Corp-18-420

Chairperson and Committee Members
OPERATIONS & FINANCE COMMITTEE

22 FEBRUARY 2018

Meeting Status: **Public**

Purpose of Report: For Information

FINANCIAL REPORT TO 31 DECEMBER 2017

PURPOSE OF REPORT

1 This report sets out Kāpiti Coast District Council's (Council's) financial performance and financial position for the half year ended 31 December 2017, 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 <u>nine</u> 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 December 2017

Part H: Treasury Management

Part I: Asset Revaluation

Part A: Statement of Comprehensive Revenue and Expense

4 The statement of comprehensive revenue and expense covers all of Council's revenue and expenditure for the reporting period.

5 The net position of revenue less expenditure provides the operating surplus or deficit for the reporting period.

6 Table 1 provides Council's actual revenue and expense for the half year ended 31 December 2017, with the budget and forecast for the year ended 30 June 2018.

Table 1	2017/18 YTD			Full Year 2017/18		
	Actual $000	Budget $000	Variance $000	Forecast $000	Budget $000	Variance $000
Rates	30,340	30,254	86	60,625	60,502	123
Fees and Charges	5,189	4,699	490	9,356	8,870	486
Grants and Subsidies	2,001	2,703	(702)	5,834	5,375	459
Development and Financial Contributions Revenue	3,265	537	2,728	3,565	1,075	2,490
Other Operating Revenue	2,609	259	2,350	3,072	415	2,657
Interest Income	1,304	1,030	274	2,074	1,520	554
Total Income	**44,708**	**39,482**	**5,226**	**84,526**	**77,757**	**6,769**
Other Operating Expense	24,229	25,333	1,104	51,375	50,635	(740)
Depreciation and Amortisation	9,403	9,342	(61)	18,945	18,927	(18)
Finance Expense	5,111	5,060	(51)	9,936	9,543	(393)
Total Expenditure	**38,743**	**39,735**	**992**	**80,256**	**79,105**	**(1,151)**
Operating (Deficit) / Surplus	**5,965**	**(253)**	**6,218**	**4,270**	**(1,348)**	**5,618**
Revaluation of Property Plant and Equipment	-	-	-	11,747	11,747	-
Unrealised Gain/(Loss) on Revaluation of Financial Derivatives	(1,216)	-	(1,216)	(1,216)	-	(1,216)
Total Other Comprehensive Income and Expenditure	**(1,216)**	**-**	**(1,216)**	**10,531**	**11,747**	**(1,216)**
Net Operating Surplus / (Deficit)	**4,749**	**(253)**	**5,002**	**14,801**	**10,399**	**4,402**

Financial performance summary

7 Council's operating surplus of $5.97 million is $6.22 million favourable to budget. This is mainly due to development and financial contributions, assets vested to Council as a result of subdivision activity and additional revenue from more building activity than planned. It is also due to lower levels of operating expenditure for the first half of the year (in areas such as maintenance, contractors, and consultants), as well as some cost savings in areas such as earthquake prone (EQP) assessment, and Independent Coastal Experts.

8 Council's unrealised loss on revaluation of financial derivatives of $1.22 million is due to derivative interest rates decreasing since 30 June 2017. There is no intention to realise these fair value changes (whether gains or losses). This is recognised for accounting purposes only and does not represent a cash gain or loss.

9 The Council is currently forecasting a year end rates surplus position of $460,000. This is largely due to a reduction of $430,000 for EQP building assessment work.

10 Two quarters of the 2017/18 financial year still remain ahead. Council's full year performance is subject to change during the year in light of any new information.

Explanation of key revenue variances

11 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:	$490,000 favourable to budget mainly due to the following: • Building and resource consents fees were $161,000 higher than planned due to increased building activity in the District; • A contribution of $188,000 towards PP2O stakeholder engagement costs was received from NZTA earlier than planned.
Forecast Year to Date Variance:	Expected to be $486,000 favourable to budget with increased building activity expected.

12 Grants and subsidies

Brief description:	Includes grants received by the Council for operating and capital spending. The majority of grants revenue is received from (NZTA) for their share of our roading maintenance and capital spending programmes.
Year to Date Variance:	$702,000 unfavourable to budget mainly due to a temporary timing difference within the Roading Capex Programme. (Refer to Part F: Capital Spending Programme.)
Forecast Year to Date Variance:	Expected to be $459,000 favourable to budget with an unbudgeted funding agreement for Kapiti Lights project and contributions from NZTA for Pare-o-Matangi Reserve, Ōtaki and for retaining walls damage.

13 Development and financial contributions

Brief description:	1. Financial contributions are levied under the Resource Management Act and cover Reserves Contributions levied on developers at the time of subdivision. 2. Development contributions are levied under the Local Government Act 2002 and cover all key activities except reserves and are levied on developers at the time of subdivision.
Year to Date Variance:	$2.73 million favourable to budget due to higher subdivision and building activity than planned. This increased development activity has been in Paraparaumu/Raumati (50%), Waikanae (30%) and Otaki (20%).
Forecast Year to Date Variance:	Expected to be $2.49 million favourable to budget. A forecast estimate of $50,000 per month for the remainder of the year has been provided.

14 Other Operating Revenue

Brief description:	Includes assets vested to Council, local government petrol tax, donations and/or sponsorship and realised gains on asset disposals.
Year to Date Variance:	$2.35 million favourable to budget due to assets vested to the Council as part of the subdivision process. These relate to the Hudson Development Stage 3, Sylvan Avenue Waikanae, Lupin Road Otaki, Stage One Ngarara, and various smaller developments.
Forecast Year to Date Variance:	Expected to be $2.66 million favourable to budget.

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:	$274,000 favourable to budget due to increased income earned from new debt issued and placed on term deposit. (See Part H: Treasury Management).
Forecast Year to Date Variance:	Expected to be $554,000 favourable to budget due to increased income earned from new debt issued and placed on term deposit

Explanation of key expenditure variances

16 Other operating expense

Brief description:	Includes direct operating costs except for internal rates, finance charges and asset depreciation/amortisation.
Year to Date Variance:	$1.10 million favourable to budget. This is mainly a reflection of lower levels of expenditure in the first half of the year in areas such as consultants, contractors, and maintenance, as well as minor savings identified in areas such as EQP Assessment and independent experts.
Forecast Year to Date Variance:	The forecast unfavourable variance of $740,000 is mainly due to: • Additional staff required for Planning & Regulatory $461k – the majority relates to additional resource required in Resource Consents to deal with higher workload and is offset by additional revenue forecast. • Higher re-insurance premiums of $113k due to increased risk assessments for the Wellington region.

