

I hereby give notice that an ordinary meeting of the  
**Audit, Risk and Finance Committee**

will be held on:

**Date: Friday 01 December 2017**  
**Time: 10.00 am**  
**Venue: Meeting Room, Mangawhai Club, Molesworth Drive, Mangawhai**

---

## **Agenda**

---

### **Membership**

Chair: Stana Pezic  
Members: Councillor Del La Varis-Woodcock  
Councillor Geange  
Councillor Larsen  
Councillor Wade  
Councillor Wethey

### Staff and Associates:

Interim Chief Executive, General Manager Finance (Acting), Democratic Services Manager  
(minute-taker).

**Seán Mahoney**  
**Democratic Services Manager**

## Contents

		Page
<b>1</b>	<b>Opening</b>	<b>1</b>
1.1	Present	1
1.2	Apologies	1
1.3	Confirmation of Agenda	1
1.4	Conflict of Interest Declaration	1
<b>2</b>	<b>Confirmation of Minutes</b>	<b>1</b>
2.1	Audit, Risk and Finance Committee Minutes: Meeting 11 September 2017	<b>2</b>
<b>3</b>	<b>Papers</b>	
3.1	Forecast One 2017/2018	11
3.2	Treasury Management	28
3.3	Treasury Policy ( to be circulated under separate cover )	
3.4	Audit Action Update	39
<b>4</b>	<b>Public Excluded Audit, Risk and Finance Committee Items for 1 December 2017</b>	<b>43</b>
4.1	Risk Register	44
4.2	Contract Monitoring and Reporting : Infrastructure, Community and Regulatory	60
<b>5</b>	<b>Open Committee Meeting: 1 December 2017</b>	<b>78</b>
<b>6</b>	<b>Closure</b>	

**Ordinary Meeting Audit Risk and Finance Committee Friday 1 December 2017**

**1 Opening**

**1.1 Present**

**1.2 Apologies**

**1.3 Confirmation of Agenda**

The Committee to confirm the Agenda.

**1.4 Conflict of Interest Declaration**

Committee Members are reminded of the need to be vigilant to stand aside from decision making when a conflict arises between their role as a Committee Member/Commissioner and any private or other external interest they might have. It is also considered best practice for those members to the Executive Team attending the meeting to also signal any conflicts that they may have with an item before the Committee.

**2 Confirmation of Minutes**

**2.1 Audit and Risk Committee minutes of 11 September 2017**

Democratic Services Manager 1610.06/September 2017

**Recommended**

*That the minutes of the Audit and Risk Committee meeting held 11 September 2017, be confirmed as a true and correct record.*

<b>Meeting</b>	Audit, Risk and Finance Committee
<b>Date</b>	Monday 11 September 2017
<b>Time</b>	The meeting commenced at 10.00 am The meeting concluded at 11.27 pm
<b>Venue</b>	Meeting Room – Mangawhai Club, Molesworth Drive, Mangawhai
<b>Status</b>	Unconfirmed

---

## Minutes

---

### Membership

Chair: Richard Booth

Members: Councillor Del La Varis-Woodcock  
Councillor Geange  
Councillor Larsen  
Councillor Wade  
Councillor Wethey  
Mayor Gent (Ex-Officio)

### Staff and Associates:

Chief Executive, General Manager Finance, Democratic Services Manager (minute-taker)

**Seán Mahoney**  
**Democratic Services Manager**

1610.06

## Contents

<b>1</b>	<b>Opening.....</b>	<b>3</b>
1.1	Present.....	3
1.2	Apologies .....	3
1.3	Confirmation of Agenda .....	3
1.4	Conflict of Interest Declaration .....	3
<b>2</b>	<b>Confirmation of Minutes.....</b>	<b>4</b>
2.1	Audit, Risk and Finance Committee minutes of 12 June 2017 .....	4
<b>3</b>	<b>Papers .....</b>	<b>4</b>
3.1	Annual Report 2016/2017 for discussion .....	4
3.2	Treasury Management.....	4
3.3	Audit Action Update .....	5
3.4	Northland Transportation Alliance (NTA) End of Year Provisional Report (to 30 June 2017)..	5
3.5	Health and Safety Update August 2017 .....	5
3.6	Whistleblowing Policy : Adoption and Implementation .....	6
<b>4</b>	<b>Public Excluded Audit, Risk and Finance Committee minute items: 11 September 2017</b>	<b>7</b>
4.1	Risk Register.....	8
4.2	Contract Monitoring and Reporting: Infrastructure, Community and Regulatory.....	8
<b>5</b>	<b>Open minutes Audit, Risk and Finance Committee: 11 September 2017 .....</b>	<b>9</b>
<b>6</b>	<b>Closure.....</b>	<b>9</b>

Unconfirmed

**Ordinary Meeting of Audit, Risk and Finance Committee****Monday 11 September 2017****1 Opening****1.1 Present**

Councillor Del la Varis-Woodcock, Councillor Geange, Councillor Wethey and Mayor Gent  
(Ex-Officio)

**In Attendance**

<b>Name</b>	<b>Designation</b>	<b>Item(s)</b>
Peter Tynan	Chief Executive	All
Glennis Christie	General Manager Finance	All
Curt Martin	General Manager Infrastructure	All
Fran Mikulicic	General Manger Planning and Regulatory	All
Peter Marshall	General Manager Corporate Services	All
Venessa Anich	General Manager Community	All
Sean Mahoney	Democratic Services Manager	All (Minute-taker)

**Adjournments**

Nil.

**Absences**

Nil.

**1.2 Apologies**

**Moved**     **Gent/Wethey**

That the apologies of Councillor Larsen and Councillor Wade be received.

**Carried**

**1.3 Confirmation of Agenda**

The Committee confirmed the Agenda.

**1.4 Conflict of Interest Declaration**

Nil.

## 2 Confirmation of Minutes

### 2.1 Audit, Risk and Finance Committee minutes of 12 June 2017

Democratic Services Manager 1610.05/June 2017

**Moved Gent/Wethey**

*That the minutes of the Audit and Risk Committee meeting held 12 June 2017 be confirmed as a true and correct record.*

**Carried**

## 3 Papers

### 3.1 Annual Report 2016/2017 for discussion

Financial Services Manager 2304.15

**Moved Geange/Gent**

*That the Audit, Risk and Finance Committee:*

- 1 *Receives the Financial Services Manager's report 'Annual Report 2016/2017 for discussion' dated 01 September 2017; and*
- 2 *Believes it has complied with the decision-making provisions of the Local Government Act 2002 to the extent necessary in relation to this decision; and in accordance with the provisions of s79 of the Act determines that it does not require further information, further assessment of options or further analysis of the costs and benefits of different options prior to making a decision on this matter; and*
- 3 *Recommends to Council that it adopts, at its meeting on Tuesday 26 September 2017, the Annual Report 2016/2017 as amended (circulated separately), subject to final Audit Opinion for the year ending 30 June 2017; and*
- 4 *Notes that the Summary Annual Report 2016/2017 has also been completed and will be released to the public in due course; and*
- 5 *Receives the Deloitte Report to Council dated 07 September 2017.*

**Carried**

### 3.2 Treasury Management

Financial Services Manager 2304.15

**Moved Del La Varis-Woodcock/Geange**

*That the Audit, Risk and Finance Committee receives the Financial Services Manager's report 'Treasury Management' dated 04 September 2017.*

**Carried**

### 3.3 Audit Action Update

**General Manager Finance**            **2304.15**

**Moved**        **Wethey/Del La Varis-Woodcock**

*That the Audit, Risk and Finance Committee receives the General Manager Finance's report 'Audit Action Plan Update' dated 1 September 2017 and Attachments 1-4.*

**Carried**

### 3.4 Northland Transportation Alliance (NTA) End of Year Provisional Report (to 30 June 2017)

**Roading Manager**            **41/Quarterly Reports/Audit and Risk**

**Moved**        **Geange/Gent**

*That the Audit, Risk and Finance Committee receives the Rooding Manager's report 'Northland Transportation Alliance (NTA) End of Year Provisional Report (to 30 June 2017)' dated 31 August 2017 and the information contained therein.*

