

Notice is hereby given that an ordinary meeting of the Finance, Audit & Risk Subcommittee will be held on:

Date: Wednesday 12 December 2018
Time: 4.00 pm
Meeting Room: Council Chambers
Venue: Horowhenua District Council
Levin

Finance, Audit & Risk Subcommittee

OPEN AGENDA

MEMBERSHIP

Chairperson	Mr Philip Jones	
Deputy Chairperson	Mr Barry Judd	
Members	Mr Wayne Bishop	
	Mr Ross Brannigan	
	Mr Ross Campbell	
	Mayor Michael Feyen	
	Mr Neville Gimblett	
	Mrs Victoria Kaye-Simmons	
	Mrs Jo Mason	
	Mrs Christine Mitchell	
	Ms Piri-Hira Tukapua	
	Mr Bernie Wanden	
Reporting Officer	Mr Doug Law	(Chief Financial Officer)
Meeting Secretary	Mrs Karen Corkill	

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Full Agendas are available on Council's website
www.horowhenua.govt.nz

Full Agendas are also available to be collected from:
Horowhenua District Council Service Centre, 126 Oxford Street, Levin
Te Awahou Nieuwe Stroom, Foxton,
Shannon Service Centre/Library, Plimmer Terrace, Shannon
and Te Takeretanga o Kura-hau-pō, Bath Street, Levin

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1 Apologies

2 Public Participation

Notification of a request to speak is required by 12 noon on the day of the meeting by phoning 06 366 0999 or emailing public.participation@horowhenua.govt.nz.

See over the page for further information on Public Participation.

3 Late Items

To consider, and if thought fit, to pass a resolution to permit the Council to consider any further items which do not appear on the Agenda of this meeting and/or the meeting to be held with the public excluded.

Such resolution is required to be made pursuant to Section 46A(7) of the Local Government Official Information and Meetings Act 1987, and the Chairperson must advise:

- (i) The reason why the item was not on the Agenda, and
- (ii) The reason why the discussion of this item cannot be delayed until a subsequent meeting.

4 Declarations of Interest

Members are reminded of their obligation to declare any conflicts of interest they might have in respect of the items on this Agenda.

5 Confirmation of Minutes

5.1 Meeting minutes Finance, Audit & Risk Subcommittee - 24 October 2018

6 Announcements

Four Month Report 1 July - 31 October 2018

File No.: 18/660

1. Purpose

To present to the Finance, Audit & Risk Subcommittee the financial report for the four months to 31 October 2018.

2. Recommendation

- 2.1 That Report 18/660 Four Month Report 1 July - 31 October 2018 be received.
- 2.2 That this matter or decision be recognised as not significant in terms of s76 of the Local Government Act 2002.

3. Issues for Consideration

As included in the **attached** report.

Attachments



No.	Title	Page
A	Financial Reporting - Monthly Report - 31 October 2018	8

Confirmation of statutory compliance

In accordance with section 76 of the Local Government Act 2002, this report is approved as:

- a. containing sufficient information about the options and their benefits and costs, bearing in mind the significance of the decisions; and,
- b. is based on adequate knowledge about, and adequate consideration of, the views and preferences of affected and interested parties bearing in mind the significance of the decision.

Signatories

Author(s)	Doug Law Chief Financial Officer	
Approved by	David Clapperton Chief Executive	



Four Month Report

1 July 2018 - 31 October 2018



Executive Summary

A. Trends and Activity of Interest

1. Resource Consenting

- 67 consents have been lodged as at 31 October 2018 compared to 64 at the same time last year.
- 39 subdivision consents approved as at 31 October 2018, compared to 26 at the same time last year.
- As at 31 October 2018 a total of 81 new allotments have been created as a result of s223 (approval of title plan) & s224 (completion of physical works) certificates being issued for subdivisions.

2. Building Consents

- Value of consents issued as at 31 October 2018 is \$42,341,000 compared to \$29,275,447 for the same period last year
- 95 new dwelling consents at 31 October 2018 against 75 for the same period in the 2017/18 year.
- 253 building consents were lodged as at 31 October 2018 compared to 229 or the same period in the 2017/18 year.

Resource Consent and Building Consent numbers, and the level of enquiries remain steady this month with a similar level of activity that was experienced in 2017/18.

B. Financial Performance – Operational Expenditure

Council shows a \$371k deficit against a budgeted surplus of \$866k. October is 33% through the year and the result shows that Council has spent 33.7% of the expenditure budget and received 32.6% of the budgeted income.

Timing of roading contracts at the beginning of the year shows that roading capital expenditure is below budget with the resulting on effect of lower subsidy income.

Most other variances are favourable being underspent budgets or timing differences between budget allocations and actual expenditure.

Interest income is likely to exceed budgets because of the term deposits related to pre-funding loan renewals, while interest expenses is likely to be about \$200k underspent by year end on current forecasts.

C. Financial Position

Council has borrowed an extra \$19m to 31 October 2018, \$11m of this has been invested as it is effectively prefunding the bonds that mature this year. \$2m in November and \$9m in March 2019. This is reflected in the Bank and cash balance of \$20.4m. Once these loan repayments have occurred the gross debt will reduce by \$11m as will the Bank balance. We have also increased the cash reserves in anticipation of capital expenditure in the next 3 to 6 months.

Council has purchased \$6.41m in fixed assets in the first 4 months against an initial capital budget of \$11.5m for the four months. Managers have spent some time re-evaluating these capital budgets to show what is realistically possible. Also the recent workshop on identifying and reporting of projects will be completed and reported to the Committee at the 30 January meeting.

Doug Law

Chief Financial Officer
21 November 2018

Operational Summary

SUSTAINABILITY

Rates to operating revenue 73%

Rates revenue	\$12.46m
Operating revenue	\$17.17m

73% of operating revenue is derived from rates revenue. Rates revenue excludes penalties, water supply by meter and is gross of remissions. Operating revenue excludes vested assets, development contributions, asset revaluation gains and gains on derivatives.

Balance budget ratio 98%

Operating revenue	\$17.17m
Operating expenditure	\$17.54m

Operating revenue should be equal or more than operating expenditure. Operating revenue excludes vested assets, development contributions, asset revaluation gains and gains on derivatives. Operating expenditure includes depreciation and excludes loss on derivatives, landfill liability and loss on asset revaluations. Year to date revenue is 98% of operating expenditure.

Essential services ratio 136%

Capital expenditure	\$5.09m
Depreciation	\$3.74m

Capital expenditure should be equal or more than depreciation for essential services, for year to date capex is 136% of depreciation. Essential Services are Water Supply, Wastewater, Stormwater and Rooding.

Net Debt to total projected revenue 145%

Total net borrowing	\$78.56m
Total projected operating revenue	\$54.25m

With net borrowing of \$78.56m we are still under the set limit of 195% of operating revenue. Total net borrowing is external borrowing less cash at bank.

Interest to rates revenue (LGFA Cov.) 7%

Net Interest	\$0.90m
Rates revenue	\$12.46m

7% of rates revenue is paid in interest. Our set limit is 25% of rates revenue. Net interest is interest paid less interest received. Rates revenue excludes penalties, water supply by meter and gross of remissions.

Operational Summary cont.