Explanation of other comprehensive revenue and expense variances

17 Unrealised gain on revaluation of derivatives

Brief description:	1. Council recognises its interest rate swaps at fair value on a monthly basis. 2. The change in fair value between 1 July 2017 and 31 December 2017 is treated as either an unrealised gain (fair value has decreased) or an unrealised loss (fair value has increased).
Year to Date Variance:	$1.22 million unfavourable to budget because swap rates are lower compared to opening rates at 1 July 2017. (See Part H: Treasury Management).
Forecast Year to Date Variance:	Given the volatility of the financial markets, the full year forecast will always be aligned to the actual year to date fair value of the committed swap portfolio.

Part B: Statement of Financial Position

18 The Council's financial position as at 31 December 2017 and the forecast for the year ended 30 June 2018 are set out in Table 2, followed by a summary of the key variances. Note that Council does not prepare a monthly budget for the statement of financial position.

Table 2	2017/18			
	YTD actual $000	Full year forecast $000	Full year budget $000	Variance $000
Assets				
Cash and cash equivalents	644	200	200	-
Trade and other receivables	6,100	8,323	7,623	700
Inventories	134	148	148	-
Property, plant and equipment	1,601,380	1,617,940	1,617,940	-
Forestry assets	422	422	422	-
Intangible assets	797	2,730	2,730	-
Other financial assets	45,256	18,075	18,075	-
Loans	482	617	617	-
Total assets	**1,655,213**	**1,648,455**	**1,647,755**	**700**
Liabilities				
Trade and other payables	11,219	14,875	17,875	3,000
Employee benefit liabilities	2,026	2,596	2,596	-
Deposits	946	780	780	-
Borrowings	195,000	186,548	186,548	-
Provisions	5,369	4,282	4,282	-
Derivative financial instruments	12,623	12,623	10,914	(1,709)
Total liabilities	**227,183**	**221,704**	**222,995**	**(1,291)**
Public equity				
Accumulated funds	572,108	566,740	564,749	1,991
Reserves and special funds	2,904	2,583	2,583	-
Revaluation reserve	853,018	857,428	857,428	-
Total equity	**1,428,030**	**1,426,751**	**1,424,760**	**1,991**
Total liabilities and equity	**1,655,213**	**1,648,455**	**1,647,755**	**700**

Year to date Summary

19 Council's only material changes to its financial position for the six months ended 31 December 2017 were in respect to Other financial Assets and Borrowings.

20 New debt of $45 million was issued in the first half of the year and $60 million of borrowings matured mid-December 2017. (see part H: Treasury management)

21 The Table below shows the movement in Council's debt balance during this period.

Borrowings	Amount $000	Prefunding May 2018 $000	Prefunding March 2019 $000	Prefunding December 2017 $000	Refinancing December 2017 $000	Prefunding Capital works programme 2017/18 $000	Capital works programme 2017/18 Spend $000
Opening balance 1 July 2017	210,000	15,000	-	45,000	-	-	-
New Debt issued 1 July-31 December 2017	45,000	5,000	10,000	5,000	10,000	7,000	8,000
	255,000	**20,000**	**10,000**	**50,000**	**10,000**	**7,000**	**8,000**
Debt maturity - December 2017	(60,000)	-	-	(50,000)	(10,000)	-	-
Total	**195,000**	**20,000**	**10,000**	**-**	**-**	**7,000**	**8,000**

22 To date, Council has utilised $8 million of new debt on the 2017/18 Capital works programme. In addition to this, an additional $7 million was drawn down to prefund more of the capital works programme and placed on term deposit maturing May 2018, as typically most capital works are competed during the summer months. (See Part H: Treasury Management)

23 $60 million of borrowings matured in December 2017, being the single, most significant debt roll-over for the Council. $50 million of the maturity was funded through Council's prefunding strategy, whereby the debt was drawn down in earlier periods and invested in term deposits. The remaining $10 million was refinanced on the day.

24 As at 31 December 2017, the Council had $42 million of term deposits. This is broken down as follows:

Term deposits	Prefunding $000	Capex $000
LGFA debt maturing May 2018 - prefunded pre 30 June 2017	15,000	
LGFA debt maturing May 2018 - prefunded post 30 June 2017	5,000	
LGFA debt maturing March 2019 -prefunded post 30 June 2017	10,000	
2018/19 Capital works programme maturing May 2018		7,000
First quarter rates instalment placed on TD for 2018/19 Capital works programme maturing April 2018		5,000
Total	**30,000**	**12,000**

25 Gross borrowings are currently $195 million which includes total debt prefunding of $42 million. Council's $200 million borrowing limit (as set out in Council's Financial Strategy) excludes debt prefunding. Excluding prefunding, Council's borrowings at 31 December 2017 are $153 million, which is well within the borrowings limit and compared to full year budget of $187 million.

Full year forecast Summary

26 Total equity is forecasted to be $1.9 million favourable to budget. This is mainly due to Council's total asset base expected to be higher than planned.

27 Property, Plant and Equipment is expected to be above budget at year end. Whilst the 2017/18 capital works programme has been reduced by $7.5 million (see Part F: Capital Spending Programme), Council has received the first draft report for the revaluation of its 3 waters network and flood protection assets which indicates a substantial increase in the pipes/manhole replacement costs (see Part I : Asset Revaluation).

28 Council officers are currently working through our due diligence programme together with our external valuers, and obtaining further independent support of local contractor rates to either support the increase or justify a reduction in value.

Part C: Statement of Cash Flows

29 The Council's cash flow for the quarter ended 31 December 2017 and the forecast for the year ended 30 June 2018 are set out in Table 3, followed by a summary of key variances.

