,862	2,862	-
Interest Received	47	296	216	80
Charges and Fees	8,260	16,637	16,637	-
GST (net)	745	745	299	446
	57,805	66,516	65,990	526
<i>Cash was applied to:</i>				
Payments to Employees and Suppliers	38,951	45,377	45,377	-
Rates Paid to Greater Wellington Regional Council	7,476	-	-	-
	46,427	45,377	45,377	-
Net Cash Flows from Operating Activities	11,378	21,139	20,613	526
Cash Flows from Investing Activities				
<i>Cash was provided from:</i>				
Proceeds from Sale of Property, Plant and Equipment	170	170	-	170
Proceeds from capital grants	625	650	1,415	(765)
	795	820	1,415	(595)
<i>Cash was applied to:</i>				
Construction and Purchase of Property, Plant and Equipment	8,825	19,202	22,427	3,225
Purchase of Investments	15,345	14,287	287	(14,000)
	24,170	33,489	22,714	(10,775)
Net Cash Flows from Investing Activities	(23,375)	(32,669)	(21,299)	(11,370)
Cash Flows from Financing Activities				
<i>Cash was provided from:</i>				
Short-term borrowings	33,095	-	-	-
Long-term borrowings	20,000	20,000	8,832	11,168
	53,095	20,000	8,832	11,168
<i>Cash was applied to:</i>				
Interest on Borrowings	5,916	8,224	8,164	60
Short-term borrowings	33,095	-	-	-
Long-term borrowings	39	64	-	(64)
	39,050	8,288	8,164	124
Net Cash Flows from Financing Activities	14,045	11,712	668	11,044
Net Increase/(Decrease) in Cash and Cash Equivalents	2,048	182	(18)	200
Add Total Cash and Cash Equivalents at 1 July	1,440	218	218	-
TOTAL CASH AND CASH EQUIVALENTS AT 30 JUNE	3,488	400	200	200

Overall Summary

- 27 During the second quarter of the year, Council took advantage of the current favourable interest rates and issued \$20 million of new long term debt. These funds were invested on term deposit.
- 28 \$5 million of term deposit matured in the third quarter, in anticipation of funding substantial capital works completed during the summer months. Slower progress on the capital works programme due to reprioritisation and/or re-programming meant that \$3.49 million of cash on hand at 31 March 2016 was higher than planned.

29 **Cash Flow from Operating Activities**

Brief Description:	Net cash flow generated from total operating revenue less total operating expenditure.
Year to Date:	The reporting period realised a net cash inflow of \$11.38 million. This was mainly due to the receipt of rates income, charges and fees offset by lower than expected levels of operating expenditure during the same period.
Full Year Forecast:	Expected to be in line with budget at this stage.

30 **Cash Flows from Investing Activities**

Brief Description:	Net cash flow generated from the sale and purchase of Council assets.
Year to Date:	The reporting period realised a net cash outflow of \$23.38 million on assets mainly due to: <ol style="list-style-type: none"> 1. Council retained \$15 million of unbudgeted fixed term deposit investments. 2. Council spent \$8.83 million on capital projects.
Full Year Forecast:	\$11.37 million unfavourable to budget. This is mainly due to \$14 million of unbudgeted cash will be held on term deposit at year end.

31 **Cash Flows from Financing Activities**

Brief Description:	Net cash flow from borrowings.
Year to Date:	The reporting period realised a net cash inflow of \$14.05 million. This is mainly due to: <ol style="list-style-type: none"> 1. New debt of \$20 million issued during the second quarter. 2. Total interest paid on borrowings of \$5.92 million
Full Year Forecast:	\$11.04 million favourable to budget. This is mainly due to new debt of \$10 million issued to pre-fund debt maturing in December 2016.

General Note

- 32 Parts A to C include minor corrections to the 2015/16 budget as reported in the 2015-35 Long Term Plan.

Part D: Statement of Rates Funding

- 33 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 expense that is rates funded.
- 34 Table 4 below details the actual rates funding deficit for the nine months ended 31 March 2016, and the full year forecast.

Table 4 Rates Revenue Requirement	March YTD Actual \$000's	FY Forecast \$000's
Net Operating (Deficit)/Surplus	(8,197)	32,197
Adjusted by income and expenditure variances not funded by rates:		
Add:		
Fair value movement in interest rate swaps	7,169	7,047
Increased Capital Funding and vesting of assets	(650)	(1,037)
Movement in net expenditure funded by reserves	(168)	(127)
Revaluation of Council's assets	15,246	(22,672)
Underlying net rates surplus/(deficit)	13,400	15,408
Less: budgeted net surplus/(Deficit)	12,026	16,318
Variance	1,374	(910)
Represented by:		
Water account deficit		(439)
Depreciation (excluding water)		(259)
Net unbudgeted expenditure		(213)
Total Rates Deficit		(910)

