

Chairperson and Committee Members
CORPORATE BUSINESS COMMITTEE

13 NOVEMBER 2014

Meeting Status: **Public**

Purpose of Report: For Information

FINANCIAL REPORT TO 30 SEPTEMBER 2014

PURPOSE OF REPORT

- 1 This report sets out Council's financial performance and financial position as at 30 September 2014. Financial exceptions are noted in the report together with explanations for any significant variations from the Annual Plan.

SIGNIFICANCE OF DECISION

- 2 This report does not trigger Council's Significance Policy.

BACKGROUND

- 3 Council is provided with information on seven broad areas of financial performance each quarter. The seven broad areas of financial performance are:

Part A: Statement of Comprehensive Revenue and Expense

Part B: Statement of Financial Position

Part C: Statement of Cash Flow

Part D: Statement of Rating Position

Part E: Capital Works Programme Performance

Part F: Outstanding Rates Debt as at 30 September 2014

Part G: Statement of Performance against Treasury Policy Limits

CONSIDERATIONS

- 4 The financial information as detailed in Parts A to G of this report 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.

Part A: Statement of Comprehensive Revenue and Expense

- 5 The Statement of Comprehensive Revenue and Expense covers all of Council's revenue and expenditure. The net position of revenue less expenditure provides the operating surplus or deficit for the period.
- 6 Table 1 summarises Council's Statement of Comprehensive Revenue and Expense as at 30 September 2014.

Table 1	2014/15 Year to Date Actual \$000	2014/15 Year to Date Annual Plan \$000	2014/15 Year to Date Variance \$000	2014/15 Full Year Forecast \$000	2014/15 Full Year Annual Plan \$000	2014/15 Full Year Variance \$000
Revenue						
Rates	13,092	13,092	-	52,368	52,368	-
Fees and Charges	2,306	2,161	145	8,643	8,643	-
Grants and Subsidies	422	619	(197)	2,476	2,476	-
Development and Financial Contributions	6	297	(291)	1,188	1,188	-
Interest Income	167	152	15	608	608	-
Unrealised Gain on Revaluation of Derivatives	237	-	237	-	-	-
Other Operating Revenue	610	161	450	642	642	-
Revenue	16,840	16,481	359	65,925	65,925	-
Expenses						
Depreciation and Amortisation	3,967	3,967	-	15,869	15,869	-
Finance Expense	2,037	1,975	62	7,899	7,899	-
Other Operating Expense	9,963	11,249	(1,286)	44,994	44,994	-
Expense	15,967	17,191	(1,223)	68,762	68,762	-
OPERATING SURPLUS/(DEFICIT)	873	(709)	1,582	(2,837)	(2,837)	-

- 7 Council's year to date performance has achieved a net operating surplus of \$0.87 million which is \$1.58 million favourable to Annual Plan.
- 8 This favourable performance was achieved mainly due to a \$1.22 million underspend across expenses and a final settlement of \$0.53 million was received from Mainzeal's receivers for additional detailed finishing costs incurred by Council to complete the Coastland Aquatic Centre.
- 9 Expected savings on annual insurance costs from a highly competitive re-insurance market and the final settlement received from Mainzeal could potentially result in Council's full year performance being favourable to Annual Plan.
- 10 Given that three quarters of the financial year remain ahead, Council is forecasting to be in line with full year Annual Plan at this stage.

Explanation of Revenue**11 Rates**

Brief Description:	<ol style="list-style-type: none"> 1. This includes Council's General and Targeted rates, (including fixed and volumetric water charges) that were set for the 2014/15 financial year. Total rates recognised are net of rates remissions. 2. Rates collected on behalf of Greater Wellington Regional Council and rates received from Council owned properties are excluded from rates revenue.
Year to date Variance:	In line with Annual Plan.
Forecast Full Year Variance:	Expected to be in line with Annual Plan.

12 Fees and Charges

Brief Description:	This includes rental income from Council owned properties, user charges and fees for various activities and fines and rates penalties.
Year to date Variance:	<ol style="list-style-type: none"> 1. \$0.14 million favourable to Annual Plan. 2. This is a temporary timing difference as this is mainly due to annual dog registration fees received on or before the 5 August 2014 and annual environmental health and food premises fees received in the first quarter.
Forecast Full Year Variance:	Expected to be in line with Annual Plan.