Interest to operating revenue (LGFA Cov.) 5%

Net Interest	\$0.90m
Operating revenue	\$17.17m

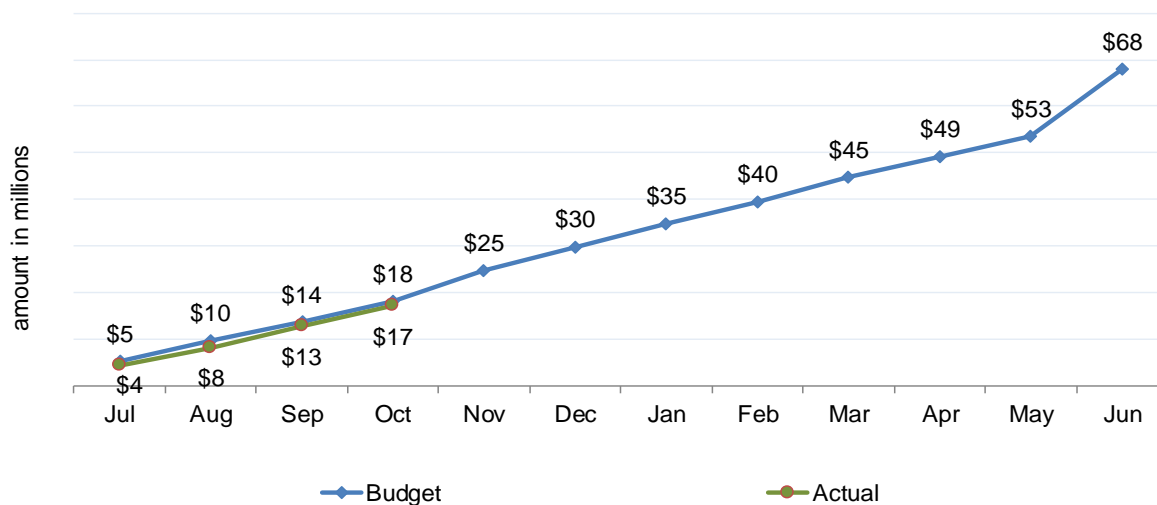
5% of operating revenue is paid in interest. Our set limit is 20% of operating revenue. Net interest is interest paid less interest received.

Available financial accommodation to external indebtedness (LGFA Cov.) 113%

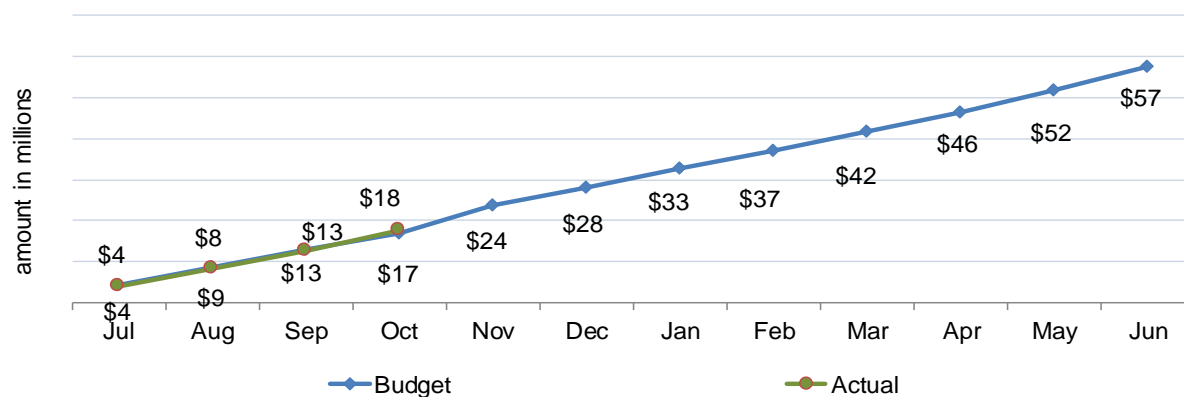
Net debt	\$78.56m
Undrawn committed facilities	\$10.00m

The committed bank facility enables us to borrow up to 113% of our current external debt immediately. The LGFA covenant minimum is 110%.