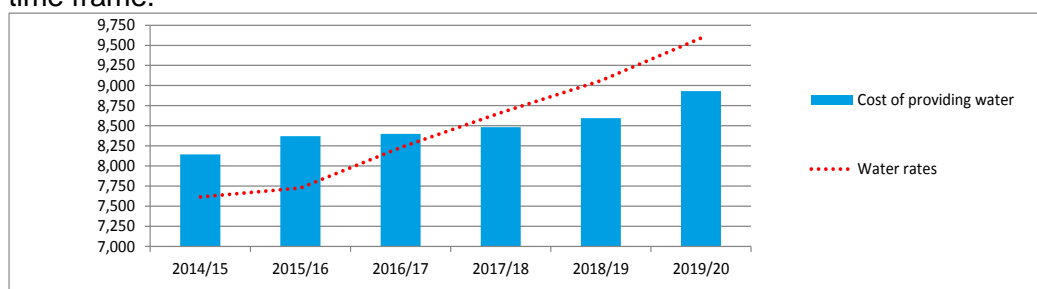
- 35 The year to date rates surplus is \$1.37 million favourable to budget. This largely reflects lower levels of year to date expenditure rather than cost savings that will impact on the full year result.
- 36 Council is forecasting a total rates deficit of \$910,000 as at 30 June 2016. This is mainly due to the water account deficit (See Part F: Water Account Deficit) and additional unbudgeted depreciation charges as already noted. The balance of \$213,000 results from some projects that have incurred extra costs, such as the PDP, and some unplanned items such as an IRD tax review. More detail can be found in the activity report.

Part E: Water Account Statement

- 37 A water account is a mechanism that captures the total cost of providing potable water. This includes reticulation and treatment. Ideally the total cost of providing potable water is fully recovered by fixed and metered water 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.

- 38 Water usage is expected 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.

- 39 The water account is currently in deficit. Council will gradually increase the annual water rates over the next five years, to a level that recovers the full cost of providing this service across the district. This gradual increase has been planned to smooth the rate of change for the community within an acceptable time frame.



- 40 Water volumes continue to track lower than expected. The Long-Term Plan assumed a total usage of 4.33 million cubic metres and 24,585 water connections for 2015/16. Current trends suggest only 4 million cubic metres will be consumed in 2015/16. This lower usage is partially offset by more actual fixed connections.

- 41 The 2015/16 budget assumed a water account deficit of \$204,000. Council is now forecasting a full year water account deficit of \$643,000. This would result in a total water account deficit for the two years ended 30 June 2016 of \$1.17 million, which remains consistent with the Charging Regime Advisory Group 2016 Review (Report IS-16-1840), as reported to the Council on 17 March 2016.

- 42 The table below outlines the current water account position. From 2014/15 to 2016/17, Council will not recover the full cost of providing water. From 2017/18 to 2019/20, the anticipated surpluses will help to ensure that the full cost of water is recovered from water rates. The annual water rates will be further reviewed to ensure that the water account is not in deficit by 30 June 2020.

Summary of Water Account	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Cost of providing water	8,143	8,369	8,399	8,483	8,593	8,932
Water rates	7,615	7,726	8,230	8,663	9,061	9,590
Annual surplus/(deficit)	(528)	(643)	(169)	180	468	658
Balance of water account	(528)	(1,171)	(1,340)	(1,160)	(692)	(33)