Table 3	YTD actual $000	2017/18 Full year forecast $000	Full year budget $000	Full Year Variance $000
Cash flows from operating activities				
Cash was provided from:				
Kapiti Coast District Council rates	30,369	60,501	60,501	-
Greater Wellington Regional Council Rates	5,631	-	-	-
Grants and subsidies - operating	1,150	1,944	1,544	400
Interest received	1,869	1,192	1,092	100
Charges and fees	8,492	10,649	10,249	400
GST (net)	1,085	109	109	-
	48,596	**74,395**	**73,495**	**900**
Cash was applied to:				
Payments to employees and suppliers	30,835	48,689	48,189	500
Rates paid to Greater Wellington Regional Council	5,631	-	-	-
	36,466	**48,689**	**48,189**	**500**
Net cash flows from operating activities	**12,130**	**25,706**	**25,306**	**400**
Cash flows from investing activities				
Cash was provided from:				
Loan repayment/Term deposit maturities	50,992	80,050	80,050	-
Proceeds from sale of property, plant and equipment	28	-	-	-
Proceeds from capital grants	851	3,831	3,831	-
	51,871	**83,881**	**83,881**	**-**
Cash was applied to:				
Construction and purchase of property, plant and equipment and intangibles	10,969	32,783	36,783	(4,000)
Purchase of investments	32,000	44,400	40,000	4,400
	42,969	**77,183**	**76,783**	**400**
Net cash flows from investing activities	**8,902**	**6,698**	**7,098**	**(400)**
Cash flows from financing activities				
Cash was provided from:				
Short-term borrowings	15,280	-	-	-
Long-term borrowings	44,280	55,668	55,668	-
	59,560	**55,668**	**55,668**	**-**
Cash was applied to:				
Interest on borrowings	5,123	9,352	9,352	-
Short-term borrowings	15,280	-	-	-
Long-term borrowings	60,000	78,720	78,720	-
	80,403	**88,072**	**88,072**	**-**
Net cash flows from financing activities	**(20,843)**	**(32,404)**	**(32,404)**	**-**
Net increase/(decrease) in cash and cash equivalents	189	-	-	-
Add total cash and cash equivalents at 1 July 2016	455	200	200	-
Total cash and cash equivalents	**644**	**200**	**200**	**-**

Year to date Summary

30 Council's material changes to its cash flow management for the quarter ended 31 December 2017 were:

- $60 million of debt matured on 15 December 2017
- $50 million of prefunded debt held on fixed term deposits matured and was used to refinance the debt roll over,
- $45 million of new long term debt was issued during the six months
- $32 million of cash funds were placed on fixed term deposit consisting of $12 million towards the 2017/18 Capital works programme and $20 million towards Council's prefunding strategy.
- Cash payments of $10.97million in relation to Council's Capital Works Programme.

Full year forecast Summary

31 Cash and cash equivalents are currently planned to be $4.4 million favourable to full year budget. This is mainly due to the decrease in the 2017/18 capital works programme and increase in revenue from consent fees, grants and subsidies and interest income. Any surplus cash will be placed on term deposit at the most favourable rates.

Part D: Statement of Rates Funding

32 The rates surplus/(deficit) is different to the operating surplus/(deficit) per the Statement of Comprehensive Revenue and Expense as shown on page 2, due to the following:

- Operating surplus/(deficit) covers all of Council's operating revenue and expense from all funding sources, including vested assets.
- The rates surplus/(deficit) only covers Council's revenue and expenses that are rates funded.

33 Table 4 below details the actual year to date rates funding surplus for the quarter ending 31 December 2017.

Table 4: Rates revenue requirement	2017/18 actual $000
Operating (deficit)/surplus	**5,965**
Adjusted by income and expenditure not funded by rates:	
Net Expenditure funded by reserves and special funds	82
Capital funding and vesting of assets	(6,202)
Revaluation of Council's assets	-
Unfunded Depreciation	2,572
Underlying net rates surplus/(deficit)	**2,418**
Represented by:	
Net underspend across the organisation	2,418
Rates surplus	**2,418**

34 The rates surplus of $2.42 million is mainly due to additional revenue from more building activity than planned, and lower levels of operating expenditure for the first half of the year (in areas such as maintenance, contractors, and consultants), as well as some cost savings in areas such as EQP assessment, and Independent Coastal Experts.

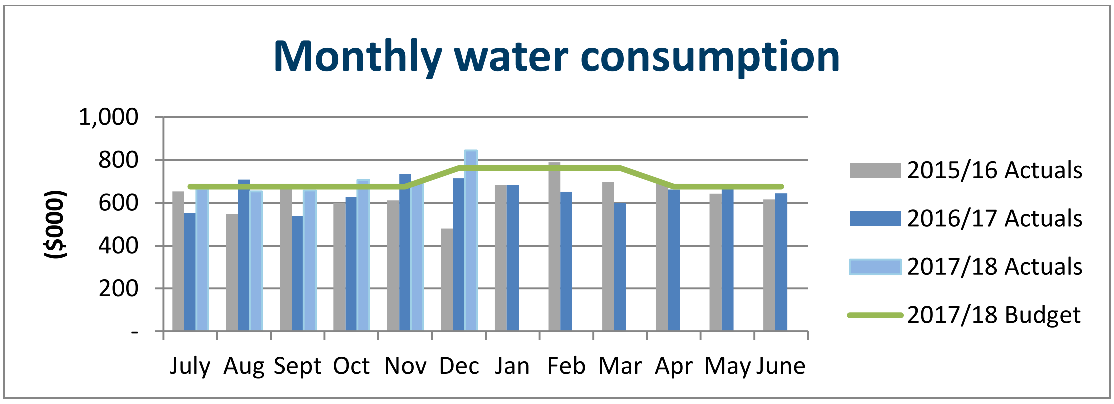
35 The Council is currently forecasting a year end rates surplus position of $460,000. This is largely due to a reduction of $430,000 for earthquake prone building assessment work.

Part E: Water Account Statement

36 A water account is a mechanism that captures the total cost of supplying potable water. This includes reticulation and treatment. Ideally the total cost of supplying potable water is fully recovered by fixed and metered water supply rates each year. The water account is a closed account. This means that any surpluses will be held within the account to fund future costs of providing water. Conversely any deficits will need to be recovered from future water charges.