**Carried**

### 3.5 Health and Safety Update August 2017

**General Manager Corporate Services**            **2209.0**

**Moved**        **Gent/Wethey**

*That the Audit, Risk and Finance Committee:*

- 1     *Receives the General Manager Corporate Services' report 'Health and Safety Update August 2017' dated 29 August 2017; and*
- 2     *Believes it has complied with the decision-making provisions of the Local Government Act 2002 to the extent necessary in relation to this decision; and in accordance with s79 of the Act determines that it does not require further information prior to making a decision on this matter; and*
- 3     *Notes the update on health and safety performance; and*
- 4     *Notes the update on the development of Council health and safety systems.*

**Carried**



### 3.6 Whistleblowing Policy : Adoption and Implementation

Human Resources Manager 2206.3

**Moved Gent/Geange**

*That Audit, Finance and Risk Committee:*

- 1 *Receives the Human Resources Manager's report 'Whistleblowing Policy : Adoption and Implementation' dated 29 August 2017; and*
- 2 *Believes it has complied with the decision-making provisions of the Local Government Act 2002 to the extent necessary in relation to this decision; and in accordance with the provision of s79 of the Act determines that it does not require further information prior to making a decision on this matter; and*
- 3 *Recommends Council adopts the Whistleblowing Policy, subject to minor amendments as discussed for implementation.*

**Carried**

#### 4 Public Excluded Audit, Risk and Finance Committee minute items:

**11 September 2017**

The meeting went into Public Excluded at 11.00 am.

**Moved Gent/Geange**

*That the public be excluded from the following part of the proceedings of this meeting, (and that the Auditors be allowed to remain) namely*

- *Risk Register*
- *Contract Monitoring and Reporting: Infrastructure, Community and Regulatory*

*The general subject matter of each matter to be considered while the public is excluded, the reasons for passing this resolution in relation to each matter and the specific grounds under Section 48 (1) of the Local Government Official Information and Meetings Act, 1987 for the passing of this resolution are as follows:*

<b>General subject of each matter to be considered:</b>	<b>Reason for passing this resolution</b>	<b>Ground(s) under Section 48 (1) for the passing this resolution:</b>
<i>Risk Register</i>	<p><i>Section 7(2)(g) maintain legal professional privilege</i></p> <p><i>Section 7(2)(i) enable any authority holding the information to carry on, without prejudice or disadvantage negotiations (including commercial and industrial negotiations).</i></p>	<i>Section 48(1)(a) That the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist.</i>
<i>Contract Monitoring and Reporting: Infrastructure, Community and Regulatory</i>	<p><i>Section 7(2)(g) maintain legal professional privilege</i></p> <p><i>Section 7(2)(i) enable any authority holding the information to carry on, without prejudice or disadvantage negotiations (including commercial and industrial negotiations).</i></p>	<i>Section 48(1)(a) That the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist.</i>

**Carried**



**5 Open minutes Audit, Risk and Finance Committee: 11 September 2017**

The meeting went into Open session at 11.25 am.

**Moved**                    **Gent/Geange**

*That the public be re-admitted to the meeting and resolutions made whilst in Public Excluded, be confirmed in Open meeting.*

**Carried**

The Committee thanked and acknowledged the Chair Richard Booth who would step down from this role in November.

**6 Closure**

The meeting closed at 11.27 am.

**Confirmed**                    .....

**Chair**                            .....

**Kaipara District Council**  
**Dargaville**

Unconfirmed

**File number:** 2303.24 **Approved for agenda**   
**Report to:** Audit, Risk and Finance Committee  
**Meeting date:** 01 December 2017  
**Subject:** Forecast One 2017/2018  
**Date of report:** 15 November 2017  
**From:** Rick Groufsky, Financial Services Manager  
**Report purpose**  **Decision**  **Information**  
**Assessment of significance**  **Significant**  **Non-significant**

### Summary

The starting point for Forecast One 2017/2018 is the Annual Plan 2017/2018 which in turn sits within the Long Term Plan 2015/2025, our current Long Term Plan.

Council's current financial management policy stance is to progressively move towards a more prudent and sustainable long term financial management position, in particular to fund current operating costs out of current income, reduce debt, increase financial resilience and improve the way Council delivers services over time. Having a surplus overall and decreasing debt each year is a particular focus. Our financial ratios are well within the parameters set by the Local Government Funding Agency (LGFA). We planned to continue our debt reduction throughout the life of the current Long Term Plan and last year we were able to accelerate the debt repayment programme. This is forecast to continue for the 2017/2018 forecast year.

This first forecast for 2017/2018 incorporates the actual results of the Annual Report 2016/2017, a comprehensive review of all budgets and actual revenues and expenditure for the year to date as at 30 September 2017.

Key movements in planned operating performance are:

- Decreased operating revenues in total of \$0.4 million due to lower roading subsidies of \$1.2 million partially offset by the higher level of resource and building consents forecast at \$0.1 million, higher Kai Iwi camp ground fees \$0.1 million and higher other revenue and investment income \$0.6 million;
- Reduced operating costs in total of \$0.5 million due to lower roading contractors costs of \$1.5 million, and lower interest costs \$0.1 million. These reduced costs are partially offset by increases in professional services costs \$0.1 million, repairs and maintenance \$0.4 million, employee costs \$0.5 million and other \$0.1 million;
- Increased capital funding of \$7.1 million due to increased financial and development contributions \$1.3 million, sale of assets \$5.3 million and increased roading subsidies \$0.5 million; and
- Increased capital expenditure of \$2.3 million which is largely the works carried over at 30 June 2017. The Annual Plan budget was \$20.1 million. Within Forecast One there are increases for stormwater and wastewater offset by a reduction in roading. Total capital expenditure is forecast at \$22.4 million.

Debt in the Annual Plan was projected to reduce to \$58.3 million. The Forecast One operating surpluses, the historical GST refund, property sales and higher development contributions for the Mangawhai Community Wastewater Scheme (MCWWS) up to September 2017 will allow a further reduction of \$6.5 million. In addition, \$3.1 million from prior year surpluses is available to reduce debt. These items, if all utilised to reduce debt, will see the forecast year end debt balance being \$48.7 million at 30 June 2018.

This forecast will form the basis of the financials for the Long Term Plan 2018/2028.

### **Recommendation**

*That the Audit, Risk and Finance Committee:*

- 1 *Receives the report from the Financial Services Manager 'Forecast One 2017/2018' dated 15 November 2017; and*
- 2 *Believes it has complied with the decision-making provisions of the Local Government Act 2002 to the extent necessary in relation to this decision; and in accordance with the provisions of s79 of the Act determines that it does not require further information prior to making a decision on this matter; and*
- 3 *Recommends approval by Council of the forecast as set out in the forecast sections in the above-mentioned report and its attachments, and determines that no further action is required at this point in time; and*
- 4 *Notes the revised forecast shows decreased operating revenues of \$0.4 million, reduced operating costs of \$0.5 million, increased capital funding of \$7.1 million and revision of the capital expenditure projects list; and*
- 5 *Recommends approval by Council of the revised capital expenditure schedules listed in Attachment 4 (of the above-mentioned report); and*
- 6 *Recommends approval by Council the use of \$3.1 million of prior year surpluses and general reserves to reduce debt; and*
- 7 *Notes that forecast debt is currently projected in the order \$48.7 million which is a reduction from the Annual Plan of \$13.4 million compared with the planned \$3.8 million. The increased repayments are due to release of available general reserves, property sales and development contribution payments for the Mangawhai Community Wastewater Scheme (MCWWS).*

### **Reason for the recommendation**

It is prudent financial management for Council to monitor and update financial projections as new information comes to hand and to take remedial action as required.

### **Reason for the report**

This report outlines the results of Forecast One and requests Council to consider and approve the forecast.

### **Background**

The starting point for Forecast One 2017/2018 is the Annual Plan 2017/2018.