Part F: Capital Spending Programme

43 Table 5 provides a summary of the 2015/16 capital expenditure programme.

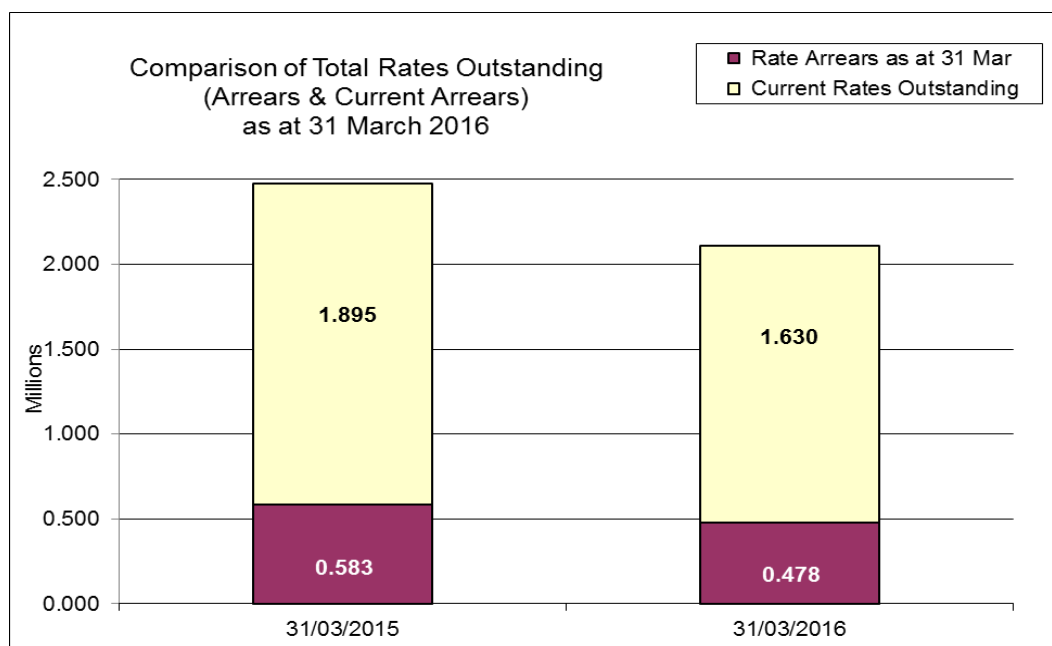
Table 5	YTD 2015/16			Full Year 2015/16		
	Actual \$000	Budget \$000	Variance \$000	Forecast \$000	Budget \$000	Variance \$000
New Projects Over \$250,000						
OTAKI BUILDING RENEWALS/ROOF	145	-	(145)	367	340	(27)
TE ATIWA PARK	821	-	(821)	830	975	145
STRATEGIC LAND PURCHASE	46	1,380	1,335	441	1,841	1,400
YOUTH DEVELOPMENT CENTRE	-	187	187	-	250	250
MATERIALS ADDITIONS	362	350	(12)	450	450	0
CWB CAPITAL UCF	267	450	183	600	600	(0)
NZTA SEALED ROAD RESURFACING	942	749	(193)	999	999	(0)
NZTA TRAFFIC SERVICES RENEWALS	187	273	86	364	364	(0)
CWB NEW CAPITAL	79	544	465	132	725	593
NZTA MINOR IMPROVEMENTS	308	263	(46)	350	350	(0)
LOCAL AREA CONNECTORS	0	100	100	(0)	663	663
MAJOR COMMUNITY CONNECTOR UPGRADES	-	600	600	(0)	1,535	1,535
LANDFILL CLOSURE	316	341	25	626	500	(126)
TOWN CENTRE MAJOR CONNECTORS	269	759	490	882	1,328	446
WAIKAKARIKI GRAVEL EXTRACTION	51	300	249	91	400	309
COASTAL PROTECTION PAEKAKARIKI	59	211	153	282	282	(0)
TILLEY ROAD	125	428	302	513	570	57
PARAPARAUMU/RAUMATI NETWORK PIPE RENEWAL	215	237	22	264	270	6
PARA/RAU RETCI RENEWALS PLANNED	22	187	165	29	250	221
PARA NORTH WW NETWORK RECONFIG	16	86	70	16	300	284
WAIKANAE DUPLICATE RISING MAIN - ADVANCED	135	71	(63)	1,751	250	(1,501)
WW TREATMENT PLT DISSOLVED AIR FLOATATION	44	525	481	7	700	693
WAIK RRWG BORE UPGRADE	76	185	109	20	250	230
OTAKI BEACH SWPS	1,216	2,701	1,484	3,051	3,601	550
OTAKI WWTP UPGRADES PROCESS	16	50	34	16	300	284
PLANT PURCHASE & RENEWAL A/C	243	338	94	450	450	0
New Projects Over \$250,000	5,961	11,315	5,354	12,529	18,541	6,012
New Projects Under \$250,000	3,736	4,963	1,227	9,153	7,177	(1,976)
TOTAL CAPITAL EXPENDITURE PROJECTS	9,697	16,278	6,582	21,683	25,718	4,035

44 Please refer to the CBC Activity Report – 1 January to 31 March (SP-16-1886) for more detailed information.

Part G: Outstanding Rates Debt as at 31 March 2016

Property Rates Outstanding (Excluding Water Rates)

- 45 \$2.11 million of property rates are outstanding as at 31 March 2016 (\$2.48 million: 31 March 2015).
- 46 Rate payments received are first applied to rate arrears. The chart below reflects a reduction in the overall rates debt as at 31 March 2016 compared to 31 March 2015.