37 Water usage is expected to take a number of years to normalise as districtwide water meter charging for all residential properties commenced from July 2014. Therefore, Council needs to carefully monitor usage trends to best determine what charges are necessary to fully recover the total costs of providing a treated water supply.

38 The water account is currently in deficit. Council plans to gradually increase the annual water supply rates, to a level that recovers the full cost of providing this service across the District within the next five (or more) years. This approach will be confirmed during the 2018-38 Long Term Plan.



39 The table below outlines the current water account position. From 2018/19 onwards, the anticipated surpluses will help to ensure that the full cost of water is recovered from water rates. Currently the Council water revenue is forecast to cover expenditure for the 2018/19 financial year.

Option 1	2014/15 Actual $m	2015/16 Actual $m	2016/17 Actual $m	2017/18 Budget $m	2018/19 Budget $m	2019/20 Budget $m	2020/21 Budget $m	2021/22 Budget $m	2022/23 Budget $m	2023/24 Budget $m	2024/25 Budget $m	2025/26 Budget $m	2026/27 Budget $m
Cost of providing water	8.1	8.0	8.6	8.4	8.8	9.0	9.2	9.4	9.5	9.6	9.7	9.9	10.2
Water rates revenue	7.6	7.7	7.8	8.4	8.8	9.2	9.3	9.5	9.7	9.8	9.9	10.0	10.3
Annual surplus/(deficit)	(0.5)	(0.3)	(0.8)	(0.0)	0.1	0.2	0.2	0.1	0.2	0.2	0.3	0.2	0.2
Balance of water account	(0.5)	(0.8)	(1.6)	(1.6)	(1.5)	(1.3)	(1.1)	(1.0)	(0.9)	(0.7)	(0.5)	(0.3)	(0.1)

Part F: Capital Spending Programme

40 On 17 August 2017, the Operations and Finance Committee resolved to reduce the 2017/18 planned capital works programme by $7.5 million, noting that this planned reduction did not change the 2017/18 Annual Plan budget of $34.56 million.

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

Table 5	YTD Actuals 2017/18 $000	YTD Revised Budget 2017/18 $000	YTD 'Variance 2017/18 $000	Total Budget 2017/18 $000	Council lead reductions	Revised Budget 2017/18 $000
Access and Transport	2,736	4,561	1,824	8,222	(113)	8,109
Coastal Management	185	796	611	6,007	(4,418)	1,589
Community Facilities and Community Support	388	501	113	883	(71)	812
Corporate	406	561	155	1,365	(212)	1,153
Economic Development	1,472	1,685	213	3,178	(16)	3,162
Governance and Tangata Whenua	90	251	161	489	(0)	489
Parks and Open Spaces	478	964	487	1,823	(245)	1,578
Recreation and Leisure	3,291	3,712	422	6,119	(1,862)	4,258
Regulatory Services	10	47	37	58	-	58
Solid Waste	249	238	(11)	518	-	518
Stormwater Management	589	726	137	1,972	(520)	1,452
Wastewater Management	734	1,391	657	3,156	-	3,156
Water Management	393	365	(28)	768	-	768
Grand Total	**11,021**	**15,799**	**4,778**	**34,558**	**(7,455)**	**27,103**

42 For convenience, an explanation of the most significant reductions to the planned 2017/18 capital works programme made by the Committee include:

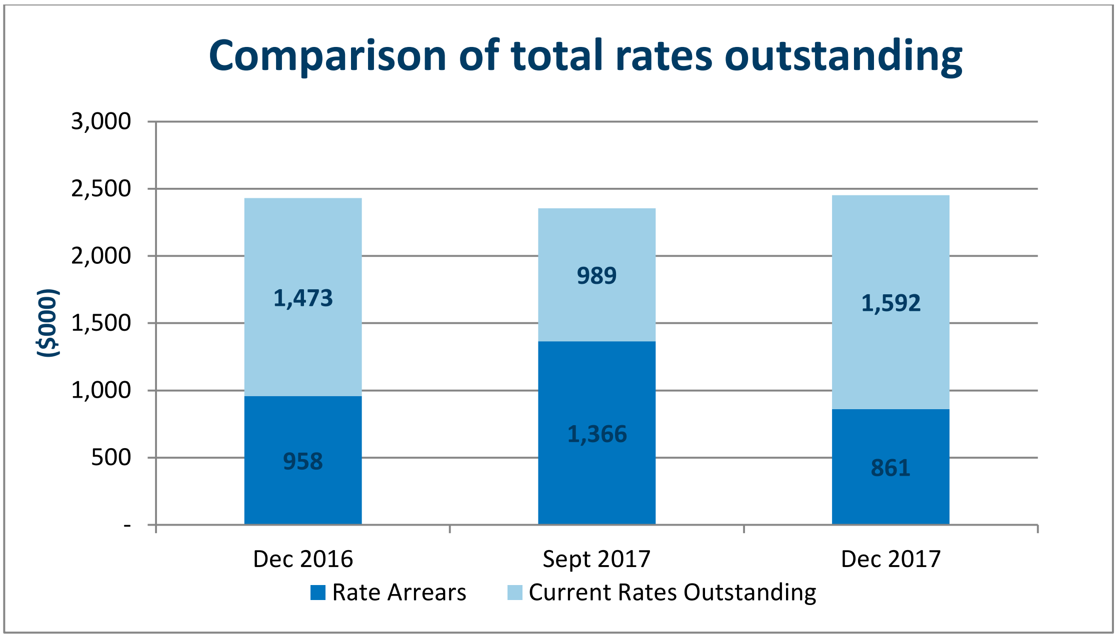
Activity	Cost Reductions	Summary Explanation
Coastal Management	$4,418,000	Unacceptable risks identified on the proposed design for the Paekākāriki Seawall. Project is delayed as alternative designs are considered.
Recreation and Leisure	$1,600,000	Kāpiti College Performing Arts Centre one-off Council contribution now realigned with the Centre's expected completion date in 2018/19.
Stormwater Management	$520,000	Higher risk projects have been prioritised.