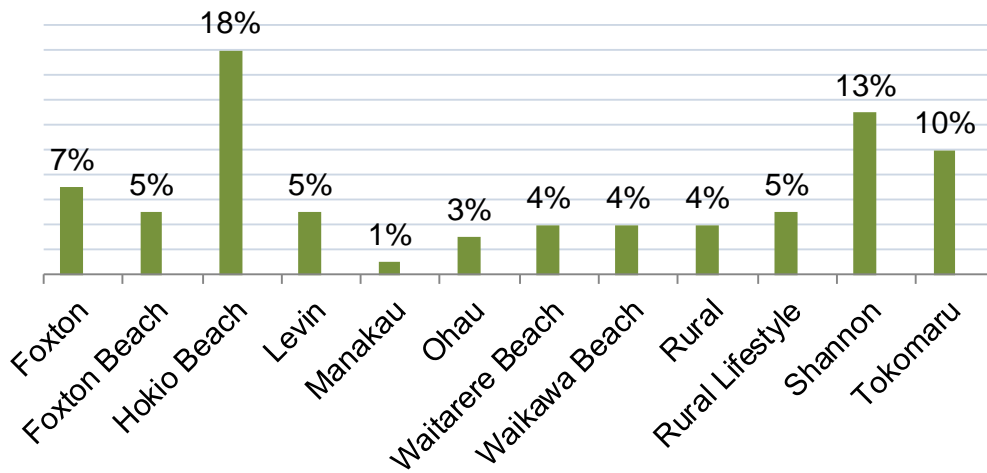
Total Revenue \$m



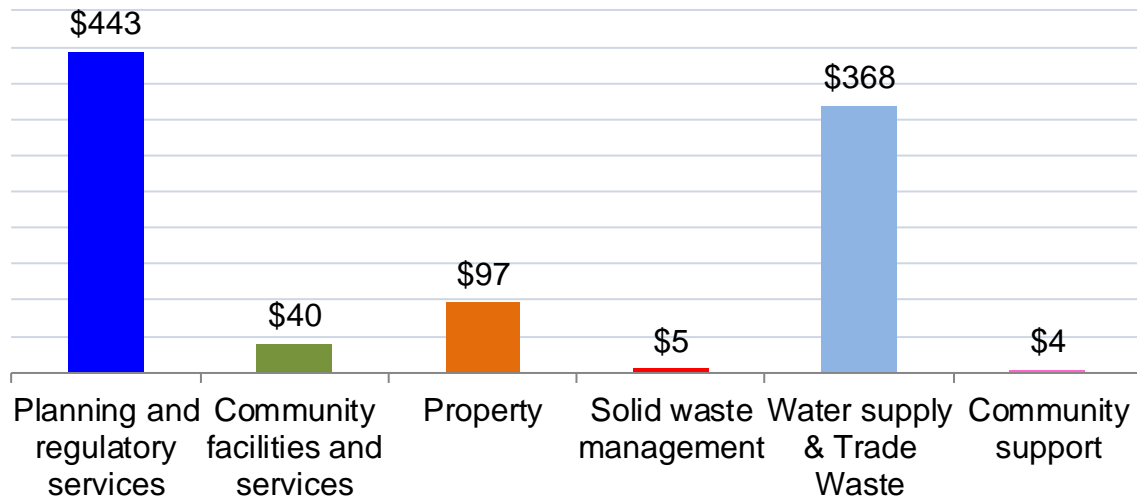
Total Expenditure \$m



Rates debtors % with arrears over \$99

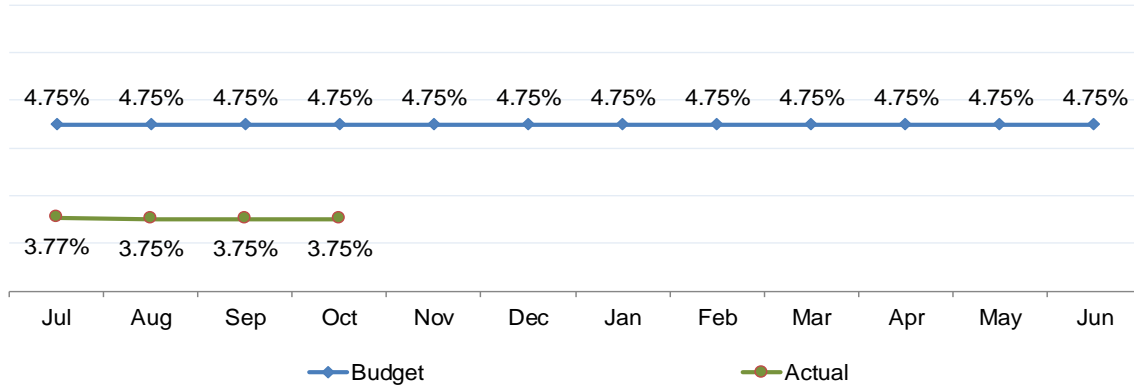


Sundry debtors by activities \$000

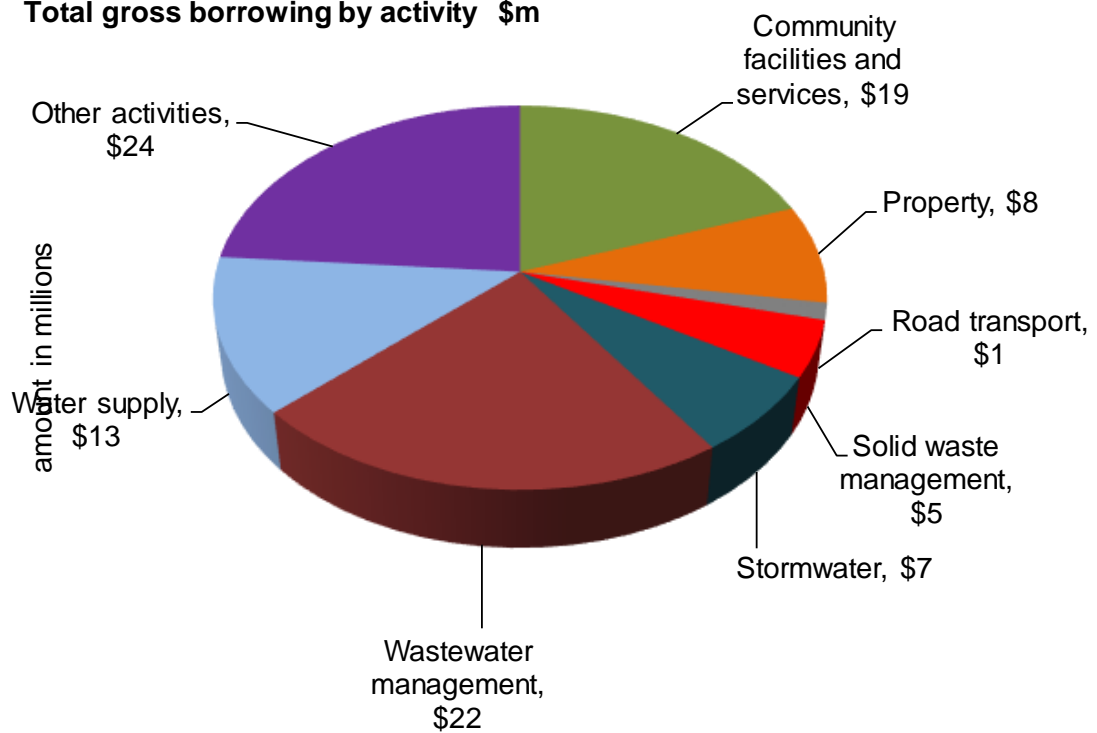


Operational Summary cont.

Interest rate movement



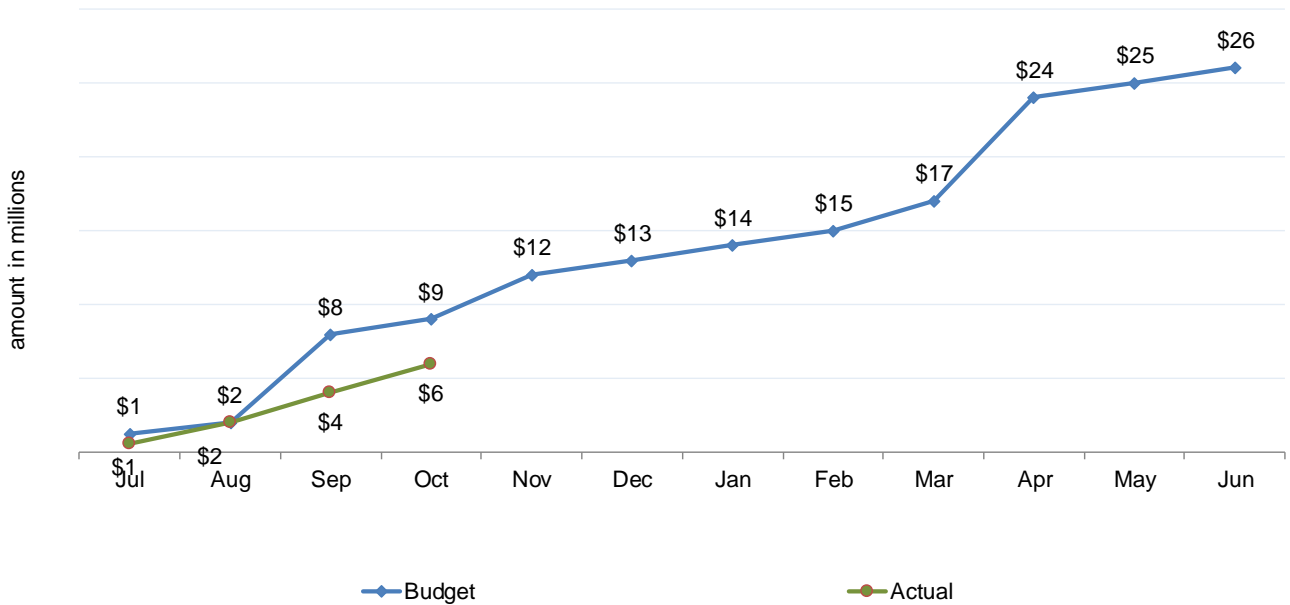
Total gross borrowing by activity \$m



Capital Summary

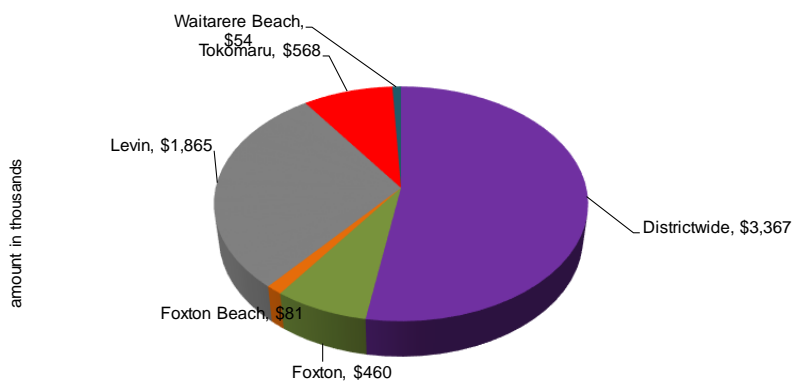
To meet growth	To improve service	To replace
\$0.23m	\$2.39m	\$3.18m
is 82% less than the YTD budget of \$1.31m	is 39% less than the YTD budget of \$4.95m	is 39% less than the total budget of \$5.24m

Total Capital Expenditure



District View - Capital Expenditure \$000

District View - Capital Expenditure \$000



Statement of Comprehensive Revenue and Expense									
As at 31 October 2018									
	Annual Plan	Annual Plan	Actual	C/A	Variance		% of		Notes
	2019	YTD	YTD	% Actual	YTD	Var/Bud	Total Bud		
	\$000	Oct-18	Oct-18	to Budget	2018	%	%		
		\$000	\$000		\$000				
Revenue									
Rates Revenue	(38,362)	(12,436)	(12,455)	32.5%	☺	(19)	0%	0.0%	
Grants & Subsidies	(6,460)	(2,221)	(1,516)	23.5%	⊗	705	-32%	-1.3%	1
Finance Income	(205)	(108)	(40)	19.5%	⊗	68	-63%	-0.1%	
Fees, charges,	(5,664)	(1,833)	(1,803)	31.8%	⊗	30	-2%	-0.1%	
Other Revenue	(3,560)	(1,511)	(1,359)	38.2%	⊗	152	-10%	-0.3%	
Development Contributions	-					-		0.0%	
Gain on Derivatives								0.0%	
Gain Disposal of Assets						-		0.0%	
Investment (Gains)/Losses	(120)	-				-		0.0%	
Vested Assets	-	-	-			-		0.0%	
Total Revenue	(54,371)	(18,109)	(17,173)	31.59%	⊗	936	-5%	-1.7%	
Expenditure									
Employee Benefit Expenses	13,975	4,471	4,375	31.3%	☺	(96)	-2%	-0.2%	
Finance costs	3,800	935	940	24.7%	⊗	5	1%	0.0%	
Depreciation and Amortisation	13,489	4,496	4,548	33.7%	⊗	52	1%	0.1%	
Other Expenses	21,452	7,341	7,681	35.8%	⊗	340	5%	0.6%	2
Loss on disposal of assets	-					-		0.0%	
Revaluation losses	-					-		0.0%	
Loss on Derivatives						-		0.0%	
Total Expenses	52,716	17,243	17,544	33.28%	⊗	301	2%	0.6%	
Operating surplus (deficit) before taxation	(1,655)	(866)	371	-22.4%		1,237	-143%	2.3%	
Other Comprehensive Revenue and Expenses									
Gain / (Loss) Fixed Assets Valuation	(9,353)	-	-						
Gain / (Loss) Financial Assets	-	-				-			
Total Net Other Comprehensive revenue and expense for the year	(9,353)	-				-			
Total Comprehensive Income for the year	(11,008)	(866)	371			1,237			

Note 1

Roading subsidies are lower by \$614k from the budget prediction resulting from lower than expected operational and capital costs. This will rectify during the year as the summer season progresses.