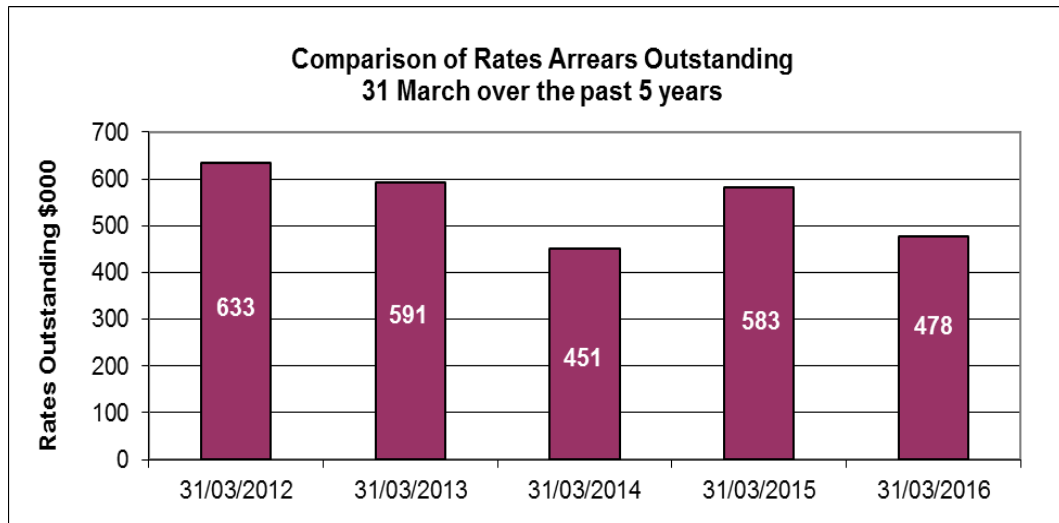


- 47 Council collects current year rates on behalf of the Greater Wellington Regional Council. \$1.63 million of current rates outstanding as at 31 March 2016 is split as follows:

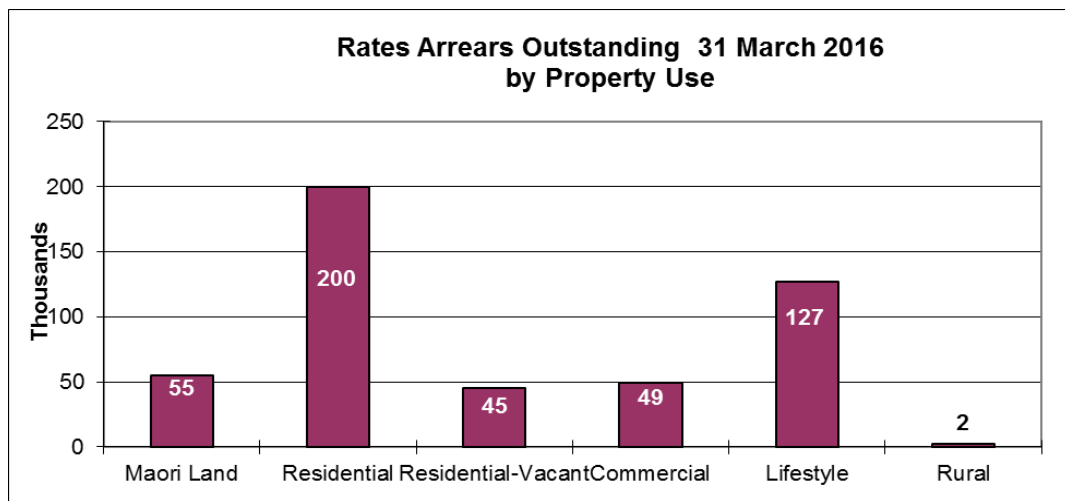
	\$000	\$000
Kāpiti Coast District Council rates	1,140	
Kāpiti Coast District Council penalties	260	
Total Kāpiti Coast District Council outstanding rates	1,400	
Greater Wellington Regional Council rates	185	
Greater Wellington Regional Council penalties	45	
Total Greater Wellington Regional Council outstanding rates		230
Total 2015/16 rates outstanding as at 31 March 2016		1,630

- 48 Council's rates collection process involves follow up with outstanding debtors and payment arrangements to ensure debts are settled over a reasonable time period.

- 49 The graph below shows a comparison of the rates arrears outstanding as at 31 March 2016 and for the previous 4 years.

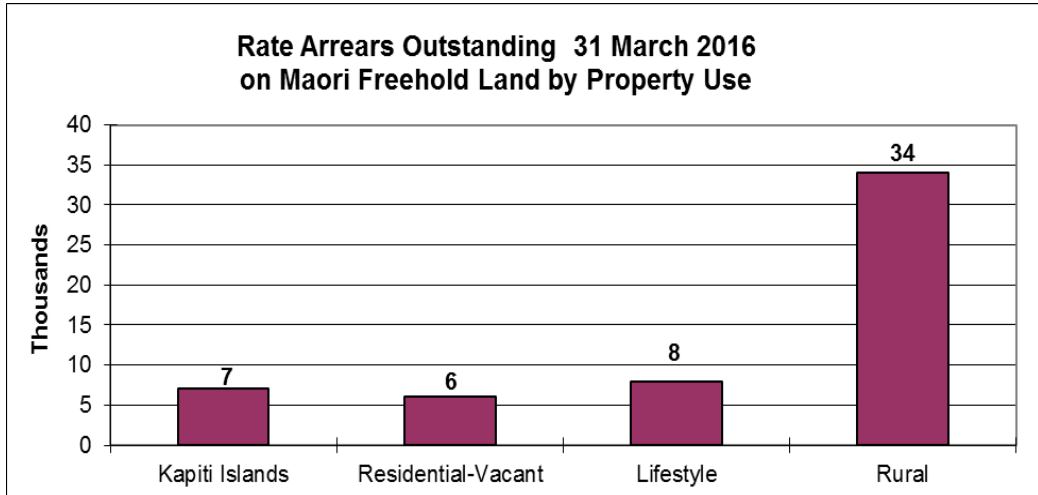


- 50 The graph below details the total rates arrears of \$477,933 by Property Use Category. The majority of the total rates arrears are from residential properties.