13 Grants and Subsidies

Brief Description:	Income received from both operating and capital funding subsidies received from the New Zealand Transport Agency (NZTA).
Year to date Variance:	<ol style="list-style-type: none"> 1. \$0.20 million unfavourable to Annual Plan. 2. Mainly due to less funding received from NZTA than planned due to delays at Te Roto Drive and major community connector upgrades. This will be recovered later in 2014/15 once the work has been completed.
Forecast Full Year Variance:	Expected to be in line with Annual Plan.

14 Financial/Development 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:	1. \$0.29 million unfavourable to Annual Plan due to incorrect budget phasing.

	2. Development contributions are recognised when expenditure on capital work related specifically to growth is undertaken. Work will be completed in the second and third quarters to realign the budget phasing with planned growth related capital works.
Forecast Full Year Variance:	Expected to be in line with Annual Plan.

15 **Unrealised Gain on Revaluation of Financial Instruments**

Brief Description:	<ol style="list-style-type: none"> 1. Council recognises its interest rate swaps at fair value on a quarterly basis. 2. The change in fair value between 30 June 2014 and the end of the reporting quarter is treated as either an unrealised gain (fair value has increased) or an unrealised loss (fair value has decreased). 3. The fair value of Council's swaps at reporting date represents the present value of the future net cost to Council of its swaps from the reporting date to maturity of the swap portfolio.
Year to date Variance:	\$0.24 favourable to Annual Plan because the majority of Council's fixed interest swap rates are lower than current fixed interest swap rates available on the open market.
Forecast Full Year Variance:	No forecast will be provided until the end of the third quarter due to the high volatility of the financial market.

16 **Other Operating Income**

Brief Description:	Includes assets vested to Council, Local Government petrol tax, donations and/or sponsorship, realised gains on asset disposals, unrealised gains or losses on revaluation of forestry assets and exceptional revenue items.
Year to date Variance:	\$0.53 million favourable to Annual Plan mainly due to a final settlement of \$0.53 million (net of GST) received from Mainzeal's receivers for additional detailed finishing costs incurred by Council to complete the Coastland Aquatic Centre.
Forecast Full Year Variance:	Expected to be in line with Annual Plan.

Explanation of Operating Expenditure**17 Finance Expense**

Brief Description:	Council's debt servicing costs on its total borrowings.
Year to date Variance:	<p>1. \$0.06 million unfavourable to Annual Plan due to increased floating interest rates charged on Council borrowings at their quarterly rollover dates between July to September 2014.</p> <p>2. Floating interest rates increased following increases to the Official Cash Rate by the Reserve Bank.</p>
Forecast Full Year Variance:	Expected to be in line with Annual Plan.

18 Other Operating Costs

Brief Description:	Includes all other direct operating costs.
Year to date Variance:	\$1.29 million favourable to Annual Plan. This is mainly a reflection of lower levels of expenditure at the beginning of the year in areas such as consultants, contractors, legal and maintenance rather than cost savings that will impact on the full year result.
Forecast Full Year Variance:	Expected to be in line with Annual Plan.

Part B: Statement of Financial Position as at 30 September 2014

- 19 The Statement of Financial Position as at 30 September 2014 is set out in Table 2, followed by an overview of the key components.

Table 2	2014/15 Current Month Actual \$000	2014/15 Year End Forecast \$000	2014/15 Year End Annual Plan \$000	2014/15 Year End Variance \$000
ASSETS				
Cash and Cash Equivalents	906	3,734	3,734	-
Trade and Other Receivables	6,467	6,244	6,244	-
Loans	482	-	-	-
Inventories	60	139	139	-
Non-Current Assets held for Sale	272	-	-	-
Property Plant and Equipment	1,431,695	1,445,263	936,654	508,609
Forestry Assets	77	268	268	-
Intangible Assets	666	350	350	-
Derivative Financial Instruments	279	271	271	-
Other Financial Assets	1,976	-	-	-
TOTAL ASSETS	1,442,880	1,456,269	947,660	508,609
LIABILITIES				
Trade and Other Payables	6,747	14,693	14,693	-
Employee Benefit Liabilities	1,991	2,103	2,103	-
Deposits	993	1,218	1,218	-
Development and Financial Contributions	1,732	1,622	1,622	-
Borrowings	130,123	138,016	138,016	-
Provisions	5,374	5,053	39	5,014
Derivative Financial Instruments	3,933	6,459	6,459	-
TOTAL LIABILITIES	150,893	169,164	164,150	5,014
Public Equity				
Accumulated Funds	580,051	576,341	574,892	1,449
Reserves and Special Funds	3,246	2,074	2,074	-
Revaluation Reserve	708,690	708,690	206,544	502,146
TOTAL EQUITY	1,291,987	1,287,105	783,510	503,595
TOTAL LIABILITIES AND EQUITY	1,442,880	1,456,269	947,660	508,609

