

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

**Date:** Wednesday 16 May 2018  
**Time:** 4.00 pm  
**Meeting Room:** Council Chambers  
**Venue:** Horowhenua District Council  
Levin

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## **Finance, Audit & Risk Subcommittee OPEN AGENDA**

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### **MEMBERSHIP**

<b>Chairperson</b>	Mr Philip Jones	
<b>Deputy Chairperson</b>	Mr Barry Judd	
<b>Members</b>	Deputy Mayor 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	
<b>Reporting Officer</b>	Mr Doug Law	(Chief Financial Officer)
<b>Meeting Secretary</b>	Mrs Karen Corkill	

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Website: [www.horowhenua.govt.nz](http://www.horowhenua.govt.nz)

**Full Agendas are available on Council's website**  
[www.horowhenua.govt.nz](http://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 to speak is required by 12 noon on the day of the meeting. Further information is available on [www.horowhenua.govt.nz](http://www.horowhenua.govt.nz) or by phoning 06 366 0999.

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 Declaration 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 – 21 March 2018**

**6 Announcements**

Public Participation (further information):

The ability to speak at Council and Community Board meetings provides the opportunity for members of the public to express their opinions/views to Elected Members as they relate to the agenda item to be considered by the meeting.

Speakers may (within the time allotted and through the Chairperson) ask Elected Members questions as they relate to the agenda item to be considered by the meeting, however that right does not naturally extend to question Council Officers or to take the opportunity to address the public audience be that in the gallery itself or via the livestreaming. Council Officers are available to offer advice to and answer questions from Elected Members when the meeting is formally considering the agenda item i.e. on completion of Public Participation.

Meeting protocols

1. All speakers shall address the Chair and Elected Members, not other members of the public be that in the gallery itself or via livestreaming.
2. A meeting is not a forum for complaints about Council staff or Council contractors. Those issues should be addressed direct to the CEO and not at a Council, Community Board or Committee meeting.
3. Elected members may address the speaker with questions or for clarification on an item, but when the topic is discussed Members shall address the Chair.
4. All persons present must show respect and courtesy to those who are speaking and not interrupt nor speak out of turn.
5. Any person asked more than once to be quiet will be asked to leave the meeting.

# Nine Month Report 1 July 2017 - 31 March 2018

File No.: 18/269

## 1. Purpose

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

## 2. Recommendation

- 2.1 That Report 18/269 Nine Month Report 1 July 2017 - 31 March 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	Nine month Financial Report March 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	



# Nine Month Report

1 July 2017 - 31 March 2018





## Executive Summary

### A. Trends and Activity of Interest

1. Resource Consenting
  - 133 consents have been lodged as at 31 March 2018, compared to 149 at the same time last year.
  - 65 subdivision consents approved as at 31 March 2018, compared to 62 at the same time last year.
  - 39 consents have reached 223 stage and 27 have reached 224 stage as at 31 March 2018.
2. Approved subdivisions have resulted in the creation of 112 new allotments as at 31 March 2018.
3. Building Consents
  - Value of consents issued as at 31 March 2018 is \$67,019,415 compared to \$65,383,741 for the same period last year.
  - 490 consents issued as at 31 March 2018, compared to 466 for the same period last year.
  - 158 new dwelling consents at 31 March 2018 against 151 for the same period in the 2016/2017 year.
  - 517 building consents were lodged as at 31 March 2018 compared to 491 for the same period in the 2016/17 year.

Both 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 February 2018.

### B. Financial Performance

Council has achieved a loss of (\$161,000) as at 31 March 2018 against a budgeted surplus of \$1,491,000.

The following variances are evident

- Fees and charges has pensioner housing rental \$343K that was not budgeted for due to sale, which occurred 27 November 2017.
- Finance costs are below budget by \$368K reflecting the lower interest rates on loans; 3.95% against the Annual Plan assumption of 4.75%
- Depreciation expense is \$1,422K higher than budget due to the revaluations of assets last year that were not reflected in the Annual Plan budgets. This trend will continue for the rest of the year.

It is forecast that by 30 June 2018 Council will have achieved \$3,604K surplus verse an Annual Plan budget of \$6,941K.

The following variances are evident.

- Less revenue from Grants as budgeting income is unlikely to be received for Community Centres.
- Increased depreciation with revaluation of assets.
- Decreased finance costs as lower interest rates have been achieved.

Rates rebates applications continue to be steady. 1,878 applications totalling \$1,031,289 processed to the end of March 2018 (Last year at this time 1,872 applications totalling \$1,021,922).

**Doug Law**  
Chief Financial Officer  
May 2018

## Operational Summary

Total revenue	Total expenditure	Total surplus/(deficit)
<b>\$38.73m</b> is 4% less than the total budget of \$40.42m	<b>\$38.89m</b> is 0% less than the total budget of \$38.93m	<b>(\$0.16m)</b> is 111% less than the total budget of 1.49m

### SUSTAINABILITY

#### Rates to operating revenue 69%

Rates revenue	\$26.47m
Operating revenue	\$38.46m

69% 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	\$38.46m
Operating expenditure	\$39.27m

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 110%

Capital expenditure	\$9.67m
Depreciation	\$8.82m

Capital expenditure should be equal or more than depreciation for essential services, for year to date capex is 110% of depreciation. Essential Services are Water Supply, Wastewater, Stormwater and Roding.

#### Net Debt to total projected revenue 135%

Total net borrowing	\$71.15m
Total projected operating revenue	\$52.89m

With net borrowing of \$71.15m we are still under the set limit of 175% of operating revenue. Total net borrowing is external borrowing less cash at bank.

#### Interest to rates revenue (LGFA Cov.) 8%

Net Interest	\$2.14m
Rates revenue	\$26.47m

8% 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.

#### Interest to operating revenue (LGFA Cov.) 6%

Net Interest	\$2.14m
Operating revenue	\$38.46m

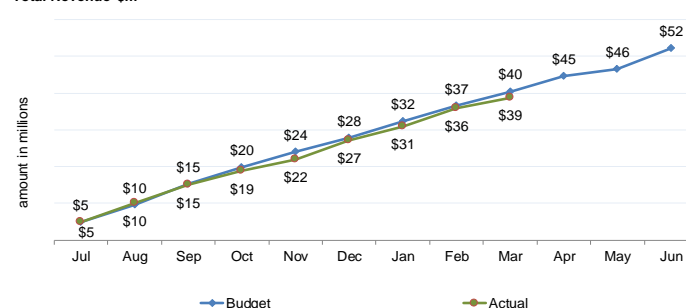
6% of operating revenue is paid in interest. Our set limit is 20% of operating revenue. Net interest is interest paid less interest received.

#### Available financial accommodation to external indebtedness (LGFA Cov.) 114%

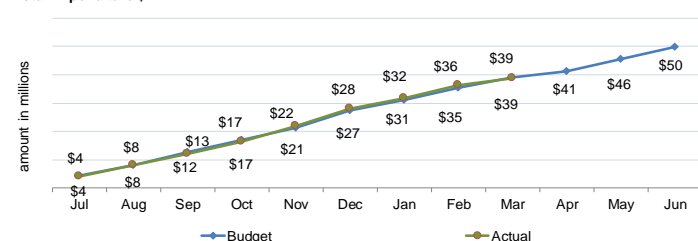
Net debt	\$71.15m
Undrawn committed facilities	\$10.00m

The committed bank facility enables us to borrow up to 114% of our current external debt immediately. The LGFA covenant minimum is 110%.

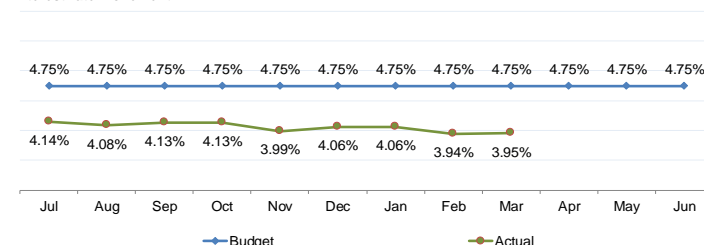
#### Total Revenue \$m



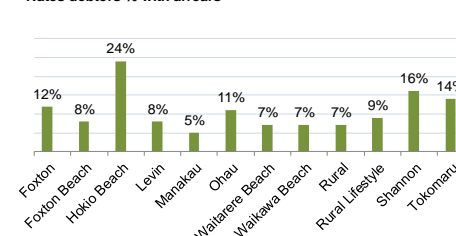
#### Total Expenditure \$m



#### Interest rate movement



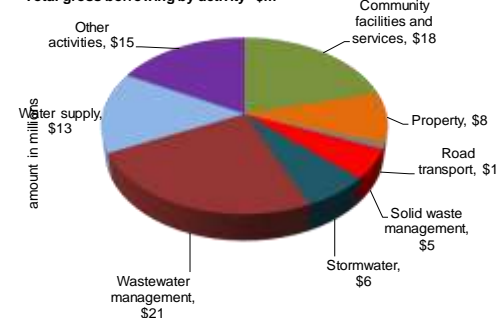
#### Rates debtors % with arrears



#### Sundry debtors by activities \$000



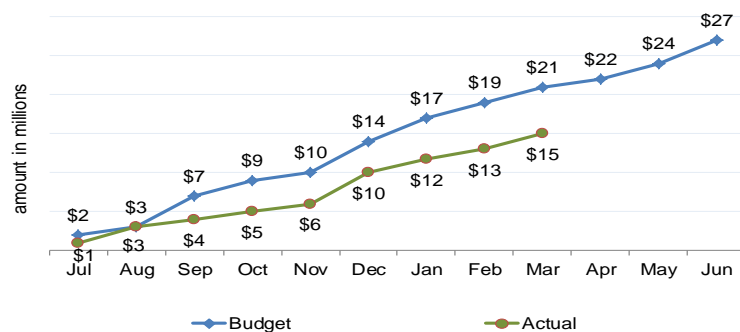
#### Total gross borrowing by activity \$m



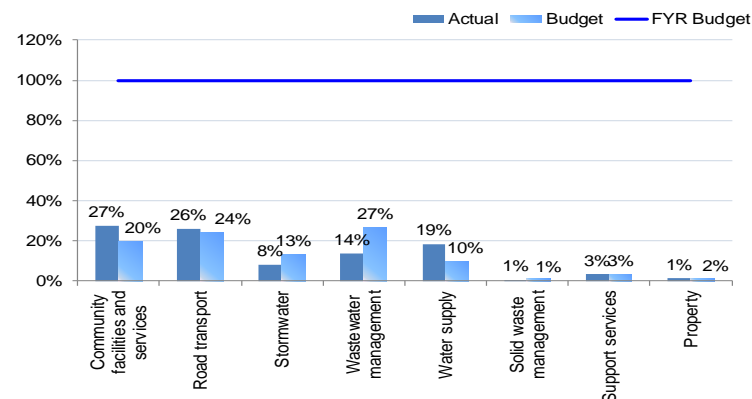
## Capital

To meet growth	To improve service	To replace
<b>\$1.56m</b>	<b>\$5.67m</b>	<b>\$7.26m</b>
is 53% less than the YTD budget of \$3.32m	is 29% less than the YTD budget of \$7.94	is 32% less than the total budget of \$10.73

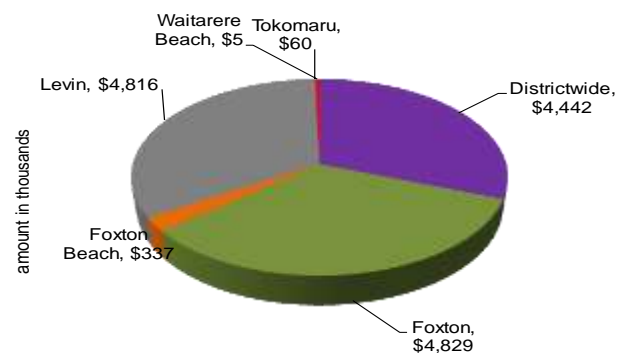
Total Capital Expenditure



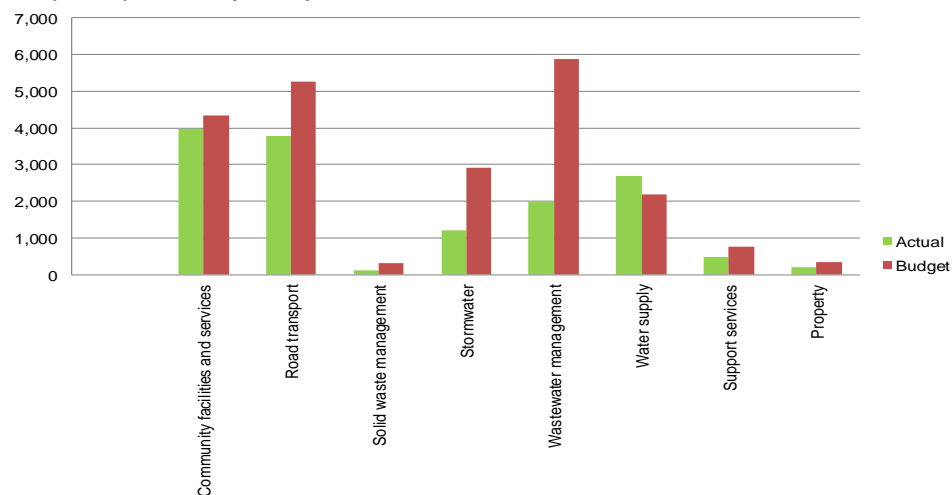
Capital Expenditure By Activity % Percentage



District View - Capital Expenditure \$000



Capital Expenditure By Activity \$000



## Statement of Capital Projects over \$50,000

Group of activities	Work Order	Description	Type	Full year Budget	Actual	Budget	Variance in \$	Variance in % to total budget	Loans Generated For Project Since 2015-16	Projected Spend to 30 June 2018	Contract Awarded	Estimated date of Project Completion	Project % Completed	General Comments
Land Transport	8512	Foxton Townscape Main Street Upgrade	LOS	1,225,000	613,850	1,055,000	441,150	36%	914,992	338,796	Higgins	Mar-18	25%	Extra engagement has gone well for North end of Main Street and we should be able to complete entire project this year.
		<b>Total Land Transport</b>		<b>1,225,000</b>	<b>613,850</b>	<b>1,055,000</b>	<b>441,150</b>	<b>42%</b>	<b>914,992</b>	<b>338,796</b>				
Group of activities	Work Order	Description	Type	Full year Budget	Actual	Budget	Variance in \$	Variance in % to total budget	Loans Generated For Project Since 2015-16	Projected Spend to 30 June 2018	Contract Awarded	Estimated date of Project Completion	Project % Completed	General Comments
Stormwater														
	8475	Levin Queen Street	LOS	150,000	6,000	60,000	54,000	36%	80,100	150,000			0%	This money is to assist with the Ministry for the Environment (MFE) project. The MFE project will determine the timeframes for this work. This is a stormwater (SW) quality improvement project (SW discharge to the Lake) possibly contracting wetland areas.
	8474	Stormwater Telemetry	LOS	65,001	28,624	65,001	36,377	56%	143,308	65,001				Cost of fully reticulated stormwater network was obtained to give options to manage stormwater. Draft catchment management plan has been received and have been presented to the Council as part of stormwater network analysis.
	8714	Shannon Catchment Management Plan	LOS	56,867	0	56,867	56,867	100%		56,867				
	8883	District Wide Improvement Works	Grwth/LOS	534,552	157,704	267,276	109,572	20%	157,704	534,552	Different contractors will be used.	Jun-18	10%	Planning started and some minor improvements undertaken. Designs to extend Queen Street stormwater pipe have been prepared and contract let. We expect all of this money will be spent before the end of year.
	8715	Development Planning Foxton Beach	GRWTH	155,700	179	155,700	155,521	100%	179	60,000	no	Oct-18	5%	Planning started. We may not spend all this money this year unless we use external consultants.
	8480	Improvements NE Levin	Grwth/LOS	2,462,904	1,002,363	1,978,948	976,585	40%	2,833,478	1,600,000	Higgins	Jun 18 (excluding attenuation ponds)	50%	Contract awarded to Higgins. Stormwater pipe installed, Pump stations complete and roading well progressed. In terms of the construction of the attenuation ponds we may have to carry over around \$800,000 at the end of the financial year. The works on Fairfield is to be completed by Jun 2018.
		<b>Total Stormwater</b>		<b>3,425,024</b>	<b>1,194,870</b>	<b>2,583,792</b>	<b>1,388,922</b>	<b>54%</b>	<b>3,214,770</b>	<b>2,466,420</b>				

## Statement of Capital Projects over \$50,000 (cont.)

Group of activities	Work Order	Description	Type	Full year Budget	Year to date Costs vs YTD Budget				Loans Generated For Project Since 2015-16	Projected Spend to 30 June 2018	Contract Awarded	Estimated date of Project Completion	Project % Completed	General Comments
					Actual	Budget	Variance in \$	Variance in % to total budget						
Wastewater	8483	Foxton Wastewater Treatment Plant - Strategic Upgrade	LOS	2,092,918	172,564	1,280,000	1,107,436	53%	2,225,963	2,092,918	no			At consent stage. The YTD costs include costs recovered from 5% Horizons (\$200k). This stage it is unclear whether we will get all of this work completed this financial year or just part of it.
	8890	Foxton Wastewater Treatment Plant - Pond Desludge	Ren/LOS	450,000	41,484	450,000	408,516	91%	8,297	450,000	no	Aug-18	5%	Contract awarded to CW Glasgow.
	8891	Foxton Beach Wastewater Treatment Plant - Strategic Upgrade	LOS	267,275	99,133	135,400	36,267	14%	94,177	267,275	no			At consent stage. The YTD costs include costs recovered from 5% Horizons (\$200k). This stage it is unclear whether we will get all of this work completed this financial year or just part of it.
	8892	Foxton Beach Wastewater Treatment Plant - Planned Renewals	Renewal	142,190	0	91,000	91,000	64%	-	142,190				
	8491	Tokomaru Wastewater Treatment Plant - Consent Renewal	Renewal	65,000	82,352	43,000	(39,352)	(61%)	-	65,000				Consent application on hold with Horizons. Following HDC's agreement to purchase land in the area, earmarked to allow land irrigation of treated WW effluent from the WWTP, the purchase should go through from 1 July 2018 onwards - with funding from ME. The consent renewal process for the application will be back on with completion of the land deal.
	8720	Waitarere Wastewater Treatment Plant - Strategic Upgrade	LOS	240,548	0	88,500	88,500	37%	-	240,548	no	Jun-18	0%	This is currently awaiting consent.
	8498	Foxton Reticulation - Renewals	Renewal	167,265	0	68,000	68,000	41%	-	167,265	Horowhenua Alliance	Jun-18	5%	Work being undertaken as part of the District Wide renewals by the Horowhenua Alliance. Construction well progressed.
	8499	Levin Reticulation - Renewals	Renewal	433,889	607,561	268,000	(339,561)	(78%)	-	433,889	Horowhenua Alliance	Jun-18	40%	Work being undertaken by the Horowhenua Alliance. Construction progressing well. Actuals include work undertaken under Works Order 8498.
	8500	Districtwide - Reticulation Unplanned Renewals	Renewal	192,973	41,584	118,000	76,416	40%	-	192,973	Horowhenua Alliance	Jun-18	20%	For reactive repairs. To cover unscheduled maintenance issues.
	8501	Levin Treatment Plant - Planned Renewals	Renewal	1,826,673	179,239	1,340,000	1,160,761	64%	-	1,826,673				Renewal works on the pump and WWTP barrier were not required and other works could not be progressed in 2017/18 due to circumstances beyond our control eg delay in works progressing due to a skilled labour shortage, large construction activity elsewhere.
	8502	Levin Wastewater Treatment Plant - Strategic Upgrade	LOS	545,241	188,337	369,241	180,904	33%	1,665,313	545,241				Some of these works could not be progressed fully in 2017/18 due to circumstances beyond our control eg delay in works progressing due to a skilled labour shortage, large construction activity elsewhere. Carry forward \$150K to 2018/19.
	8503	Levin Treatment Plant - Unplanned Renewals	Renewal	94,592	26,958	63,000	36,042	38%	-	94,592				For unplanned works.
	8722	Development Planning Foxton Beach	Growth	144,738	7,785	90,000	82,215	57%	13,520	80,000	Horowhenua Alliance	Oct-18	5%	Planning started. Unlikely to spend all of this money this financial year. We may spend \$80k.
	8893	Development Work - North East Levin	Growth	245,893	344,934	245,893	(99,041)	(40%)	344,934	245,893	Higgins	Mar-18	80%	Works complete
	8894	Development Planning Waitarere Beach	Growth	160,365	0	80,000	80,000	50%	-	75,000	no	Oct-18	0%	Not yet started. We are unlikely to spend all of this money unless we use external consultants to assist.
	8505	Levin Taranua Industrial Development	Growth	88,287	0	0	0	0%	37,867	88,287	no		0%	On hold until decision made whether Council develops this site. Unlikely to spend this money this financial year.
Total Wastewater				7,157,847	1,791,930	4,730,034	2,938,104	62%	4,390,070	7,007,744				