Council's current financial management policy stance is to progressively move towards a more prudent and sustainable long term financial management position, in particular to fund current operating costs out of current income, reduce debt, increase financial resilience and improve the way Council delivers services over time. Having a surplus overall and decreasing debt each year is a particular focus. Our financial ratios are well within the parameters set by the Local Government Funding Agency (LGFA). We planned to continue our debt reduction throughout the life of the current Long Term Plan and last year we were able to accelerate the debt repayment programme. This is expected to continue for the 2017/2018 forecast year.

### Forecast One results

The results of Forecast One are set out in the sections below. Forecast incorporates the actual results from the Annual Report 2016/2017 and will provide the starting point for the Long Term Plan 2018/2028 source documents. Council staff have a reasonable level of confidence in the data at this point but note there are some areas that need constant monitoring. Forecast One is based on actuals to the end of September 2017.

### Forecast Overview

The key variances are set out below.

	Variances \$000's	
<b>Operating Revenues Increases</b>		
Rates (all)	17	
User fees and charges	112	Kai Iwi Camp Fees
	92	Regulatory consents
Other revenue	401	District Leadership
Investments	128	District Leadership
All other	61	
Subtotal	<u>811</u>	
<b>Decreases</b>		
Subsidies	1,173	Roading
Total	<u>- 362</u>	
<b>Operating Costs Decreases</b>		
Contractor costs	1,654	Roading
Professional services	37	Waste water
	80	Stormwater
	70	Water Supply
Finance	88	
Subtotal	<u>1,929</u>	

**Increases**

Contractor costs	34	Water supply
	23	Regulatory
Professional services	157	District Leadership
	130	Regulatory
Repairs & maintenance	75	Wastewater
	175	Stormwater
	84	Water Supply
Employee benefits	415	District Leadership
	189	Regulatory
Other operating costs	136	
All other	31	
Subtotal	<u>1,449</u>	

Total net operating cost decreases 480

**Capital Funding Increases**

Subsidies	511	Roading
Development contributions	604	Mangawhai Wastewater
Financial contributions	656	Community Activities
	51	Roading
Sale of assets	<u>5,270</u>	District Leadership
Total	<u>7,092</u>	

**Capital Expenditure Increase**

	2,322	Carryover June 2017
	- 28	all other
	<u>2,294</u>	

**Explanation of changes:*****Increased / Reduced Operating Revenues***

Overall a net reduction of \$0.4 million.

Kai Iwi Lakes camp ground revenue has been increased by \$0.1 million in Forecast One to match similar levels achieved last year.

Regulatory increased revenue of \$0.1 million. This reflects the continuing high levels of activity.

The receipt of GST payments from an historical claim have increased both other revenue and investments. As mentioned in earlier monthly reports \$0.5 million was booked as being receivable and \$1.0 million actually received including \$0.1 million use of money interest and a gain in the current year of \$0.4 million.

Roading subsidies have reduced by \$1.2 million to reflect the planned maintenance works now forecast.

***Reduced / Increased Operating Costs***

Overall a net reduction in costs of \$0.5 million are forecast.

Contractor costs have reduced due to lower roading maintenance expenditure in the year \$1.7 million.

The reductions in Waters' professional services are a reclassification to repairs and maintenance as infrastructure inspections continue.

The cash holdings at year end have allowed for lower debt during the year. This in turn has reduced interest costs and there is a forecast saving of \$0.1 million for the year.

Professional services costs have increased by \$0.3 million mainly due to district leadership costs for IT, health and safety, legal costs, the upcoming election and administration. Higher costs within regulatory reflect the activity levels.

Repairs and maintenance costs have increased by \$0.3 million in the three waters. Part of the increase relates to a reclassification from professional services. The balance relates to remedial works undertaken in the winter due to weather conditions. The contract rates with the incumbent contractor are not allowing savings in this area.

Employee benefits have increased by \$0.6 million due to higher costs within regulatory due to additional staff required for the higher levels of activity. The increase in District Leadership reflects the recent changes in management personnel.

#### ***Increased Capital Funding***

Roading subsidies have increased by \$0.5 million due to higher capital expenditure and higher subsidy rates for lighting projects.

Both Development and Financial Contributions have increased, by \$0.6 million and \$0.7 million respectively. This is due to continuing high levels of development activity within the district.

Asset sales included in the forecast are the first forestry tranche \$4.7 million and Opanake Road \$0.6 million which will settle once the subdivision is completed.

#### ***Increased Capital Expenditure***

The overall capital budget for the year is forecast to increase by \$2.3 million to \$22.4 million.

The total is due to the carry over values at June 2017 and approved by Council. However, there have been some changes within the activities mainly in stormwater and roading. The increase in stormwater is due to works planned to alleviate the flooding in Quail Way. The roading reduction reflects removing the extra works in the annual plan, which were contingent on NZTA funding approval later in the year. Instead, the local funds for these projects have been allocated to the emergency slip works. A summary is set out below and a full list of projects attached for reference and review.

#### **Capex Summary - Forecast One 2017-2018**

\$'000's

	<b>Annual Plan</b>	<b>Carry overs</b> (Approved August)	<b>Subtotal</b>	<b>Changes Forecast One</b>	
Community Activities	1,836	46	1,882	(84)	1,798
District Leadership	396	263	659	42	701
Flood Protection	400	123	523	(8)	515
Regulatory			0	0	
Wastewater	1,134	541	1,675	146	1,821
Stormwater	410		410	519	929
Water Supply	1,175		1,175	(36)	1,139
Solid Waste	600		600	0	600
Roading	14,177	1,349	15,526	(607)	14,919
Whole of Council	20,128	2,322	22,450	(28)	22,422





### Forecast One: Cash Impact

We are forecasting external debt to be \$48.7 million at 30 June 2018, a reduction of \$13.4 million compared with the planned \$3.8 million. The \$48.7 million represents a transparent view of our commitments and where the external debt could be at 30 June 2018.

#### Forecast Debt

It is proposed to reduce external debt by the following amounts:

Actual balance 30 June 2017		\$62.1 million
Planned reduction for 2017/2018	\$3.8 million	
Release higher surplus current year	\$0.1 million	
Release balance of historical GST	\$0.5 million	
Release higher DC's received for MCWWS	\$0.6 million	
Release higher land sales	\$5.3 million	
Release of prior year general reserves	<u>\$3.1 million</u>	
Subtotal of reductions		<u>\$13.4 million</u>
Forecast one external debt balance 30 June 2018		\$48.7 million

#### Cash Position

Cash is collected by Council with an obligation for future works to be completed. Examples are financial and development contributions, future expenditure, depreciation funded for replacements and targeted rates surpluses. It is appropriate to hold this money to reflect the future requirement.

At 30 June 2017 the following balances were funded within the \$11.8 million held:

Financial contributions	\$1.7 million	
Depreciation reserve	\$1.8 million	
Future expenditure provision	\$0.7 million	
Targeted rates	<u>\$1.3 million</u>	
A total of		\$5.5 million

The money received for development contributions for MCWWS are not required to be held as the work was completed in advance of the funding being received.

Cash held at 31 October 2017 was \$4.1 million. At June 2018 we will assess the level of funding required for funded reserves and ensure sufficient cash is held. With good cost control and management of the capital programme we have not identified any impediments to that objective.

### Long Term Plan 2018/2028

The effect of the changes above will have a roll-on effect into the Long Term Plan 2018/2028. The immediate change will be to debt reducing to \$48.7 million to account for the repayment above.

The net external debt figure at 30 June 2018 will be in the order of \$48.7 million which will mean that our Treasury Management Policy (TMP) limit for maximum fixed borrowing will be breached unless Council resolves otherwise in terms of clause 6.1.3 of the TMP. This position will be reviewed when the Long Term Plan 2018/2028 is adopted.

The level of debt and reserves over the longer term will be reviewed as part of the Long Term Plan

2018/2028.

Note: Forecast One is based on information correct at the time of presentation and may change as further information becomes available.

## **Factors to consider**

### ***Community views***

Council's financial position and the need for improvement is an issue that the community has a clear interest in.

### ***Policy implications***

This forecast indicates that Council is progressing in accordance with the direction set in the Long Term Plan 2015/2025.