A subsidy to cover Wastewater capital has been phased over the year \$101K but will be received after the qualifying capital expenditure is completed.

Note 2	Annual Plan	Annual Plan	Actual	Variance					Notes
	2019 \$000	YTD Oct-18 \$000	YTD Oct-18 \$000	% Actual to Budget	YTD 2018 \$000	% Var/Bud %	% of Total Bud %		
Professional Services	3,158	911	1,631	51.6%	⊗	720	79%	1.4%	2A
Materials	109	38	34	31.2%	☺	(4)	-11%	0.0%	
Maintenance	13,176	4,434	3,896	29.6%	☺	(538)	-12%	-1.0%	2B
Grants Paid	743	139	255	34.3%	⊗	116	83%	0.2%	
Utilities	1,083	344	409	37.8%	⊗	65	19%	0.1%	
Communications	268	92	91	34.0%	☺	(1)	-1%	0.0%	
Other Expenses	5,239	2,191	1,941	37.0%	☺	(250)	-11%	-0.5%	2C
Vehicle Expenses	159	55	36	22.6%	☺	(19)	-35%	0.0%	
Treasury Expenses	173	20	19	11.0%	☺	(1)	-5%	0.0%	
Labour Recoveries for Capex projects	(2,651)	(884)	(632)	23.8%	⊗	252	-29%	0.5%	
Total Other Expenses	21,457	7,340	7,680	35.8%	⊗	340	5%	0.6%	

Note 2A – Professional services – unfavourable variance

- \$368k timing difference relating to Economic Development.
- Growth response projects totalling \$331k – refer to explanation under Representation and Community Leadership in the Activity variance section.

Note 2B – Maintenance – Favourable Variance

- Community facilities and Services \$187k
Refer to the analysis under activity variance
- Road transport \$108k underspent against budget year-to-date, this should rectify once the summer road maintenance commences.
- Solid Waste – \$78k Unfavourable variance due to the new contract for recycling starting on the 1 October \$115k – this will continue to increase for the remainder of the year.
- Water supply – favourable variance \$105k
 - Foxton Water supply \$44k
 - Tokomaru water supply \$43k
- There was minor favourable variance in Wastewater \$58k

Note 2C – Other Expenses – Favourable Variance

Community Facilities and Services has an underspend of \$202k.
Refer to the analysis under activity variance

Property has an underspend of approximately \$123k. This relates primarily to General Property and Endowment Property

- General property approx. \$63k
 - Unplanned building renovations less than anticipated for the time of year \$11k
 - Rates expense less than anticipated \$28k
 - Grants and fee budgets less than anticipated \$24k
- Endowment property approx. \$60k
 - Maintenance costs on endowment property less than anticipated for time of year \$28k
 - Consent and consultancy fees less than anticipated \$32k

Horowhenua District Council
Statement of Financial Performance
As at 31 October 2018

Page One

33.3%										
REVENUE	A	C		D	E	F	G	H	I	J
	Annual Plan 2018/2019 \$000	Year to date (YTD)		Budget	C/A % Actual to Budget		D-C YTD Variance \$000	G/D % Var/Bud	% of Total Bud	Notes to Accounts
	\$000	This Year \$000	Budget \$000							
Significant Activities										
Regulatory Sevices	(4,762)	(1,827)	(1,839)		38.4%	⊗	(12)	-0.7%	0.0%	
Community Facilities and Ser	(12,976)	(4,249)	(4,321)		32.7%	⊗	(72)	-1.7%	-0.1%	
Road Transport	(10,356)	(2,945)	(3,551)		28.4%	⊗	(606)	-17.1%	-1.1%	1
Water Supply	(6,683)	(2,135)	(2,151)		31.9%	⊗	(16)	-0.7%	0.0%	
Wastewater Disposal	(8,353)	(2,677)	(2,706)		32.0%	⊗	(29)	-1.1%	-0.1%	
Solid Waste	(2,457)	(742)	(839)		30.2%	⊗	(97)	-11.6%	-0.2%	
Stormwater	(1,051)	(351)	(350)		33.4%	⊙	1	0.3%		
Treasury	(711)	(167)	(241)		23.5%	⊗	(74)	-30.7%	-0.1%	
Property	(1,549)	(531)	(490)		34.3%	⊙	41	8.4%	0.1%	
Community Support	(2,550)	(834)	(853)		32.7%	⊗	(19)	-2.2%	0.0%	
Representation & Com. Leads	(3,936)	(1,316)	(1,312)		33.4%	⊙	4	0.3%	0.0%	
Total Activity Revenue	(55,384)	(17,774)	(18,653)		32.1%	⊗	(879)	-4.7%	-1.6%	
Business Units										
	(21,822)	(7,360)	(7,343)		33.7%	⊙	17	0.2%	0.0%	
Total Operating Revenue	(77,206)	(25,134)	(25,996)		32.6%	⊗	(862)	-3.3%	-1.6%	
EXPENDITURE										
	A	C		D	E	F	G	H	I	J
	Annual Plan 2018/2019 \$000	Year to date		Budget	C/A % Actual to Budget		D-C YTD Variance \$000	G/D % Var/Bud	% of Total Bud	Notes to Accounts
	\$000	This Year \$000	Budget \$000							
Significant Activities										
Regulatory Sevices	4,761	1,484	1,609		31.2%	⊙	125	7.8%	0.2%	
Community Facilities and Ser	12,918	3,816	4,258		29.5%	⊙	442	10.4%	0.8%	2
Road Transport	9,034	2,827	3,031		31.3%	⊙	204	6.7%	0.4%	
Water Supply	6,683	2,246	2,208		33.6%	⊗	(38)	-1.7%	-0.1%	
Wastewater Disposal	7,038	2,433	2,341		34.6%	⊗	(92)	-3.9%	-0.2%	
Solid Waste	2,128	857	686		40.3%	⊗	(171)	-24.9%	-0.3%	
Stormwater	1,321	402	442		30.4%	⊗	40	9.0%	0.1%	
Treasury	1,324	471	340		35.6%	⊗	(131)	-38.5%	-0.2%	
Property	1,810	572	702		31.6%	⊙	130	18.5%	0.2%	
Community Support	2,550	1,328	826		52.1%	⊗	(502)	-60.8%	-1.0%	3
Representation & Com. Leads	4,111	1,664	1,309		40.5%	⊗	(355)	-27.1%	-0.7%	4
Total Activity Expenditure	53,678	18,100	17,752		33.7%	⊗	(348)	-2.0%	-0.5%	
Business Units										
	21,873	7,405	7,378		33.9%	⊗	(27)	-0.4%	0.0%	
Total Operating Expenditure	75,551	25,505	25,130		33.8%	⊗	(375)	-1.5%	-0.5%	
Operating (Surplus)/Deficit	(1,655)	371	(866)			⊗	(1,237)	-142.8%	-1.64%	
Other Comprehensive income										
Gain on Assets revaluations	(9,353)									
Total Comprehensive Income.	(11,008)	371	(866)				(1,237)			

Note 1

Roading subsidies are lower by \$614k from the budget prediction resulting from lower than expected operational and capital costs. This will rectify during the year as the summer season progresses.