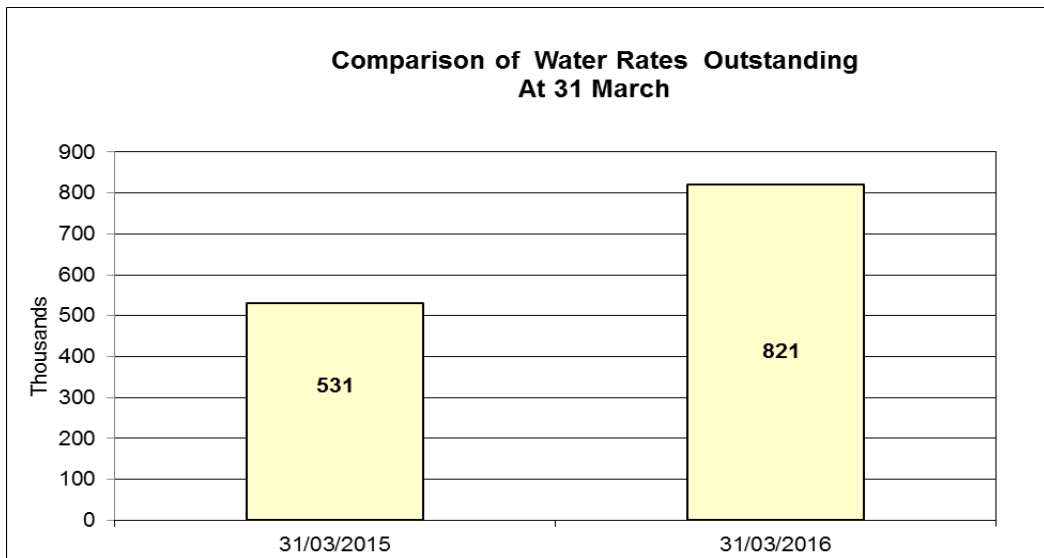
- 51 The rates arrears from Māori Freehold Land include mainly rate arrears owed to Greater Wellington Regional Council. Their policy is to remit such rates that are six years old.

- 52 The graph below details Māori freehold land by Property Use category. The majority of the total rates arrears are from rural properties.