### ***Financial implications***

Financial implications are discussed in the above Forecast sections.

### ***Legal/delegations implications***

The Forecast is an operational practice that has not generated the requirement for a significant decision and as such is within the ambit of Council to approve.

## **Options**

The options available to Council:

### ***Option A: Accept Forecast One***

Under this option Council would accept the Forecast One model which would then give staff authority to proceed on that basis.

This is the recommended option, given that the Forecast represents the more accurate picture of Council's current position and provides more operational certainty going forward.

### ***Option B: Reject Forecast One***

Under this option Council would not approve the Forecast. This approach is not recommended as it is important to factor in new data, agree on amended courses of action and to monitor Council's financial position from the most up-to-date knowledgebase.

## **Assessment of significance**

Under Council's Significance and Engagement Policy, a decision in accordance with the recommendation is not considered to have a high degree of significance. The forecast process is a routine business practice issue.

Council staff are satisfied that the decision-making requirements of the Local Government Act 2002 have been met.

### **Recommended option**

**Option A**, Accept Forecast One is the recommended option.

### **Attachments**

- Attachment 1: Statement of Operating Performance and Capital Performance
- Attachment 2: Statement of Financial Position
- Attachment 3: Statement of Cash Flows
- Attachment 4: Capital Projects listing

**Kaipara District Council**  
Financial Reporting

For the period ended:	Year To Date				Whole Year Annual Plan	Whole Year Forecast	Variance
	30 September 2017	Actual \$'000	Budget \$'000	Variance \$'000 %	Budget \$'000	Forecast One \$'000	
<b>Statement of Operating and Capital Performance</b>							
<b>Whole of Council</b>							
<b>Operating Revenues</b>							
Rates (General)	5,339	5,323	16	0.3%	21,291	21,324	33
Rates (Targeted)	3,077	2,845	232	8.2%	11,380	11,363	-16
Rates (Penalties)	460	188	273	145.3%	750	750	0
User Fees and Charges	1,248	1,060	188	17.7%	4,460	4,668	208
Other Revenue	551	85	466	550.8%	339	805	466
Subsidies and Grants - Operational	1,171	1,474	-302	-20.5%	5,895	4,712	-1,183
Investments and Other Income	208	75	132	175.4%	302	433	131
<b>Total Operating Revenues</b>	<b>12,054</b>	<b>11,049</b>	<b>1,005</b>	<b>9.1%</b>	<b>44,416</b>	<b>44,054</b>	<b>-362</b>
<b>Operating Costs (excl. Depreciation)</b>							
Contractors	2,152	2,719	568	20.9%	10,835	9,260	1,574
Professional Services	964	1,120	156	13.9%	4,479	4,598	-119
Repairs and Maintenance	831	772	-59	-7.6%	3,088	3,504	-416
Other Operating Costs	1,336	1,407	71	5.0%	4,939	5,075	-136
Employee Benefits	2,472	2,365	-107	-4.5%	9,458	9,970	-511
Finance costs	734	792	58	7.3%	3,167	3,079	88
<b>Total Operating Costs (excl. Depreciation)</b>	<b>8,487</b>	<b>9,174</b>	<b>687</b>	<b>7.5%</b>	<b>35,965</b>	<b>35,485</b>	<b>480</b>
<b>Operating Surplus/(Deficit)</b> (before Depreciation)	<b>3,566</b>	<b>1,875</b>	<b>1,691</b>	<b>90.2%</b>	<b>8,450</b>	<b>8,569</b>	<b>119</b>
<b>Capital Funding</b>							
Subsidies and Grants - Capital	840	869	-29	-3.3%	8,287	8,798	511
Development Contributions	794	162	633	390.6%	648	1,252	604
Financial Contributions	852	135	717	531.2%	540	1,247	707
Rates (Capital)	0	0	0	0.0%	0	0	0
Sale of Assets	7	150	-143	-95.1%	150	5,420	5,270
<b>Total Capital Funding</b>	<b>2,494</b>	<b>1,316</b>	<b>1,178</b>	<b>89.5%</b>	<b>9,625</b>	<b>16,716</b>	<b>7,092</b>
<b>Total Capital Funding and Operating Surplus</b>	<b>6,061</b>	<b>3,191</b>	<b>2,870</b>	<b>89.9%</b>	<b>18,075</b>	<b>25,285</b>	<b>7,210</b>
<b>Capital Payments</b>							
Capital Expenditure	1,986	2,248	262	11.6%	20,128	23,372	-3,244
<b>Total Capital Payments</b>	<b>1,986</b>	<b>2,248</b>	<b>262</b>	<b>11.6%</b>	<b>20,128</b>	<b>23,372</b>	<b>-3,244</b>
<b>Funding Surplus/(Deficit) - prior to reserve allocations and before Depreciation, Provisions and Operating Funds</b>							
	<b>4,075</b>	<b>943</b>	<b>3,132</b>	<b>332%</b>	<b>-2,053</b>	<b>1,913</b>	<b>3,966</b>
<b>Non Cash Accounts</b>							
Depreciation	2,443	2,443	0	0.0%	9,771	9,732	
Provisions	0	23	23	100.0%	92	69	
Vested Assets	0	0	0	0.0%	0	0	
<b>Total Memo Accounts</b>	<b>2,443</b>	<b>2,466</b>	<b>-23</b>	<b>-0.9%</b>	<b>9,864</b>	<b>9,801</b>	

As at	2017-2018	2017-2018
30 September 2017	Annual Plan \$'000	Forecast One \$'000
<b>Statement of Financial Position</b>		
<b>Whole of Council</b>		
<b>Equity</b>		
Accumulated Funds	403,732	614,331
Asset Revaluation Reserve	212,860	0
Restricted Reserves	5,673	0
Council Created Reserves	-18,096	0
<b>Total Equity</b>	<b>604,169</b>	<b>614,331</b>
<i>represented by</i>		
<b>Current Assets</b>		
Cash and Cash Equivalents	583	4,310
Trade and Other Receivables	8,448	6,557
Accrued Revenue	1,875	1,875
Other Financial Assets	115	115
Non Current Assets Held for Sale	186	186
<b>Total Current Assets</b>	<b>11,207</b>	<b>13,043</b>
<i>less</i>		
<b>Current Liabilities</b>		
Trade and Other Payables	9,886	10,136
Provisions	139	139
Employee Entitlements	449	449
Public Debt	19,127	6,641
<b>Total Current Liabilities</b>	<b>29,601</b>	<b>17,365</b>
<b>Working Capital / (Deficit)</b>	<b>-18,394</b>	<b>-4,322</b>
<i>plus</i>		
<b>Non Current Assets</b>		
Property, Plant & Equipment	668,138	668,226
LGFA Borrower notes	688	643
Biological Assets	3,644	500
Derivative Financial Assets	0	0
Other Financial Assets	276	276
<b>Total Non Current Assets</b>	<b>672,746</b>	<b>669,645</b>
<i>less</i>		
<b>Non Current Liabilities</b>		
Public Debt	39,168	42,000
Provisions	4,567	4,796
Derivative Financial Liabilities	6,448	4,196
<b>Total Non Current Liabilities</b>	<b>50,182</b>	<b>50,992</b>
<b>Net Assets</b>	<b>604,169</b>	<b>614,331</b>
	0	0
Net Debt (Loans less bank)	57,712	44,331

For the year ended:	Annual Plan	Forecast One
30 September 2017	2017-2018	2017-2018
	\$'000	\$'000

## Cash Flow Statement

### Cash Flow from Operating Activities

#### Receipts:

Rates	33,421	33,437
Fees, charges and other	6,268	9,281
Grants and subsidies	14,182	13,510
Interest received	20	147
<i>sub total</i>	53,890	56,375

#### Payments:

Suppliers and employees	32,696	30,417
Taxes (including the net effect of GST)	0	0
Interest expense	3,167	3,079
<i>sub total</i>	35,863	33,496

<b>Net Cash Flow from/(to) Operating Activities</b>	<b>18,027</b>	<b>22,879</b>
---	---------------	---------------