Explanation of Table 2

Total Assets Summary

- 20 Council's assets are currently \$495.22 million higher (favourable) than Annual Plan. This is mainly due to last year's revaluation of land under roads.
- 21 Similarly, Council's assets are forecast to be \$508.61 million higher (favourable) than Annual Plan due to last year's revaluation of land under roads.

Total Liabilities Summary

- 22 Council's total liabilities are currently \$13.26 million less (favourable) than Annual Plan. This is due to the following:
- Temporary timing differences as three quarters of the 204/15 financial year remains ahead of Council in terms of operating and capital expenditure liabilities, employee benefit liabilities, development and financial contribution recognition and planned capital work borrowing requirements.

- 23 Total liabilities are forecast to be \$5.01 million higher (unfavourable) than Annual Plan due to Council's 2013/14 requirement to provide for the Otaihanga landfill post-closure capping costs. This was unbudgeted in 2014/15.

Total Public Equity Summary

- 24 Public Equity is forecast to be \$503.60 million higher (favourable) than Annual Plan mainly due to the valuation of land under roads at 30 June 2014.

Part C: Statement of Cash Flows as at 30 September 2014

- 25 The Statement of Cash Flows as at 30 September 2014 is set out in Table 3, followed by an overview of the key components.

Table 3	2014/15 Current Month Actual \$000	2014/15 Full Year Forecast \$000	2014/15 Full Year Annual Plan \$000	2014/15 Full Year Variance \$000
<i>Cash was provided from:</i>				
Kapiti Coast District Council Rates	11,987	52,350	52,350	-
Greater Wellington Regional Council Rates	2,282	8,120	8,120	-
Grants and Subsidies - Operating	422	-	-	-
Charges and Fees	2,768	11,964	11,964	-
GST (net)	101	-	-	-
	17,561	72,434	72,434	-
<i>Cash was applied to:</i>				
Payments to Employees and Suppliers	12,860	43,293	43,293	-
Rates Paid to Greater Wellington Regional Council	2,282	8,120	8,120	-
Interest on Borrowings	2,079	7,899	7,899	-
	17,221	59,312	59,312	-
Net Cash Flows from Operating Activities	340	13,122	13,122	-
Cash Flows from Investing Activities				
<i>Cash was provided from:</i>				
Proceeds from Sale of Property, Plant and Equipment	2,400	120	120	-
Other	0	125	125	-
	2,400	245	245	-
<i>Cash was applied to:</i>				
Construction and Purchase of Property, Plant and Equipment and Intangibles	8,897	29,323	29,323	-
Purchase of Investments	58	-	-	-
	8,955	29,323	29,323	-
Net Cash Flows from Investing Activities	(6,555)	(29,078)	(29,078)	-
Cash Flows from Financing Activities				
<i>Cash was provided from:</i>				
Long Term Borrowing Raised	-	25,125	25,125	-
	-	25,125	25,125	-
<i>Cash was applied to:</i>				
Debt Principal Repayment	24	9,278	9,278	-
	24	9,278	9,278	-
Net Cash Flows from Financing Activities	(24)	15,847	15,847	-
Net Increase(Decrease) in Cash and Cash Equivalents	(6,239)	(109)	(109)	-
Add Total Cash and Cash Equivalents at 1 July	7,145	3,843	3,843	-
TOTAL CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	906	3,734	3,734	-

Explanation of Table 3

Overall Summary

- 26 Council is currently holding cash of \$0.91 million at 30 September 2014 (\$0.71 million was held on deposit). This high cash balance at balance date is mainly due to first quarter rates falling due on the 4 September 2014.
- 27 Council funded its first quarter capital work programme from a combination of an opening cash balance of \$7.15 million and from sale proceeds of \$2.4 million received in August 2014 as settlement for the town centre land, Rimu Road, Paraparaumu.