## Statement of Capital Projects over \$50,000 (cont.)

Group of activities	Work Order	Description	Type	Full year Budget	Year to date Costs vs YTD Budget				Loans Generated For Project Since 2015-16	Projected Spend to 30 June 2018	Contract Awarded	Estimated date of Project Completion	Project % Completed	General Comments
					Actual	Budget	Variance in \$	Variance in % to total budget						
Water Supply	8456	Levin Reticulation- RENEWAL	Renewal	1,069,601	1,388,226	713,431	(674,795)	(63%)	-	1,069,601	Horowhenua Alliance Construction	Jun-18	35%	Work being undertaken by the Horowhenua Alliance. Construction progressing well. The scope of the works to be undertaken this financial year has increased significantly from the original scope (i.e. we've completed a lot more work than the budget allowed).
	8887	Foxton Beach consents- RENEWAL	Renewal	53,455	0	53,455	53,455	100%	-	53,455				This is currently underway.
	8888	Tokomaru Consents- RENEWAL	Renewal	106,910	0	30,000	30,000	28%	-	106,910				To be carried forward to 2018/19.
	8889	Shannon - Mangaore Consents- RENEWAL	Renewal	106,910	0	70,000	70,000	65%	-	106,910				To be carried forward to 2018/19.
	8466	Levin Clarifier Installation	LOS	250,000	95,717	250,000	154,283	62%	1,657,558	250,000	Veolia for main works	Jun-18	80%	Additional costs to come.
	8719	Levin treatment plant upgrade	LOS	600,000	373,855	371,000	(2,855)	(0%)	3,081,635	600,000	Reliant for Foxton New Reservoir	Jun-18	15%	Carried forward from last year. To be used for Foxton New Reservoir and Foxton Beach Green Sand Filters. Project to be completed by June 18.
	8718	Foxton Beach Development plan	Growth	83,000	661	62,500	61,839	75%	16,901	40,000	Horowhenua Alliance	Oct-18	10%	Planning started. We are unlikely to require all of these funds unless we use external consultants, due to staff capacity issues.
	8468	Reactive renewals - District Wide	Renewal	160,365	169,734	118,240	(51,494)	(32%)	-	160,365	Horowhenua Alliance	Jun-18	50%	For reactive repairs. To cover unscheduled maintenance issues. We are likely to overspend this budget as additional works have been identified on Bartholomew Road.
	Total Water Supply			2,430,241	2,028,194	1,668,626	(359,568)	(22%)	4,756,093	2,387,241				
Group of activities	Work Order	Description	Type	Full year Budget	Year to date Costs vs YTD Budget				Loans Generated For Project Since 2015-16	Projected Spend to 30 June 2018	Contract Awarded	Estimated date of Project Completion	Project % Completed	General Comments
					Actual	Budget	Variance in \$	Variance in % to total budget						
Solid Waste	8516	Cap Shape Correction	Renewal	62,050	49,714	62,049	12,335	20%	-	62,050				
	8518	Landfill Development	Growth	52,465	52,465	296,732	244,267	466%	218,801	329,704				
	Total Solid Waste			114,515	102,179	358,781	256,602	72%	218,801	391,754				

## Statement of Capital Projects over \$50,000 (cont.)

Group of activities	Work Order	Description	Type	Full year Budget	Actual	Year to date Budget	Costs vs YTD Budget Variance in \$	Variance in % to total budget	Loans Generated For Project Since 2015-16	Projected Spend to 30 June 2018	Contract Awarded	Estimated date of Project Completion	Project % Completed	General Comments
<b>Property</b>														
	8535	General Property Renewals	Renewal	186,900	21,839	0	(21,839)	(12%)	-	186,900	no	Jun-18	2%	
	8651	Tararua Industrial Development	Growth	142,100	55	0	(55)	(0%)	364,279	0	no	Jun-18	0%	Insufficient funding to complete subdivision, carry forward to 2018/19.
		<b>Total Property</b>		<b>329,000</b>	<b>21,894</b>	<b>0</b>	<b>(21,894)</b>	<b>(7%)</b>	<b>364,279</b>	<b>186,900</b>				
Group of activities	Work Order	Description	Type	Full year Budget	Actual	Year to date Budget	Costs vs YTD Budget Variance in \$	Variance in % to total budget	Loans Generated For Project Since 2015-16	Projected Spend to 30 June 2018	Contract Awarded	Estimated date of Project Completion	Project % Completed	General Comments
<b>Community Facilities and Services</b>														
	8852	Levin Aquatic - Replace the Hydroslide	Renewal	120,000	0	15,000	15,000	13%	-	0	no	n/a	n/a	Recommend carry forward to 2018/19, with work to be undertaken following feasibility study of recreational and aquatic facilities.
	8543	Foxton Aquatic Centre Plan Renewals	Renewal	114,996	87,841	75,000	(12,841)	(11%)	-	114,996	n/a	Jun-18	100%	Programme of capital work to be undertaken to enhance landscaping at front and rear of facility.
	8579	Te Awahou -Community Centre - Site works and museum fitout	Gwth/Los/Ren	3,252,200	3,101,928	3,252,200	150,272	5%	6,560,832	3,252,200			98%	Opened to public 18 November 2017.
	8826	IT equipment Te Awahou	Growth	109,000	102,800	109,000	6,200	6%	102,800	102,800		Nov-17	100%	Completed.
	8871	Shared pathways	LOS	250,000	6,155	156,250	150,095	60%	6,155	250,000	no	n/a	n/a	
	8551	Waitarere Dune management Dune management - flatten recountour	Renewal	102,900	4,944	0	(4,944)	(5%)	-	5,000	no	Jun-18	5%	Expenditure contingent on construction of new surf-club carry-over \$97,900 to 2018/19.
	8561	Reserves Renewals	Renewal	158,752	4,383	120,000	115,617	73%	-	158,752	no	Jun-18	3%	
	8568	District Play Equipment	Renewal	75,000	8,680	50,000	41,320	55%	-	75,000	no	Jun-18	11%	
	8574	Foxton Beach Reserves Projects per LTP 2015-2025 (Endowment)	Renewal	276,060	254,461	150,530	(103,931)	(38%)	-	350,000	yes	Jun-18	15%	Foxton Community Board elected to install the second option (50m x 50m) pump track and meet the extra cost from the 2018/19 Freehold account contribution.
		<b>Total Community Facilities and Services</b>		<b>4,458,908</b>	<b>3,571,192</b>	<b>3,927,980</b>	<b>356,788</b>	<b>9%</b>	<b>6,669,787</b>	<b>4,308,748</b>				



## Statement of Comprehensive Revenue and Expense

Percentage of year completed: 25%	Council Actual \$ 30-Jun-17 \$000	Annual Plan to 30- Jun-18 \$000	Annual Forecast Jun-18 \$000	Council Actual \$ 31-Mar-18 \$000	Council Budget \$ 31-Mar-18 \$000	YTD Variance \$000	YTD Variance %
	A	B	C	D=C-B	E=D/C		
<b>Revenue</b>							
Rates	34,498	36,790	36,800	27,405	27,327	(78)	0%
Finance revenue	53	70	100	4	52	48	92%
Grants and subsidies	3,900	7,226	5,809	4,238	6,441	2,203	34%
Fees and charges	6,321	5,154	5,262	4,157	3,866	(291)	-8%
Other revenue	3,857	3,294	3,293	2,438	2,600	162	6%
Vested assets	459	-	25	144	-	(144)	0%
Development contributions	488	-	-	126	-	(126)	0%
Gain on derivative financial instruments	630	-	-	-	-	-	0%
Other gains	983	359	393	214	135	(79)	-59%
<b>Total revenue</b>	<b>51,189</b>	<b>52,893</b>	<b>51,682</b>	<b>38,726</b>	<b>40,421</b>	<b>1,695</b>	<b>4%</b>
<b>Expenditure</b>							
Employee benefit expenses	12,234	13,174	13,172	9,562	9,786	224	2%
Depreciation and amortisation	14,154	11,604	14,010	10,125	8,703	(1,422)	-16%
Finance costs	3,106	3,658	3,252	2,142	2,510	368	15%
Other losses	733	1,877	1,862	1,875	1,877	2	0%
Increase / (decrease) in landfill provision	221	95	95	-	-	-	0%
Other expenses	21,683	21,507	21,650	15,183	16,054	871	5%
<b>Total expenses</b>	<b>52,131</b>	<b>51,915</b>	<b>54,041</b>	<b>38,887</b>	<b>38,930</b>	<b>43</b>	<b>0%</b>
<b>Operating surplus / (deficit) before tax</b>	<b>(942)</b>	<b>978</b>	<b>(2,359)</b>	<b>(161)</b>	<b>1,491</b>	<b>1,652</b>	<b>111%</b>
Income tax expense	-	-	-	-	-	-	-
<b>Operating surplus / (deficit) after tax</b>	<b>(942)</b>	<b>978</b>	<b>(2,359)</b>	<b>(161)</b>	<b>1,491</b>	<b>1,652</b>	<b>111%</b>
Write back of revaluation losses on land & buildings	2,963	-	-	-	-	-	0%
<b>Surplus (deficit) after tax attributed to Horowhenua District Council</b>	<b>2,021</b>	<b>978</b>	<b>(2,359)</b>	<b>(161)</b>	<b>1,491</b>	<b>1,652</b>	<b>111%</b>
<b>Other comprehensive revenue and expense</b>							
Gain / (loss) on infrastructural assets revaluations	29,272	5,963	5,963	-	-	-	0%
Gain / (loss) on operational assets revaluation	6,418	-	-	-	-	-	0%
Gain / (loss) on restricted assets revaluation	6,091	-	-	-	-	-	0%
<b>Total other comprehensive revenue and expense for the year</b>	<b>41,781</b>	<b>5,963</b>	<b>5,963</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive revenue and expense for the year</b>	<b>43,802</b>	<b>6,941</b>	<b>3,604</b>	<b>(161)</b>	<b>1,491</b>	<b>1,652</b>	<b>111%</b>

## Notes

### Revenue

**Rates penalties** – The penalties slightly below budgets with an increase payments received for prior years arrears debt and decreases in current year debt. It is forecasted the the total penalties for the year will be above budget due to current year debt.

**Interest Revenue** – The is below budget with lower interest rates in the market coupled with lower cash balances than anticipated on order to defer long-term borrowing as long as possible.

**Grants and Subsidies** – The capital grant for Libraries received is \$1,416K under budget. Subsidised Roding Capital Project Foxton Main Street and reseals are under way and the Capital Subsidies are below budget budget, though this will increase with increased activity in the next few months.

**Fees and Charges** – Residential Housing income is \$343K above budget with rents received for Pension Housing and not budgeted for as the portfolio was sold 27 November 2017.

Wastewater income is above budget with Trade Waste in Foxton and Levin.

**Other Revenue –**

- Building consents revenue is \$129K above budget with increased activity.
- Parking revenue received is \$195K below budget. Paid Car Parking in the Mall Car Park was originally budgeted however following a pre-consultative process and subsequent decision of Council it did not eventuate. The timing of our tickets issued to court and recovery of fines from the courts is also a contributing factor. This trend is anticipated to continue through to 30 June 2018.
- Dog Infringement revenue is \$136K below budget. The higher percentage of dogs registered on time results in a lower income in relation to infringements which are issued, it is also noted that less prosecutions have occurred..
- People and Capability have unbudgeted \$13K for payroll work with other businesses.
- Wastewater is \$55K over budget with unbudgeted income for Shannon Wastewater land grazing.

**Gains/Loss–** Property gains on sale for Endowment land. Property Loss of for residential housing.

Activity	Gain	Loss	Total
Endowment	213,993	12,902	213,993
Residential Housing	0	1,862,138	(1,862,138)
	213,993	1,875,040	(1,648,145)

**Expenditure**

**Depreciations and amortisation** – This is \$1,422K over budget due to the revaluation on Water and Wastewater assets last financial year unknown when the depreciation budgets were formulated.

**Finance Costs** – Due to the lower interest rates for Council loans. This is expected to remain under budget to 30 June 2018.

**Other Expenses –**

- Maintenance and Material costs are under budget for;
  - Community Facilities and Service by \$340K,
  - Wastewater \$275K,
  - Solid Waste \$162K,
  - Property \$24K and
  - Roading \$660K.
  - These costs are over budget for;
    - Storm Water by \$20K and
    - Water Supply \$736K. This overspend is offset with reduction in internal costs.

## Statement of Financial Position

	Council Actual 30 June 2017 \$000	Council Actual 31 March 2018 \$000	Council Annual Plan Budget 30 June 2018	Notes
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents	5,074	14,885	4,953	1
Debtors and other receivables	6,790	4,248	6,045	
Other financial assets	365	365	0	
Assets held for sale	7,508	-	285	
<b>Total current assets</b>	<b>19,737</b>	<b>19,498</b>	<b>11,283</b>	
<b>Non-current assets</b>				
Operational assets	52,008	54,822	42,388	
Infrastructural assets	428,046	429,039	419,880	
Restricted assets	44,979	44,261	41,511	
Intangible assets	1,854	1,645	1,608	
Forestry assets	1,500	1,288	1,010	
Commercial property	5,879	5,879	6,219	
Council Controlled Organisations	220	220	1,285	
Investment in other entities	1,121	1,360	0	
<b>Total non-current assets</b>	<b>535,607</b>	<b>538,514</b>	<b>513,901</b>	
<b>Total assets</b>	<b>555,344</b>	<b>558,012</b>	<b>525,184</b>	
<b>Liabilities</b>				
<b>Current liabilities</b>				
Creditors and other payables	10,579	6,269	11,984	
Provisions	1,129	1,129	940	
Employee entitlements	1,155	624	993	
Borrowings	14,000	26,000	14,000	
<b>Total current liabilities</b>	<b>26,863</b>	<b>34,022</b>	<b>27,917</b>	
<b>Non-current liabilities</b>				
Provisions	2,272	2,272	2,431	2
Employee entitlements	166	166	161	
Derivative and other financial liabilities	1,038	1,038	1,668	
Borrowings	63,000	60,000	69,000	
Other	461	395	784	
<b>Total non-current liabilities</b>	<b>66,937</b>	<b>63,871</b>	<b>74,044</b>	
<b>Total liabilities</b>	<b>93,800</b>	<b>97,893</b>	<b>101,961</b>	
<b>Net assets</b>	<b>461,544</b>	<b>460,119</b>	<b>423,223</b>	
<b>Equity</b>				
Retained earnings	263,895	263,734	261,439	
Revaluation reserves	189,230	187,966	153,411	
Other reserves	8,419	8,419	8,373	
<b>Total equity</b>	<b>461,544</b>	<b>460,119</b>	<b>423,223</b>	
<b>Total equity attributable to Horowhenua District Council</b>	<b>461,544</b>	<b>460,119</b>	<b>433,223</b>	

## Notes

### 1. Debtors and other receivables:

Sundry Debtors	\$778K
Rates	\$2,948K
Water Billing	\$531K
Infringements and Other	\$3,893K
Provision for Current Doubtful Debts	<u>(\$3,902)K</u>
Total	\$4,248

A breakdown of Current Sundry Debtors is shown on the Statement of Sundry Debtors.

Rates debtors include arrears and prepayments.

Rates debtors owing as at 31 March 2018 over \$99 (refer page 14)	\$2,505K
Rates under \$99 per assessment	\$755K
Prepayments as at 31 March 2018	<u>(\$312)K</u>
<b>Total Rates Debtors disclosed in Debtors and Other receivables</b>	<b>\$2,948K</b>

### 2. Non-current liabilities – Other

LGFA Amortisation Reserve	\$323K
Development Contributions	<u>\$72K</u>
Total	\$395K

Section 197A of the Local Government Act 2002 enables territorial authorities to recover a contribution for developments to fund infrastructure required due to growth. Council made the decision not to collect any further Development Contributions effective from 1 July 2015.

## Funding Impact Statement for Whole of Council

	Annual Plan Forecast 31-Mar-18 \$000	Actual 31-Mar-18 \$000	Variance 31-Mar-18 \$000
<b>Sources of Operating Funding</b>			
General rates, uniform annual general charges, rates penalties	7,261	7,233	(28)
Targeted rates	20,066	20,172	106
Subsidies and grants for operating purposes	1,234	1,003	(231)
Fees and charges	3,866	4,157	291
Interest and dividends from investments	52	4	(48)
Local authorities fuel tax, fines, infringement fees, and other receipts	2,600	2,439	(161)
<b>Total Operating Funding (A)</b>	<b>35,079</b>	<b>35,008</b>	<b>(71)</b>
<b>Applications of Operating Funding</b>			
Payments to staff and suppliers	25,840	24,745	(1,095)
Finance Costs	2,510	2,142	(368)
Other operating funding applications	-	-	-
<b>Total applications of operating funding (B)</b>	<b>28,350</b>	<b>26,887</b>	<b>(1,463)</b>
<b>Surplus (deficit) of operating funding (A - B)</b>	<b>6,729</b>	<b>8,121</b>	<b>1,392</b>
<b>Sources of capital funding</b>			
Subsidies and grants for capital expenditure	5,207	3,234	(1,973)
Development and financial contributions	-	126	-
Increase (decrease) in debt	6,233	9,000	2,767
Gross proceeds from sale of assets	5,168	6,144	976
Lump sum contributions	-	-	-
Other dedicated capital funding	-	-	-
<b>Total sources of capital funding (C)</b>	<b>16,608</b>	<b>18,504</b>	<b>1,770</b>
<b>Applications of capital funding</b>			
Capital expenditure			
- to meet additional demand	3,319	1,556	(1,763)
- to improve the level of service	7,937	5,670	(2,267)
- to replace existing assets	10,731	7,263	(3,468)
Increase (decrease) in reserves	1,289	12,136	10,847
Increase (decrease) of investments	60	-	(60)
<b>Total applications of capital funding (D)</b>	<b>23,336</b>	<b>26,625</b>	<b>3,288</b>
<b>Surplus (deficit) of capital funding (C - D)</b>	<b>(6,728)</b>	<b>(8,121)</b>	<b>(1,519)</b>
<b>Funding Balance ((A-B)+(C-D))</b>	<b>-</b>	<b>-</b>	<b>-</b>
Depreciation	8,703	10,513	1,810

## Statement of Cashflow

	Council Actual \$ 31-Mar-18 \$000	Annual Plan 30-Jun-18 \$000
<b>Cashflow from Operating Activities</b>		
<b>Cash was provided from:</b>		
Revenue from Rates	27,572	36,790
Other Revenue	12,542	15,674
Interest Received	146	70
Net GST movement	-	-
	<b>40,260</b>	<b>52,534</b>
<b>Cash was disbursed to:</b>		
Suppliers, services and employees	26,957	34,680
Interest Paid	2,208	3,658
Net GST movement	219	-
	<b>29,384</b>	<b>38,338</b>
<b>Net Cashflow from Operating Activity</b>	<b>10,876</b>	<b>14,196</b>
<b>Cashflows from Investing Activities</b>		
<b>Cash was provided from:</b>		
Proceeds from asset sales	6,132	6,890
Proceeds from investments	-	-
	<b>6,132</b>	<b>6,890</b>
<b>Cash was disbursed to:</b>		
Purchases of investments	239	80
Purchase of Assets	15,958	29,316
	<b>16,197</b>	<b>29,396</b>
<b>Net Cashflow from Investing Activity</b>	<b>(10,065)</b>	<b>(22,506)</b>
<b>Cashflows from Financing Activities</b>		
<b>Cash was provided from:</b>		
Loans Raised	29,000	14,400
	<b>29,000</b>	<b>14,400</b>
<b>Cash was disbursed to:</b>		
Repayment of Public Debt	20,000	8,400
	<b>20,000</b>	<b>8,400</b>
<b>Net Cashflow from Financing Activity</b>	<b>9,000</b>	<b>6,000</b>
Net Increase (Decrease) in Cash Held	9,811	(2,310)
Add Opening Cash brought forward	5,074	7,263
<b>Closing Cash Balance</b>	<b>14,885</b>	<b>4,953</b>