### Cash Flow from Investing Activities

#### Receipts:

Sale of Property, plant and equipment	150	5,420
LGFA Borrower notes	0	45
<i>sub total</i>	150	5,465

#### Payments:

LGFA Borrower notes	0	0
Property, plant and equipment purchases	20,128	22,422
<i>sub total</i>	20,128	22,422

<b>Net Cash Flow from/(to) Investing Activities</b>	<b>-19,978</b>	<b>-16,957</b>
---	----------------	----------------

### Cash Flow from Financing Activities

#### Receipts:

Loans raised (Net)	0	0
--------------------	---	---

#### Payments:

Loans repayment (Net)	-3,832	-13,486
-----------------------	--------	---------

<b>Net Cash Flow from/(to) Financing Activities</b>	<b>-3,832</b>	<b>-13,486</b>
---	---------------	----------------

<b>Net Increase/(Decrease) in cash and cash equivalents</b>	<b>-5,783</b>	<b>-7,564</b>
---	---------------	---------------

Cash and cash equivalents at beginning of period	6,366	11,874
Cash and cash equivalents at end of period	583	4,310

**Kaipara District Council**  
**Forecast One 2017-2018**  
**Capital Projects Summary**

<b>Project Number</b>	<b>Project Description</b>	<b>Total</b>
10258	Roading resurfacing - various sites	2,106,000
10752	LED conversion of streetlights	1,080,270
10730	Pouto Road section	774,000
10548	Settlement Road Seal Extension 2017/18	654,090
10027	Baylys trunk main Stage 2: 365 Baylys to SH12 Renewal 3650m and SH12	618,000
B10015	Quail Way SW Improvments	550,000
	Waihue Road (1) RP9330-10170	458,100
10732	FR Waihue Road	448,000
10774	Mangawhai Road RP2000	443,419
	Minor Improvements Professional Services	418,335
10772	Mangawhai Road RP750	383,579
	Kaikohe Road Bridge No. 228_11415	360,135
10256	Various - Major Drainage	359,241
10769	Upgrade PS-VA	350,000
10765	Waihue Road (2) RP10596-10961	342,303
10773	Mangawhai Road RP1050	313,791
10626	Wastewater Treatment Pond Desludging.	300,000
	WINTLE ST RP739-774	292,500
10761	Tara Road flooding	270,000
10731	FR Avoca Road	262,204
10163	P3: Catchment O SW investigation,Catchment analysis Design and constr	250,000
10723	Awakino Consent	250,000
10625	Estuary Drive Pumping Station.	242,000
	Pouto Road Minor Sections HM	236,800
	P8: WW Renewal - other than Reline - 152 Victoria St, 192 Hokianga St, 7	235,000
	Resurfacing Professional Services	234,000
10686	Pukehuia Road RP 9650 Slip	224,886
	GORGE RD RP1149-1167	222,570
10722	Hakaru Leachate Improvements	220,000
	BULL RD RP7754-7759	210,600
10796	Bickerstaffe Rd Slip RP5570	207,028
10519	Park Improvements (furniture/carpark/lighting/paths)	204,814
10169	P5: AC 150mm Fire main upgrade - Beach Rd - 995m	201,355
10704	Mangawhai Heads to Alamar Crescent walkway	200,000
10684	Baldrock Road RP500-520 Slip	198,230
10734	Bickerstaffe Road	183,500
10151	Traffic Services	171,589
	Emergency Works Professional Services 61%	162,940
10513	Library redevelopment - digital growth	160,000
10709	Dargaville Placemaking - additional costs	150,500
10087	Kai Iwi facilities	150,215
10059	Effluent Discharge Options	150,000
	GORGE RD RP957-974	145,800
10543	MCWWS Resource Consent Variation 2016/17	141,001
10751	Bee Bush / Aropohue / Hoyle Intersection	137,005
10762	Tara Road f/p safety impvmt	135,050
	Bickerstaffe capping	130,000



10512	Replacement Murphy/Bowers stop bank	130,000
10729	Oparakau Road	130,000
10228	Road Safety Promotion (Roadsafe Northland)	128,805
	New Public Toilet (replacing Jaycee Park)	120,000
10173	P9a: WW Renewal - Relining - 31 Kauri, 163 Hokianga, 43 Plunket, 6 Earl	120,000
10754	Garbolino Slip	118,119
	WAIRERE RD RP4000-4020	115,650
	Emergency Works Professional Services 81%	114,180
10797	Avoca Rd Culverts HM 17-18	107,641
	GIRLS HIGH SCHOOL RD RP5551-5563	104,850
10540	Floodgate 54 - Replacement	102,000
	Notorious West Road HM	100,500
10523	Mangawhai Community Park - implement Master Plan	100,399
10309	Fleet Replacement	100,000
10771	Backwash Discharge WTP	100,000
10201	Pump stations Renewal - PS2, PS1 Rising main	98,000
10770	Backwash Discharge WTP	96,000
	Bickerstaffe Road Sight Benching HM 17-18	95,929
	Parore Mamaranui WS Booster pUmps	95,000
10800	Kaiwaka Mangawhai Rd RP11974	90,150
10758	Waihue Rd pavement widening	90,000
B10724	Addition Cap Growth - Council Contribution 2017/2018	89,700
	Rehabilitation Professional Services	88,900
	Roading Infrastructure -Unsub Professional Services	83,424
	Implement Reserve Management Plan	82,000
	Waihue Road Sight Benching HM 17-18	81,040
10791	Devich Rd Bridge No. 549_1709	80,129
10528	Floodgate Replacement 2017/18 - PYRF	80,000
B10779	Testing Various Sites	79,506
	Robertson Road Bridge No. 417_2602	78,369
	BULL RD RP5819-5847	77,400
	Houto Road Bridge No. 224_186	75,426
	Opanake Road Route Improvements - Sight Benching @ RP12460, RP613!	74,932
10541	Floodgate 53 - Replacement	74,000
10235	Settlement Road	72,000
10733	FR Waimata Road	69,149
10041	Contact Centre	67,000
	Judd Road HM	65,600
10271	Website Redesign	65,000
10649	Mangawhai Office Extension	62,947
10801	Victoria/Gladstone Intersection	60,745
10103	Library Book replacements	60,304
10319	Public Toilets renewals - Glinks Gully and Pahi	60,000
	MILLBROOK RD RP3000-3017	59,400
10760	Tara Road flooding Invest	58,663
10524	Cycleway/Walkway - develop and implement strategy	57,704
10728	Settlement Road bridge no 249	55,682
	ARCADIA RD RP2231-2273	54,900
10755	Mangawhai Town Impvmts	54,247
	BULL RD RP3788-3798	54,000
10763	Removal of Dangerous trees	54,000
10223	Replaced equipment	52,068