28 **Cash Flow from Operating Activities**

Brief Description:	Net cash flow generated from total operating revenue less total operating cash expenditure.
Year to Date:	The first quarter realised a net cash inflow of \$0.34 million. This was mainly due to the settlement of \$0.53 million received from Mainzeal's receivers.
Full Year Variance:	Expected to be in line with Annual Plan.

29 **Cash flows from Investing Activities**

Brief Description:	Net cash flow generated from the sale and purchase of Council assets.
Year to Date:	The first quarter realised a net cash outflow of \$6.56 million on fixed assets due to: <ul style="list-style-type: none"> 1 Sale proceeds of \$2.4 million were received in August 2014 for settlement of the town centre land, Rimu Road, Paraparaumu. 2 Council spent \$8.95 million on capital projects in the first quarter.
Full Year Variance:	Expected to be in line with Annual Plan.

30 **Cash flows from Financing Activities**

Brief Description:	Net cash flow from borrowings.
Full Year Variance:	<ul style="list-style-type: none"> 1 The first quarter realised a net cash outflow of \$0.02 million. The small debt repayment of \$0.02 million was a scheduled partial repayment of an interest free ECCA loan. 2 No new borrowings were required in the first quarter due to a \$7.15 million opening cash balance and asset sale proceeds of \$2.4 million were received in August 2014.

Part D: Statement of Rates Funding

- 31 The Rates Funding 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 expenditure from all funding sources, including vested assets.
 - Rates Funding Surplus / (Deficit) only covers Council's revenue and expenditure that is rates funded. Any surplus/ (deficit) affects the rates required for the 2014/15 year onwards.
- 32 The total Rates Funding requirement for 2014/15 is \$52.37 million. Table 4 below details the actual total Rates Funding surplus achieved for the period ended 30 September 2014 and forecast for the year ending 30 June 2015.

Table 4	2014/15 Year to Date			2014/15 Full Year		
	Actual \$000's	Annual Plan \$000's	Var Fav / (Unfav) \$000's	Forecast \$000's	Annual Plan \$000's	Var Fav / (Unfav) \$000's
Rates Funding Requirement						
Total Non-Rates Funded Revenue	3,511	3,390	121	13,557	13,557	-
Expenditure						
Direct Costs	9,963	11,249	1,286	47,445	47,445	-
Funded Depreciation	2,617	2,617	-	10,469	10,469	-
Finance Costs	2,037	1,975	(62)	7,899	7,899	-
Capital Costs	22	28	6	112	112	-
Total Expenditure	14,639	15,869	1,230	65,925	65,925	-
Net Expenditure for Rates Funding Requirement	11,128	12,479	1,351	52,368	52,368	-

- 33 Depreciation has a full year budget of \$15.87 million as per the Annual Plan. \$10.47 million is funded from rates revenue and \$5.40 million is non-funded in 2014/15. Non funded depreciation must be repaid from future rates revenue over the 20 year period ended 30 June 2033.

	Year to Date	Full Year Forecast
Net Expenditure for Rates Funding Requirement	1,351	-
Rates received under Budget	-	-
Unrealised Gain on Revaluation of Financial Instruments	237	-
Rates funded Capital Costs under budget	(6)	-
Net Deficit Variance from Statement of Comprehensive Income	1,582	-