Note 2

Community Facilities and Services – Favourable variance

For Community Centres Favourable \$240k

The current favourable variance in Community Centres is primarily due to:

- Salaries less than budgeted, but partially offset by library services salaries - \$126k
- YTD expenditure on gas charges less than budgeted, but offset by higher than budgeted electricity charges - \$21k
- YTD expenditure on maintenance - \$23k
- Insurance premiums, which will be paid later in the year. - \$44k

Reserves – Favourable variance of approx. \$180k

- Silviculture no contractor available to complete works \$7k
- Less garden maintenance than anticipated YTD \$12k
- Less reactive grounds maintenance than anticipated YTD \$42k
- No consents or asset maintenance issues YTD \$10k
- Rates invoices less than anticipated \$52k
- Insurance less than anticipated \$57k

Note 3

Community Support – Unfavourable variance \$501

\$368k timing difference relating to Economic Development.

Note 4

Representation and Community Leadership

Growth response projects totalling \$325k

These projects are vital to Council's vision of being prepared for the growth that we will and are experiencing. Some of the costs are recoverable from NZTA while others will be funded from anticipated savings elsewhere.

Statement of Financial Position as at 31 October 2018

	Council Actual 31 Oct 2018 \$000	Council Budget 30 Jun 2019 \$000	Council Actual 30 June 2018 \$000
Note			
Assets			
Current assets			
Cash and cash equivalents	20,465	11,024	960
Debtors and other receivables	4,458	6,172	6,354
Other financial assets	375	-	5,375
Non-current assets held for sale	542	-	542
Total current assets	25,840	17,196	13,231
Non-current assets			
Plant, property and equipment			
- Operational assets	54,736	53,713	53,494
- Infrastructural assets	442,968	462,103	441,611
- Restricted assets	45,244	48,951	45,146
Intangible assets	1,735	1,784	1,756
Forestry assets	1,018	1,575	1,108
Commercial property	5,879	-	5,879
Other financial assets:			
- Investments other entities	220	220	220
- Other	1,577	1,264	1,369
Total non-current assets	553,377	569,610	550,583
Total assets	579,217	586,806	563,814
Liabilities			
Current liabilities			
Payables and deferred revenue	8,033	9,962	10,718
Provisions	1,114	1,129	1,114
Employee benefit liabilities	179	1,155	723
Borrowings and other financial liabilities	26,027	5,000	20,000
Total current liabilities	35,353	17,246	32,555
Non-current liabilities			
Provisions	2,429	2,367	2,429
Employee benefit liabilities	137	166	137
Derivative financial instruments	1,222	1,230	1,222
Borrowings and other financial liabilities	73,000	87,494	60,000
Other	263	269	285
Total non-current liabilities	77,051	91,526	64,073
Total liabilities	112,404	108,772	96,628
Net assets	466,813	478,034	461,186
Equity			
Retained earnings	256,402	260,215	256,775
Revaluation reserves	201,312	209,464	201,312
Other reserves	9,099	8,355	9,099
Total equity	466,813	478,034	461,186

Funding Impact Statement for Whole of Council

	LTP Forecast 2019 \$000	Annual Report Actual 2018 \$000	LTP YTD Forecast Oct 2018 \$000	Actual YTD Oct 2018 \$000	Variance 2018 \$000
Sources of operating funding					
General rates, uniform annual general charges, rates penalties	9,533	9,374	2,911	2,964	53
Targeted rates	28,828	26,835	9,525	9,490	(35)
Subsidies and grants for operating purposes	1,688	1,455	565	686	121
Fees and charges	5,664	5,601	1,833	1,803	(30)
Interest and dividends from investments	205	161	108	40	(68)
Local authorities fuel tax, fines, infringement fees, and other receipts	3,660	3,736	1,610	1,359	(251)
Total operating funding (A)	49,578	47,162	16,552	16,342	(210)
Applications of operating funding					
Payments to staff and suppliers	35,426	35,659	10,739	12,054	1,315
Finance costs	3,800	3,291	935	940	5
Other operating funding applications	-	-	-	-	-
Total applications of operating funding (B)	39,226	38,950	11,674	12,994	1,320
Surplus (deficit) of operating funding (A-B)	10,352	8,212	4,878	3,348	(1,530)
Sources of capital funding					
Subsidies and grants for capital expenditure	4,672	4,870	1,657	830	(827)
Development and financial contributions	-	197	-	-	-
Increase (decrease) in debt	12,494	3,000	4,165	19,000	14,835
Gross proceeds from sale of assets	7,000	7,306	2,333	-	(2,333)
Lump sum contributions	-	-	-	-	-
Other dedicated capital funding	-	-	-	-	-
Total sources of capital funding (C)	24,166	15,373	8,155	19,830	11,675
Applications of capital funding					
Capital expenditure					
- to meet additional demand	3,933	2,328	1,311	226	(1,085)
- to improve the level of service	14,882	8,899	4,961	2,993	(1,968)
- to replace existing assets	15,703	12,156	5,234	3,187	(2,047)
Increase (decrease) in reserves	0	202	1,527	5,600	4,073
Increase (decrease) of investments	0	-	-	11,172	11,172
Total applications of capital funding (D)	34,518	23,585	13,033	23,178	10,145
Surplus (deficit) of capital funding (C-D)	(10,352)	(8,212)	(4,878)	(3,348)	1,530
Funding balance ((A-B)+(C-D))	-	-	-	-	-
Depreciation	13,489	13,934	4,496	4,548	52
Loans as at 31 October 2018					
				External \$000	
Loans as at 1/07/2018				80,000	
Raised during period				25,000	
Repaid during period				(6,000)	
Loans as at 31/10/2018				99,000	
Interest expense				940	

Statement of Cashflow

	Council Budget 30 June 2019 \$000	Council Actual 31 Oct 2018 \$000
Cashflow from operating activities		
Cash was provided from:		
Revenue from rates	38,362	12,454
Other revenue	15,684	7,444
Interest received	205	36
Net GST movement	-	-
Total cash provided	54,251	19,934
Cash was disbursed to:		
Suppliers, services and employees	35,428	13,580
Interest paid	3,800	962
Net GST movement	-	(735)
Total cash disbursed	39,228	13,807
Net cash flow from operating activity	15,023	6,127
Cashflows from investing activities		
Cash was provided from:		
Proceeds from asset sales	7,000	-
Proceeds from investments	-	4,807
Total cash provided	7,000	4,807
Cash was disbursed to:		
Purchases of investments	0	-
Purchase of assets	34,517	10,456
Total cash disbursed	34,17	10,456
Net cash flow from investing activity	(27,517)	(5,649)
Cashflows from financing activities		
Cash was provided from:		
Loans raised	26,494	25,000
Total cash provided	26,494	25,000
Cash was disbursed to:		
Repayment of public debt	14,000	6,000
Total cash disbursed	14,000	6,000
Net cash flow from financing activity	12,494	19,000
Net increase (decrease) in cash held	-	19,478
Add opening cash brought forward	11,024	960
Closing cash balance	11,024	20,438
Closing balance made up of cash and cash equivalents	11,024	20,438

Treasury Report

File No.: 18/597

1. Purpose

To present to the Finance, Audit & Risk Subcommittee the Bancorp Treasury Report for the September 2018 quarter.

2. Recommendation

- 2.1 That Report 18/597 Treasury Report be received.
- 2.2 That this matter or decision be recognised as not significant in terms of s76 of the Local Government Act 2002.

3. Background/Previous Council Decisions

This Quarterly Treasury report is produced by our Treasury Advisors, Bancorp Treasury Services Limited, and is produced for the benefit of Senior Management and Council.