10706	Implement Reserve Management Plan	52,000
	Bickerstaffe Road New Culverts HM 17-18	50,713
10326	Building Renewal and Earthquake stabilisation	50,000
	Electronic Document and Records Management 2017/2018	50,000
	Taharoa Domain RMP	48,482
10717	Magawhai server room and recabling	47,881
	Waihue Road Retaining Wall - New Construction HM 17-18	47,247
10172	P8: WW Renewal - other than Reline	46,000
10707	New tractor	45,480
10237	Settlement Road - Seal Extension	45,252
	Avoca North Road HM	45,058
10740	Paparoa-Oakleigh Rd Corner Easing #1 RP6770	45,008
10741	Paparoa-Oakleigh Rd Corner Easing #2 RP3500	45,008
10742	Paparoa-Oakleigh Rd Corner Easing #3 RP4000	45,003
10750	Opanaki Rd Slip (2) RP 4434-4460	45,000
10715	Telephony Upgrade	44,247
	Bridges and Structures Professional Services	43,627
10792	Golden Stairs Rd Bridge No. 367_9435	41,215
10038	Civic buildings renewals	40,000
10181	Pond curtain	40,000
10403	Tinopai Playground	40,000
10511	Stop bank improvements	40,000
10705	Public Toilets - Lake Waikare	40,000
B10776	Mangawhai Wastewater Reticulation Extensions- Moir Point Rd, Moir St	40,000
10510	Floodgate Replacements	39,000
	HILL RD RP2675-2695	37,350
	Moir Point Road Flooding remediation	33,871
	BOB TAYLOR RD RP616-624	33,750
10036	Cames Road route treatment	32,400
10775	Cyclone Damage Investigations	31,790
10522	Community Infrastructure - Mangawhai	30,080
	Hore Hore Floodgate Upgrade	30,000
10202	Pumpstation Storage	30,000
10520	Community Infrastructure - District	30,000
10521	Community Infrastructure - Dargaville	30,000
10648	Telephony Upgrade	27,353
10790	Cassidy Rd Bridge No. 353_304	25,049
10179	Playgrounds New	25,000
	New Equipment 2017/2018	21,636
10180	Playgrounds renewals	21,312
10795	Pukehuia Rd Slip RP15430	20,515
10799	Avoca Rd Sight Benching HM 17-18	20,047
10042	Contract Management / Project Accounting	20,000
10217	Renewals	20,000
10225	Reticulation renewal	20,000
10529	Floodgate Replacement 2017/18 - Rates funded	20,000
	Dunn Road Guardrail Adjustments and curve advisory signs	19,809
10203	Purchasing	19,000
10615	New Equipment 2016-17	18,602
10708	Harding Park RMP	17,956
10798	Avoca Rd Retaining Walls HM 17-18	17,856
10314	Replaced equipment	17,174

	P3: Conc Pipe (no joint) Renewal - Haimona St	17,153
	P5: AC 300mm Renewal - Beach Rd - 406m	16,645
	Waihue Road Bridge No. 269_1367	15,452
10794	King Rd Bridge No. 565_318	15,247
	Pukehuia Road RP9650 Slip	15,126
10713	NTA Development	15,000
	GIRLS HIGH SCHOOL RD RP8409-8417	14,850
10525	Playgrounds New - Kaiwaka	14,829
10637	Planning and Design - Library Re-development	14,000
	Waihue Road New Culverts HM 17-18	13,111
	Mangawhai server room and recabling	12,119
10613	Electronic Document and Records Management (EDRM) 2016/17	11,987
10052	Dargaville Offices equipment renewal	11,972
10060	Elderly Housing Renewals	11,000
	Oparakau Road Sight Benching HM 17-18	10,867
10168	P5: AC 150mm Renewal-Cobham,Haimona	10,316
10045	Cove Road E&W Barrier kerb - West	9,900
10046	Cove Road E&W Guardrail - East	9,900
10047	Cove Road E&W signs and delineation - West	9,900
10008	AC 200mm Renewal - Raw water main - 2nd 400m of 8Km	9,504
10685	Pukehuia Road RP7690 Slip	9,085
10030	Black Swamp Seal Extension	8,006
10562	Wairere/Causer/Paparoa Stn Road Inters/Bridge Appr 2016/17	7,740
10793	Hoyle Rd Bridge No. 132_9149	6,071
	Doctors Hill Road Scour/drainage remediation	5,986
	Bickerstaffe Road Retaining Wall - New Construction HM 17-18	5,695
10636	Electronic Document and Records Management 2017/18	5,449
10718	GIS Shared Service	3,870
	Paparoa Pram Crossings	3,623
10635	Mangawhai Community Park.	3,191
10557	Waihue Road 2016/17 (17/18)	3,048
B10777	Environmental compliance	2,500
B10778	Environmental compliance	2,500
B10784	Take consent compliance	2,500
10283	Compliance Drinking water standard	2,379
10719	New Equipment 2017/18	2,360
10603	Heavy metalling - Various roads	1,980
10160	P2 - 1: Conc Pipe (no joint) Renewal from CCTV -	1,893
10575	Opanaki Road - full length	1,719
10641	Blend Sites - Unsealed	1,687
B10785	NZDWS compliance	1,500
B10786	Water take consent compliance	1,500
B10787	Water take consent compliance	1,500
B10788	NZDWS compliance	1,500
B10789	Water take consent compliance	1,500
10591	Potential future sites (Storm damage)	1,438
10517	Pou Tu Te Rangi Harding Park	1,223
	Lusk Road HM	1,122
	Oparakau Road New Culverts HM 17-18	958
10570	Tinopai Road 2016/17	950
10257	Various Roads	773
	Mititai Road HM	674

10248	Tinopai Road		560
10573	Dunn Road 2017/18		560
10687	Pukehuia Road RP14000 Slip		531
10242	Tara Road Flooding Investigation		500
10594	Tinopai Road 2016/17		495
10764	Waihue Road (1) RP9330-10170		410
10561	Robertson Road 2016/17		390
10690	Bee Bush/Arapohue/Hoyle Intersection		300
10672	Gorge Road Footpath		270
10567	272 Tangowahine Valley road bridge no. 03 2016/17		200
10695	Kaikohe Bridge no.89		195
10749	Opanaki Rd Slip (2) RP 8511		179
10566	Possible sites yet unidentified (Bridges) 2016/17		150
10688	Paparoa-Oakleigh Corner Easing (RP6770,3500,4000,5800)		130
	Compliance Drinking water standards (renewal)		121
10631	Murray Road Realignment 16/17		105
10689	Tara Road 17/18 Designs		100
10558	Mangawhai Road 2016/17		90
10590	Tangowahine Valley Road		90
10564	276 Tangowahine Valley road bridge no. 07 - 2016/17		70
10743	Paparoa-Oakleigh Rd Corner Easing #4 RP5800		65
10587	Whitcombe Road/Whenuanui Reserve Road		54
10683	Arapohue Road Slip (RP3520-3565)	-	42
10313	Replaced equipment	-	208
10572	Dunn Road 2016/17	-	974
10651	Dargaville Placemaking - additional costs	-	1,108
10518	Taharoa Domain - implement Reserve Management Plan	-	1,697
10252	Treatment Plant, Pump Stations Electrical renewal	-	4,540
10166	P4:AC 100mm Rnwl-Lorne, Montgomery Av, Parore, Pirika St-1700m	-	9,524
10043	Core Financial and Council Services system improvements	-	15,000
10693	Swamp Road Bridge	-	16,345
	Total		22,422,001

**File number:** 2304.15  
**Report to:** Audit, Risk and Finance Committee  
**Meeting date:** **01 December 2017**  
**Subject:** **Treasury Management**  
**Date of report:** 15 November 2017  
**From:** Violeta Kayryakova, Assistant Accountant

**Approved for agenda**

**Report purpose**  **Decision**  **Information**  
**Assessment of significance**  **Significant**  **Non-significant**

### Summary

Council undertakes treasury management activities in accordance with its Treasury Management Policy and Treasury Operations schedule and with the active assistance of its Treasury advisors, PwC. In addition to the Treasury reporting that is part of the Chief Executive's monthly report, it is intended to provide the Audit, Risk and Finance Committee (the Committee) with more detailed operational Treasury reporting at each meeting.

Tools and techniques that are used to manage debt are:

- Cash flow forecasting, undertaken in-house (using an excel spreadsheet);
- Treasury worksheet, managed jointly by Council staff and PwC (using an excel tool provided by PwC) to monitor Council's debt management position at a given point; and
- Active advice and information from Council's Treasury advisors, PwC.

Council's interest rate position is 81% of the portfolio fixed. There are no out of policy positions to report.

Council acceded to the Local Government Funding Agency (LGFA) on 24 March 2016. Since that time Council has progressively refinanced and repaid debt. At 31 October 2017 a total of \$43 million was drawn plus short term borrowing of \$9 million.

### Recommendation

*That the Audit, Risk and Finance Committee receives the Assistant Accountant's report 'Treasury Management' dated 15 November 2017 and the information contained therein.*

### Reason for the recommendation

It is appropriate that the Audit, Risk and Finance Committee is informed and receives information relating to Treasury management activities and can monitor positions and strategy.

### Reason for the report

To provide the Audit, Risk and Finance Committee (the Committee) detailed Treasury operations and management information and to provide an opportunity to discuss ongoing strategy.