PART E: Capital Works Programme Performance

34 This table provides a summary of the full year's capital expenditure programme.

Capital Projects	September 2014 Year to Date					
	Year to Date Actual \$000's	Proposed Carryover \$000's	Actual Carryover \$000's	Full Year Budget \$000's	Full Year Budget + Carryover \$000's	Variance \$000's
Total Carryover Projects to 2014/15	2,227	6,200	6,860	6,001	12,861	10,634
New Projects Over \$250,000						
Hardware Upgrades	43	-	-	254	254	211
Otaki Splash Pad / Water Features	-	-	-	268	268	268
Strategic Land Purchase	-	-	-	1,001	1,001	1,001
Youth Hub	-	-	-	250	250	250
Material Additions	22	-	-	438	438	416
NZTA Sealed Road Resurfacing	42	-	-	1,453	1,453	1,411
NZTA Traffic Services Renewals	45	-	-	347	347	302
NZTA Minor Improvements	7	-	-	420	420	413
NZTA Major Bridge Repairs	13	-	-	276	276	263
Major Community Connector Upgrades	42	-	-	633	633	591
Town Centre Major Connector	227	-	-	1,000	1,000	773
Tilley Road	14	-	-	553	553	539
Wellington Road Pipe Renewal	-	-	-	259	259	259
Milne Drive WW Pumping Station Upgrade	-	-	-	250	250	250
Waikanae Water Treatment Plant Upgrade	158	-	-	874	874	716
Otaki Beach Pump Station	5	-	-	1,660	1,660	1,655
Otaki WWTP Oxidation Lagoon Desludging	178	-	-	672	672	494
Plant Purchase	252	-	-	643	643	391
Total New Projects Over \$250,000	1,048	-	-	11,251	11,251	10,203
Total New Projects Under \$250,000	679	-	-	5,914	5,914	5,235
TOTAL CAPITAL EXPENDITURE PROJECTS	3,954	6,200	6,860	23,166	30,026	26,072

35 Please refer to the CBC Activity Report for the quarter ended 30 September 2014 (SP-14-1384) for more detailed information.

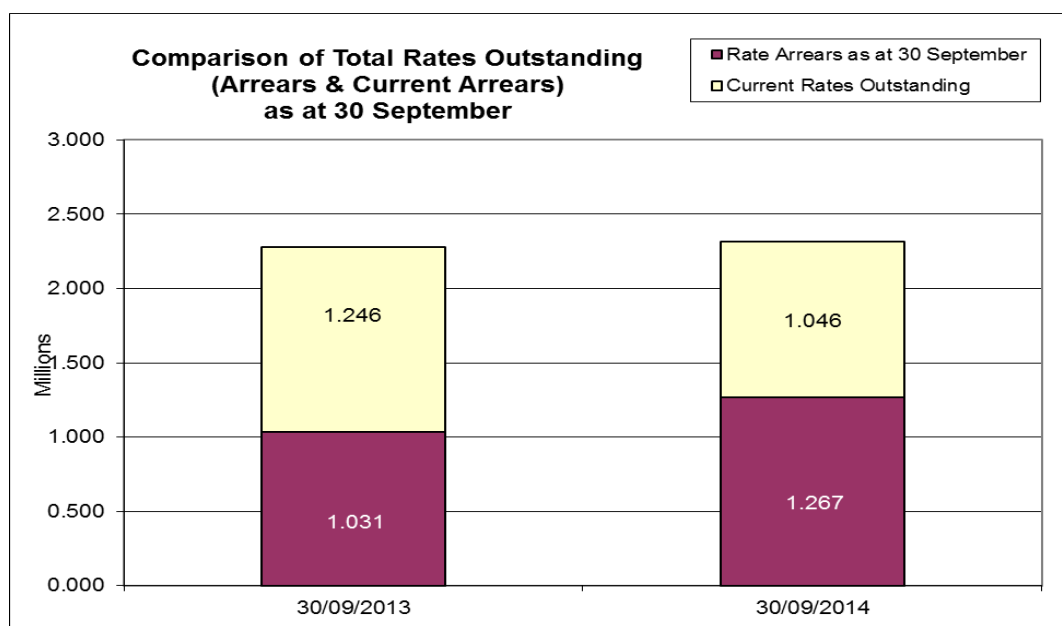
Part F: Outstanding Rates Debt as at 30 September 2014

Rates Outstanding

36 \$2.31 million of total rates (current and arrears) is outstanding as at 30 September 2014.

37 The chart below reflects a decrease in current rates outstanding as at 30 September 2014 compared to 30 September 2013.