4. Issues for Consideration

The first 3 months of the financial year has seen:

- Tariff/trade war fears have captured headlines and have impacted on the world economy and increased risk. The US imposed tariffs on US\$50 billion of Chinese imports.
- The North American Free Trade agreement has been replaced after negotiations between Canada, USA and Mexico.
- Higher US\$ and US interest rates impact on emerging economies whose debt is in US\$.
- The Federal Reserve (Fed) (the US Reserve Bank equivalent) has increased their OCR equivalent by a further 0.25% to a range of 2.00% to 2.25%, contrasting with the NZ OCR of 1.75%. A further Fed rate rise of 0.25% is expected in December. The Bank of Canada and Bank of England have both followed with increases of 0.25% while Japan, Europe, Australia and New Zealand have not increased their interest rates
- In New Zealand the OCR remained at 1.75% and is likely to remain there until early 2020 with 0.75% of OCR rises to late 2020. The likelihood of a downward movement in the OCR is now low with rising employment and inflation expected to get to 2% on the back of increasing fuel prices which have eased recently.
- Council's debt rose from \$80m to \$99m over the quarter due to prefunding \$11m of debt maturing in November 2018 and March 2019. The investment are at a higher rate than the debt so produce a "positive carry" of \$115k.
- Council will have two future minor breaches of its hedging profile as shown on the graph on page 7 of the report. This will easily be avoided by taking out some fixed rate bonds in March or April 2020. With this in mind Council will on the 6 December roll over the \$12m CP (plus a further \$3m to \$15m) maturing in March 2019, at which time Council is intending to either refinance with some fixed rate bonds or an interest rate swap, with the former being our preference.
- Council's cost of funds was 3.75% as at 30 September but has decreased to \$3.71 as at 30 November after repaying the last HDC bond that had an interest rate of 5.59%

Attachments



No.	Title	Page
A	Bancorp treasury Report September 2018	25

Confirmation of statutory compliance

In accordance with section 76 of the Local Government Act 2002, this report is approved as:

- a. containing sufficient information about the options and their benefits and costs, bearing in mind the significance of the decisions; and,
- b. is based on adequate knowledge about, and adequate consideration of, the views and preferences of affected and interested parties bearing in mind the significance of the decision.

Signatories

Author(s)	Doug Law Chief Financial Officer	
Approved by	David Clapperton Chief Executive	

CONFIDENTIAL

TREASURY REPORT

FOR



**HOROWHENUA
DISTRICT
COUNCIL**

AS AT

30 SEPTEMBER 2018



BANCORP

BANCORP TREASURY SERVICES LIMITED

AUCKLAND • WELLINGTON • CHRISTCHURCH

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1. MARKET ENVIRONMENT

1.1 Global Markets Overview (as at 30 September 2018)

Financial markets' main attention in the September quarter was on trade disputes, central bank actions and emerging market economies, with the US again at the centre.

The US imposed tariffs on USD250 billion of Chinese goods over the September and threatened another round of tariffs if China retaliated, which it did. Markets are expecting the US to apply yet more tariffs on Chinese goods. On a positive note, the US, Canada and Mexico agreed in principle to replace the North American Free Trade Agreement ("NAFTA") with a new agreement to be called the US-Mexico-Canada Agreement.

Emerging market worries centred on the potential ripple effects of trade tariffs on global economic growth and commodity prices, and the impact of the stronger US dollar and higher US interest rates on emerging market economies. Highly indebted, commodity exporting, emerging market economies are seen as facing the highest risk from trade war escalations.

US economic data remains solid, especially for areas relevant to the Federal Reserve ("Fed") – inflation, unemployment and growth. As signalled by Fed policymakers and universally expected by markets, the Fed raised the Fed Funds rate by 25 basis points to a range of 2.00% to 2.25% in September.

The latest Fed members' forecasts for the Fed Funds rate show median forecasts for the Fed Funds rate at the end of 2018, 2019 and 2020 unchanged, implying a fourth rate rise this year (picked for December) and three next year. The forecast now extends to 2021 and implies that the Fed's last interest rate rise this cycle will be in 2020.

The Bank of Canada and Bank of England raised their respective target cash rates by 25 basis points in the quarter to 1.50% and 0.75% respectively. The European Central Bank, Bank of Japan and Reserve Bank of Australia steadfastly maintained their respective stances.

US Treasury yields were higher over the quarter because of the upward pressure from delivered and expected Fed interest rate rises. The 2 year Treasury yield ended September at 2.80%, from 2.52% at the end of June. The benchmark 10 year Treasury yield rose above the psychologically important 3.00% barrier in the quarter and ended September at 3.06%, from 2.86% at the end of the June quarter.

1.2 New Zealand Market Overview (as at 30 September 2018)

	OCR	90 day	2 year swap	3 year swap	5 year swap	7 year swap	10 year swap
30-Jun-18	1.75%	2.00%	2.14%	2.26%	2.53%	2.77%	3.02%
30-Sep-18	1.75%	1.91%	2.04%	2.15%	2.40%	2.63%	2.92%
Change	Nil	-0.09%	-0.10%	-0.11%	-0.13%	-0.14%	-0.10%

Economic data over the September quarter again showed the New Zealand economy as performing well but coming off the boil.

GDP rose 1.0% in the June quarter, a lift from March quarter's 0.5% rise and smashing market and Reserve Bank of New Zealand ("RBNZ") expectations of 0.8% and 0.5% respectively. The June quarter's GDP was 2.8% higher than the June 2017 quarter, up from 2.5% in March. GDP per capita lifted to 0.5% in the June quarter, from flat in the March quarter.

The unemployment rate ticked higher in the June quarter, from 4.4% to 4.5%, but that was largely on the back of a lift in the participation rate from 70.8% to 70.9%. It was the first increase in the unemployment rate since the December 2016 quarter. The number of jobs added in the June quarter increased by 0.5%, bringing the gain in employment for the year to June to 3.7%, well up on the 3.1% in the year to March.

CPI rose 0.4% over the June quarter, from 0.5% in March, taking the annual increase to 1.5%, from 1.1%. The Reserve Bank of New Zealand's ("RBNZ") CPI sectoral factor model rose by 1.7% in the June year, the highest increase since June 2011.

The cost of housing remains the largest contributor to New Zealand inflation. Higher petrol prices over the quarter (up 3.2%) were somewhat offset by lower car prices, resulting in a meagre 0.2% rise in overall transport costs. It is likely that the regional fuel tax, that took effect on 1 July, will push up transport inflation over the current quarter.

RBNZ Governor, Adrian Orr, took the markets by surprise in the August *Monetary Policy Statement* ("MPS"), which led to a revision of markets' interest rate expectations and a sharp fall in domestic interest rates to lows not seen since November 2016.

The tone of the MPS and follow up statements by senior RBNZ officials were much more dovish than markets had expected. Most significantly for financial markets, the RBNZ shifted the forecasted first Official Cash Rate ("OCR") rise from the March 2020 quarter to the December 2020 quarter and again warned that the next OCR move "could be up or down" and "we will keep the OCR at an expansionary level for a considerable period."

In its September *OCR Review*, the RBNZ not only repeated those messages but added that the OCR will stay “at this level through 2019 and into 2020.” This point, together with the observations about “early signs of core inflation rising towards the mid-point of the target” reduced the odds that the next OCR move could be down. At the end of September, market pricing implied a 24% chance of an OCR cut in the next year although it still has the OCR rising sooner than in the RBNZ’s forecasts.

The only apparent threats to the RBNZ’s steady OCR stance are rising crude oil (and petrol) prices and increasing wage pressures. The RBNZ has said it will ‘look through’ the former and the latter has been confined to the public sector so far. Equally, the RBNZ is prepared to cut the OCR should domestic inflation and employment show signs of falling.

New Zealand swap rates were lower across the board over the September quarter, despite higher offshore interest rates, notably US Treasury yields. This is, because New Zealand is at a different stage of the economic and monetary policy cycles than most developed nations that are already raising official interest rates (US, UK, Canada) or signalling imminent unwinding of easy monetary policy settings (Eurozone).

The chart below shows the New Zealand and US 10 year swap rates going back four years and highlights the recent breakdown in the correlation between the two rates.