43 Please refer to the Activity Reports 1 October – 31 December 2017 (SP-18-434) for more detailed information.

Part G: Outstanding Rates Debt as at 31 December 2017

Property rates outstanding (Excluding water rates)

44 The total property rates outstanding as at 31 December 2017 was $2.45 million (30 September 2017: $2.36 million).



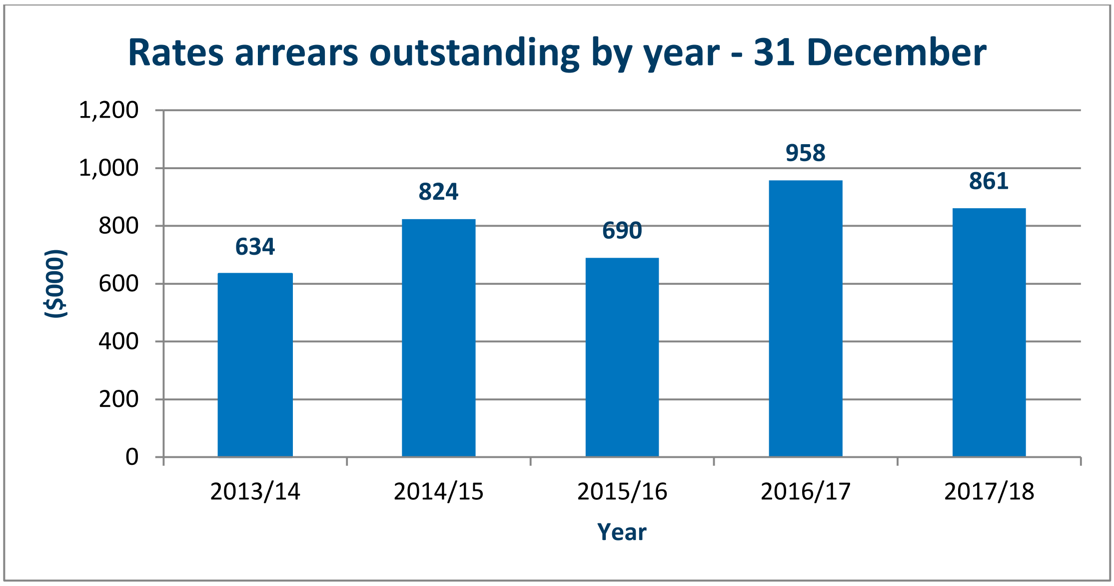
45 Rate payments received are first applied to rate arrears. Council's rates collection process involves follow up with outstanding debtors and payment arrangements to ensure debts are settled over a reasonable time period.

46 Council has collected $1.25 million of rate arrears outstanding since 1 July 2017. This has been mainly from mortgagee demands and payment arrangements.

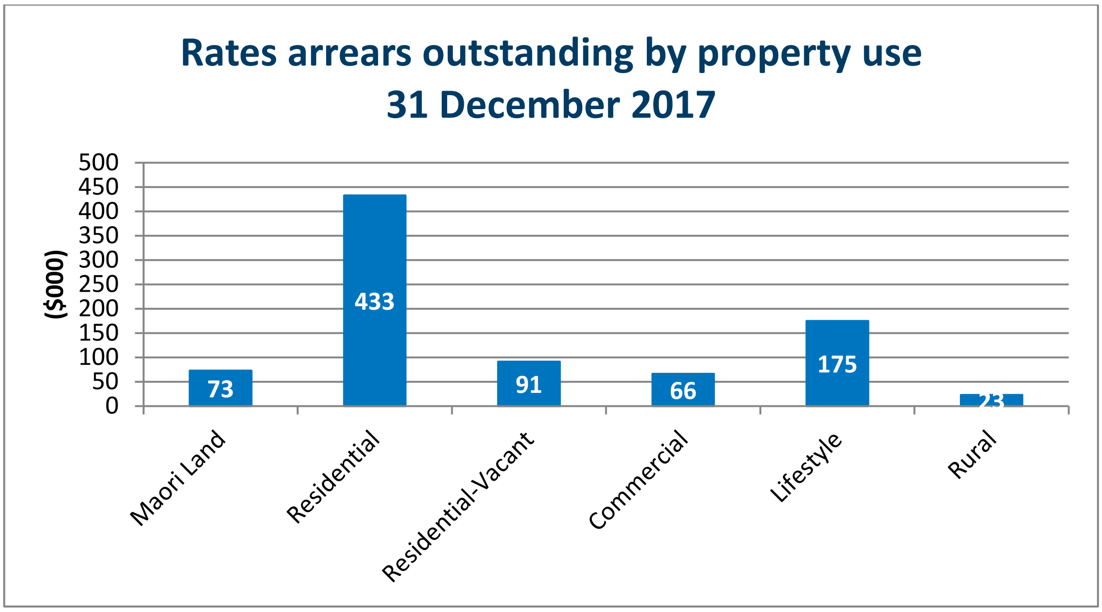
47 Council collects current year rates on behalf of the Greater Wellington Regional Council. $1.59 million of current rates outstanding as at 31 December 2017 is split as follows:

Breakdown of current rates outstanding	Rates	Penalties	Current rates outstanding
	$000	$000	$000
Kāpiti Coast District Council rates	1,089	278	1,367
Greater Wellington Regional Council	176	50	226
Total	1,265	327	1,592

48 The graph below shows a comparison of the rates arrears outstanding as at 31 December 2017 and for the previous 4 years.



49 The graph below details the rates arrears of $861,000 by Property Use Category. The majority of the total rates arrears are from residential properties.