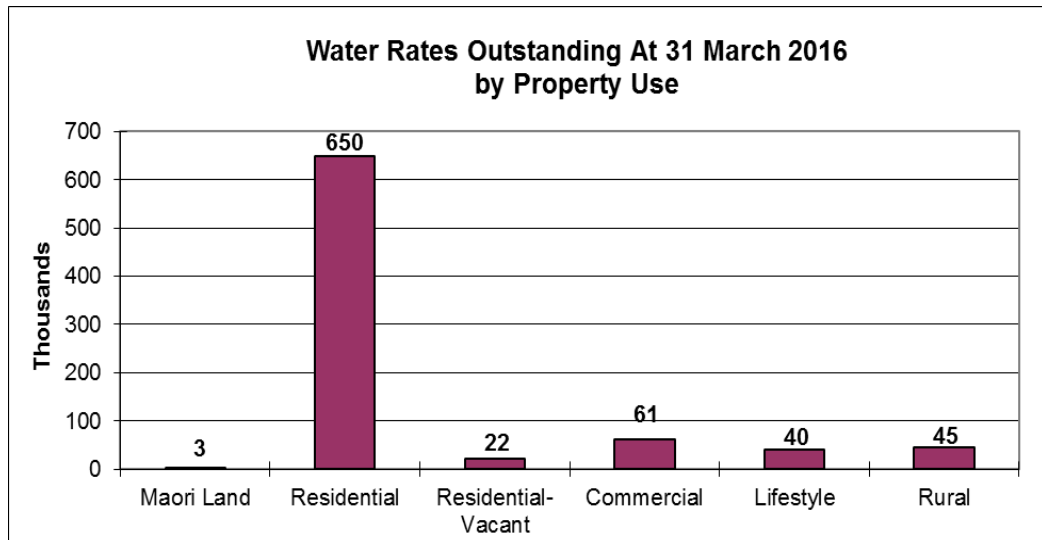


Water Rates Outstanding

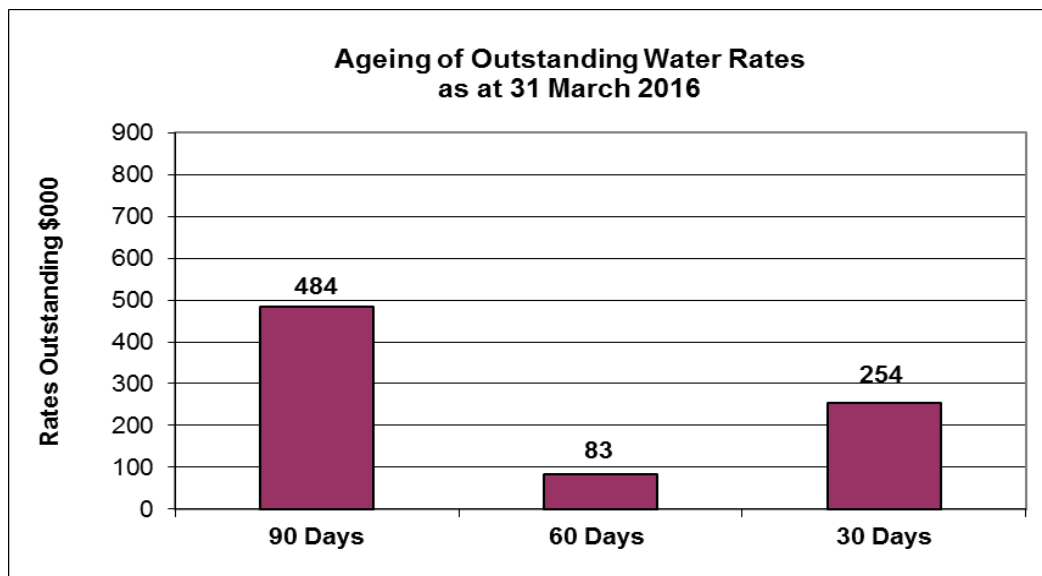
- 53 A total of \$821,217 of water rates is outstanding as at 31 March 2016.
- 54 Water rate payments received are first applied to water rate arrears. The chart below reflects an increase in the overall water rates debt as at 31 March 2016 compared to 31 March 2015. The current rate of collection is tracking at 77 per cent.



- 55 The graph below details the total water rates outstanding by Property Use Category. The majority of the outstanding water rates are from residential properties.



- 56 The graph below details the ageing of the total water rates outstanding. \$483,860 or 59% of the Council’s outstanding water rates are older than 90 days.



- 57 Work is underway to address the outstanding water rates, with more debt collection effort as a starting point.

- 58 Table 7 below details the total rate remissions (including Central Government Rates Rebates) granted for the nine months period ended 31 March 2016. A forecast for the year ended 30 June 2016 is also provided.

Table 7	Mar YTD Actual \$000	Full Year Forecast \$000	Full Year Budget \$000	Full Year Variance \$000
Community properties (Council and Private ownership), sporting, recreational and other community organisations	33	39	87	(44)
Residential rating units containing two separately habitable units	74	92		
Financial Hardship	104	125	125	-
One off expenditure relating to the repairs to water leaks, serious health issue or essential housing maintenance	3	25	25	-
High water consumption for larger families	1	50	50	-
Total Council Rates Remissions	215	331	287	(44)
Central Government Rebates	1,013	1,719	N/A	N/A

- 59 The number of applications received for rate remissions for residential rating units containing two separately habitable units tends to vary year on year.
- 60 Central Government rate rebates of \$1.01 million were granted for the nine months ended 31 March 2016. Council provides the approved rates remission (up to \$610 per rateable property) to the successful applicants and recovers the costs directly from the Department of Internal Affairs.

Part H: Treasury Management

Summary

- 61 New debt of \$20 million was issued during November and December 2015 to secure lower borrowing costs. \$10 million of new debt was issued to prefund \$10 million of debt maturing in December 2016 and a further \$10 million of new debt was issued to prefund Council's 2015/16 Capital Works Programme. All pre-funding was invested on fixed term deposits at the most favourable rate of return.
- 62 The Reserve Bank of New Zealand (RBNZ) delivered an unexpected fifth cut of 25 basis points (bps) to the Official Cash Rate (OCR) in March 2016, bringing it down to 2.25%.
- 63 Council's weighted average cost of funds has improved slowly as the Council takes advantage of lower interest rates. The weighted average costs of funds for the nine months ended 31 March 2016 was 5.43% compared to the budget of 5.80%.
- 64 Council is compliant with all of its Treasury Policy limits, including its debt maturity and hedging limits.