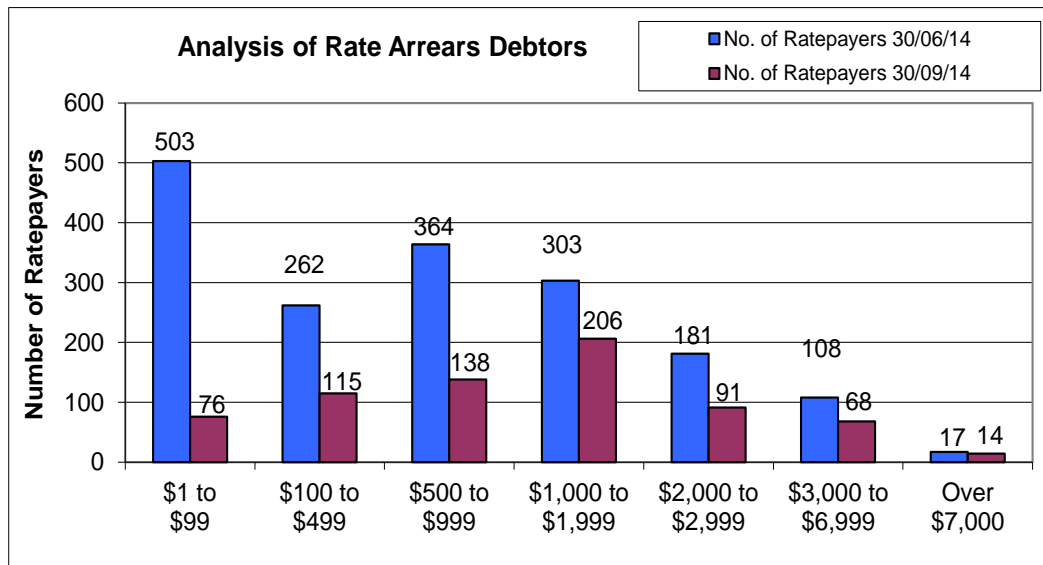
38 Rate payments received are first applied to rate arrears. The chart below reflects an increase in rate arrears as at 30 September 2014 (Net of Council owned properties) compared to 30 September 2014.



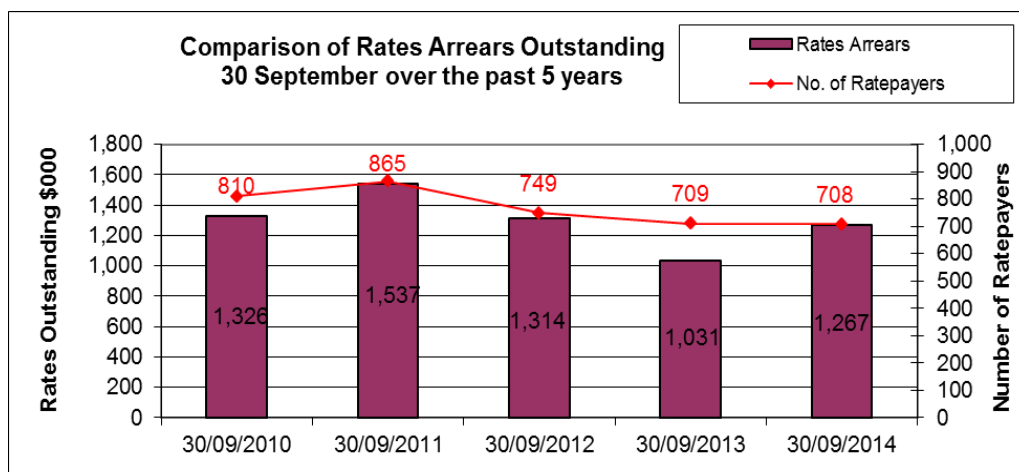
39 Council collects current year rates on behalf of the Greater Wellington Regional Council. \$1.05 million of current rates outstanding as at 30 September 2014 is split as follows:

	\$000	\$000
Kāpiti Coast District Council rates	662	
Kāpiti Coast District Council penalties	208	
Total Kāpiti Coast District Council outstanding rates	870	870
Greater Wellington Regional Council rates	143	
Greater Wellington Regional Council penalties	33	
Total Greater Wellington Regional Council outstanding rates	176	176
Total 2013/14 rates outstanding as at 30 September 2014	1,046	1,046

- 40 Rates arrears as at 30 September 2014 are \$1.27 million (\$2.023 million as at 30 June 2014). The chart below shows that good progress has been made in rates arrears collection, most notably with ratepayers that have rates arrears exceeding \$1,000.