### Background

Council's first industry standard Treasury management policies were adopted in December 2011. Council reviewed and adopted the updated Treasury Management Policy on 03 August 2016.

Council's first appointed specialist Treasury advisors, APRM (now PwC) in 2011 and this service continues.

Routine Treasury reporting is part of the Chief Executive's monthly report. It is intended to provide the Committee with more detailed operational Treasury reporting at each meeting.

### **Treasury operations and management**

Treasury operations and management are undertaken jointly by in-house staff and with Council's advisors, PwC.

Tools and techniques that are used to manage debt are:

- Cash flow forecasting, undertaken in-house (using an excel spreadsheet). This projects the timing of actual cash movements over the course of the year;
- Treasury worksheet, managed jointly by Council staff and PwC (using an excel tool provided by PwC) to monitor Council's debt management position at a given point. This tool records all loans and swaps that have been entered into and monitors the position against policy limits. It is used to project future position as well as current and is used as a vehicle to scenario model. The tool generates a one page Council report which indicates whether or not we are within Policy and parameters (**Attachment 1**), one page summaries of Council's funding and liquidity risk position (**Attachment 2**) and Council's interest rate risk position (**Attachment 3**).
- Active advice and information from PwC in the form of a monthly telephone conference to discuss the current position in relation to the market and strategies going forward, ad hoc meetings or telephone conversations as required, general market bulletins and other material that is more specific to Kaipara District Council as required. General bulletins from PwC are supplemented by market material from banks. **Attachment 4** is an example of a general bulletin.

In addition excel tools have been provided to calculate the cost of funds for budgeting and forecasting purposes (undertaken jointly). A benchmark tool is also being developed and populated.

### **Treasury policy positions**

There are no out of policy positions to report.

### **Treasury strategy**

Council's long time strategy has been to join the Local Government Funding Agency (LGFA) in order to access funding and pricing enjoyed by its peers. On 24 March 2016, Council acceded to LGFA. Council has progressively refinanced a total of \$43 million debt: \$20 million on 11 March 2016, \$15 million on 16 May 2016 and further \$8 million on 29 August 2016. The balance is funded on a short term basis as necessary.

### **Factors to consider**

#### ***Community views***

The community would expect industry standard Treasury management practices.

#### ***Policy implications***

This report is in line with Policy.

**Financial implications**

There are no financial implications as a result of this report.

**Legal/delegations implications**

This report is for information and does not trigger legal or delegation implications.

**Options**

The options available to the Committee:

**Option A:** Accept the report. Under this option the Committee would receive the information.

**Option B:** Ask for additional information or further clarification. Under this option the Committee could ask for additional information or further clarification.

**Assessment of options**

These options are not necessarily mutually exclusive, however Option A is more immediate.

**Assessment of significance**

Receiving Treasury information is a routine business practice issue and is not significant in terms of Council's Significance and Engagement Policy.

**Recommended option**

Option A, receive the report.

**Attachments**

- **Attachment 1:** Council's Policy Position report at 31 October 2017
- **Attachment 2:** Funding and liquidity risk position at 31 October 2017
- **Attachment 3:** Interest rate risk position at 31 October 2017
- **Attachment 4:** Strategy and Tactics New Zealand Interest Rates at 31 October 2017

<b>Kaipara District Council Interest Rate Position</b>			
<b>12 Month Forecast Core Debt:</b>	<b>57.7</b>	<b>31-Oct-17</b>	
Policy Limits	60% - 90%		
Overall Fixed:Floating Mix	<b>81.44%</b>		
Policy Compliance	Y		
<b>Fixed Rate Maturity Profile:</b>			
Years	<b>1 - 3 years</b>	<b>3 - 5 years</b>	<b>5 years plus</b>
Policy Limits	15% - 60%	15% - 60%	0% - 60%
Actual Hedging	<b>30%</b>	<b>21%</b>	<b>49%</b>
Policy Compliance	Y	Y	Y
<b>Liquidity Ratio:</b>			
	110%		
Actual	<b>140.93%</b>		
Policy Compliance	Y		
<b>Funding Maturity Profile:</b>			
Years	<b>0 - 3 years</b>	<b>3 - 5 years</b>	<b>5 years plus</b>
Policy Limits	15% - 60%	15% - 60%	10% - 40%
Actual Hedging	<b>48%</b>	<b>34%</b>	<b>18%</b>
Policy Compliance	Y	Y	Y
<b>Weighted Average Duration:</b>			
Funding		<b>2.51 Years</b>	
Fixed Rate Portfolio (swaps and fixed rate loans)		<b>4.08 Years</b>	
<b>Weighted average margin</b>		<b>0.51%</b>	
<b>Weighted average Commitment/Line Fee</b>		<b>0.11%</b>	
<b>Weighted average fixed rate (swaps &amp; term loans/bonds)</b>		<b>4.39%</b>	
<b>All up cost of borrowing (On Drawn Debt)</b>		<b>5.27%</b>	
<b>Counterparty Credit Risk (Interest Rate Risk Mgmt Instruments and investments)</b>			
Policy Credit Limit (NZ\$) per NZ Registered Bank (Interest rate risk management)		\$	20,000,000
Policy Credit Limit (NZ\$) per NZ Registered Bank (Investments)		\$	15,000,000
Policy Credit Limit (NZ\$) per NZ Registered Bank (Total maximum per counterparty)		\$	30,000,000
	<b>Credit Exposure (Swaps) (\$m)</b>	<b>Credit Exposure (Investments) (\$m)</b>	<b>Compliance</b>
WPC	0.00	0.00	Y
ANZ	1.74	0.00	Y
ASB	0.00	0.00	Y
BNZ	5.44	0.00	Y
Kiwibank	0.00	0.00	Y
CBA	0.00	0.00	Y