Net Debt

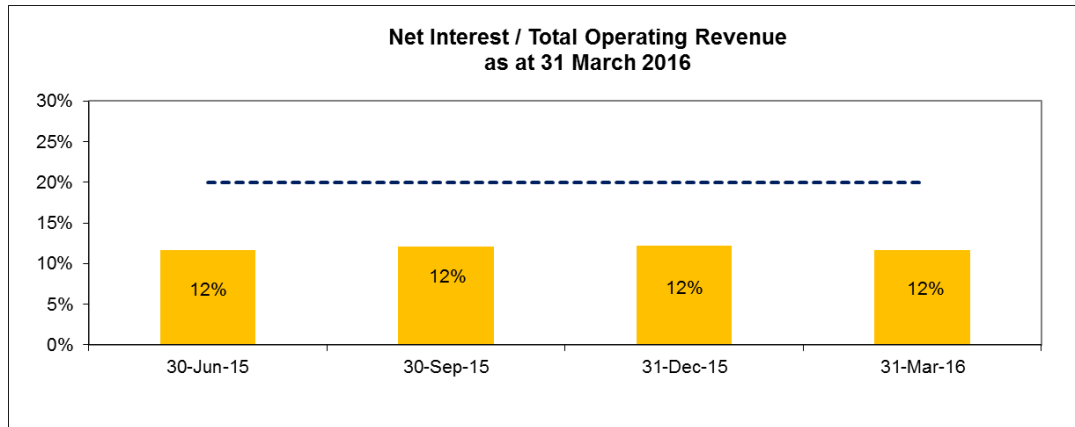
- 65 Net debt is the measure of Council's total borrowings less cash on hand and cash investments (including Local Government Funding Agency (LGFA) Borrower Notes). Net debt is used to calculate three of Council's four Treasury Policy Limits.
- 66 Table 8 below shows the Council's actual net debt for the period ended 31 March 2016 and the forecast net debt as at 30 June 2016.

Table 8	Mar YTD	Full Year	Full Year	Full Year	Full Year
	Actual	Forecast	Budget	Variance	2014/15
	\$000's	\$000's	\$000's	\$000's	
External debt	160,026	158,848	148,848	(10,000)	140,065
/ess borrower notes	(2,400)	(2,400)	(2,080)	320	(2,080)
/ess cash investments	(18,488)	(14,142)	(200)	13,942	(1,440)
Net debt	139,139	142,306	146,568	4,262	136,545

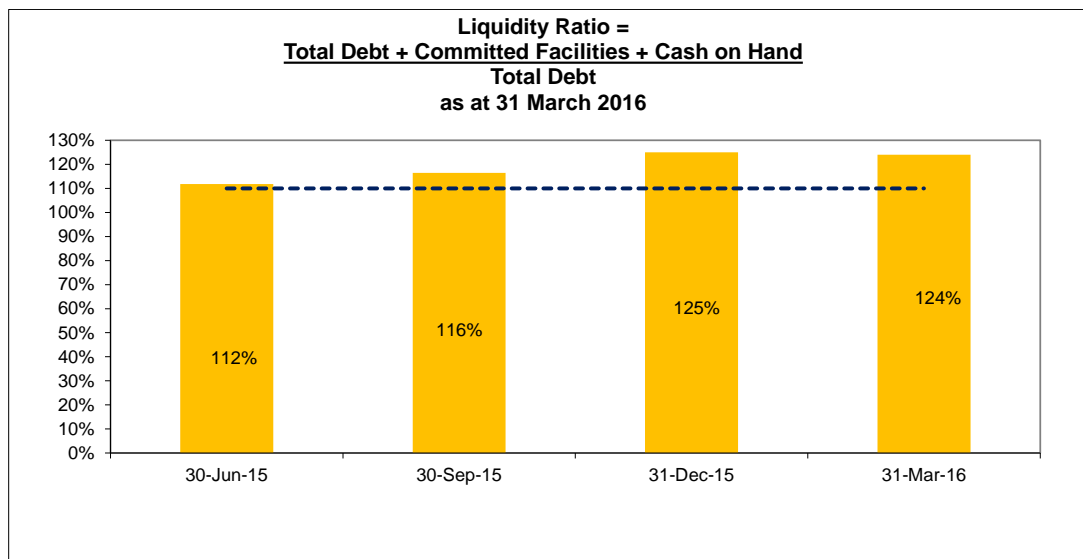
- 67 Council's net debt at 30 June 2016 is forecast to be \$4.26 million favourable to full year budget mainly due to \$4 million of capital works expected to be carried over to 2016/17.