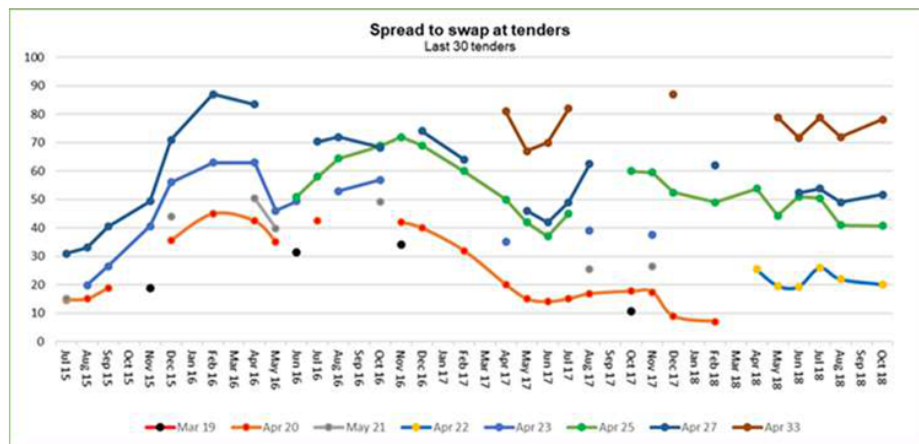


1.3 Local Authority Sector

Listed below are the credit spreads and applicable interest rates for Floating Rate Notes (“FRN”) and fixed rate bonds (“FRB”), which Horowhenua District Council (“HDC”) could source debt from the Local Government Funding Agency (“LGFA”).

Maturity	Credit Spread	FRN Rate	FRB
April 2020	0.30%	2.22%	2.29%
May 2021	0.37%	2.29%	2.45%
April 2022	0.45%	2.37%	2.67%
April 2023	0.55%	2.47%	2.84%
April 2025	0.66%	2.58%	3.23%
April 2027	0.78%	2.70%	3.55%
April 2033	0.98%	2.90%	4.17%

The chart below illustrates the credit spreads (measured over the applicable swap rate) for all current LGFA debt dating back to March 2015.



2. FUNDING

As at 30 September 2018, HDC had \$99.0 million of external debt, comprising a combination of Commercial Paper ("CP"), FRBs and FRNs, of which all but one tranche were sourced from the LGFA. Details of HDC's debt at 30 September 2018 are contained below.

HDC BOND

Instrument	Value Date	Maturity	Rate	Margin	Amount
FRB	Nov-11	Nov-18	5.59%	150 bps	\$2,000,000
				TOTAL	\$2,000,000

LGFA

Instrument	Inception	Maturity	Rate	Margin	Amount
CP	July-18	Dec-18	2.0972%	9 bps	\$12,000,000
FRB	Dec-12	Mar-19	4.45%	113 bps	\$4,000,000
FRB	Feb-13	Mar-19	4.71%	92 bps	\$5,000,000
FRN	May-13	Mar-19	2.65%	77 bps	\$3,000,000
FRB	Nov-17	Apr-20	2.63%	38 bps	\$5,000,000
FRN	July 18	Apr-20	2.23%	34 bps	\$4,000,000
FRB	May-13	May-21	4.56%	79 bps	\$5,000,000
FRB	Sep-13	May-21	5.99%	109 bps	\$5,000,000
FRB	Dec-13	May-21	5.85%	87 bps	\$5,000,000
FRN	May-13	May-21	2.75%	84 bps	\$4,000,000
FRN	July 18	Apr-22	2.39%	50 bps	\$9,000,000
FRN	May-15	May-22	2.33%	42.5 bps	\$3,000,000
FRB	Nov-14	Apr-23	5.13%	81 bps	\$4,000,000
FRN	Feb-18	Apr-23	2.51%	57.5 bps	\$6,000,000
FRB	Apr-17	Mar-24	3.72%	63 bps	\$4,000,000
FRB	May-17	May-24	3.76%	58 bps	\$4,000,000
FRB	Mar-17	Apr-25	4.20%	77 bps	\$3,000,000
FRN	May-15	May-25	2.39%	49 bps	\$7,000,000
FRB	Jul-16	Jul-26	3.37%	84 bps	\$5,000,000
				TOTAL	\$99,000,000

During the September 2018 quarter, HDC's debt increased from \$80.0 million to \$99.0 million due to the pre-funding of maturing debt (\$2.0 million in November 2018 and \$12.0 million in March 2019) and \$5.0 million of required future debt. The new debt raised during the September quarter was as follows:

- \$6.0 million of CP maturing on 6 December 2018 at a margin of 9 basis points equating to a rate of 2.0972% (which was combined with an existing tranche of CP).

- \$4.0 million FRN maturing on 15 April 2020 at a margin of 34 basis points equating to a rate of 2.23%.
- \$9.0 million FRN maturing on 14 April 2022 at a margin of 50 basis points equating to a rate of 2.39%.

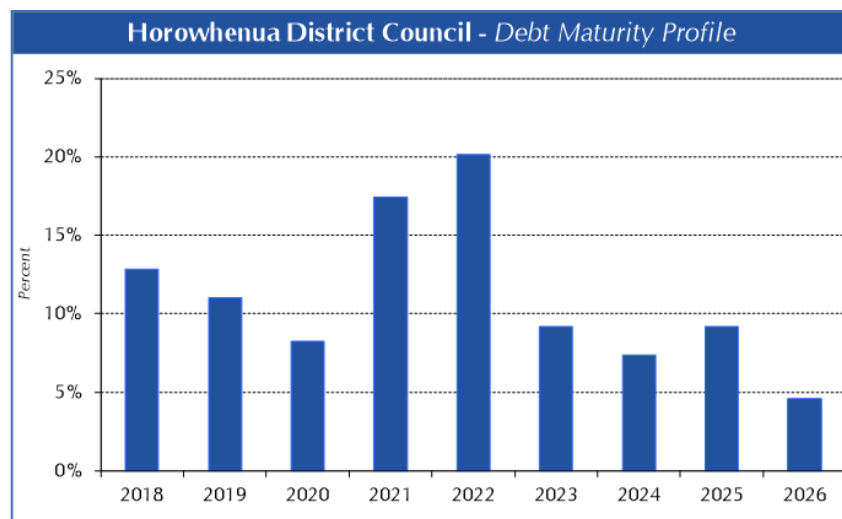
As not all of the funds were immediately required, \$16.0 million was placed on term deposit ("TD") as follows.

- \$2.0 million with BNZ maturing on 14 November 2018 at a rate of 2.63%.
- \$9.0 million with BNZ maturing on 14 March 2019 at a rate of 3.37%.
- \$5.0 million with BNZ maturing on 25 June 2019 at a rate of 3.42%.

The pre-funding of debt and the attendant placing of funds on deposit produced a 'positive carry'. The \$9.0 million tranche of pre-funded debt and TD is projected to produce a profit of approximately \$59,000. The \$5 million TD is linked to the \$4.0 million April 2020 FRN and \$1.0 million of CP, and is projected to produce a profit of approximately \$56,000.

As at 30 September 2018, HDC had no drawings under its BNZ \$10.0 million Customised Average Rate Loan facility that expires in November 2022.

HDC's current debt maturity profile is depicted in the following graph that indicates a good spread of maturities between 2018 and 2026 and that HDC complies with Section 4.6 of the Liability Management Policy ("LMP"), which governs HDC's funding risk management activities. Included in the funding profile is the BNZ facility.



3. DEBT AND HEDGING PROFILE

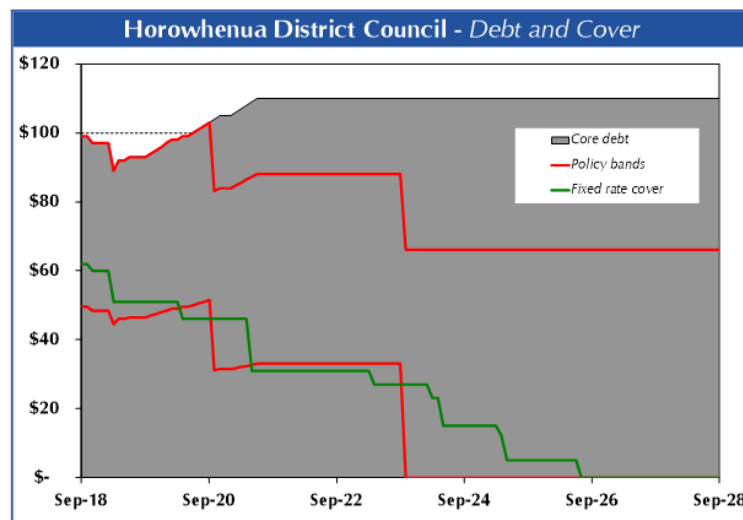
As at 30 September 2018, HDC had \$99.0 million of external fixed and floating rate debt, and two interest rate swaps, as follows:

- \$4.0 million, commenced 18 February 2013, maturing 18 May 2024, at 4.015%.
- \$7.0 million, commenced 18 May 2015, maturing 18 May 2025, at 4.75%.