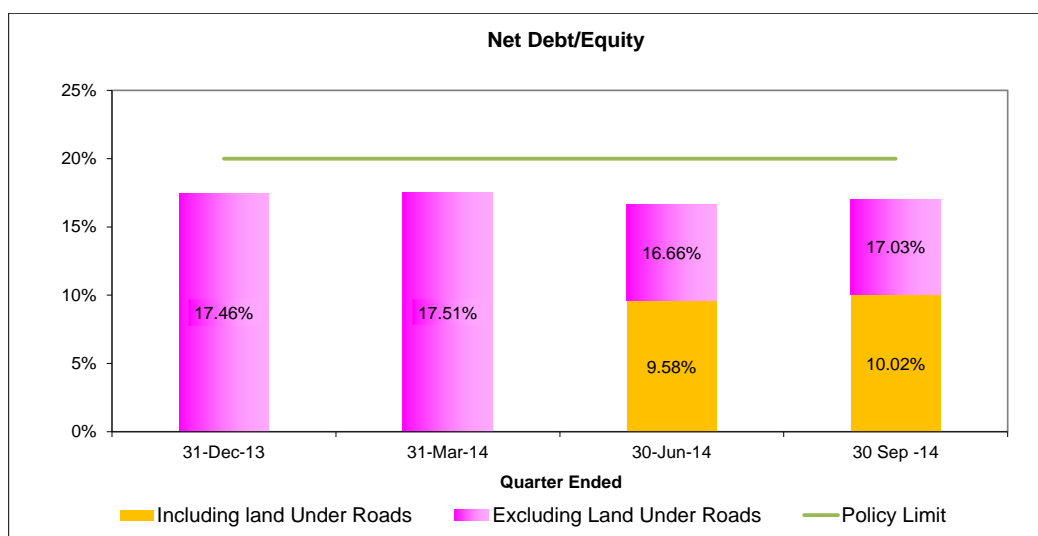


- 41 The graph below shows a comparison of the rate arrears outstanding as at 30 September for the past four years and the rate arrears outstanding as at 30 September 2014.
- 42 Council's rates collection process involves follow up with outstanding debtors and payment arrangements to ensure debts are cleared over a reasonable time period.
- 43 Rates arrears as at 30/09/2014 has increased mainly due to less staff capacity to follow up on outstanding debt due to reallocation of rates staff to the water meter project.