## Statement of Rates Debtors

Rate Zone	Assessment Count	Assessments With Arrears	% with Arrears	Total Arrears	Year to Date Rates Arrears	Instalment 1 Arrears	Instalment 2 Arrears	Instalment 3 Arrears	Penalties Arrears	Prior Year Arrears
Foxton	1,268	147	12%	\$239,818	\$129,196	\$20,198	\$30,168	\$62,635	\$16,201	\$110,621
Foxton Beach	1,587	131	8%	\$130,848	\$106,102	\$12,604	\$21,277	\$59,602	\$12,641	\$24,746
Hokio Beach	199	48	24%	\$465,835	\$22,301	\$5,669	\$6,128	\$9,525	\$985	\$443,534
Levin	7,407	566	8%	\$638,931	\$477,629	\$60,243	\$100,119	\$263,222	\$55,671	\$161,301
Manakau	86	4	5%	\$1,836	\$1,836	\$289	\$322	\$1,120	\$104	\$0
Non Rateable	128	6	5%	\$5,283	\$2,534	\$201	\$225	\$1,414	\$695	\$2,749
Ohau	151	17	11%	\$17,585	\$14,487	\$2,492	\$3,980	\$7,086	\$1,091	\$3,098
Rural	2,264	158	7%	\$466,308	\$99,046	\$14,404	\$21,194	\$51,095	\$12,777	\$367,262
Rural Lifestyle	2,623	238	9%	\$244,398	\$161,092	\$20,491	\$36,205	\$88,620	\$15,229	\$83,306
Shannon	673	111	16%	\$215,128	\$111,448	\$15,738	\$24,893	\$44,419	\$26,363	\$103,681
Tokomaru	164	23	14%	\$16,844	\$15,617	\$1,303	\$4,513	\$8,554	\$1,244	\$1,227
Waikawa Beach	231	17	7%	\$10,260	\$10,226	\$374	\$2,002	\$6,987	\$861	\$35
Waitarere Beach	966	64	7%	\$52,444	\$41,474	\$3,356	\$6,600	\$26,675	\$5,003	\$10,970
<b>Total rates arrears over \$99 31 March 2018</b>	<b>17,747</b>	<b>1,530</b>	<b>8%</b>	<b>\$2,505,518</b>	<b>\$1,192,988</b>	<b>\$157,361</b>	<b>\$257,625</b>	<b>\$630,954</b>	<b>\$148,865</b>	<b>\$1,312,530</b>
<b>Total rates arrears over \$99 31 March 2017</b>	<b>17,651</b>	<b>1,492</b>	<b>8%</b>	<b>\$2,909,915</b>	<b>\$1,268,798</b>	<b>\$194,772</b>	<b>\$291,275</b>	<b>\$589,159</b>	<b>\$193,593</b>	<b>\$1,641,117</b>

- The total arrears of \$2,505,518 is for total arrears over \$99 as at 31 March 2018.
- This report excludes assessments with total arrears under \$99 and assessment with credit balances.

## Statement of Sundry Debtors

Category	Total Outstanding	Current Outstanding	31 - 60 days Outstanding	61 - 90 days Outstanding	Over 90 days Outstanding	Notes
<b>Current debtors</b>						
Aquatic Centre	11,062	8,381	2,432	0	250	
Building - Exempt Work	120	120	0	0	0	
Building Consents	61,178	25,962	26,742	1,166	7,308	1
Building Fee - BWOF	1,865	1,350	150	0	365	
Cemeteries	11,575	11,575	0	0	0	
Dogs	272	0	0	0	272	
Dogs - Debt Collection	6,637	0	822	0	5,815	
Dogs Arrange to pay	225	79	0	0	146	
Fines	1,861	21	280	0	1,560	
General	185,516	179,581	90	0	5,845	
Health Accreditation Renewals	9,378	200	2,413	1,575	5,190	2
Hire	8,935	2,785	2,390	0	3,760	
On Charges	77,513	63,066	11,132	0	3,315	3
Pension Housing	342	0	0	0	342	
Rental income Annual	592	0	0	0	592	
Resource Consent Fees	24,634	3,665	1,280	0	19,689	4
Rubbish Bags	19,760	13,300	6,080	380	0	
Staff Account	3,153	190	1,575	568	820	
Swimming Pools	450	150	300	0	0	
Te Awahou	135	0	95	41	0	
Te Takere	5,395	2,257	77	0	3,061	
Waste Transfer Station	3,256	2,931	153	172	0	
Water & Trade Waste	221,961	1,309	1,811	97,518	121,323	
Water Septage - Septic	6,321	3,272	3,050	0	0	
Total current debtors	656,516	317,857	60,794	101,419	176,446	
<b>Non current debtors</b>						
Dev Cont New Policy	45,351	16,051	0	0	29,300	5
Develop Cont Old Policy	10,466	0	0	0	10,466	5
Rental Income Monthly	66,568	200	7,309	1,035	58,024	
Total non-current debtors	122,384	16,251	7,309	1,035	97,790	
<b>Total as at 31 March 2018</b>	<b>778,900</b>	<b>334,108</b>	<b>68,102</b>	<b>102,454</b>	<b>274,236</b>	
Total as at 31 March 2017	755,574	131,660	98,561	200,355	324,998	

## Notes and Comments

1. Amongst the Building Consents category, there are some damage deposit bonds in here, as well as extensions of time for a number of the older aged consents.
2. In this category there are charges for grazing leases, new connections, car access way and HR charges. This also includes the Alliance Contract recharge which has increased current period debtors.
3. In the On Charges category, the majority of the 90+ Days debtors have been provided for as Doubtful Debts.
4. Amongst the Resource Consent category, there are some land use bonds. The debtors in this category are being actively pursued, and some of the 90+ Days debtors have been provided for as Doubtful Debts.
5. These Development Contribution debtors are being actively pursued. The batch of debt letters sent had a positive effect with several payments being made. Most of the Development Contributions – Old Policy are with the Debt Collection Agency, with the balance of them either being paid off or having an arrangement to pay when the sections sell.

1.



## Statement of Loans by Parcel

Loan parcels	Maturity	Interest	Opening balance	Raised	Repaid	Closing balance
<b>Due within a year</b>						
LGFA CP	21 Aug 17	1.8950%	0	2,000,000	2,000,000	0
LGFA CP	20 Sep 17	1.9100%	0	2,000,000	2,000,000	0
LGFA FRN	15 Dec 17	3.1225%	2,000,000		2,000,000	0
LGFA CP	08 Dec 17	2.0750%	12,000,000		12,000,000	0
LGFA CP	18 Dec 17	1.8950%		2,000,000	2,000,000	0
LGFA CP	07 Jun 18	2.0050%		12,000,000		12,000,000
Stock	15 Nov 18	5.5950%	2,000,000			2,000,000
LGFA Bond	15 Mar 19	4.4500%	4,000,000			4,000,000
LGFA Bond	15 Mar 19	4.7064%	5,000,000			5,000,000
LGFA FRN	15 Mar 19	3.0125%	3,000,000			3,000,000
<b>Total due within a year</b>			<b>28,000,000</b>	<b>18,000,000</b>	<b>20,000,000</b>	<b>26,000,000</b>
<b>Due within 2 - 5 years</b>						
LGFA Bond	15 Apr 20	2.6324%		5,000,000		5,000,000
LGFA FRN	15 May 21	2.9125%	4,000,000			4,000,000
LGFA Bond	15 May 21	4.5650%	5,000,000			5,000,000
LGFA Bond	15 May 21	5.9852%	5,000,000			5,000,000
LGFA Bond	15 May 21	5.8516%	5,000,000			5,000,000
LGFA FRN	18 May 22	2.4750%	3,000,000			3,000,000
LGFA FRN	13 Apr 13	2.4750%		6,000,000		6,000,000
LGFA Bond	15 Apr 23	5.1336%	4,000,000			4,000,000
<b>Total due within 2 - 5 years</b>			<b>26,000,000</b>	<b>11,000,000</b>		<b>37,000,000</b>
<b>Due after 5 years</b>						
LGFA Bond	15 Apr 25	4.2046%	3,000,000			3,000,000
LGFA BOND	15 Mar 24	3.7200%	4,000,000			4,000,000
LGFA BOND	15 May 24	3.7600%	4,000,000			4,000,000
LGFA FRN	19 May 25	2.5400%	7,000,000			7,000,000
LGFA Bond	15 Jul 26	3.3700%	5,000,000			5,000,000
<b>Total due after 5 years</b>			<b>23,000,000</b>			<b>23,000,000</b>
<b>Total</b>			<b>77,000,000</b>	<b>29,000,000</b>	<b>20,000,000</b>	<b>86,000,000</b>

## Notes and Comments

Our weighted average interest rate has increased to 3.95 % at 31 March 2018. This is a saving of \$688K in interest payable compared to the Annual Plan interest rate assumption of 4.75% for 2017/18.

The weighted average rate is calculated by multiplying the opening loan balance by the interest rate for that loan and dividing the total interest payable for all loans by the total loans. It is recorded in bands as required under GAAP or IPSAS.

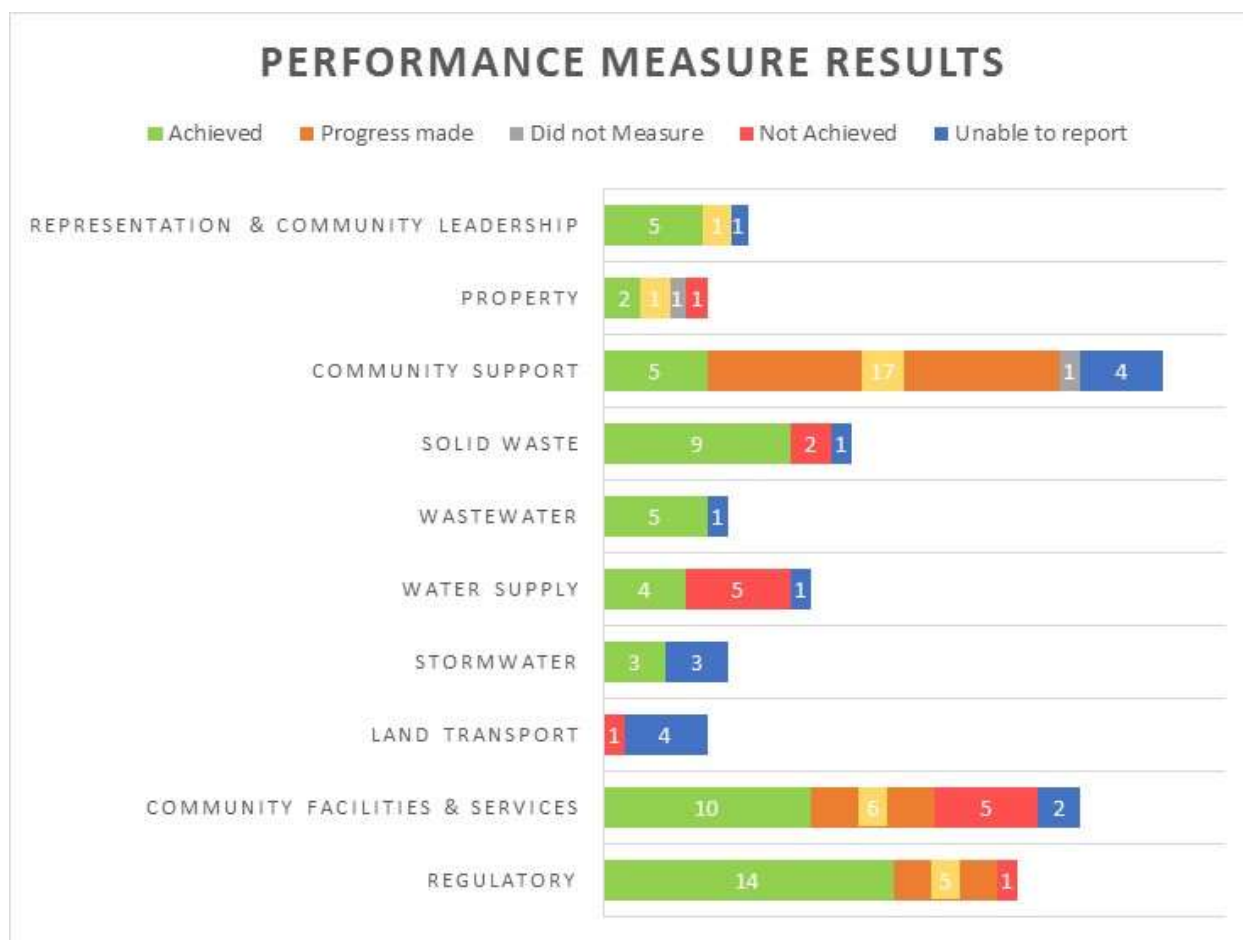
## Statement of External Loans and Interest by Activity

Activity	Loans as at 30 June 2017	Loans as at 31 Mar 2018	Internal Interest Allocated YTD
<b>Land Transport</b>	<b>300,000</b>	<b>1,000,000</b>	<b>8,346</b>
<b>Stormwater</b>	<b>4,600,000</b>	<b>5,700,000</b>	<b>127,977</b>
<b>Water supply</b>			
Water Levin	9,600,000	9,900,000	267,083
Water Shannon	1,300,000	1,300,000	36,167
Water Foxton	900,000	1,000,000	25,039
Water Foxton Beach	200,000	250,000	5,564
Water Tokomaru	300,000	350,000	8,346
<b>Total for water supply</b>	<b>12,300,000</b>	<b>12,800,000</b>	<b>342,200</b>
<b>Wastewater Disposal</b>			
Wastewater Levin	8,000,000	8,450,000	222,569
Wastewater Shannon	8,700,000	8,450,000	242,044
Wastewater Foxton	3,400,000	3,500,000	94,592
Wastewater Foxton Beach	0	100,000	0
Wastewater Tokomaru	500,000	550,000	13,911
Wastewater Waitarere	0	50,000	0
<b>Total for wastewater disposal</b>	<b>20,600,000</b>	<b>21,100,000</b>	<b>573,115</b>
<b>Solid Waste</b>	<b>4,800,000</b>	<b>4,750,000</b>	<b>133,541</b>
<b>Community Facilities &amp; Services</b>			
Libraries	9,600,000	9,800,000	267,083
Pools	4,600,000	4,600,000	127,977
Reserves	1,300,000	1,450,000	36,167
Sports grounds	1,400,000	1,350,000	38,950
Halls	250,000	200,000	6,955
Toilets	500,000	450,000	13,911
Beautification	0	0	0
Cemeteries	200,000	200,000	5,564
<b>Total for Community Facilities &amp; Service</b>	<b>17,850,000</b>	<b>18,050,000</b>	<b>496,607</b>
<b>Properties</b>			
General properties	1,050,000	1,150,000	29,212
Council building	5,900,000	5,750,000	164,145
Commercial properties	1,200,000	950,000	33,385
Residential housing	5,000,000	0	139,106
<b>Total for Properties</b>	<b>13,150,000</b>	<b>7,850,000</b>	<b>365,848</b>
<b>Other activities</b>			
Information technology	1,400,000	1,400,000	38,950
District plan	2,000,000	1,900,000	55,642
Finance	0	5,000,000	0
To be allocated	0	6,450,000	0
<b>Total for other</b>	<b>3,400,000</b>	<b>14,750,000</b>	<b>94,592</b>
<b>Total</b>	<b>77,000,000</b>	<b>86,000,000</b>	<b>2,142,227</b>

## Statement of Internal Loans and Interest by Activity

Activity	Loans as at 30 Jun 2017	Loans as at 31 Mar 2018	Internal Interest Allocated YTD
<b>Land Transport</b>	<b>135,009</b>	<b>75,148</b>	<b>4,000</b>
<b>Stormwater</b>	<b>99,422</b>	<b>47,095</b>	<b>2,945</b>
<b>Water supply</b>			
Water Levin	96,308	21,529	2,853
Water Shannon	36,465	843	1,080
Water Foxton	4,849	3,232	144
Water Foxton Beach	88,438	37,576	2,620
Water Tokomaru	84,042	22,520	2,490
<b>Total for water supply</b>	<b>310,102</b>	<b>85,700</b>	<b>9,187</b>
<b>Wastewater Disposal</b>			
Wastewater Levin	127,192	34,125	3,768
Wastewater Shannon	12,178	29,202	361
Wastewater Foxton	35,112	3,661	1,040
Wastewater Foxton Beach	43,898	54,096	1,300
Wastewater Tokomaru	25,972	30,194	769
Wastewater Waitarere	66,261	14,273	1,963
<b>Total for wastewater disposal</b>	<b>310,613</b>	<b>165,551</b>	<b>9,202</b>
<b>Solid Waste</b>	<b>90,393</b>	<b>45,331</b>	<b>2,678</b>
<b>Community Facilities &amp; Services</b>			
Libraries	87,885	26,073	2,604
Pools	84,155	7,632	2,493
Reserves	62,672	44,081	1,857
Sports grounds	14,216	38,424	421
Halls	7,220	49,503	214
Toilets	10,776	45,453	319
Cemeteries	35,312	56,039	1,046
Beautification	21,267	20,629	630
<b>Total for Community Facilities &amp; Services</b>	<b>323,503</b>	<b>287,834</b>	<b>9,584</b>
<b>Properties</b>			
Commercial properties	3,724	37,484	110
General properties	4,086	13,064	121
Residential housing	69,818	0	0
Council building	63,549	34,642	1,883
<b>Total for properties</b>	<b>141,177</b>	<b>85,190</b>	<b>2,114</b>
<b>Other activities</b>			
Information technology	23,561	45,849	698
District plan	3,496	43,391	104
Finance		-6,450,000	
<b>Total for other</b>	<b>27,057</b>	<b>-6,360,760</b>	<b>802</b>
<b>Total</b>	<b>1,437,276</b>	<b>-5,568,911</b>	<b>40,511</b>

## Performance Measure Results



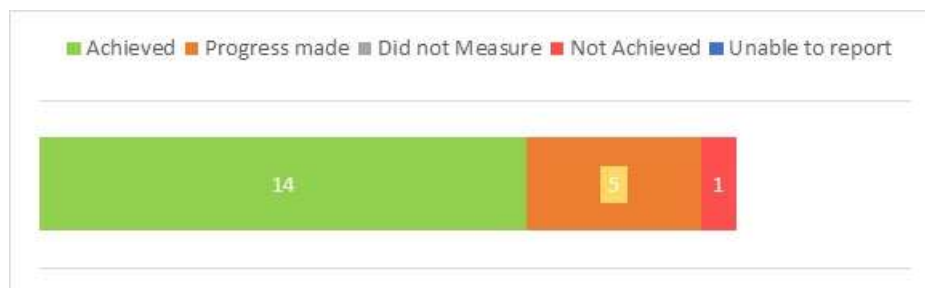
## PLANNING AND REGULATORY Funding Impact Statement

	Annual Plan Forecast 31-Mar-18 \$000	Actual 31-Mar-18 \$000	Variance 31-Mar-18 \$000
<b>Sources of Operating Funding</b>			
General rates, uniform annual general charges, rates penalties	1,451	1,457	6
Targeted rates	-	-	-
Subsidies and grants for operating purposes	-	-	-
Fees and charges	3	9	6
Local authorities fuel tax, fines, infringement fees, and other receipts	2,131	1,919	(212)
Internal charges and overheads recovered	-	-	-
<b>Total Operating Funding (A)</b>	<b>3,585</b>	<b>3,385</b>	<b>(106)</b>
<b>Applications of Operating Funding</b>			
Payments to staff and suppliers	301	240	(61)
Finance Costs	80	64	(16)
Internal charges and overheads applied	2,990	3,095	105
Other operating funding applications	-	-	-
<b>Total applications of operating funding (B)</b>	<b>3,371</b>	<b>3,399</b>	<b>28</b>
<b>Surplus (deficit) of operating funding (A - B)</b>	<b>214</b>	<b>(14)</b>	<b>(228)</b>
<b>Sources of capital funding</b>			
Subsidies and grants for capital expenditure	-	-	-
Development and financial contributions	-	-	-
Increase (decrease) in debt	(13)	(50)	(37)
Gross proceeds from sale of assets	-	-	-
Lum sum contributions	-	-	-
Other dedicated capital funding	-	-	-
<b>Total sources of capital funding (C)</b>	<b>(13)</b>	<b>(50)</b>	<b>(37)</b>
<b>Applications of capital funding</b>			
<b>Capital expenditure</b>			
- to meet additional demand	-	-	-
- to improve the level of service	39	-	(39)
- to replace existing assets	27	-	(27)
Increase (decrease) in reserves	135	(64)	(199)
Increase (decrease) of investments	-	-	-
<b>Total applications of capital funding (D)</b>	<b>201</b>	<b>(64)</b>	<b>(265)</b>
<b>Surplus (deficit) of capital funding (C - D)</b>	<b>(214)</b>	<b>14</b>	<b>228</b>
<b>Funding Balance ((A-B)+(C-D))</b>	<b>-</b>	<b>-</b>	<b>-</b>
Depreciation	61	61	-