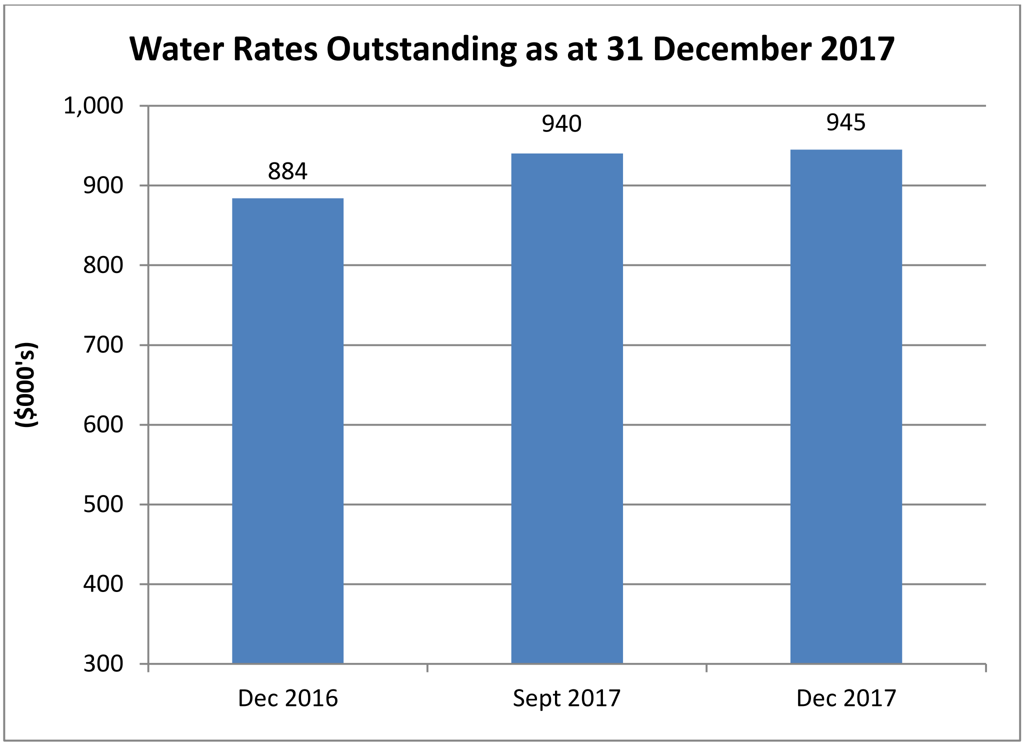


50 The rates arrears from Māori freehold Land rate is arrears owed to Greater Wellington Regional Council.

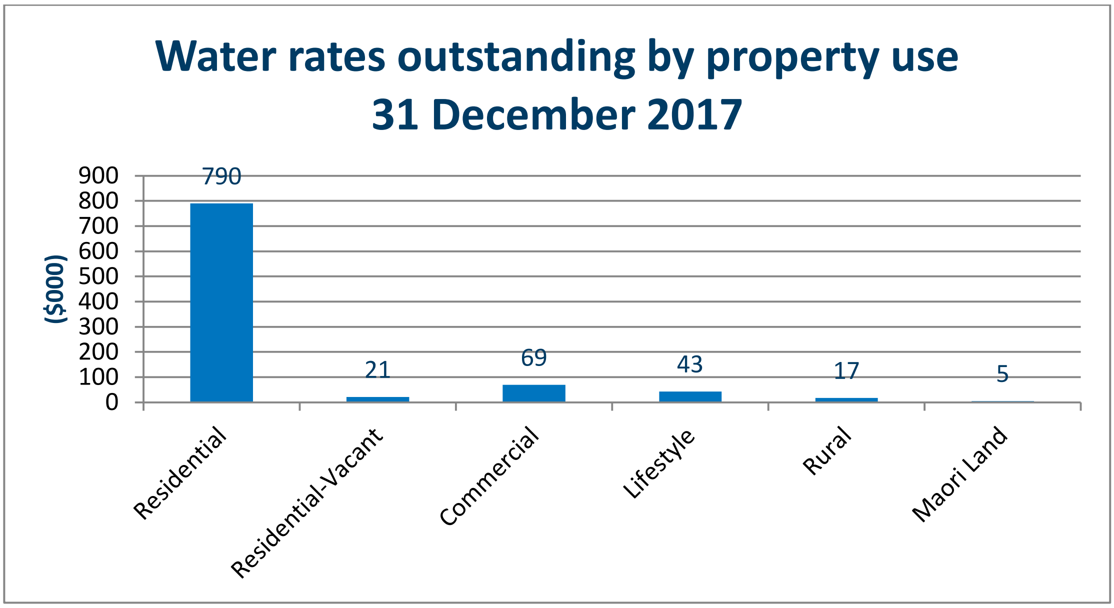
Water rates outstanding

51 A total of $945,000 of water rates is outstanding as at 31 December 2017 ($940,000 as at 30 September 2017).

52 Similarly, water rate payments received are first applied to water rate arrears. The chart below reflects the overall water rates debt as at 31 December 2017 compared to 30 September 2017 and 31 December 2016.

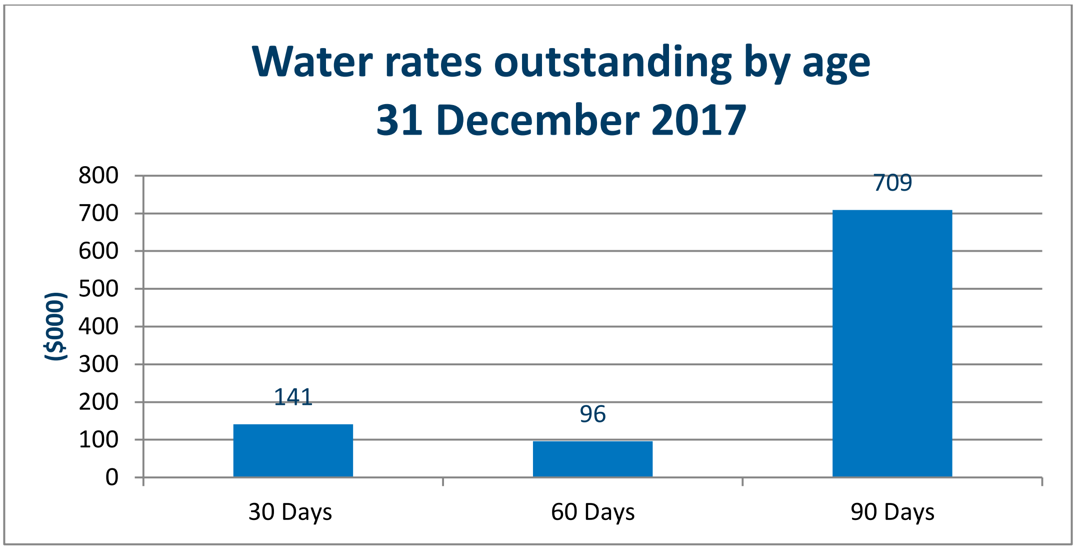


53 The graph below details the total water rates outstanding by property use category. The majority of the outstanding water rates are from residential properties.