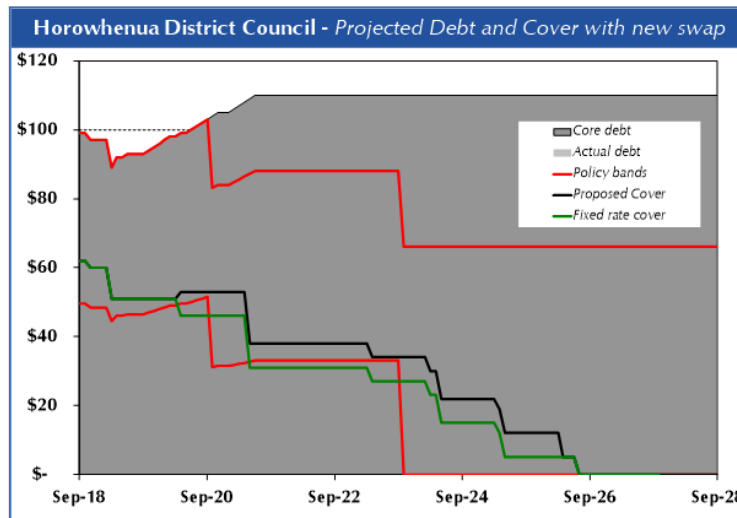
Section 4.3 of the LMP details the Fixed Rate Hedging Percentages as in the table below:

Fixed Rate Hedging Percentages		
	Minimum Fixed Rate Amount	Maximum Fixed Rate Amount
0-2 years	50%	100%
2-5 years	25%	80%
5-10 years	0%	60%

The debt and hedging profile incorporating these parameters is depicted in the graph below. Included in the fixed rate hedging percentages are the FRBs and interest rate swaps.

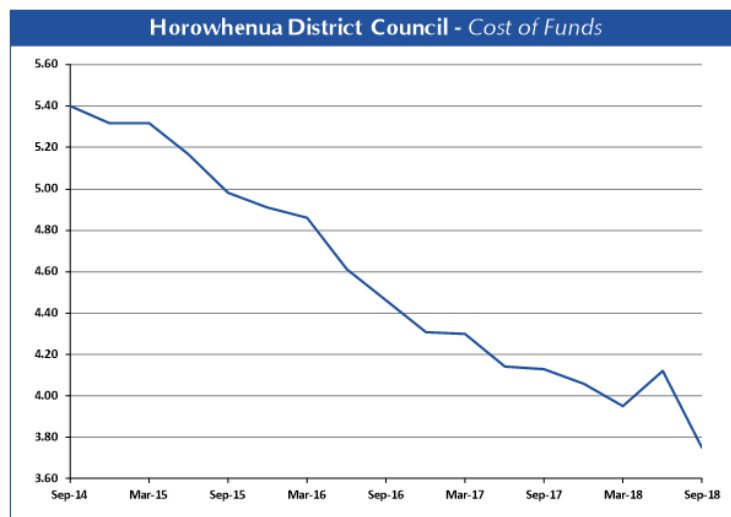


The graph indicates that, as at 30 September 2018, HDC had two minor breaches of the LMP due to an upward revision of future debt levels following the recent 2018-2028 Long Term Plan process. This policy breach can be rectified by entering into an interest rate swap for \$7.0 million commencing in April 2020 and maturing in April 2026. The current indicative rate for this interest rate swap is 2.97%. The debt and cover profile incorporating this interest rate swap (with the black line indicating the new interest rate swap) is depicted in the graph on the following page.



HDC's cost of funds (inclusive of the bank line fee) as at 30 September was 3.75%, down from 4.12% at the end of June 2018. The decline was due to the increase in debt. The new debt acquired over the September quarter was at lower interest rates than the average cost of funds at 30 June

HDC's cost of funds remains lower (in many cases noticeably so) than the large majority of its peers in the local government sector, indicating the success of its funding and interest rate risk management programme over the last several years. The cost of funds dating back to September 2014 is depicted in the following graph.



4. POLICY COMPLIANCE (AS AT 30 SEPTEMBER 2018)

	Yes/No
<i>Have all transactions been entered into compliance with policy?</i>	√
<i>Are the fixed rate hedging percentages within policy control limits?</i>	×
<i>Is HDC maintaining liquidity within policy control limits?</i>	√
<i>Are all counterparty exposures within policy control limits?</i>	√
<i>Is HDC compliant with the financial covenants contained in the LMP</i>	√

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File No.: 18/659

Horowhenua District Council Meeting Schedule for 2019

1. Purpose

To seek approval of the proposed meeting schedule for the Council and its committees for the period from January to December 2019.

2. Executive Summary

This report follows on from the 2019 Council Meeting Schedule report to the 21 November 2018 Council meeting laying on the table to allow for discussion to be held with the Mayor on a suggested change in meeting frequency and committee structure for 2019.

3. Recommendation

- 3.1 That Report 18/659 Horowhenua District Council Meeting Schedule for 2019 be received.
- 3.2 That this decision is recognised as not significant in terms of S76 of the Local Government Act
- 3.3 That the Finance, Audit & Risk Subcommittee recommends to Council:
 - (i) that it adopts the schedule of meetings for the committees of Council for the period January to December 2019 (Appendix A);
 - (ii) that it notes that additional ordinary, extraordinary and multi-day meetings may be scheduled from time to time in consultation with the Mayor and Chief Executive;
 - (iii) that it is noted that meeting times for other committees and subcommittees will be formally notified when they are required in accordance with the Local Government Official Information and Meetings Act 1987 and Local Government Act 2002;
 - (iv) that the Terms of Reference in relation to meeting frequency for Council and its standing committees, including the Community Wellbeing Committee, be amended to reflect the changes.

4. Discussion

- 4.1 As outlined in Schedule 7, Clause 19(1) of the Local Government Act 2002, Horowhenua District Council must hold meetings that are necessary for the good governance of Horowhenua District.
- 4.2 It is good practice for Council to adopt a schedule of meetings for the following calendar year. This will allow the business of the Council to be conducted in an orderly and transparent manner, thus enabling an open democratic process, and to allow public notification of meetings to be given in compliance with the Local Government Official Information and Meetings Act 1987.
- 4.3 A schedule also allows for elected members to plan their commitments over the year.
- 4.4 As discussed at the 21 November 2018 Council meeting, the proposed 2019 meeting schedule is based on changes to:
 - meeting frequency - from six weekly to monthly for Council and its FAR Subcommittee; and quarterly for the Community Wellbeing Committee;

- committee structure - removing the Strategy Committee;
- and follows consultation with the Mayor.

- 4.5 The changes will require amendment to the Terms of Reference for Council and the committees concerned.
- 4.6 Attached in Appendix A is the meeting schedule proposed for adoption.

Confirmation of statutory compliance


In accordance with section 76 of the Local Government Act 2002, this report is approved as:

- a. containing sufficient information about the options and their benefits and costs, bearing in mind the significance of the decisions; and,
- b. is based on adequate knowledge about, and adequate consideration of, the views and preferences of affected and interested parties bearing in mind the significance of the decision.

5. Appendices

No.	Title	Page
A	Council Meeting Schedule 2019	39

Author(s)	Sue Hori Te Pa Governance and Executive Team Leader	
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Approved by	Mark Lester Group Manager - Corporate Services	
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Finance, Audit & Risk Subcommittee
12 December 2018

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Council 4:00pm		13	13	10	-	12	-	14	11	2	13	11
Council for Annual Plan Purposes <i>Start times to be confirmed</i>	-	27 Adoption of Consultation Document	-	-	8, 9 Hearings 29, 30 Deliberations	26 Adoption of Long Term Plan	-	-	-	-	-	-
Council & FCB Inaugural Meetings follow Local Body Elections										30		

Committees of Council

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Finance, Audit & Risk Subcommittee 4:00pm	30	27	27	24	22	26	31	28	25		27	
Community Wellbeing Committee 1.00 pm	-	12	-	-	14	-	-	13	-	-	19	-