## ACTIVITY EXPENDITURE

	Annual Plan Forecast 31-Mar-18 \$000	Actual 31-Mar-18 \$000	Variance 31-Mar-18 \$000
Animal Control	180	186	6
Building Consents	784	791	7
Building Policy	203	200	(3)
Dog Control	421	424	3
Environmental Health	197	230	33
Environmental Health Policy	50	61	11
Liquor Licensing	152	169	17
Liquor Policy	25	29	4
Parking	387	356	(31)
Planning Policy	411	389	(22)
Resource Management	439	471	32
Safety Licensing	182	155	(27)
<b>Total Expenditure</b>	<b>3,431</b>	<b>3,461</b>	<b>30</b>

## Performance Measures – LTP/Annual Plan Summary



## COMMUNITY FACILITIES AND SERVICES

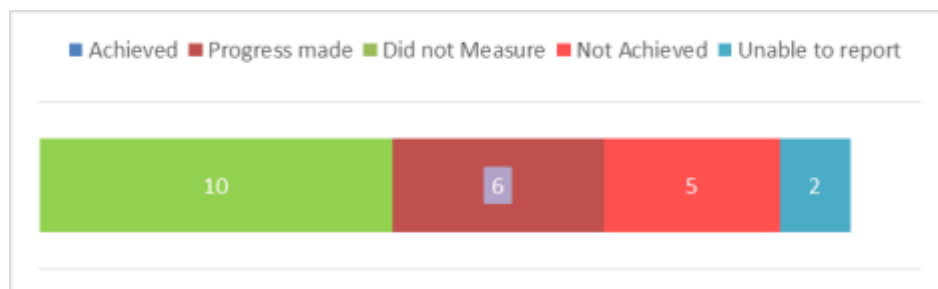
### Funding Impact Statement

	Annual Plan Forecast 31-Mar-18 \$000	Actual 31-Mar-18 \$000	Variance 31-Mar-18 \$000
<b>Sources of Operating Funding</b>			
General rates, uniform annual general charges, rates penalties	3,640	3,654	14
Targeted rates	4,470	4,488	18
Subsidies and grants for operating purposes	54	4	(50)
Fees and charges	989	924	(65)
Local authorities fuel tax, fines, infringement fees, and other receipts	121	76	(45)
Internal charges and overheads recovered	-	-	-
<b>Total Operating Funding (A)</b>	<b>9,274</b>	<b>9,146</b>	<b>(128)</b>
<b>Applications of Operating Funding</b>			
Payments to staff and suppliers	6,059	5,299	(760)
Finance Costs	644	585	(59)
Internal charges and overheads applied	1,725	1,671	(54)
Other operating funding applications	-	-	-
<b>Total applications of operating funding (B)</b>	<b>8,428</b>	<b>7,555</b>	<b>(873)</b>
<b>Surplus (deficit) of operating funding (A - B)</b>	<b>846</b>	<b>1,591</b>	<b>745</b>
<b>Sources of capital funding</b>			
Subsidies and grants for capital expenditure	2,820	1,401	(1,419)
Development and financial contributions	-	16	16
Increase (decrease) in debt	992	710	(282)
Gross proceeds from sale of assets	-	-	-
Lum sum contributions	-	-	-
Other dedicated capital funding	-	-	-
<b>Total sources of capital funding (C)</b>	<b>3,812</b>	<b>2,127</b>	<b>(1,685)</b>
<b>Applications of capital funding</b>			
<b>Capital expenditure</b>			
- to meet additional demand	226	221	(5)
- to improve the level of service	1,771	1,889	118
- to replace existing assets	2,346	1,853	(493)
Increase (decrease) in reserves	316	(245)	(561)
Increase (decrease) of investments	-	-	-
<b>Total applications of capital funding (D)</b>	<b>4,658</b>	<b>3,718</b>	<b>(940)</b>
<b>Surplus (deficit) of capital funding (C - D)</b>	<b>(846)</b>	<b>(1,591)</b>	<b>(745)</b>
<b>Funding Balance ((A-B)+(C-D))</b>	<b>-</b>	<b>-</b>	<b>-</b>
Depreciation	699	826	127

## ACTIVITY EXPENDITURE

	Annual Plan Forecast 31-Mar-18 \$000	Actual 31-Mar-18 \$000	Variance 31-Mar-18 \$000
Cemeteries	375	354	(21)
Public Toilets	254	239	(15)
Beautification	507	436	(71)
Reserves	1,384	1,285	(99)
Sportsgrounds	862	906	44
Halls	195	169	(26)
Libraries & Community Services	3,169	2,746	(423)
Aquatic Centres	2,094	1,991	(103)
Urban Cleaning	285	255	(30)
<b>Total Expenditure</b>	<b>9,125</b>	<b>8,381</b>	<b>(744)</b>

## Performance Measures – LTP/Annual Plan Summary





## PROPERTY

### Funding Impact Statement

	Annual Plan Forecast 31-Mar-18 \$000	Actual 31-Mar-18 \$000	Variance 31-Mar-18 \$000
<b>Sources of Operating Funding</b>			
General rates, uniform annual general charges, rates penalties	229	230	1
Targeted rates	-	-	-
Subsidies and grants for operating purposes	-	-	-
Fees and charges	549	914	365
Local authorities fuel tax, fines, infringement fees, and other receipts	11	12	1
Internal charges and overheads recovered	348	347	(1)
<b>Total Operating Funding (A)</b>	<b>1,137</b>	<b>1,503</b>	<b>366</b>
<b>Applications of Operating Funding</b>			
Payments to staff and suppliers	828	1,132	304
Finance Costs	267	346	79
Internal charges and overheads applied	218	210	(8)
Other operating funding applications	-	-	-
<b>Total applications of operating funding (B)</b>	<b>1,313</b>	<b>1,688</b>	<b>375</b>
<b>Surplus (deficit) of operating funding (A - B)</b>	<b>(176)</b>	<b>(185)</b>	<b>(9)</b>
<b>Sources of capital funding</b>			
Subsidies and grants for capital expenditure	-	-	-
Development and financial contributions	-	-	-
Increase (decrease) in debt	(4,332)	(5,140)	(808)
Gross proceeds from sale of assets	5,168	6,144	976
Lum sum contributions	-	-	-
Other dedicated capital funding	-	-	-
<b>Total sources of capital funding (C)</b>	<b>836</b>	<b>1,004</b>	<b>169</b>
<b>Applications of capital funding</b>			
<b>Capital expenditure</b>			
- to meet additional demand	73	-	(73)
- to improve the level of service	7	-	(7)
- to replace existing assets	151	27	(124)
Increase (decrease) in reserves	122	707	586
Increase (decrease) of investments	-	-	-
<b>Total applications of capital funding (D)</b>	<b>352</b>	<b>734</b>	<b>382</b>
<b>Surplus (deficit) of capital funding (C - D)</b>	<b>205</b>	<b>210</b>	<b>5</b>
<b>Funding Balance ((A-B)+(C-D))</b>	<b>-</b>	<b>-</b>	<b>-</b>
Depreciation	104	104	-

## ACTIVITY EXPENDITURE

	Annual Plan Forecast 31-Mar-18 \$000	Actual 31-Mar-18 \$000	Variance 31-Mar-18 \$000
Council Building	242	194	(48)
Camping Grounds	7	1	(6)
Commercial Properties	195	237	42
Endowment Property	216	227	11
General Property	459	467	8
Residential Housing	-	370	370
<b>Total Expenditure</b>	<b>1,119</b>	<b>1,496</b>	<b>377</b>

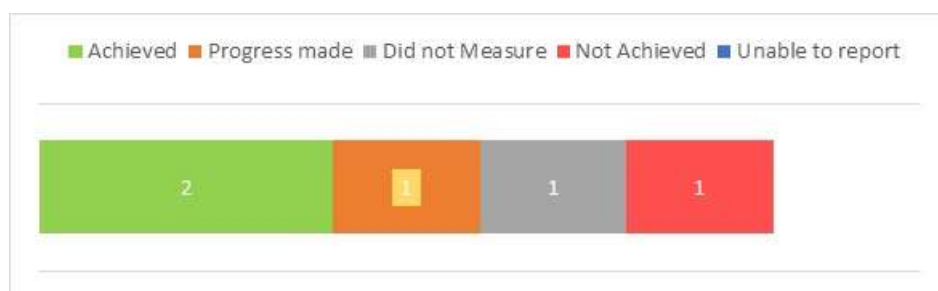
## Notes and Comments

**Commercial Property** - Expenses over budget with rates paid. This is offset by on charging in the leases for the commercial properties.

**Endowment Property** – this is over budget with rates payments and development contributions for sold Forbes Road sections.

**Residential Housing** – no budget was set for this activities direct expenditure due to the expected sale of the Community Housing portfolio. The Community Housing portfolio was transferred to the new owner 25 August 2018. The expenditure is offset by income received for rents to date of transfer.

## Performance Measures – LTP/Annual Plan Summary



## REPRESENTATION AND COMMUNITY LEADERSHIP

### Funding Impact Statement

	Annual Plan Forecast 31-Mar-18 \$000	Actual 31-Mar-18 \$000	Variance 31-Mar-18 \$000
<b>Sources of Operating Funding</b>			
General rates, uniform annual general charges, rates penalties	-	-	-
Targeted rates	2,697	2,707	10
Subsidies and grants for operating purposes	-	-	-
Fees and charges	-	-	-
Local authorities fuel tax, fines, infringement fees, and other receipts	-	1	1
Internal charges and overheads recovered	-	-	-
<b>Total Operating Funding (A)</b>	<b>2,697</b>	<b>2,708</b>	<b>11</b>
<b>Applications of Operating Funding</b>			
Payments to staff and suppliers	801	1,041	240
Finance Costs	-	-	-
Internal charges and overheads applied	1,761	1,980	219
Other operating funding applications	-	-	-
<b>Total applications of operating funding (B)</b>	<b>2,562</b>	<b>3,021</b>	<b>459</b>
<b>Surplus (deficit) of operating funding (A - B)</b>	<b>135</b>	<b>(313)</b>	<b>(448)</b>
<b>Sources of capital funding</b>			
Subsidies and grants for capital expenditure	-	-	-
Development and financial contributions	-	-	-
Increase (decrease) in debt	110	-	(110)
Gross proceeds from sale of assets	-	-	-
Lum sum contributions	-	-	-
Other dedicated capital funding	-	-	-
<b>Total sources of capital funding (C)</b>	<b>110</b>	<b>-</b>	<b>(110)</b>
<b>Applications of capital funding</b>			
<b>Capital expenditure</b>			
- to meet additional demand	110	-	(110)
- to improve the level of service	-	-	-
- to replace existing assets	-	-	-
Increase (decrease) in reserves	135	(313)	(448)
Increase (decrease) of investments	-	-	-
<b>Total applications of capital funding (D)</b>	<b>245</b>	<b>(313)</b>	<b>(558)</b>
<b>Surplus (deficit) of capital funding (C - D)</b>	<b>(135)</b>	<b>313</b>	<b>448</b>
<b>Funding Balance ((A-B)+(C-D))</b>	<b>-</b>	<b>-</b>	<b>-</b>
Depreciation	-	-	-

## ACTIVITY EXPENDITURE

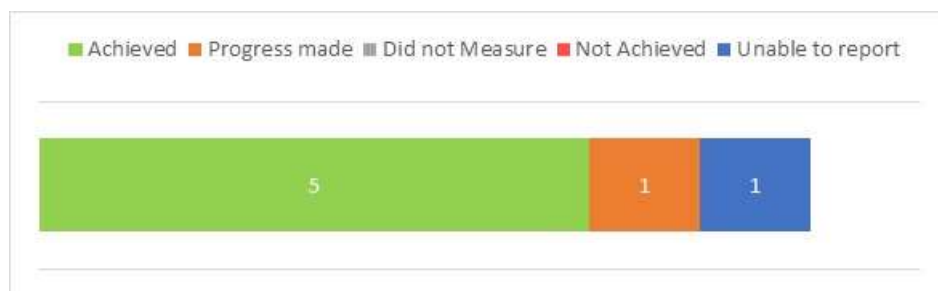
	Annual Plan Forecast 31-Mar-18 \$000	Actual 31-Mar-18 \$000	Variance 31-Mar-18 \$000
Community Board	154	160	6
Elections	6	7	1
Governance	1,427	1,832	405
External Reporting	974	1,023	49
<b>Total Expenditure</b>	<b>2,561</b>	<b>3,022</b>	<b>461</b>

## Notes and Comments

**Governance** – This is over budget with expenditure for Meeting Grants and Levin Town Centre Strategy.

**External Reporting** – This is slightly over budget due to audit fees for the Annual Report 2016/17 and first and second payments for LTP audit.

## Performance Measures – LTP/Annual Plan Summary



## COMMUNITY SUPPORT

### Funding Impact Statement

	Forecast 31-Mar-18 \$000	Actual 31-Mar-18 \$000	Variance 31-Mar-18 \$000
<b>Sources of Operating Funding</b>			
General rates, uniform annual general charges, rates penalties	1,885	1,892	7
Targeted rates	-	-	-
Subsidies and grants for operating purposes	20	43	23
Fees and charges	-	-	-
Local authorities fuel tax, fines, infringement fees, and other receipts	98	28	(70)
Internal charges and overheads recovered	-	-	-
<b>Total Operating Funding (A)</b>	<b>2,003</b>	<b>1,963</b>	<b>(40)</b>
<b>Applications of Operating Funding</b>			
Payments to staff and suppliers	922	607	(315)
Finance Costs	-	-	-
Internal charges and overheads applied	1,056	951	(105)
Other operating funding applications	-	-	-
<b>Total applications of operating funding (B)</b>	<b>1,978</b>	<b>1,558</b>	<b>(420)</b>
<b>Surplus (deficit) of operating funding (A - B)</b>	<b>25</b>	<b>405</b>	<b>380</b>
<b>Sources of capital funding</b>			
Subsidies and grants for capital expenditure	-	-	-
Development and financial contributions	-	-	-
Increase (decrease) in debt	4	-	(4)
Gross proceeds from sale of assets	-	-	-
Lum sum contributions	-	-	-
Other dedicated capital funding	-	-	-
<b>Total sources of capital funding (C)</b>	<b>4</b>	<b>-</b>	<b>(4)</b>
<b>Applications of capital funding</b>			
<b>Capital expenditure</b>			
- to meet additional demand	-	-	-
- to improve the level of service	4	2	(2)
- to replace existing assets	-	-	-
Increase (decrease) in reserves	25	403	378
Increase (decrease) of investments	-	-	-
<b>Total applications of capital funding (D)</b>	<b>29</b>	<b>405</b>	<b>376</b>
<b>Surplus (deficit) of capital funding (C - D)</b>	<b>(3)</b>	<b>(405)</b>	<b>(380)</b>
<b>Funding Balance ((A-B)+(C-D))</b>	<b>-</b>	<b>-</b>	<b>-</b>
Depreciation	10	14	4

	Annual Plan Forecast 31-Mar-18 \$000	Actual 31-Mar-18 \$000	Variance 31-Mar-18 \$000
Community Development	271	256	(15)
Economic Development	717	491	(226)
Visitor Information	132	77	(55)
Community Grants and Funding	296	249	(47)
District Communication	245	190	(55)
Rural Fire	-	3	3
Emergency Management	327	306	(21)
<b>Total Expenditure</b>	<b>1,988</b>	<b>1,572</b>	<b>(416)</b>

## Performance Measures – LTP/Annual Plan Summary



## LAND TRANSPORT

### Funding Impact Statement

	Annual Plan Forecast 31-Mar-18 \$000	Actual 31-Mar-18 \$000	Variance 31-Mar-18 \$000
<b>Sources of Operating Funding</b>			
General rates, uniform annual general charges, rates penalties	-	-	-
Targeted rates	3,063	3,075	12
Subsidies and grants for operating purposes	1,159	954	(205)
Fees and charges	-	-	-
Local authorities fuel tax, fines, infringement fees, and other receipts	139	186	47
Internal charges and overheads recovered	-	-	-
<b>Total Operating Funding (A)</b>	<b>4,361</b>	<b>4,215</b>	<b>(146)</b>
<b>Applications of Operating Funding</b>			
Payments to staff and suppliers	2,385	1,909	(476)
Finance Costs	32	14	(18)
Internal charges and overheads applied	734	396	(338)
Other operating funding applications	-	-	-
<b>Total applications of operating funding (B)</b>	<b>3,151</b>	<b>2,319</b>	<b>(832)</b>
<b>Surplus (deficit) of operating funding (A - B)</b>	<b>1,210</b>	<b>1,896</b>	<b>686</b>
<b>Sources of capital funding</b>			
Subsidies and grants for capital expenditure	2,387	1,833	(554)
Development and financial contributions	-	33	33
Increase (decrease) in debt	1,384	700	(684)
Gross proceeds from sale of assets	-	-	-
Lum sum contributions	-	-	-
Other dedicated capital funding	-	-	-
<b>Total sources of capital funding (C)</b>	<b>3,771</b>	<b>2,566</b>	<b>(1,205)</b>
<b>Applications of capital funding</b>			
<b>Capital expenditure</b>			
- to meet additional demand	-	-	-
- to improve the level of service	1,733	1,892	159
- to replace existing assets	3,538	1,891	(1,647)
Increase (decrease) in reserves	(290)	679	969
Increase (decrease) of investments	-	-	-
<b>Total applications of capital funding (D)</b>	<b>4,981</b>	<b>4,462</b>	<b>(519)</b>
<b>Surplus (deficit) of capital funding (C - D)</b>	<b>(1,210)</b>	<b>(1,896)</b>	<b>(686)</b>
<b>Funding Balance ((A-B)+(C-D))</b>	<b>-</b>	<b>-</b>	<b>-</b>
Depreciation	3,583	3,744	849

	Forecast 31-Mar-18 \$000	Actual 31-Mar-18 \$000	Variance 31-Mar-18 \$000
Subsidised Roding	5,805	5,178	(627)
Footpaths	755	775	20
Unsubsidised Roding	173	110	(63)
<b>Total Expenditure</b>	<b>6,733</b>	<b>6,063</b>	<b>(670)</b>