54 $575,000 or 61% of outstanding water rates relate to individual debtor balances of less than $1,000. The total water rates outstanding represent 4% of total water rates invoiced since 1 July 2014.

55 The graph below details the ageing of the total water rates outstanding. $709,000 or 75% of the Council's outstanding water rates are 90 days or older.



56 Table 7 below details the total rate remissions issued to 31 December 2017 against the full year budget.

Table 7	Actual $000	Full Year Budget $000	Variance $000
Community properties (Council and private ownership), sporting, recreational and other community organisations	16	192	87
Residential rating units containing two separately habitable units	60		
Financial hardship	-	127	127
One off expenditure relating to the repairs to water leaks, serious health issue or essential housing maintenance	1	25	25
High water consumption for larger families	-	25	25
Total	77	370	293

57 Central Government rate rebates of $973,000 (1,675 properties) have been granted up to 31 December 2017. Council provides the approved rates remission (up to $620 per rateable property) to the successful applicants and recovers the costs directly from the Department of Internal Affairs.

58 The Council actively promotes its remissions on radio, Facebook and through adverts in the local papers.

Part H: Treasury Management

Summary

59 New debt of $30 million was issued in the last quarter, bringing the total amount of debts issued during the past six months to $45 million.

60 Council's strategy has been to secure prefunding early to take advantage of lower interest rates and as at 31 December 2017, $30 million of debt is held on term deposit to partly prefund the $50 million of debt maturing in May 2018 and March 2019. In addition, $12 million of funds were placed on term deposit until April 2018 ($5 million) and May 2018 ($7 million) to part fund the 2017/18 capital works programme which is typically completed during the summer months.

61 As previously noted, $60 million of borrowings matured in December 2017, being the single, most significant debt roll-over in the history of the Council. $50 million of the maturity was funded through Council's prefunding strategy, whereby the debt was drawn down in earlier periods and invested in term deposits. The remaining $10 million was refinanced on the day.

62 Council Officers worked very closely with the Council's three banking institutions, the Local Government Funding Agency (LGFA) and Computershare (Council's Registrar), to ensure that $50 million of Council's term deposits were repaid to the Council on time and that $10 million of new debt was issued to the Council to ensure Council successfully discharged its contractual obligation to repay $60 million of debt to the LGFA. On the same day in excess of $120 million was processed through the Council's bank account without any issues and the daily banking transaction limits were re-instated to $20 million the following day.

63 Since August 2016, the RBNZ has kept the official cash rate (OCR) at 1.75%. The first half of 2017/18 saw no change to the OCR.

64 Council's weighted average cost of funds has improved slowly as the Council takes advantage of lower interest rates. The weighted average cost of borrowing for the quarter ended 31 December 2017 was 4.52% compared to the budget of 4.8%.

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 two of Council's Treasury Policy Limits.

66 Table 8 below shows the Council's net debt for the half year ended 31 December 2017 against full year budget.

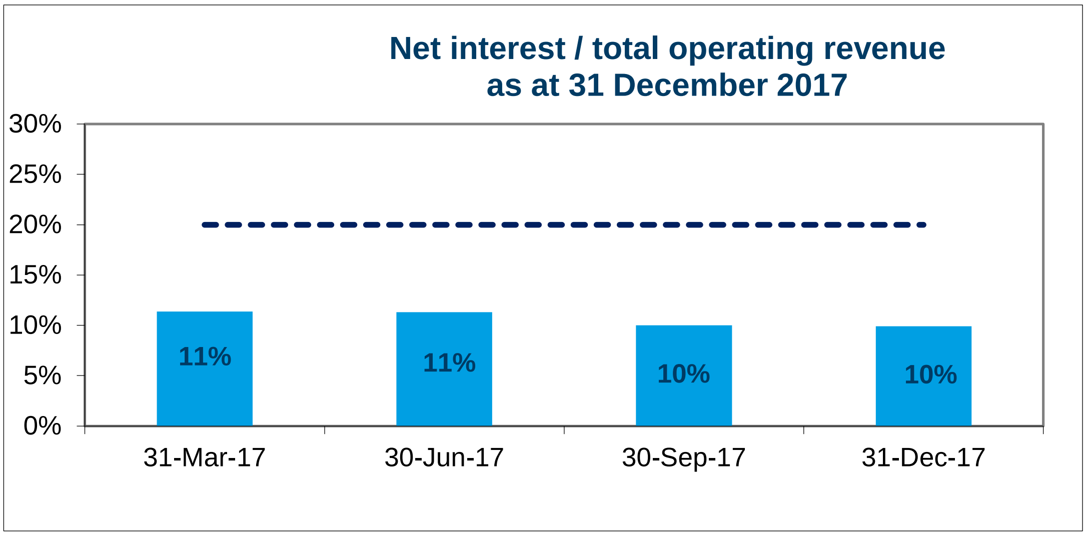
Table 8	December YTD Actual $000's	Full Year Budget $000's	Full Year Variance $000's	Full Year 2015/16 $000's
External debt	195,000	186,548	(8,452)	210,000
less borrower notes	(3,120)	(2,960)	160	(3,360)
less cash investments	(42,644)	(15,200)	27,444	(60,455)
Net debt	**149,236**	**168,388**	19,153	**146,185**

67 As previously noted, the Council's $200 million borrowing limit (as set out in Council's Financial Strategy) excludes debt prefunding. Excluding only debt prefunding, Council's net borrowings at 31 December 2017 are $153 million which is well within the borrowings limit. The $4 million difference to the table above relates to the LGFA borrow notes.