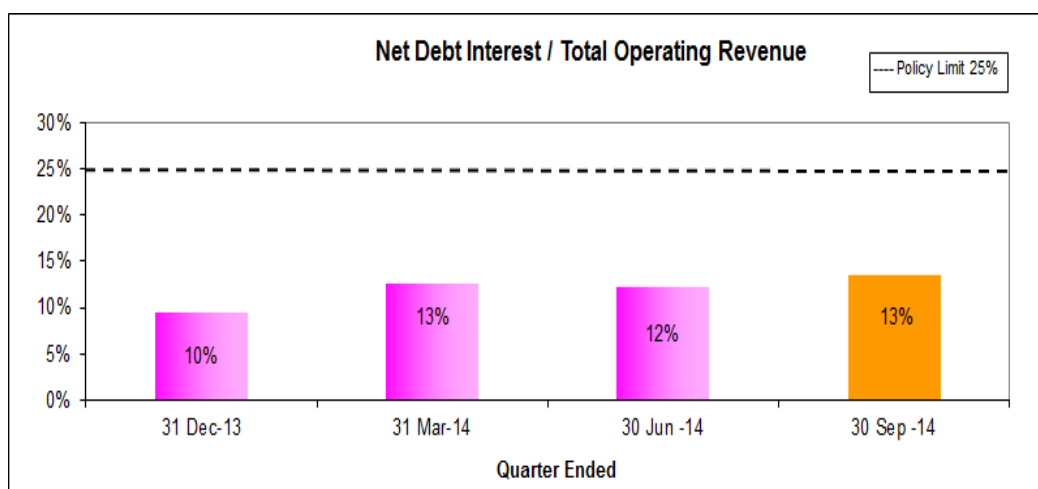


Part G: Forecast Performance against Treasury Management Policy Limits

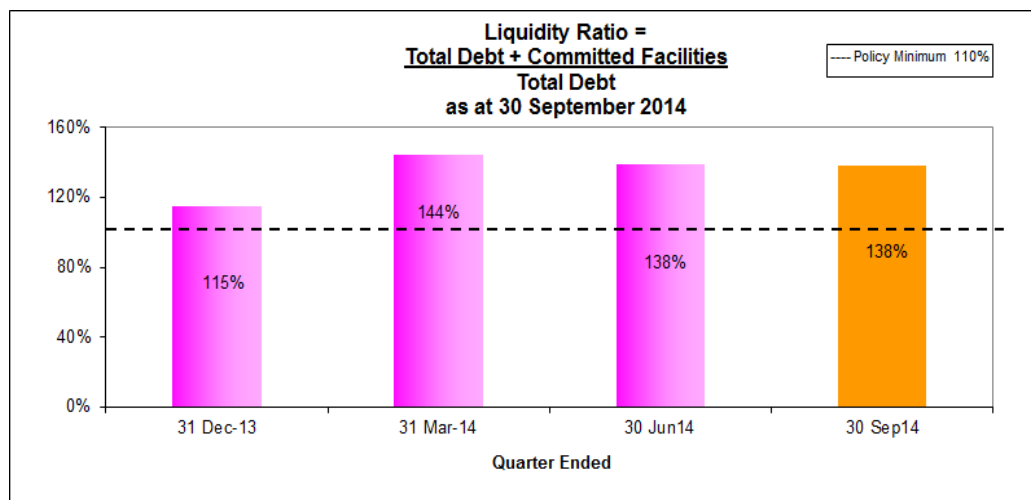
- 44 The Treasury Management Policy (Policy) contains four financial ratios with either a maximum or minimum annual limit.
- 45 Maximum Policy ratio limits must not be exceeded. Conversely, minimum Policy ratio limits must either be met or exceeded.
- 46 The Policy sets the maximum annual limit for the ratio of net debt to equity of 20%. The chart below shows actual limits achieved at the end of each quarter.



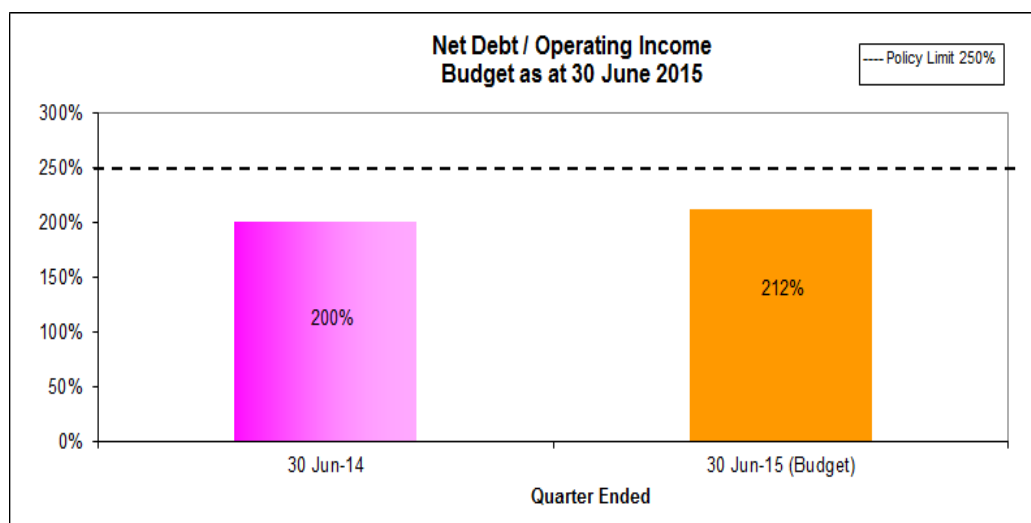
- 47 The maximum annual limit has not been exceeded. Net Debt/Equity at 30 September 2014 is 10% (including valuation of land under roads) and 17.03% (excluding valuation of land under roads).
- 48 The Policy sets the maximum annual limit of 25% for the ratio of Debt Interest to Total Operating Revenue. The chart below shows actual limits achieved at the end of each quarter.



- 49 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.



- 50 The Policy sets an annual limit of 250% for the ratio of Net Debt to Operating Income. This is a measure of Council's ability to repay its debt from operating income. The chart below shows Council's actual limit achieved in the 2013/14 financial year compared to the 2014/15 year end budget.



RECOMMENDATIONS

- 51 That the Corporate Business Committee notes the actual financial performance and position for the three month period ended 30 September 2014 as contained in this report Corp-14-1379.

Report prepared by:

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Accountant**

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Financial Controller**

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Group Manager Corporate Services**

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