## Performance Measures – LTP/Annual Plan Summary





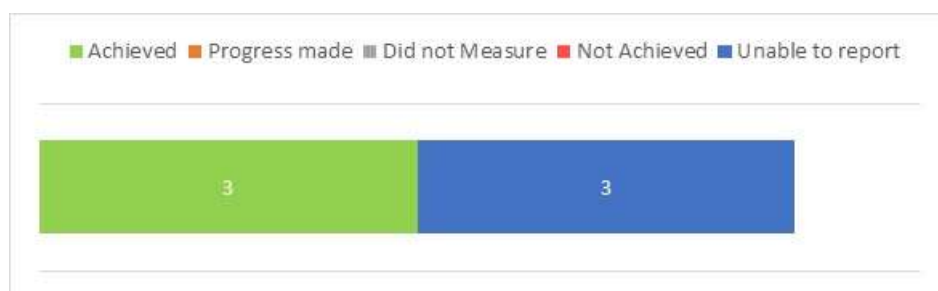
## STORMWATER Funding Impact Statement

	Annual Plan Forecast 31-Mar-18 \$000	Actual 31-Mar-18 \$000	Variance 31-Mar-18 \$000
<b>Sources of Operating Funding</b>			
General rates, uniform annual general charges, rates penalties	-	-	-
Targeted rates	824	827	3
Subsidies and grants for operating purposes	-	-	-
Fees and charges	16	5	(11)
Local authorities fuel tax, fines, infringement fees, and other receipts	-	-	-
Internal charges and overheads recovered	-	-	-
<b>Total Operating Funding (A)</b>	<b>840</b>	<b>832</b>	<b>(8)</b>
<b>Applications of Operating Funding</b>			
Payments to staff and suppliers	316	260	(56)
Finance Costs	185	151	(34)
Internal charges and overheads applied	123	92	(31)
Other operating funding applications	-	-	-
<b>Total applications of operating funding (B)</b>	<b>624</b>	<b>503</b>	<b>(121)</b>
<b>Surplus (deficit) of operating funding (A - B)</b>	<b>216</b>	<b>329</b>	<b>113</b>
<b>Sources of capital funding</b>			
Subsidies and grants for capital expenditure	-	-	-
Development and financial contributions	-	-	-
Increase (decrease) in debt	2,723	1,200	(1,523)
Gross proceeds from sale of assets	-	-	-
Lum sum contributions	-	-	-
Other dedicated capital funding	-	-	-
<b>Total sources of capital funding (C)</b>	<b>2,723</b>	<b>1,200</b>	<b>(1,523)</b>
<b>Applications of capital funding</b>			
<b>Capital expenditure</b>			
- to meet additional demand	2,015	929	(1,086)
- to improve the level of service	857	260	(597)
- to replace existing assets	44	14	(30)
Increase (decrease) in reserves	24	326	302
Increase (decrease) of investments	-	-	-
<b>Total applications of capital funding (D)</b>	<b>2,939</b>	<b>1,529</b>	<b>(1,410)</b>
<b>Surplus (deficit) of capital funding (C - D)</b>	<b>(216)</b>	<b>(329)</b>	<b>(113)</b>
<b>Funding Balance ((A-B)+(C-D))</b>	<b>-</b>	<b>-</b>	<b>-</b>
Depreciation	375	422	53

## ACTIVITY EXPENDITURE

	Annual Plan Forecast 31-Mar-18 \$000	Actual 31-Mar-18 \$000	Variance 31-Mar-18 \$000
Stormwater Drainage	1,000	925	(75)
<b>Total Expenditure</b>	<b>1,000</b>	<b>925</b>	<b>(75)</b>

## Performance Measures – LTP/Annual Plan Summary



## WATER SUPPLY

### Funding Impact Statement

	Annual Plan Forecast 31-Mar-18 \$000	Actual 31-Mar-18 \$000	Variance 31-Mar-18 \$000
<b>Sources of Operating Funding</b>			
General rates, uniform annual general charges, rates penalties	-	-	-
Targeted rates	4,284	4,292	8
Subsidies and grants for operating purposes	-	-	-
Fees and charges	19	109	90
Local authorities fuel tax, fines, infringement fees, and other receipts	-	-	-
Internal charges and overheads recovered	-	-	-
<b>Total Operating Funding (A)</b>	<b>4,303</b>	<b>4,401</b>	<b>98</b>
<b>Applications of Operating Funding</b>			
Payments to staff and suppliers	1,632	2,294	662
Finance Costs	484	406	(78)
Internal charges and overheads applied	791	568	(223)
Other operating funding applications	-	-	-
<b>Total applications of operating funding (B)</b>	<b>2,906</b>	<b>3,268</b>	<b>361</b>
<b>Surplus (deficit) of operating funding (A - B)</b>	<b>1,397</b>	<b>1,133</b>	<b>(264)</b>
<b>Sources of capital funding</b>			
Subsidies and grants for capital expenditure	-	-	-
Development and financial contributions	-	12	12
Increase (decrease) in debt	350	650	300
Gross proceeds from sale of assets	-	-	-
Lum sum contributions	-	-	-
Other dedicated capital funding	-	-	-
<b>Total sources of capital funding (C)</b>	<b>350</b>	<b>662</b>	<b>312</b>
<b>Applications of capital funding</b>			
<b>Capital expenditure</b>			
- to meet additional demand	92	1	(91)
- to improve the level of service	684	652	(32)
- to replace existing assets	1,397	2,036	639
Increase (decrease) in reserves	(426)	(894)	(468)
Increase (decrease) of investments	-	-	-
<b>Total applications of capital funding (D)</b>	<b>1,747</b>	<b>1,795</b>	<b>49</b>
<b>Surplus (deficit) of capital funding (C - D)</b>	<b>(1,397)</b>	<b>(1,133)</b>	<b>264</b>
<b>Funding Balance ((A-B)+(C-D))</b>	<b>-</b>	<b>-</b>	<b>-</b>
Depreciation	1,497	1,802	288

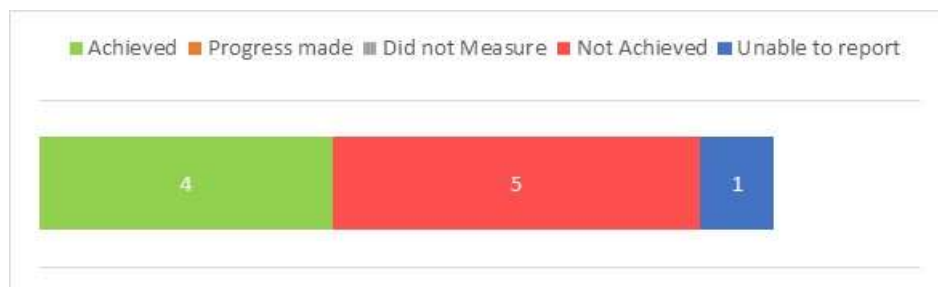
## ACTIVITY EXPENDITURE

	Annual Plan Forecast 31-Mar-18 \$000	Actual 31-Mar-18 \$000	Variance 31-Mar-18 \$000
Foxton Water	566	744	178
Foxton Beach Water	578	567	(11)
Levin Water	2,474	2,982	508
Shannon Water	558	602	44
Tokomaru Water	226	3,294	3,068
<b>Total Expenditure</b>	<b>4,402</b>	<b>8,189</b>	<b>3,787</b>

## Notes and Comments

**Foxton, Levin and Tokomaru Water Supply** – increased costs for maintenance which is offset by reduced internal charges.

## Performance Measures – LTP/Annual Plan Summary



## WASTEWATER MANAGEMENT

### Funding Impact Statement

	Annual Plan Forecast 31-Mar-18 \$000	Actual 31-Mar-18 \$000	Variance 31-Mar-18 \$000
<b>Sources of Operating Funding</b>			
General rates, uniform annual general charges, rates penalties	-	-	-
Targeted rates	4,781	4,800	19
Subsidies and grants for operating purposes	-	-	-
Fees and charges	895	898	3
Local authorities fuel tax, fines, infringement fees, and other receipts	-	56	56
Internal charges and overheads recovered	-	-	-
<b>Total Operating Funding (A)</b>	<b>5,676</b>	<b>5,754</b>	<b>78</b>
<b>Applications of Operating Funding</b>			
Payments to staff and suppliers	1,927	1,670	(257)
Finance Costs	811	673	(138)
Internal charges and overheads applied	545	512	(33)
Other operating funding applications	-	-	-
<b>Total applications of operating funding (B)</b>	<b>3,283</b>	<b>2,855</b>	<b>(428)</b>
<b>Surplus (deficit) of operating funding (A - B)</b>	<b>2,393</b>	<b>2,899</b>	<b>506</b>
<b>Sources of capital funding</b>			
Subsidies and grants for capital expenditure	-	-	-
Development and financial contributions	-	64	64
Increase (decrease) in debt	3,488	850	(2,638)
Gross proceeds from sale of assets	-	-	-
Lum sum contributions	-	-	-
Other dedicated capital funding	-	-	-
<b>Total sources of capital funding (C)</b>	<b>3,488</b>	<b>914</b>	<b>(2,574)</b>
<b>Applications of capital funding</b>			
<b>Capital expenditure</b>			
- to meet additional demand	512	353	(159)
- to improve the level of service	2,646	628	(2,018)
- to replace existing assets	2,723	1,014	(1,709)
Increase (decrease) in reserves	(1)	1,818	1,819
Increase (decrease) of investments	-	-	-
<b>Total applications of capital funding (D)</b>	<b>5,881</b>	<b>3,813</b>	<b>(2,068)</b>
<b>Surplus (deficit) of capital funding (C - D)</b>	<b>(2,393)</b>	<b>(2,899)</b>	<b>(506)</b>
<b>Funding Balance ((A-B)+(C-D))</b>	<b>-</b>	<b>-</b>	<b>-</b>
Depreciation	1,698	2,338	474

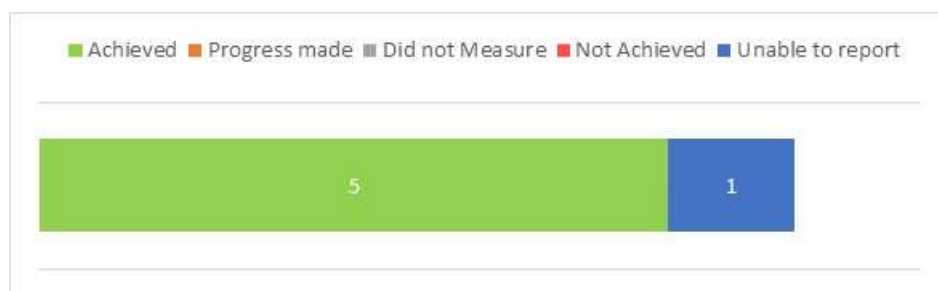
## ACTIVITY EXPENDITURE

	Annual Plan Forecast 31-Mar-18 \$000	Actual 31-Mar-18 \$000	Variance 31-Mar-18 \$000
Foxton Wastewater	509	438	(71)
Foxton Beach Wastewater	459	402	(57)
Levin Wastewater	2,741	3,008	267
Shannon Wastewater	825	916	91
Tokomaru Wastewater	167	130	(37)
Waitarere Beach Wastewater	280	298	18
<b>Total Expenditure</b>	<b>4,981</b>	<b>5,192</b>	<b>211</b>

## Notes and Comments

**Levin Wastewater** – increased depreciation with the revaluation of the assets, LAPP insurance and consents for Levin Treatment Plant.

## Performance Measures – LTP/Annual Plan Summary



## SOLID WASTE MANAGEMENT

### Funding Impact Statement

	Annual Plan Forecast 31-Mar-18 \$000	Actual 31-Mar-18 \$000	Variance 31-Mar-18 \$000
<b>Sources of Operating Funding</b>			
General rates, uniform annual general charges, rates penalties	-	-	-
Targeted rates	246	247	1
Subsidies and grants for operating purposes	-	-	-
Fees and charges	1,394	1,298	(96)
Local authorities fuel tax, fines, infringement fees, and other receipts	-	3	3
Internal charges and overheads recovered	-	-	-
<b>Total Operating Funding (A)</b>	<b>1,640</b>	<b>1,548</b>	<b>(92)</b>
<b>Applications of Operating Funding</b>			
Payments to staff and suppliers	1,167	1,224	57
Finance Costs	180	157	(23)
Internal charges and overheads applied	184	116	(68)
Other operating funding applications	-	-	-
<b>Total applications of operating funding (B)</b>	<b>1,531</b>	<b>1,497</b>	<b>(34)</b>
<b>Surplus (deficit) of operating funding (A - B)</b>	<b>109</b>	<b>51</b>	<b>(58)</b>
<b>Sources of capital funding</b>			
Subsidies and grants for capital expenditure	-	-	-
Development and financial contributions	-	-	-
Increase (decrease) in debt	112	50	(62)
Gross proceeds from sale of assets	-	-	-
Lum sum contributions	-	-	-
Other dedicated capital funding	-	-	-
<b>Total sources of capital funding (C)</b>	<b>112</b>	<b>50</b>	<b>(62)</b>
<b>Applications of capital funding</b>			
<b>Capital expenditure</b>			
- to meet additional demand	255	52	(203)
- to improve the level of service	-	-	-
- to replace existing assets	50	53	3
Increase (decrease) in reserves	(84)	(4)	80
Increase (decrease) of investments	-	-	-
<b>Total applications of capital funding (D)</b>	<b>221</b>	<b>101</b>	<b>(120)</b>
<b>Surplus (deficit) of capital funding (C - D)</b>	<b>(109)</b>	<b>(51)</b>	<b>58</b>
<b>Funding Balance ((A-B)+(C-D))</b>	<b>-</b>	<b>-</b>	<b>-</b>
Depreciation	134	143	9

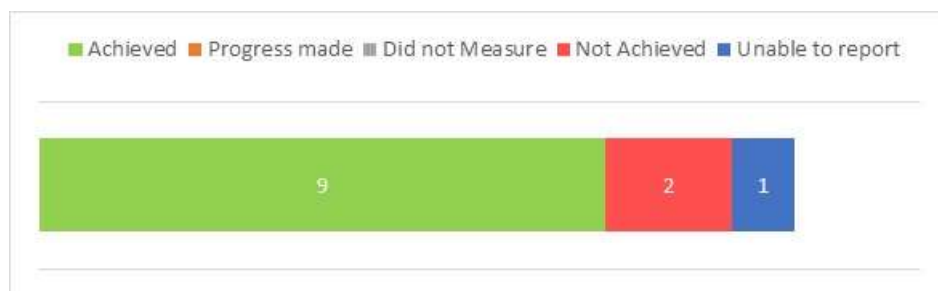
## ACTIVITY EXPENDITURE

	Annual Plan Forecast 31-Mar-18 \$000	Actual 31-Mar-18 \$000	Variance 31-Mar-18 \$000
Roadside Collection Bags	158	109	(49)
Landfill	828	883	55
Recycling Centres	527	552	25
Waste Transfer Stations	218	169	(49)
<b>Total Expenditure</b>	<b>1,731</b>	<b>1,713</b>	<b>(18)</b>

## Notes and Comments

**Landfill** – this is over budget with increased rates and consent fees and consultancy for the Environment Court Appeal and advice for Levin Landfill.

## Performance Measures – LTP/Annual Plan Summary





## APPENDIX

Asset maintenance contract	General contract works, repairs, planned and unplanned maintenance, materials and consumables, cleaning and hygiene, inspections and reporting.
Finance cost	Interest on borrowings and interest on swaps.
Gains	Fair value revaluation gain and gain on sale.
General grants	Grants given to various organisations and individuals like Creative NZ, neighbourhood support, beach wardens, community development and youth scholarships.
Grants and subsidies	Grants and subsidies received from government and other organisations for roading, library, community hubs, cemeteries and aquatic centres.
Infringements and fines	Parking tickets, Prosecutions on WOFs and unregistered vehicles.
Employee benefits	Salaries and wages, training costs, FBT and ACC levies, superannuation, and staff recognition.
Other expenses	Printing, publication, postage, stationery, advertising, food and catering, photocopying, internet and communication and any other office expenses.
Professional services	Consultants, contractors, membership fees, legal fees, lab services, audit fees or any other professional services charges.
Regulatory revenue	Planning fees, building fees, animal fees, liquor fees and health fees.
Rendering of services	Commissions, car income, and any other income received for rendering services.
Rental income	Rent from Halls, residential and commercial properties, grazing land, reserves and other lease income.
Targeted rates	Rates for roading, waste management, representation and governance, stormwater, wastewater, water by meter and water supply.
User charges	Revenue received from admission, shop sale, Cemetery fees, trade waste, utility connection, events and exhibitions.
Utilities	Water use, electricity and gas charges



# Treasury Report

File No.: 18/271

## 1. Purpose

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

## 2. Recommendation

- 2.1 That Report 18/271 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 third 3 months of the financial year has seen:

- The return of volatility in financial markets after US trade sanctions and possible retaliation
- The US Federal Reserve raised target interest rates (the US equivalent of the OCR) by 0.25% signalling 3 more such increases this calendar year
- The new Zealand economy is “coming off the boil” but still performing well
- Inflation drop to 1.6% per annum from 1.9% in December 2017
- The Reserve bank has now an additional objective of monetary policy “*so that it contributes to supporting maximum levels of sustainable employment within the economy*”
- The financial markets in NZ are not expecting an OCR rate increase until early/mid 2019 which contrasts with the Reserve Bank’s forecast of late 2019 or early 2020.
- Council raised \$6m FRN on a current floating rate of 2.605% (57.5 basis points over swap of 2.03%). The report quotes 2.475% which was true until the interest rate reset that occurred on the 15 April 2018. We do not intend to raise any more this financial year based on current cash-flow projections.
- Council has now \$86m of debt, compared to the Annual Plan projection of \$83m. However, we borrowed the \$5m extra to invest for liquidity risk, which would bring it back to \$81m for a true comparison.
- Council has \$12m up for renewal on the 15 March 2019. It is our intention to “pre-fund” this to reduce the risk of having that amount renewing on one day. Prefunding means that we borrow before we need to refinance and invest the money short-term so we have the necessary cash available when the loans mature on the 15 March. This will have a result similar to that of the \$5m we borrowed in November and invested to cover the perceived liquidity risk: i.e. we were able to invest at a rate higher than we borrowed.
- The report shows, on page 10 the drop in HDC’s cost of funds down to an historic low of 3.95%
- The LTP has the interest rate assumption at 4.75% for the first 3 year increasing to 5% for the next 4 (until 2025) and increasing again to 5.25% for years 8 and 9, 5.75% for years 10 through 13 eventually reaching 6% from year 14 (2032) onward. Predicting interest rates is not at all easy this far out and subject to a high degree of uncertainty.

## Attachments



No.	Title	Page
A	Bancorp Treasury Report 31 March 2018	53

### 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 <b>Chief Financial Officer</b>	
Approved by	David Clapperton <b>Chief Executive</b>	

CONFIDENTIAL

TREASURY REPORT

FOR



**HOROWHENUA  
DISTRICT  
COUNCIL**

AS AT

31 MARCH 2018



**BANCORP**

BANCORP TREASURY SERVICES LIMITED

AUCKLAND • WELLINGTON • CHRISTCHURCH

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## 1. MARKET ENVIRONMENT

### 1.1 Global Markets Overview (as at 31 March 2018)

Volatility in financial markets returned with a vengeance in the March 2018 quarter after a long absence. The return was sparked by central banks' actions and words, and US trade sanctions and other countries' retaliations that threatened to develop into a full scale global trade war. Fears of the effects of a trade war on global growth and central banks' policy unwinding actions caused investors' risk aversion to intensify and generated a marked increase in markets' volatility, with significant drops in global equity markets, industrialised commodity prices and bond yields, and rises in the gold price and usual safe haven currencies (yen and Swiss franc).

After much talking, the Federal Reserve ("Fed"), under new Chair, Jerome Powell, raised its target range for the Fed Funds rate by 25 basis points to 1.50%-1.75% in March. Of even greater interest to markets were the Fed's consensus forecasts for the Fed Funds rate. The Fed stuck to its previous consensus for a total of three interest rate rises in 2018 but raised its forecasts beyond that to three interest rate rises in 2019 (from two or three in December) and two in 2020 (from one or two in December).

At the end of March, President Donald Trump formalised his threatened tariffs on imported steel (25%) and aluminium (15%) but exempted six nations. These tariffs signalled the US' intention to negotiate bilateral trade deals (or lose the tariff exemption) with those nations and specifically targets China and Japan. China's initial reaction was one of restraint, while Japan, on the other hand, has been silent but must be fretting over the strengthening of the yen.

Other leading industrialised central banks have started preparing financial markets for higher official interest rates and an unwinding of Quantitative Easing ("QE") programmes in 2018 and 2019, specifically the European Central Bank, Bank of England and Bank of Canada, while the Bank of Japan and Reserve Bank of Australia remain steadfastly neutral.

Higher borrowing costs for US corporates and households (and a number of emerging market countries) and the threat of a trade war could reduce global growth. These fears have limited rises by long term yields globally. The US 10 year Treasury yield has been reluctant to push above 3.00% despite the Fed's higher forecasts for the Fed Funds rate. It traded in a 2.42% to 2.95% range in the March quarter, finishing at 2.74%, up from 2.41% at the end of the December 2017. The 2 year Treasury yield, which is closely aligned to the current and forecasted Fed Funds rate, traded in a 1.89% to 2.38% range in the March quarter, finishing at 2.27%, up from 1.88% at the end of the December 2017. The different moves resulted in a

slight flattening of the US yield curve – the spread between the yield on 2 year and 10 year Treasuries ended the March quarter at 0.47%, down from 0.53% at the end of December.