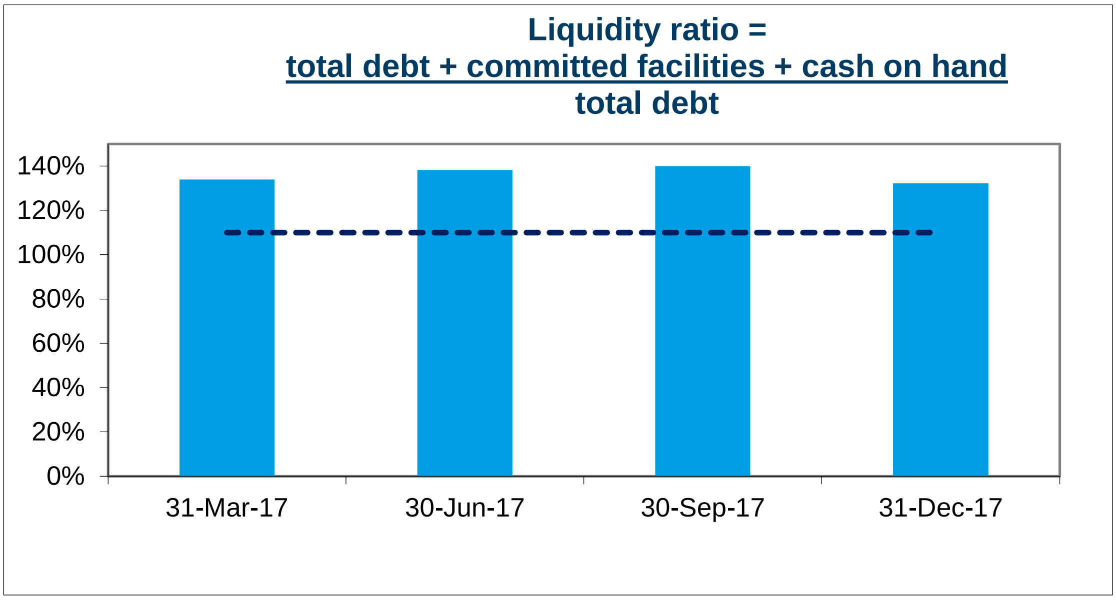
Treasury policy limits

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

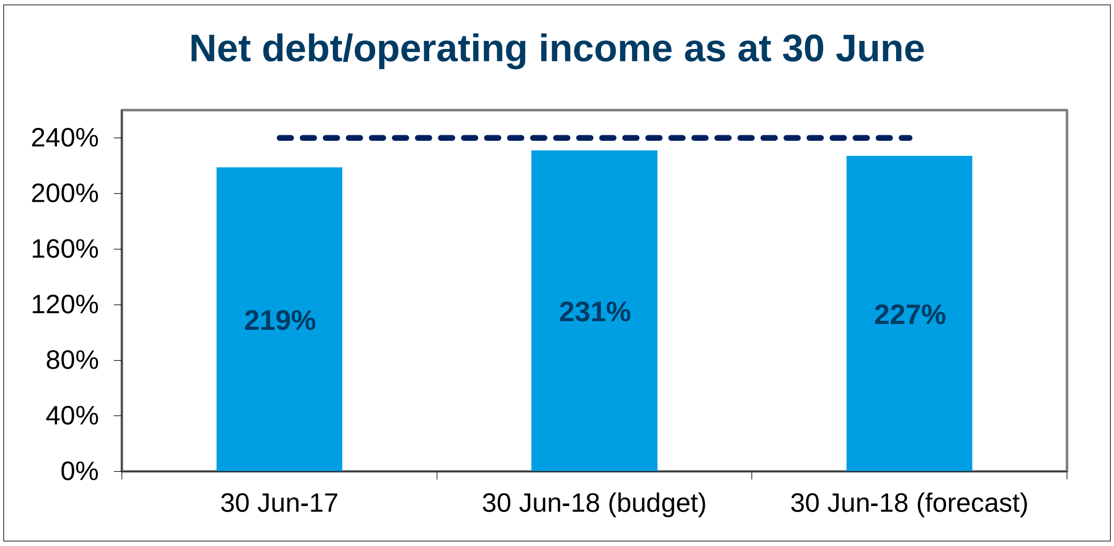
69 The Policy sets the maximum limit for the ratio of net interest expense to total operating revenue of 20%. The chart below shows actual limits achieved for each quarter.



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.



Part I: Asset Revaluation

72 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.

73 By maintaining asset values at fair value, Council ensures that it best achieves intergenerational equity whereby ratepayers pay their fair share, and only their fair share, of the assets they use and benefit from.

74 From 1 July 2015, Council transitioned to an annual rolling asset revaluation programme as set out below:

Asset classification	Revaluation date	Subsequent revaluation
Water, wastewater and stormwater (including seawalls and river control	30 June 2018	Every two years thereafter
Roading, (including land under roads)	30 June 2019	Every two years thereafter
Land and buildings (excluding land under roads revaluations)	30 June 2020	Every three years thereafter
Parks and reserves structures	30 June 2020	Every three years thereafter

75 As seen from the table above, Council's water, wastewater, stormwater and flood protection assets are scheduled to be revalued in the 2017/18 financial year. This group of assets were previously revalued in June 2016.

76 Through a syndicated procurement process with Porirua City Council, Council has again engaged Opus International Consultants Ltd to perform this revaluation. As with previous asset revaluations, Council will perform a comprehensive due diligence review of the revaluations provided by independent valuers.

77 As changes in asset values can significantly impact depreciation costs in the out-years, and to best determine the likely asset depreciation cost for the 2018-38 Long Term Plan, Council has requested a draft asset revaluation of the 3 waters network and flood protection assets as at 30 November 2017.

78 The first draft report for the revaluation was received early January 2018 which indicates a substantial increase in the pipes/manhole replacement costs.

79 Council due diligence of the draft asset revaluation is still in progress at the time of writing this report. Officers are currently working closely with our external valuers, Opus International Limited, to understand and challenge the significant increase in unit rates. In addition, Council is seeking further independent support of local contractor rates to support the increase or justify a reduction in value.

CONSIDERATIONS

Financial Consideration

80 The financial information as detailed in Parts A to I of this report (Corp-18-420) 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

81 There are no legal considerations arising from this report.

Consultation

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

Policy Implications

83 There are no policy implications arising from this report.

Tāngata Whenua

84 There are no tāngata whenua considerations arising from this report.

SIGNIFICANCE AND ENGAGEMENT POLICY

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

Publicity Considerations

86 There are no publicity considerations arising from this report.

RECOMMENDATIONS

87 That the Operations and Finance Committee notes the actual financial performance and position of Council for the half year ended 31 December 2017 as contained in this report (Corp-18-420).

Report prepared by:	Report prepared by:
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Approved for Submission:	**Approved for Submission:**
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