Treasury Policy Limits

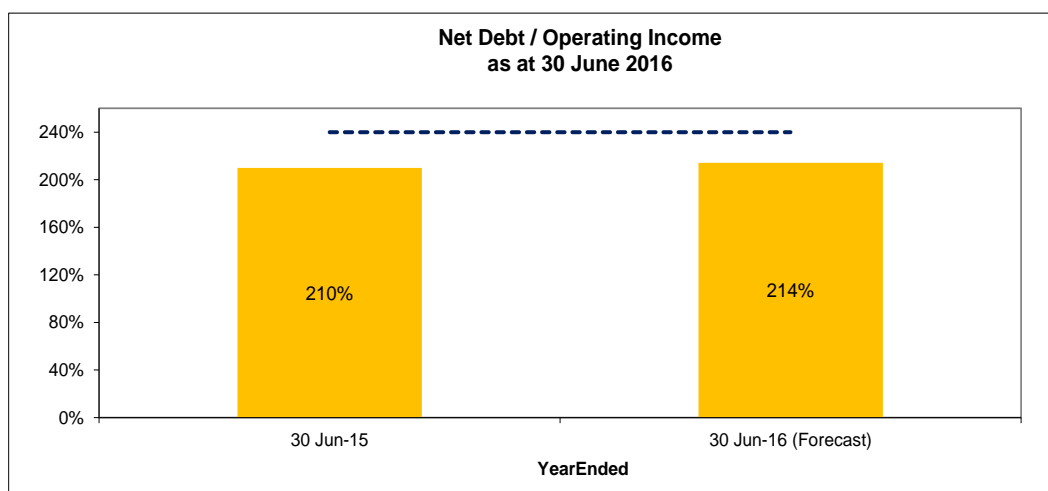
- 68 The Treasury Management Policy (Policy) contains four financial ratios with either a maximum or minimum policy limit.
- 69 The Policy sets the maximum limit for the ratio of net interest expense to total operating revenue of 20%. The chart below shows actual limits achieved for each quarter.



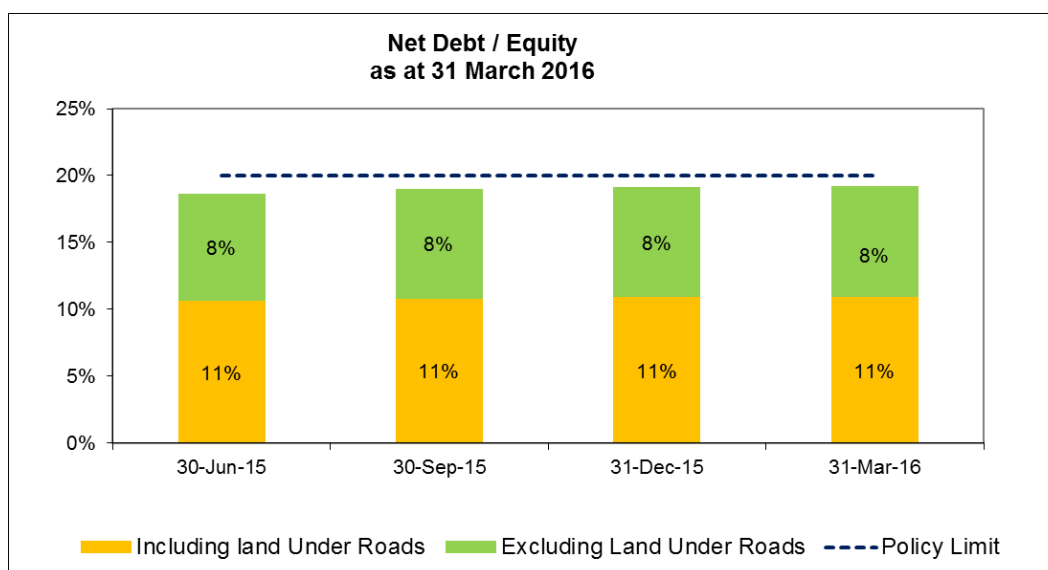
- 70 The Policy sets the minimum limit for the liquidity ratio of 110%. This is a measure of Council's available financial facilities compared to its current debt levels. The chart below shows actual limits achieved for each quarter.



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



- 72 The Policy sets the maximum limit for net debt to equity ratio of 20%. The chart below shows actual limits achieved for each quarter.



- 73 The chart above shows the uplift to the treasury ratio when excluding land under roads.

Fixed Rate Maturity Profile

- 74 The Treasury policy sets limits for the fixed rate maturity profile, with minimum cover in each of the “buckets” set at 15%, and maximum cover set at 60%.
- 75 As at 31 March 2016, the “1 to 3 year bucket” had 14% cover, due to a notional \$8 million (5%) of swaps rolling from the 1-3 bucket into floating (less than 1 year to maturity).
- 76 This will correct itself in June 2016, when a notional \$5 million of swaps will roll from the “3 to 5 year bucket” to the “1 to 3 year bucket”. Given that Council’s fixed rate maturity profile self-corrects within 90 days, there is no Treasury policy breach.

CONSIDERATIONS

Financial Consideration

77 The financial information as detailed in Parts A to H of this report (Corp-16-1885) 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

78 There are no legal considerations.

Consultation

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

Policy Implications

80 There are no policy implications.

Tāngata Whenua

81 There are no tāngata whenua considerations.

SIGNIFICANCE AND ENGAGEMENT

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

Publicity Considerations

83 There are no publicity considerations at this stage.

RECOMMENDATIONS

84 That the Corporate Business Committee notes the actual financial performance and position of Council for the nine months ended 31 March 2016 as contained in this report (Corp-16-1885).

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