## 1.2 New Zealand Market Overview (as at 31 March 2018)

	OCR	90 day	2 year swap	3 year swap	5 year swap	7 year swap	10 year swap
31-Dec-17	1.75%	1.88%	2.21%	2.39%	2.68%	2.92%	3.14%
31-Mar-18	1.75%	1.96%	2.22%	2.36%	2.62%	2.83%	3.06%
Change	Nil	+0.08%	+0.01%	-0.03%	-0.06%	-0.09%	-0.08%

New Zealand economic data over the March quarter reinforced the outlook for an economy coming off the boil but still performing well.

GDP rose 0.6% over the December quarter and 2.9% over the year, from 0.6% and 2.74% respectively. Growth was driven largely by increases in the services industries but offset by falls in the primary sector. The weather took its toll on agriculture production that was down 2.7% in the December quarter. The services sector was more weather resilient, with growth led by wholesale trade, retail trade, business services and housing market activity. New Zealand inflation in the December 2017 quarter was just 0.1%, well down on the 0.5% recorded in the September quarter and short of market expectations. Annual inflation was 1.6% in December, down from 1.9% in September.

The Reserve Bank of New Zealand's ("RBNZ") February *Monetary Policy Statement* ("MPS") was in line with expectations for an upbeat growth outlook, a tempered inflation outlook and no change to the forecast path for the Official Cash Rate ("OCR"). The RBNZ highlighted the low current and projected inflation, and seemed to downplay wage inflation threats despite recent strong GDP growth and jobs growth. It went from describing underlying inflation as "subdued" in November to "low" in February outlining specific risks to its projections that would justify an even lower OCR. The March OCR Review merely reaffirmed the RBNZ's position stated in the February MPS.

The new Policy Targets Agreement ("PTA") between the Finance Minister and the incoming RBNZ Governor, Adrian Orr, was signed late in March. The PTA "continues the requirement for the Reserve Bank to keep future annual CPI inflation between 1 and 3 percent over the medium-term, with a focus on keeping future inflation near the 2 percent mid-point." It adds a new requirement for the RBNZ to conduct monetary policy "so that it contributes to supporting maximum levels of sustainable employment within the economy."

In a change from the past and moving into line with the rest of the world, RBNZ monetary policy decisions will be made by a Monetary Policy Committee ("MPC"), rather than solely by



the Governor, and the RBNZ will need to explain “when inflation outcomes, and/or expected inflation outcomes, are outside of the target range.” The MPC’s first meeting is expected to be early in 2019, once the necessary amendments to the Reserve Bank Act have been passed.

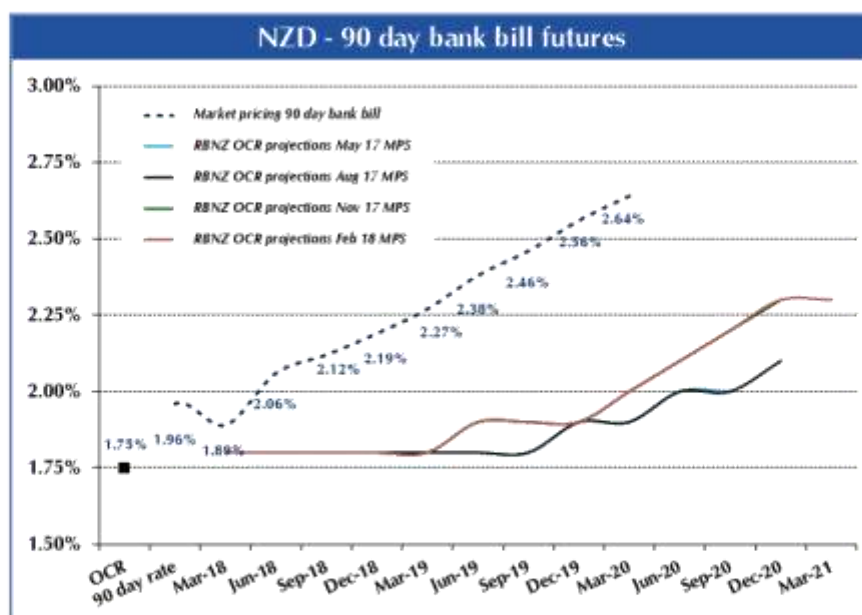
Moves up by New Zealand swap rates have not been as significant as moves in corresponding US swap rates, as shown in the table below that compares the respective swap rates over the March 2018 quarter.

	US 2 year swap	NZ 2 year swap	US 5 year swap	NZ 5 year swap	US 10 year swap	NZ 10 year swap
31 Dec 2017	2.08%	2.21%	2.24%	2.68%	2.40%	3.14%
31 Mar 2018	2.58%	2.22%	2.71%	2.62%	2.79%	3.06%
Change	+0.50%	+0.01%	+0.47%	-0.06%	+0.39%	-0.08%

The disparity between US and New Zealand swap rates can be attributed to New Zealand’s lower inflation outlook and the expectation from the market that the first OCR rise will not occur until early to mid 2019 (even with the markets’ more hawkish outlook compared to the RBNZ), unlike the market pricing for the US Fed funds rate, which is for three rate hikes in 2018 and at least two more in 2019. Adding to the disparity is the fact that the US is presently unwinding its QE programme whereas New Zealand does not have such a programme to unwind. Also the tax cuts in the US will sharply increase the US budget deficit which will need to be funded by sovereign debt issuance, thus pushing up yields.

The disparity between the RBNZ and market expectations for short term rates remains, but the extent of gap between the two has narrowed as the markets have once more pushed out both the timing of expected hikes and have lowered the rate which it expects the 90 day bank bill to attain. Markets expect a hike in early 2019 while the RBNZ has been consistent in its forecast for a late 2019/early 2020 increase.

The chart on the following page shows the market pricing for the 90 day bank bill rate and the RBNZ’s pricing for the OCR from the last four MPs (the RBNZ does not forecast the 90 day bank bill track in the MPs).



The New Zealand swap curve fell again over the March 2018 quarter as fears of a global trade war and its effects on global growth and central banks outweighed concerns about wage and price inflation. The 10 year swap rate rose to a quarterly high of 3.32% before falling to 3.06% by the end of March. The 2 year swap reached a high of 2.28% during the quarter but finished at 2.22%, a mere 0.01% above December quarter close. The resulting flattening of the yield curve pushed forward start swap rates lower.

### 1.3 Local Authority Sector

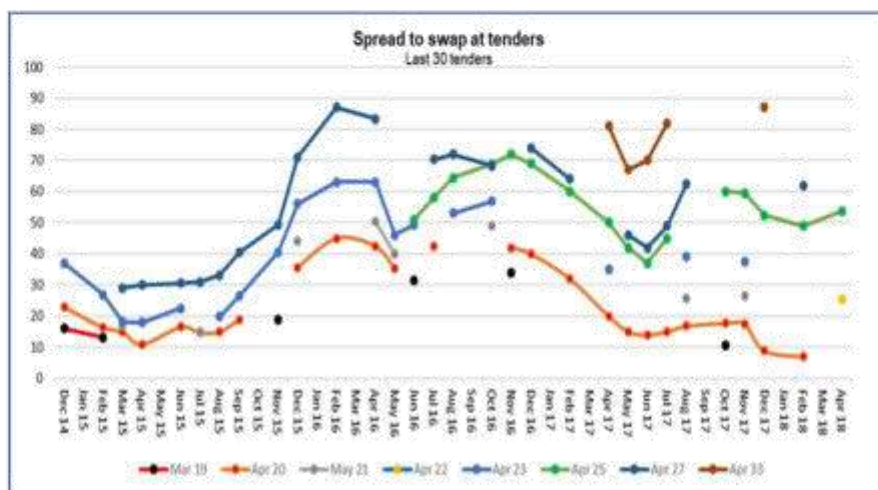
There was only one Local Government Funding Agency ("LGFA") tender for the quarter, held on 14 February. As this was largely historical by the end of March, for the purpose of having the most up to date information, below are details of the tender held just after the end of the March quarter, on 4 April. In this tender \$190 million of bonds were issued, while \$518.8 million of bids were received, equating to a bid to issuance ratio of 2.73x. Details of the tender were as follows:

- 14 April 2022 maturity - \$150 million issued at a margin of 46 basis points over swap for an 'A+' rated borrower.
- 15 April 2025 maturity - \$40 million issued at a margin of 75 basis points over swap for an 'A+' rated borrower.

For the 2025 maturity the spread to swap compared to the February 2018 tender was 1.5 basis points wider, highlighting the slight softening in credit markets in line with the recent equity market weakness. While the credit spread was higher the outright interest rate

was lower, with the average of 3.41% on the 2025 maturity representing a 10 basis point decline from the yield in the February tender.

The chart below shows the LGFA issuance margins (to the underlying swap rate) dating back to December 2014 for a 'AA' rated borrower and illustrates the decline in shorter dated margins and the increase in longer dated margins that has occurred over recent months.



Pricing for bank sourced local authority bank debt seems to vary quite widely at present, both between banks and even sometimes within one bank on a regional basis. The logic behind an individual bank providing disparate pricing for local government entities with very similar credit ratings is hard to rationalise. But given the disparity both between the banks and within individual banks, it shows the need, when seeking new bank funding or rolling over existing funding, to put the process out to competitive tender.

## 2. FUNDING

As at 31 March 2018, Horowhenua District Council ("HDC") had \$86.0 million of external debt, comprising a combination of Commercial Paper ("CP"), Fixed Rate Bonds and Floating Rate Notes ("FRN"), of which all but one tranche had been sourced from the LGFA. Details of HDC's debt at 31 March 2018 is as follows:

### HOROWHENUA DISTRICT COUNCIL BOND

- \$2.0 million fixed rate bond issued in November 2011, maturing on 15 November 2018, at a margin of 150 basis points over swap, equating to a rate of 5.59%.

### LGFA

- \$12.0 million CP issued on 8 December 2017, maturing on 7 June 2018 at a margin of 9 basis points equating to an all up rate of 2.005%.
- \$4.0 million fixed rate bond issued in December 2012, maturing 15 March 2019, at a margin of 113 basis points over swap, equating to a rate of 4.45%.
- \$3.0 million FRN issued in May 2013, maturing 15 March 2019, at a margin of 77 basis points.
- \$5.0 million fixed rate bond issued in February 2013, maturing 15 March 2019, at a margin of 92 basis points over swap, equating to a rate of 4.71%.
- \$5.0 million fixed rate bond issued in November 2017, maturing 15 April 2020, at a margin of 38 basis points over swap, equating to a rate of 2.63%.
- \$4.0 million FRN issued in May 2013 maturing 15 May 2021, at a margin of 84 basis points.
- \$5.0 million fixed rate bond issued in May 2013 maturing 15 May 2021, at a margin of 79 basis points over swap, equating to a rate of 4.56%.
- \$5.0 million fixed rate bond issued in September 2013 maturing 15 May 2021, at a margin of 109 basis points over swap, equating to a rate of 5.99%.
- \$5.0 million fixed rate bond issued in December 2013 maturing 15 May 2021, at a margin of 87 basis points over swap, equating to a rate of 5.85%.
- \$3.0 million FRN issued in May 2015 maturing 18 May 2022, at a margin of 42.5 basis points.
- \$4.0 million fixed rate bond issued in November 2014 maturing 15 April 2023, at a margin of 81 basis points over swap, equating to a rate of 5.13%.
- \$6.0 million FRN issued in February 2018 maturing 15 April 2023, at a margin of 57.5 basis points.

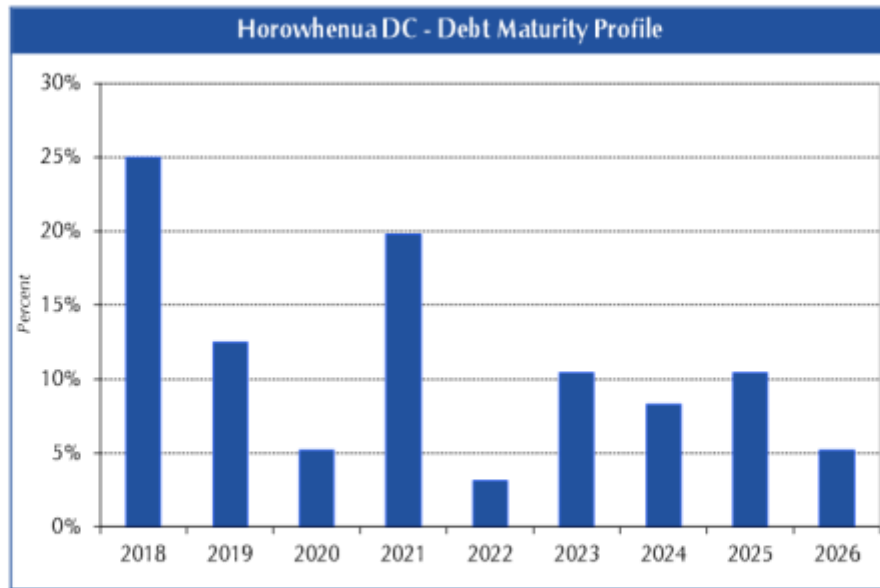
- \$4.0 million fixed rate bond issued in April 2017 maturing 15 March 2024, at a margin of 63 basis points over swap, equating to a rate of 3.72%.
- \$4.0 million fixed rate bond issued in May 2017 maturing 15 May 2024, at a margin of 58 basis points over swap, equating to a rate of 3.76%.
- \$3.0 million fixed rate bond issued in March 2017 maturing 15 April 2025 at a margin of 77 over swap, equating to a yield of 4.20%.
- \$7.0 million FRN issued in May 2015 maturing 19 May 2025, at a margin of 49 basis points.
- \$5.0 million fixed rate bond issued in July 2016 maturing in 15 July 2026 at a margin of 84 basis points over swap equating to a rate of 3.37%.

Included in HDC's current funding portfolio is the \$5.0 million of funding from the LGFA utilising a 15 April 2020 fixed rate bond at a yield of 2.632% which was transacted in November 2017. As the funds were not required until late May 2018, the proceeds from the funding were placed on deposit with Bank of New Zealand ("BNZ") until 25 May 2018 at a rate of 3.70%. The positive carry on this funding and investing transaction will be approximately \$28,000.

During the March 2018 quarter HDC sourced an additional \$6.0 million of debt from the LGFA utilising a 15 April 2023 FRN at a margin of 57.5 basis points over 3 month BKBM, equating to a rate of 2.4750%.

As at 31 March 2018, HDC had no drawings under its BNZ \$10.0 million Committed Cash Advance Facility that matures in October 2018.

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



### 3. DEBT AND HEDGING PROFILE

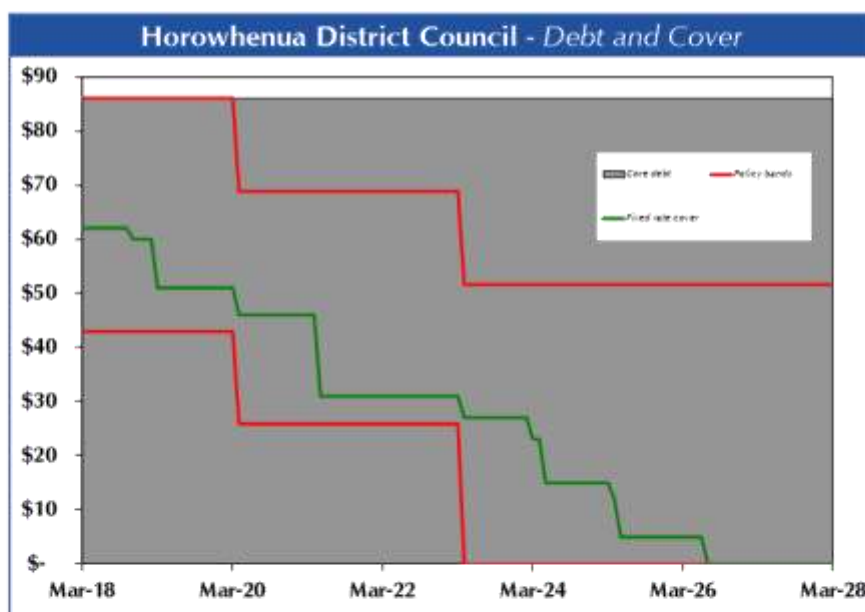
As at 31 March 2018, HDC had \$86.0 million of external fixed and floating rate debt, and two interest rate swaps, as follows:

- \$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 profiles incorporating these parameters is depicted in the graph below. Included in the fixed rate hedging percentages are the fixed rate bonds and interest rate swaps.

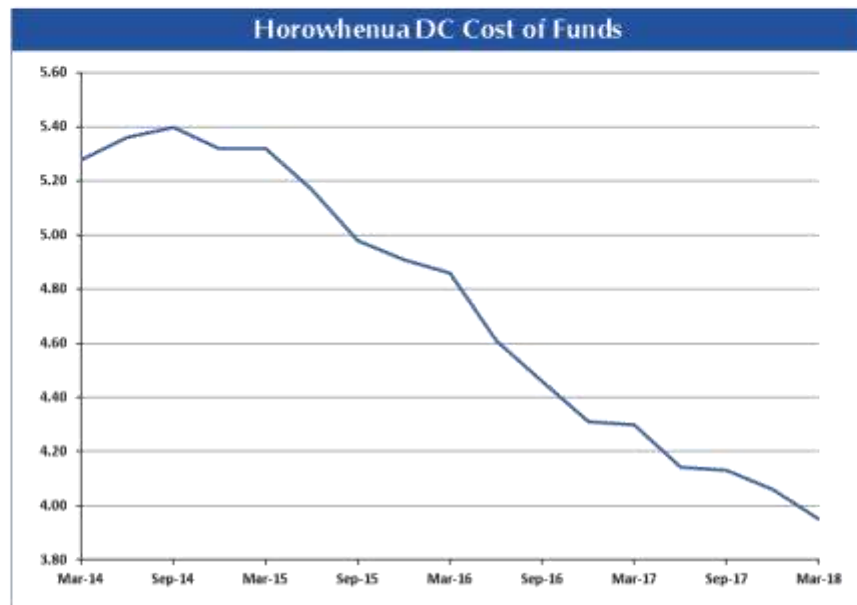


The graph indicates that, as at 31 March 2018, HDC was compliant with the fixed rate hedging percentages contained in the LMP.



HDC's cost of funds (inclusive of the bank line fee) as at 31 March 2018 was 3.95%, down from 4.06% at the end of the December 2017 quarter. The decline was due mainly to the additional \$6.0 million of April 2023 debt that was sourced from the LGFA at 2.475%.

HDC's cost of funds is noticeably lower than many of its peers in the local government sector, indicating the success of its funding and interest rate risk management programme that has been carried out over the last several years. The cost of funds is depicted in the graph below.





#### 4. POLICY COMPLIANCE (AS AT 31 MARCH 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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# Standard and Poors Credit Rating

File No.: 18/272

## 1. Purpose

To present to the Finance, Audit and Risk Subcommittee the Standard and Poors' report on the review of Council's credit rating.

## 2. Recommendation

- 2.1 That Report 18/272 Standard and Poors Credit Rating 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

Council has to undergo a review of its credit rating in April/May every year on or about the anniversary of obtaining the first credit rating in May 2015.

## 4. Issues for Consideration

On 9 April 2018 Standard and Poors (S&P) affirmed Council's A+ long-term credit rating and A-1 short-term issuer rating with a stable outlook. The renewal report is attached.

The report contains a paragraph headed "Downside scenario" which stated;

"We might lower our rating if we perceive that the council's financial management is **deteriorating**. This could occur if political disagreements delay important fiscal decisions or lead to a significant deterioration in strategic planning or the council's **financial position**. We could also lower our rating if the council were to significantly boost its capital expenditure without offsetting revenues or expenditure **savings**, or if its liquidity coverage **weakens**."

This is erringly similar to what was said in last year's report which also included a paragraph called "Downside scenario". I have highlighted the changes in wording. This paragraph stated;

"We might lower our rating if we perceive that the council's financial management has deteriorated. This could occur if political disagreements **within the council** delay important fiscal decisions or lead to a significant deterioration in strategic planning or **financial outcomes**. We could also lower our rating if the council were to significantly boost its capital expenditure without offsetting **adjustments** to revenue or operating expenditure, **and further** weaken its liquidity coverage."

At that time we identified 3 risk areas;

1. The political situation impacting on timely fiscal decisions,
2. Any major changes to our capital programme without increasing revenue and operational expenditure,
3. A liquidity risk relating to the use of short-term loan financing.

The political risk is only where we fail to make "important fiscal decisions". These could include a failure to adopt an Annual Plan, LTP, Rates resolutions, Financial and Infrastructural strategies and the like or perhaps implement plans/decisions that are fundamental to Council's overall financial position/sustainability.

S&P consider that, although Council has shown a lower capital spend, the expenditure need still exists, specifically mentioning Council's capital works programme which is termed "poor budgeting performance" even though operational budgeting is good. Increasing capital spend must be accompanied by an increase in interest costs and maintenance cost offset by (rates) income to cover interest and renewals expenditure.

S&P mark Council up for things like financial management, ability to rate and strong institutional and legal frameworks. They still determine HDC's economic outlook to "broadly supportive" from the previous assessment of weak two years ago.

They also state;

*"While liquidity coverage compares favorably with last year's coverage of just 73%, it is substantially less than the 174% the council had two years ago. The main reason for the deterioration last year was due to the council increasing its reliance on low cost short-term debt. While this reduces interest costs in the short term, it increases refinancing risk."*

This relates to the increase in the use of short-term borrowing (commonly called Commercial Paper or CP). This CP is currently at \$12m due for repayment/renewal on 7 June 2018. S&P are of the opinion that the refinancing of this CP is a risk. This is primarily a result of the Global Financial Crisis experiences in 2008/9. However, it was argued that currently at least, this risk is no higher than normal especially now that the Local Government Funding Agency (LGFA) provides bespoke lending at short notice and Council has the BNZ \$10m Committed Cash Advance Facility (CAAF) as well as the \$5m extra on investment to increase the cash reserves. Whilst unable to convince S&P otherwise the credit rating has not been adversely impacted.

The opinion of Officers is that S&P are not factoring the LGFA into the risk profile and are applying the risk scenarios that would be in the US or Australia. Officers do not think that the risk of a downgrade outweighs the lower cost of funds. If the short-term interest rates begin to rise, as is anticipated if the US treasury begin to raise the US interest rates, we may convert what is now CP into bonds, either floating rate or fix rate. This will remove the issue.

Table 2 on page 6 contains a 'snapshot' of HDC's rating score;

**Key Rating Factors**

Institutional Framework	Extremely predictable and supportive
Economy	Average
Financial Management	Strong
Budgetary Flexibility	Strong
Budgetary Performance	Weak
Liquidity	Adequate
Debt Burden	Very High
Contingent Liabilities	Very Low

**Attachments**

No.	Title	Page
A	S & P Credit Rate renewal report 2017/18	70


**Confirmation of statutory compliance**

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

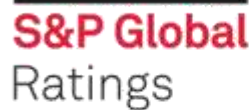
- containing sufficient information about the options and their benefits and costs, bearing in

- 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 <b>Chief Financial Officer</b>	
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Approved by	David Clapperton <b>Chief Executive</b>	
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## RatingsDirect®

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### Research Update:

## Horowhenua District Council Ratings Affirmed At 'A+/A-1'; Outlook Remains Stable

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[WWW.STANDARDANDPOORS.COM/RATINGSDIRECT](http://WWW.STANDARDANDPOORS.COM/RATINGSDIRECT)

APRIL 9, 2018 1

**Research Update:**

## **Horowhenua District Council Ratings Affirmed At 'A+/A-1'; Outlook Remains Stable**

### **Overview**

- Horowhenua's institutional settings and high levels of budgetary flexibility support the ratings on the New Zealand local government. At the same time, we do not expect political disagreements to affect the council's credit profile.
- Management remains focused on delivering the council's large capital program leading to reasonably large after-capital deficits and higher debt levels.
- We are affirming our 'A+' long-term foreign-currency and local-currency ratings and 'A-1' short-term ratings on Horowhenua.
- The stable outlook reflects our expectations that Horowhenua's financial management will manage its financial position in line with our forecasts, while it delivers its large capital expenditure program and addresses significant infrastructure backlogs.

### **Rating Action**

On April 9, 2018, S&P Global Ratings affirmed its 'A+' long-term foreign currency and local currency and 'A-1' short-term issuer credit ratings on Horowhenua District Council (Horowhenua), a New Zealand local government. The outlook on the rating remains stable.

### **Outlook**

The stable outlook reflects our expectations that Horowhenua will manage its financial position in line with our forecasts, while it delivers its large capital expenditure program and addresses significant infrastructure backlogs.

### **Downside scenario**

We might lower our rating if we perceive that the council's financial management is deteriorating. This could occur if political disagreements delay important fiscal decisions or lead to a significant deterioration in strategic planning or the council's financial position. We could also lower our rating if the council were to significantly boost its capital expenditure without offsetting revenues or expenditure savings, or if its liquidity coverage weakens.

*Research Update: Horowhenua District Council Ratings Affirmed At 'A+/A-1'; Outlook Remains Stable*

**Upside scenario**

Upward momentum is unlikely, but could occur if the council's after-capital account balances improved substantially over a sustained period while it delivers its capital program. This would help stabilize its debt burden and address its infrastructure backlog.

**Rationale**

We have updated and extended our forecasts for Horowhenua until 2020. We still expect the institutional settings and budgetary flexibility to support Horowhenua's credit profile. Meanwhile, the council's management is focused on delivering its large capital expenditure program to address renewal backlogs and potential growth pressures. This means after-capital deficits will be elevated with debt levels forecast to rise.

**A supportive institutional framework, and broadly supportive financial management and economy underpin Horowhenua's creditworthiness**

The institutional framework within which New Zealand local governments operate is a key strength supporting Horowhenua's credit profile. We consider this institutional framework as being one of the strongest and most predictable globally. The New Zealand local government system also promotes a strong management culture, fiscal discipline, and high levels of financial disclosure among local councils. The system allows Horowhenua to support higher debt levels than some of its international peers can tolerate at current rating.

Horowhenua's financial management team is experienced and similar to that of most New Zealand councils. The council prepares a 10-year long-term plan every three years, ensuring a forward-looking approach to prudent financial management and setting an important baseline for the council's operating and capital expenditure requirements, and its funding strategy. The council is restricted from borrowing in foreign currency and hedges the majority of its interest-rate risk. However, we consider its liquidity management and long-term capital planning to be weak relative to peers. Due to previous underinvestment, Horowhenua has a large infrastructure backlog that it is currently addressing. Meanwhile, growth pressures are potentially picking up that may require additional infrastructure investment on top of the recently released long-term plan. The long-term plan incorporates growth of 0.4% per year, which may be conservative given the new major highway connecting the district to Wellington.

We do not expect ongoing and well-publicized political disagreements between the mayor and councilors and the chief executive will translate to weaker financial governance or a weaker credit profile in the immediate future.



*Research Update: Horowhenua District Council Ratings Affirmed At 'A+/A-1'; Outlook Remains Stable*

The economy is broadly supportive of Horowhenua's credit profile. We estimate Horowhenua's GDP per capita between 2014 and 2016 to be on average about US\$16,700, which is much lower than New Zealand's national level of US\$41,900, and reflects a new central government data source. The district is set to transform from a period of stagnation with economic growth of about 3.5% in 2016 compared with average growth of 0.5% during the past 10 years. Buoying this growth is the prospect of a better transport connection from the Wellington Northern Corridor: the State Highway 1 route between Wellington and Horowhenua. This road project is likely to encourage a higher level of development in the district and stronger population growth because it will cut travel time and freight costs, possibly making Horowhenua more desirable and productive, and provide opportunities for population and industry growth. In addition, continued increases in house prices and the dairy payout price during the period have supported growth in the district.

**Capital spending to remain high, leading to large after-capital deficits and increasing debt levels, while liquidity coverage is broadly stable**

Capital expenditure and large after-capital account deficits continue to weigh on Horowhenua's budgetary performance. The council is addressing a backlog of infrastructure renewals, particularly in its water assets, which will likely keep capital expenditure elevated over the next few years. Furthermore, stronger population growth compared to the past two decades may further strain the council's ability to meet capital expenditure requirements following the upgrade of State Highway 1.

Horowhenua's after-capital account deficits are large averaging about 14% of total revenues during 2016 and 2020. This is better than our previous forecast and due to a one-time revenue gain from the asset sales of the council's pensioner housing portfolio in 2018 and projected sale of noncore property assets in 2019. We project the council will post average after-capital deficits of about 6% of total revenues over the next two years helped by about NZ\$7 million of asset sales per year, which covers about 30% of capital expenditure. We forecasts deficits to widen again in 2020 to about 19% of total revenues when asset sales cease. Meanwhile, the council's operating surpluses remain strong at about 19.5% of operating revenue over the next three years.

A large capital expenditure underspend in 2017 reduced the size of the council's after-capital account deficit, which still reached 28% of total revenues weighing on its overall position.

These large after-capital account deficits will increase the council's total tax-supported debt to more than 180% of operating revenues in 2020. We expect its debt to remain high in the medium to long term, due to challenges in maintaining aging core infrastructure as well as building new infrastructure. With the council selling its pensioner housing portfolio and noncore property assets we have lowered our debt forecast for 2019 moderately relative to our

*Research Update: Horowhenua District Council Ratings Affirmed At 'A+/A-1'; Outlook Remains Stable*

previous forecasts. This will be a short reprieve, as debt will rise again in 2020. In 2017, Horowhenua's total tax-supported debt was about 170% of operating revenues. Interest expense reflecting this increase in debt and will be about 7.6% of operating revenue in 2017-2019. Taking into account the possibility of the council under-executing on capital projects, it is possible that borrowings will not be as high as our forecasts, and thus interest expense would be lower as well. Nevertheless, debt levels are rising.

We forecast free cash, liquid assets, and bank facilities will average NZ\$20 million during the next 12 months, covering about 110% of Horowhenua's upcoming debt-servicing needs. We forecast that the council will hold approximately NZ\$10 million in liquid assets and undrawn bank facilities of NZ\$10 million available to cover debt of NZ\$14 million maturing within the next 12 months and interest expense of NZ\$4.2 million. Over the past 12 months, the council has issued a medium-term bond and is holding the proceeds as cash for liquidity purposes.

While liquidity coverage compares favorably with last year's coverage of just 73%, it is substantially less than the 174% the council had two years ago. The main reason for the deterioration last year was due to the council increasing its reliance on low cost short-term debt. While this reduces interest costs in the short term, it increases refinancing risk.

Although the council has large after-capital account deficits, we consider Horowhenua's strong budgetary flexibility will continue to increase revenues over time. We consider about 96% of its operating revenues to be modifiable, which includes council property rates, user charges, fees, and fines. Like all New Zealand councils, there are no legal restrictions on Horowhenua's ability to increase rates. It is proposing rate increases of 6.3% in the 2018-28 long-term plan to help fund infrastructure. In the past, Horowhenua's large share of the elderly population on fixed incomes influenced the council's consideration on large rate hikes--this no longer appears to be the case. On the expenditure side, while the share of Horowhenua's spending allocated to capital expenditure is high, at about 38% between 2016 and 2020, we believe much of this spending is difficult to defer without increasing its infrastructure backlogs.

Horowhenua's contingent liabilities are low, representing less than 2% of its operating revenues. Most of the council's contingent liabilities reflect a NZ\$5.2 million guarantee against an interest-free loan received from Housing New Zealand Corp. to construct and modernize the council's social housing for the elderly. The pensioner housing portfolio was sold in late 2017 to a community housing provider. Part of the condition of sale is that as long as the housing remains in the ownership of a community housing provider the guarantee will not be triggered.

Research Update: Horowhenua District Council Ratings Affirmed At 'A+/A-1'; Outlook Remains Stable

## Key Statistics

Table 1

Horowhenua District Council Key Statistics						
Selected indicators (mil. NZ\$)	—Year ending June 30—					
	2015	2016	2017	2018bc	2019bc	2020bc
Operating revenues	41	43	45	47	52	55
Operating expenditures	32	33	38	38	42	44
Operating balance	9	10	7	9	10	11
Operating balance (% of operating revenues)	21.9	23.8	16.1	18.2	19.9	19.9
Capital revenues	2	3	5	13	10	3
Capital expenditures	12	19	27	24	25	24
Balance after capital accounts	(1)	(5)	(14)	(2)	(5)	(11)
Balance after capital accounts (% of total revenues)	-1.6	-11.7	-28.4	-4.1	-8.4	-18.9
Debt repaid	11	8	31	8	14	5
Gross borrowings	14	13	43	14	19	16
Balance after borrowings	3	0	(2)	4	0	0
Modifiable revenues (% of operating revenues)	93.7	95.9	96.4	96.5	96.7	97.1
Capital expenditures (% of total expenditures)	27.1	36.8	41.1	38	37.7	35.9
Tax-supported debt (outstanding at year-end)	60	65	77	83	88	99
Tax-supported debt (% of consolidated operating revenues)	147.9	151.7	170	177.5	169	181.6
Interest (% of operating revenues)	7.7	7.2	6.9	7.8	8.1	8.2
Local GDP per capita (single units)	21,635	21,225	N/A	N/A	N/A	N/A

The data and ratios above result in part from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information. The main sources are the financial statements and budgets, as provided by the issuer. Base case reflects S&P Global Ratings' expectations of the most likely scenario. Downside case represents some but not all aspects of S&P Global Ratings' scenarios that could be consistent with a downgrade. Upside case represents some but not all aspects of S&P Global Ratings' scenarios that could be consistent with an upgrade.

## Ratings Score Snapshot

Table 2

Ratings Score Snapshot	
<b>Key Rating Factors</b>	
Institutional Framework	Extremely predictable and supportive
Economy	Average
Financial Management	Strong
Budgetary Flexibility	Strong
Budgetary Performance	Weak
Liquidity	Adequate
Debt Burden	Very High
Contingent Liabilities	Very Low

*Research Update: Horowhenua District Council Ratings Affirmed At 'A+/A-1'; Outlook Remains Stable*

**Table 2**

**Ratings Score Snapshot (cont.)**

\*S&P Global Ratings issuer ratings on local and regional governments are based on eight main rating factors listed in the table above. Section A of S&P Global Ratings' "Methodology For Rating Non-U.S. Local And Regional Governments," published on June 30, 2014, summarizes how the eight factors are combined to derive the rating.

## Key Sovereign Statistics

Sovereign Risk Indicators. Interactive version available at  
<http://www.spratings.com/sri>

## Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Governments - International Public Finance: Methodology For Rating Non-U.S. Local And Regional Governments, June 30, 2014
- Criteria - Governments - International Public Finance: Methodology And Assumptions For Analyzing The Liquidity Of Non-U.S. Local And Regional Governments And Related Entities And For Rating Their Commercial Paper Programs, Oct. 15, 2009
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The

*Research Update: Horowhenua District Council Ratings Affirmed At 'A+/A-1'; Outlook Remains Stable*

weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

## Ratings List

### Ratings Affirmed

Horowhenua District Council	
Issuer Credit Rating	A+/Stable/A-1

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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APRIL 9, 2018 9

# Council's Options for Insuring Below-ground Infrastructural Assets

File No.: 18/273

## 1. Purpose

To evaluate the options for insuring Council's infrastructural assets for damage relating to a natural disaster.

## 2. Executive Summary

Horowhenua District Council is a member of the Local Authority Protection Programme (LAPP) Fund to protect \$270m underground 3 waters assets from disasters like the Christchurch and Kaikoura earthquakes. It is set up as a charitable trust whereby members contribute to a fund that, along with reinsurance cover, will pay for the re-establishment of assets following a major event. The issue has been, since the Christchurch event, that the fund has faced financial pressure and competition from the private insurance market. Members have been leaving to the point that it is timely to review Council's continued involvement with LAPP.

## 3. Recommendation

- 3.1 That Report 18/273 Council's Options for Insuring Below-ground Infrastructural Assets be received.
- 3.2 That this matter or decision be recognised as not significant in terms of s76 of the Local Government Act 2002.
- 3.3 That the Finance, Audit & Risk Subcommittee resolves to remain a member of LAPP for one (1) further year, pending an outcome of the reorganisation and remodelling of LAPP, while retaining HDC's share of the \$17m LAPP fund that may be used to cover the costs of Insurance Valuations and Risk Profiling if this becomes necessary.

## 4. Background/Previous Council Decision

- 4.1 LAPP was set up in 1993 by most of the 70 odd local government entities at the time, to establish a fund for the reinstatement of loss or damage of, what was at the time, generally uninsurable local government infrastructural assets.
- 4.2 Only those authorities that are contributing to the fund are eligible for distributions in the event of loss or damage.
- 4.3 The fund was built up over successive years through contributions from a large membership base of most of the local government sector entities including cities like Christchurch and Wellington.
- 4.4 The fund was exhausted by one major event, the Christchurch Earthquake. This has meant the Trust has had to rebuild the fund to enable it to cover a future event. It was able to do so but not to the extent it had previously as many members had left the Trust. It also shifted its focus to disaster cover only which meant that the normal losses for minor events needed to be insured through the normal materials damage insurance. It also began to look at the divergent risk profiles of the member councils whereby it began to levy higher contributions from those Council's with a higher risks. Hence, the Wellington Region group of councils exiting the fund.

- 4.5 It has again been tested with the Kaikoura event but not to the same extent as Christchurch, as the trust believe that they will not need to call on reinsurers to cover the level of loss or damage cause by that event.
- 4.6 As at 30 June 2017 the Trust had 21 members (down from 32 in 2016). The membership is mainly rural and provincial councils but including the likes of Invercargill City, Palmerston North City, Hastings District, New Plymouth District, amongst others.
- 4.7 The issue is the financial risk associated with the financial viability and ability of the LAPP fund to cover future events with an ever reducing membership base and therefore size of fund. This will become especially important if and when central government changes its current policy of funding 60% of any losses to one where it will only cover losses for major catastrophic events if at all. This means that Councils will need to cover 100% of their assets except in exceptional circumstances where the disaster event is regional or national in its significance.
- 4.8 Council has given notice of intention to withdraw from LAPP. Council now needs to decide, and notify the LAPP trustees, if it will definitely withdraw, or not, from the fund by 31 May. Council has delegated this decision to the Finance, Audit and Risk subcommittee.
- 4.9 While the membership in LAPP may have reduced, members cannot take their share of the fund with them so the remaining fund is shared around fewer remaining members, thus increasing their share of the fund. It is now acknowledge that the current membership is too small to grow the fund to the level necessary to be sustainable it the long term.
- 4.10 The LAPP trustees will have to, in my opinion, change the model away from a mutual fund.
- 4.11 HDC 'owns' a 21<sup>st</sup> share of \$17m, which if we leave prematurely, we will lose.

## 5. Discussion

- 5.1 Government via Treasury has signalled the establishment of a Local Government Risk Management Agency and that the 60/40 split is under review. The Government's intent is to only cover catastrophic events with lessor event to be covered 100% by local government Insurance. However, the decision to move in this direction seems to have stalled through the election and may be picked up by the new government in 2018.
- 5.2 Although Central Government has put the establishment of a Risk Agency on hold LGNZ's view is that it has highlighted the need for the agency. AON insurance brokers have been employed by the Trustees of LAPP to look at the future mode of operating. There is a possibility that they may negotiate with Government to carry out a role similar to that envisaged with the Risk Agency, moving completely out of Insurance into Insurance valuation and Risk profiling.
- 5.3 The Christchurch earthquake revealed an issue of using accounting valuations for insurance purposes. Accounting valuations value the replacement costs of the asset in normal business as usual, controlled contractual conditions. If a catastrophic event occurs the costs of replacement go up to attract the resource to effect repairs and reinstatement of the assets in short order. Thus, valuations for insurance purposes need to be done using a completely different methodology. This costs money.
- 5.4 Insurance is based on risk profiling by location. Looking at the situation of assets in a smart way to reduce risk. Such risk analysis/profiling will most likely occur in a regional/local context where different regions of the country will have different inherent risk profiles. Again this risk profiling will cost money and may become mandatory if the Government pursues the concept outlined within the proposal for a Risk Agency.

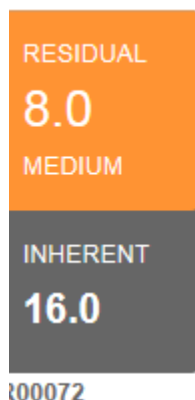


- 5.5 Attached is a letter from the LAPP Trustees updating members on the progress. It is short on detail but makes it apparent that LAPP will need to continue in its current mutual fund format for at least another year.
- 5.6 It is envisaged that Councils share of the \$17m LAPP fund could be used to pay for the valuation and Risk Profiling that could be needed in the medium term.
- 5.7 If HDC remains in LAPP the risks outlined above, and the risk we are currently taking, will persist for a further year. If an event of significance was to occur in the Manawatu and both Palmerston North and HDC needed to claim on the fund, there is a risk the fund may be insufficient to cover the full extent of the losses, and we would need to borrow in the short-term. The event would need to be in the order of \$125m to \$140m magnitude of losses. This has a long return period of risk and is unlikely to occur.
- 5.8 The author attended an update on the Insurance Market from AON on 4 May. The insurance market is "tightening". There were 330 natural disasters world-wide in 2017. Insurance claims were 93% above their long-run averages. Consequently, many insurance companies world-wide made financial losses. With the possibility, with global warming, that such natural disasters may become the norm as opposed to the exception, insurance will be harder to source and certainly more expensive to obtain. The LAPP Fund was set up in conditions that were not dissimilar, where self-Insurance became a cheaper option than the same primary layer insurance from the market.

## 6 Options

- 6.1 Option 1 is to remain in LAPP for a further year, see what becomes from the negotiations with AON and Central Government, while retaining HDC's share of the \$17m. These funds may be used to cover the costs of Insurance Valuations and Risk Profiling if this becomes necessary. This is the recommendation from officers.
- 6.2 Option 2 is to give final notice of withdrawal by 31 May and revert to the MW LASS private sector Insurance.

### 4.21 Risk assessment



#### FINANCIAL, LEGAL, SERVICE DELIVERY

### Failure of insurance coverage for below ground infrastructure

Recognition that the value of the existing mutual fund (LAPP) is dwindling due to claims from various natural disasters and that the existing trustees are unlikely to continue the fund as currently set up resulting in a risk to the insurance coverage of below ground infrastructure.

OWNER: **Portfolio Managers**

LIKELIHOOD: **Very Likely**

CONSEQUENCE: **Major**

CONTROL EFFECTIVENESS: **Moderate**

## Attachments



No.	Title	Page
A	LAPP Member Update 24 April 2018	83

### 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 <b>Chief Financial Officer</b>	
Approved by	David Clapperton <b>Chief Executive</b>	



### **LAPP Member Update 24 April 2018**

We are writing to you to update you on some new developments at LAPP. LAPP has entered into discussions with Aon New Zealand (Aon) and this week signed a confidentiality agreement with Aon and Aon Benfield regarding below-ground and river management infrastructure risk solutions. Aon is the acting broker for 42 New Zealand councils and Aon Benfield has been LAPP's reinsurance broker since 1994.

The purpose of the confidentiality agreement is to facilitate LAPP, Aon and Aon Benfield sharing information, particularly in respect of below-ground infrastructure, with the aim of developing new beneficial and sustainable solutions for LAPP as well as potentially for local government in New Zealand as a whole. It is anticipated these new solutions will only be available in 2019, so it is business as usual in respect of LAPP's 2018-19 renewal.

As you will likely be aware, LAPP is currently managing the Kaikoura Hurunui earthquake claims involving the Kaikoura, Hurunui and Marlborough District Councils. LAPP has recently settled Kaikoura District Council's claim and progress is being made with the claims from Hurunui and Marlborough District Councils. It is expected that the three claims in total will not exceed \$5 million.

Allowing for the existing and anticipated settlements of the Kaikoura Hurunui earthquake claims, the fund value at the time of this year's renewal is expected to be approximately \$17 million, which is for the exclusive use and benefit of its members.

Contribution rates for LAPP's members will be issued mid-May 2018 when reinsurance for 2018-19 should be in place. Details are presently being finalised and will be communicated shortly.

Should you have any queries or wish to discuss any matter please do not hesitate to contact either Civic Financial Services or the Chairman of the Trustees.

Kind regards.

**Langley Cavers, Chairman of the Trustees**

**Ian Brown, Chief Executive, Civic Financial Services, LAPP Administration Manager**

**New Zealand Local Authority Protection Programme Disaster Fund**

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# Monitoring Report - Issues Identified during the 30 June 2017 Audit

File No.: 18/274

## 1. Purpose

To present to the Finance, Audit & Risk Subcommittee the Monitoring Report covering issues identified during the 30 June 2017 Audit.

## 2. Recommendation

- 2.1 That Report 18/274 on Monitoring Report - Issues Identified during the 30 June 2017 Audit be received.
- 2.2 That this matter or decision be recognised as not significant in terms of s76 of the Local Government Act 2002.

## Attachments

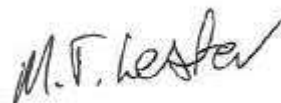
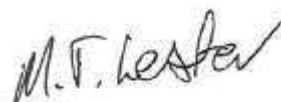
No.	Title	Page
A	FARS Audit Monitoring Report for the year ended 30 June 2017	86

### 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)	Mark Lester <b>Group Manager - Corporate Services</b>	
Approved by	Mark Lester <b>Group Manager - Corporate Services</b>	

FINANCE, AUDIT & RISK SUBCOMMITTEE

Monitoring Report – Issues identified during the 30 June 2017 Audit

- Complete [blue light]
- In progress [green light]:
- Off track but mitigation in place [orange light]
- Off track/outstanding [red light]:



Ref	Recommendation	Urgent	Necessary	Beneficial	Status	Due date	Officer Comment
2.1.2	Performance management reporting Continue to review the effectiveness of the collection and reporting of data.		✓			Quarterly	Staff are setting up a team of SSP reporters within Council to refine the LTP SSP's and meet at least quarterly to review the effectiveness of the collection and reporting of these SSP's, the team has met and the SSP process has been processed map. SSPs have been amended for the LTP and will be reviewed every quarter.
2.2.1	Review of Land and Buildings Fixed Asset Register Review the listing of land and buildings to be valued before submitting the information to the valuers to ensure all the assets owned by the District Council are valued and only District Council-owned assets are valued. Identify all those land and buildings classified as Infrastructure Assets and should revalue those assets along with the other Infrastructure assets at 1 July.		✓			June 2019	Will move land and building assets out of infrastructure assets.  This will not occur until the next revaluation in June 2019
2.2.2	Revaluation of PPE		✓			June 2019	Will ensure the reconciliation is clearer when the next revaluation is done in 3 years' time.

	Ensure there is a clear reconciliation between the revalued assets back to the valuation information; Develop a clear process to document adjustments to the valuation information; and Reassess the useful lives of Infrastructure assets on a regular basis to ensure the lives are in line with the assets' condition.						Useful lives are now assessed as part of the infrastructure revaluation process.
3.2	Quality Assurance and delivery of information to enable an efficient audit process Continue to enhance the approach and quality review processes around the final audit and ensure there is sufficient resourcing and support to meet the agreed annual audit timetable.		✓		○	August 2018	Will meet with audit to ascertain what the issue was in regards to quality of information provided and will resolve how to best resolve it.
5.1	Segregation of duties in expenditure process Review and enhance the purchase order controls in the expenditure system to require purchases orders to be approved on a one up basis.		✓		○	June 2018	We are investigating implementing a review step in the purchase order process that will satisfy the one up approval request from Audit.
5.2	Conflict of Interest Policy Develop procedures for each type of Conflict of Interest identified in the policy regarding handling of breaches and the mitigations of these.		✓		○	June 2018	Will try to complete changes before 30 June 2018.
5.3	Creditor Masterfile Change Review Ensure that there is adequate independent review over the creditors Masterfile changes. This review should be evidenced by way of a signature and date.  Review current processes to ensure there is			✓	●	June 2018	Council acknowledges this is an important internal control.  Council believes there is an independent review of creditor Masterfile changes. All Masterfile changes for the 2017/18 year have been reviewed, signed and dated.  Council has a process for approval of new creditors. Bank account

	adequate supporting information to verify that new creditors, and changes are bona fide. Implement a regular review process to remove redundant creditors..					changes require a bank deposit slip or independent confirmation.  Finance have in their 2017/18 business plan to review the creditors Masterfile and remove duplicate and redundant creditors.
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## Status of previous recommendations

<u>Recommendation</u>	<u>Current Status</u>	<u>Priority</u>		<u>Due date</u>	<u>Management's Proposed action</u>
		Necessary	Status		
Segregation of duties in expenditure process Review and enhance the purchase order controls in the expenditure system to require purchases orders to be approved on a one up basis.  Develop a user friendly report that highlights self-approved purchase orders/invoices to allow for a specific review of these transactions prior to payment.	In Progress  A report has been developed. Refer to 5.1 for an update on the finding	✓	●		Refer to 5.1
Creditor master file review Complete an independent review over the creditor master file changes made year to date as soon as possible to provide assurance to management that changes made were bona fide.  Reinstate the monthly review of the creditor master file, evidenced by way of a signature and date prior to each creditor payment run.	Outstanding  We noted during our interim audit that the review performed is not independent and the date of review is not recorded. Best practice is that an independent review is performed prior to each pay run's completion to prevent rather than detect fraudulent transactions from occurring. Ref	✓	●		Refer to 5.3



	to 5.3				
Reporting of unplanned and deferred maintenance Report planned unplanned and deferred maintenance on a regular basis to Council to allow monitoring and action as required.	In Progress Although maintenance is reported to the District Council as part of the monthly management accounts, there is no evidence that unplanned and deferred maintenance are being reported as a specific item on the Council meeting Agenda.	✓	●		All planned and unplanned maintenance is done when the need arises. We do not consider there is any deferred maintenance.  Unplanned maintenance is budgeted for. All maintenance issues are used to inform the review of the various relevant Asset management plans.
Keeping the interest register up to date Remind elected members and other key management personnel to update the interest register on a regular basis.	In Progress During our testing we identified several interests held by councillors which were not declared and recorded in the interests register. We confirmed these interests had not transacted with the District Council but we urge the councillors to continue to declare and record an interest they may have and keep the interest register up to date	✓	●		The interest register for Councillors and senior staff has been updated.
Risk management Council formally endorse the risk policy and review its current risk management framework/processes for appropriateness.	In Progress We understand that the District Council is currently in the process of updating its overall risk management framework, policy and procedures	✓	●		The Risk Framework was updated and the Risk Policy v1.9 was adopted by Council in November 2017. Copies of the policy and framework have been provided to Audit.
Project management improvements Formalise the methodology for managing projects and ensure there is a planned approach to post	Outstanding	✓	●	Sept 2018	Management agrees that this is an area where the District Council could look to improve through implementation of an organisation-wide approach to project management principles and

implementation review in place.					methodology. Council is participating in a shared training initiative with Manawatu District Council to provide opportunities for staff to complete project management theory and practical training. 5 Horowhenua District Council staff have successfully completed project management certification through this training initiative. Parallel to this process a number of templates have been established across the spectrum of project management to provide staff with a toolkit to utilise and this will continue to evolve over time.
Procurement Strategy and Policy Align the current Procurement Strategy and Policy with best practice, with a view to having an integrated policy that can be used by the entire organisation.	In Progress There is currently a Procurement and Purchasing Manual in progress. We understand that the District Council is aware of the audit recommendations and there is an intention of incorporating these in the upcoming manual.	✓	●		The procurement policy version 2.0 was adopted in 2017 and will be due for annual review April 2018. The guidelines, processes and intranet toolkit were all updated as part of this process and have been provided to Audit.
Conflicts of interest policy Review and update the Conflicts of Interest policy to reflect best practice in the sector. We recommend: • Policy to be reviewed and endorsed by EMT; and The policy includes a clearer mechanism on how breaches are handled or on what the consequences are for non-compliance.	In Progress During the interim testing we confirmed that the policy has been updated. Through our review we made further recommendations. Refer to 5.2.	✓	●		Refer to 5.2
Legislative compliance Council to look at mechanisms to actively monitor compliance with legislative requirements.	Outstanding The District Council continues to utilise informal process to monitor and report on its compliance with	✓	●		This will be reviewed by Council officers to find the best solution. Currently under investigation.

	laws and regulations				
Collectability of rates debtors Implement a robust process to identify and monitor rates which are no longer legally collectable under the Local Government (Rating) Act 2002, and write them off.	In Progress Although a report was prepared to identify uncollectable debt, during the audit we noted that not all uncollected debt was provided for. Management only provided for 85%, which is more than the 75% provided for last year. The 15% balance was included in the schedule of unrecorded misstatements.	✓	●		The provision will be increased to 100% in the 2017/18 year.
Contract management Council to endorse an integrated policy for organisation-wide use.	In Progress See Management comments to the right.	✓	●		Agree that this is an area where Council could look to improve through implementation of an organisation wide policy and procedures. This will be factored into HDC's work programme for the 2017/2018 year. In the short term, a contract register has been created and populated or all existing contracts and this is reported on monthly.
PPE additions - missing contract documentations Retain all contract information and ensure it is appropriately filed and archived to enable monitoring of key KPIs and contract conditions. All contracts should be appropriately approved and payments approved in line with delegated authority.	We did not identify missing contracts this year.	✓			Management agrees that this is an area where the District Council could look to improve through implementation of an organisation-wide policy and procedures. This will be factored into HDC's work programme for the 2017/18 year. In the short term a contract register has been created and populated for all existing contracts and this is reported on monthly. Copies of the reporting have been provided to Audit.
Maintenance of fixed assets WIP schedule/depreciation Monitor WIP balances on a regular basis to ensure	In Progress Confirmed during the audit that WIP is only monitored and	✓	●	Quarterly	Agree this is a good idea but unable to do it so far this year due to LTP commitments. Will endeavour to monitor WIP balances on a quarterly basis.

that any WIP that should be capitalised is done so.  All significant capital additions are depreciated when the asset becomes available for use.  As depreciation is only calculated at year end, council should review larger additions to check if depreciation should be recognised earlier.	capitalised at year-end.				
Maintenance of fixed asset register (FAR) Perform a full review of the FAR to ensure valid data is contained in the module. Review accounting policies to ensure depreciation rates appropriate and detailed enough for assets which are commonly added to the schedule. Implement regular reconciliations between the Asset Management Systems maintained by the asset managers and the Fixed Assets Register maintained by the finance team. The reconciliations should be reviewed by an independent person evidenced with a dated signature.	Outstanding  Confirmed during the audit that these processes and controls still only take place at year-end. There are still no continuous monitoring and updating of the FAR and no formal reconciliation takes place between the FAR and the GL.	✓	●	Quarterly	Agree this is a good idea but unable to do it so far this year to LTP commitments. Will endeavour to reconcile on a quarterly basis.
Policy on deposits and bonds Adopt a policy on deposits and bonds and review deposits and bonds held to determine whether those no longer required should be refunded or recognised as revenue.	Outstanding  No policy has been adopted.  Through our audit we can see that historical balances are being cleared.	✓	●	N/A	Council will consider whether a policy is necessary. The issue is primarily to ensure that they are cleared in a timely fashion.
Valuation of property, plant and equipment <ul style="list-style-type: none"><li>Ensure quality assurance review is carried out to future in-house revaluations.</li><li>Ensure completeness and accuracy of the data contained within the asset management records.</li></ul>	In Progress  During the audit we confirmed that management obtained the services of experts to assist with the valuation of the PPE.  Several recommendations were made regarding the valuation of	✓	●		Refer to 2.2

• Query assumptions used by external valuers.	PPE. Refer to 2.2				
Performance Measure Rules Continue to review the effectiveness of the collection and reporting of data.	In Progress We noted an improvement over the reporting of the performance measure. We made several recommendations regarding the collection of data and reporting of performance measures. Refer to 2.1	✓	●		Refer to 2.1
Mobile/PDA policy The Mobile/PDA policy be reviewed in line with OAG guidelines	In Progress The policy has been updated and will be reviewed by our IS auditors during the 2017/18 audit.	✓	●		Council awaits the feedback from your review.
Procurement review Implement the improvements identified from the procurement reviews in 2016 and include any policy improvements in the 2017 procurement policy update.	In Progress The audit acknowledged the sound policy, guidance toolkits and training which had been provided to staff as part of the review. Audit NZ has noted further enhancements which the District Council could make and we understand these will be taken on board. To be followed up during the 2017/18 audit.	✓	●		The procurement policy version 2.0 was adopted in 2017 and will be due for annual review April 2018. The guidelines, processes and intranet toolkit were all updated as part of this process and have been provided to Audit.
Evidence of NZTA claim review We recommend that the reviewer signs and dates the documentation as evidence of their review. During our review of the NZTA claim system we noted that balances are entered into a claim spreadsheet. The spreadsheet automatically	Outstanding This issue remains outstanding	✓	●		This review is in place and evidenced by the officer doing the review and reconciliation to the ledger.

calculates the subsidy that the Council will receive. The Roding Services Manager reviews the completed spreadsheet for completeness and accuracy before he prepares the claim. There is no evidence of this review.					
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Explanation of priority rating system

Audit's recommendations for improvement and their priority are based on Audit's assessment of how far short Horowhenua District Council is from a standard that is appropriate for the size, nature, and complexity of the business.

Audit has developed the following priority ratings for recommended improvements.

<b>Urgent</b> Major improvements required	Needs to be addressed urgently  These recommendations relate to a significant deficiency that exposes the District Council to significant risk. Risks could include a material error in the financial statements and the non-financial information; a breach of significant legislation; or the risk of reputational harm
<b>Necessary</b> Improvements are necessary	Address at the earliest reasonable opportunity, generally within 6 months  These recommendations relate to deficiencies that need to be addressed to meet expected standards of good practice. These include any control weakness that could undermine the system of internal control or create operational inefficiency
<b>Beneficial</b> Some improvement required	Address, generally within 6 to 12 months  These recommendations relate to deficiencies that result in the District Council falling short of best practice. These include weaknesses that do not result in internal controls being undermined or create a risk to operational effectiveness. However, in Audit's view, it is beneficial for management to address these.

# Mayoral Discretionary Fund

File No.: 18/270

## 1. Purpose

To report to the Finance, Audit & Risk Subcommittee on the grants made from the Mayoral Discretionary Fund during the 2017/18 financial year.

## 2. Recommendation

- 2.1 That Report 18/270 Mayoral Discretionary Fund 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

A Mayoral Discretionary Fund has been established for the 2017/18 financial year. This is in response to requests for financial assistance that are not covered under existing funding avenues within Council, or are of an emergency assistance nature.

For the 2017/18 financial year, there is \$10,000 available to applicants who meet the criteria of the fund.

To be eligible, applications must come from organisations and/or individuals within the Horowhenua District. Funding cannot be for private gain or for waiving any Council fees or charges and cannot be for recurrent funding; however, applicants may apply for funding over successive years. Applicants must not be eligible for funding from another Council source.

The maximum amount that will be allocated per grant will be \$1,000.00.

At least two references are required to testify to the bona fides of the requesting person/organisation, as well as the need/justification for the funding.

If the organisation/person has applied to other organisations for funding, the list of organisations that have received requests for funding from the applicant should be included in the application form.

The fund is to be expended at the discretion of the Mayor, within the fund criteria.

## 4. Issues for Consideration

There are no issues for consideration, this is for information purposes.

The following were granted in the January – March 2018 period:

Date	Group or Individual	Purpose	Amount	Balance
				\$7,000.00
20.02.18	Children's Day committee	Children's Day 2018	850.00	\$6,150.00

### **Children's Day committee**

An annual event held at the Levin Adventure Park, this year attracting over 3,500 people throughout the day. Children's Day is a free family fun packed day with an assortment of activities for children of all ages and their whanau to participate in.

Funding was approved for two activities, a photo booth which allowed children and their families to have photos at no cost and cookie decorating. Children under 5 years were able to decorate cookies for free to eat at the event or take home.

### **Attachments**

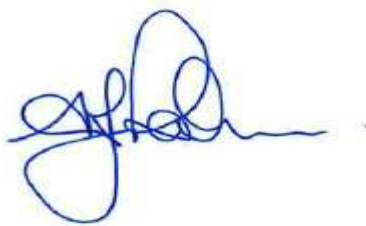
There are no attachments for this report.

### **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)	Aroha Parker <b>Executive Assistant to the Mayor</b>	
Approved by	Mark Lester <b>Group Manager - Corporate Services</b>	