31-Oct-17

## Kaipara District Council Funding & Liquidity Risk Position

Committed Loan/Stock/Facilities/Investments \$72.3m

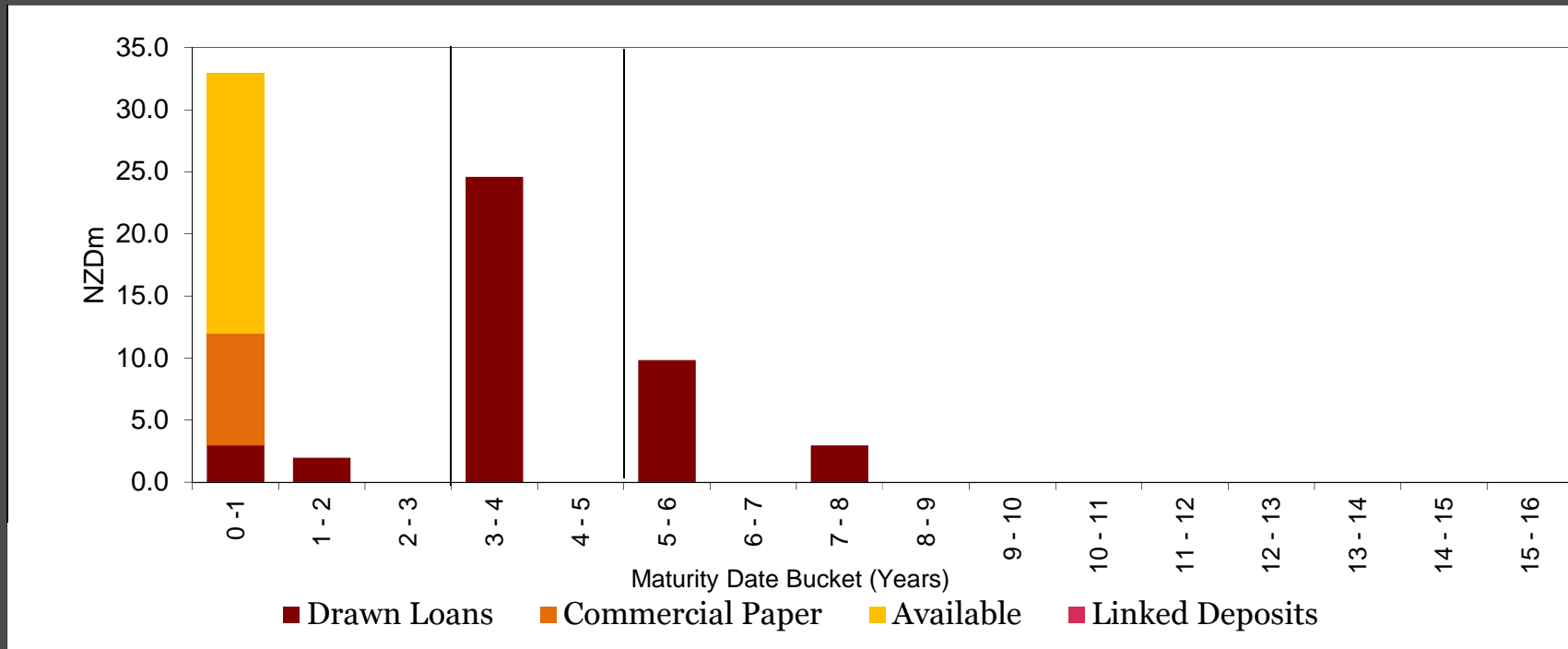
Current External Debt \$51.3m

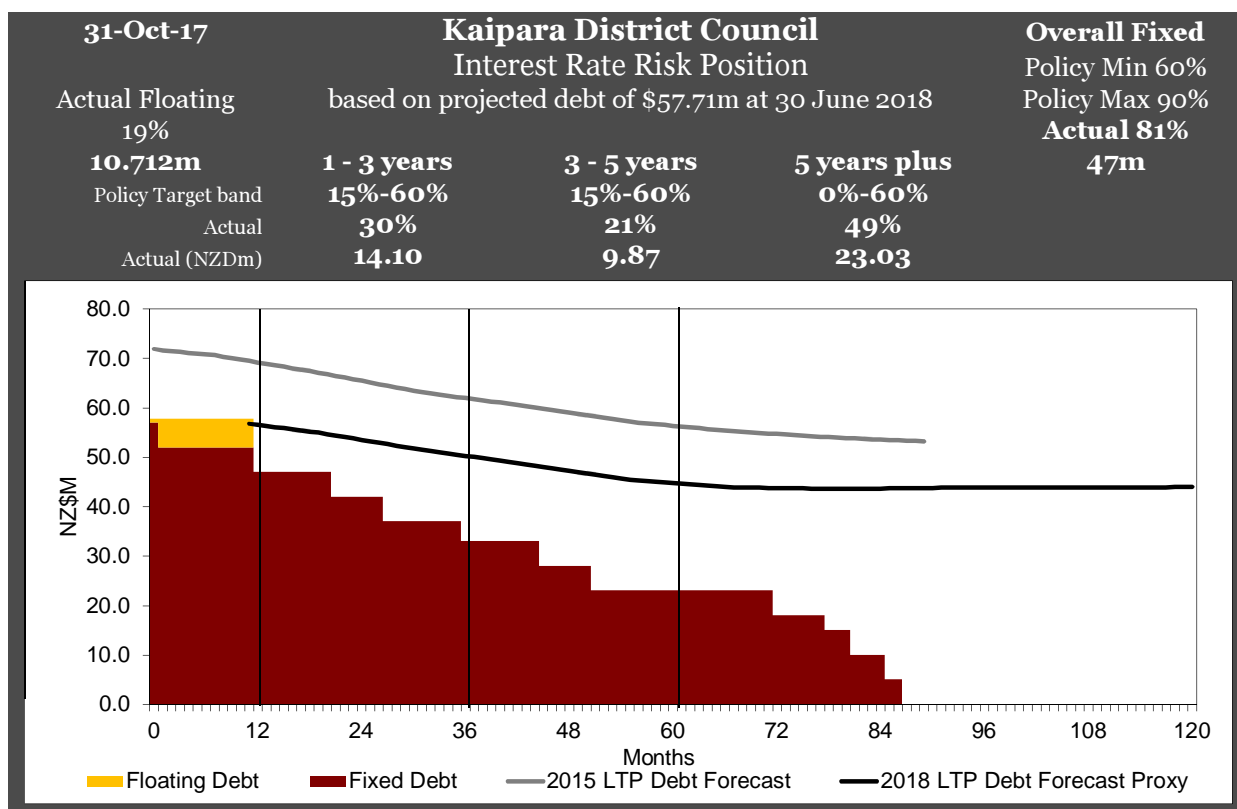
Current Net Debt \$51.3m

Policy Liquidity Ratio  $\geq 110\%$

Actual Liquidity Ratio 141%

	<b>0 - 3 years</b>	<b>3 - 5 years</b>	<b>5 years plus</b>
Policy Target Band	<b>15%-60%</b>	<b>15%-60%</b>	<b>10%-40%</b>
Actual	<b>48%</b>	<b>34%</b>	<b>18%</b>
Actual (NZDm)	<b>34.92</b>	<b>24.60</b>	<b>12.79</b>





### Interest Rate Risk Management

Interest rate risk management is about protecting against future interest rate rises and giving a measure of certainty about interest rate costs. The level of interest rate protection is looked at in the context of overall debt forecasts and is measured against the projected debt position at 30 June (2018 at this point). The grey line in the graph above shows the projected debt for the remaining years of the 2015-2025 Long Term Plan. The black line is an interim proxy for the 2018-2028 Long Term Plan base. The graph shows that interest rate protection is at 90% for August 2018 (based on the 2017-2018 Annual Plan) and diminishes over time.

### Interest Rate Risk Position

The interest rate risk position visually represents the Council's interest rate position within approved interest rate control limits as set out in the treasury policy document. The chart takes a snapshot of the risk position as at the reporting date.

The brown part of the graph shows the amount of debt which is fixed - (this includes fixed rate bonds together with payer swaps) meaning debt which gets repriced in one years time or later. The top of the red area represents the forecast debt in a year's time. The yellow area therefore illustrates the amount of debt deemed floating rate and will include any forecast debt that has not been pre-hedged. Any existing loans or financial instruments which will be repriced within the next 12 months are included in the red area.

The key areas of focus are;

#### Fixed Rate Percentage Limit: (wholesale interest rate certainty)

The fixed rate percentage calculation is the total amount of fixed rate debt/interest rate hedges over the 12 month forecast net debt

#### Fixed Rate Maturity Limits: (spreading of wholesale interest rate maturity risks)

Fixed rate repricing maturity dates are spread based on defined maturity band limits, 1 - 3 years, 3 - 5 years and 5 - 10 years. Minimum and maximum percentage limits within each time band ensure a spread of maturities and reduces the risk of maturity concentrations.

# Monthly markets & hedging report

## New Zealand interest rates

*Kaipara District Council*



The report is an end of month report for October 2017. It is a historical summary report for that month and reconfirms our recommendations given over that month. It does not provide new recommendations.

**31 October 2017**

**Borrower hedging recommendations**

**NZ short-term interest rate summary and outlook**

**NZ long-term interest rate summary and outlook**

### **Rate table**

	90d	2yr	5yr	10yr
30 October 2017	1.96	2.21	2.75	3.27
1 month ago	1.96	2.21	2.75	3.27
1 year ago	2.14	2.13	2.41	2.82

### **NZ general borrower hedging recommendations**

- **Fixed-Floating Master Limit;** Mid points of fixed rate policy.
- **1 to 3 years sub-limit;** Balance in 1-3 year maturity sublimits using purchased borrower caps, collar options and purchased borrower swaptions.
- **3 to 5 years sub-limit;** Midpoints of policy in 3-5 year maturity sublimits using purchased borrower caps, collar options and purchased borrower swaptions.
- **5 to 10 years sub-limit;** Maintain midpoints of policy in 5-10 year maturity sub-limits. Target a wholesale strike rate of 3.75% and below (current 5y5y at 3.72%) to maintain hedging at midpoints of policy. Use forward starting borrower swaps on the back of existing swaps maturing past five years to extend existing term, rather than increase overall fixed rate hedging percentages. Any increase in hedging levels above this should be done with "ear-marked" purchased borrower swaptions.

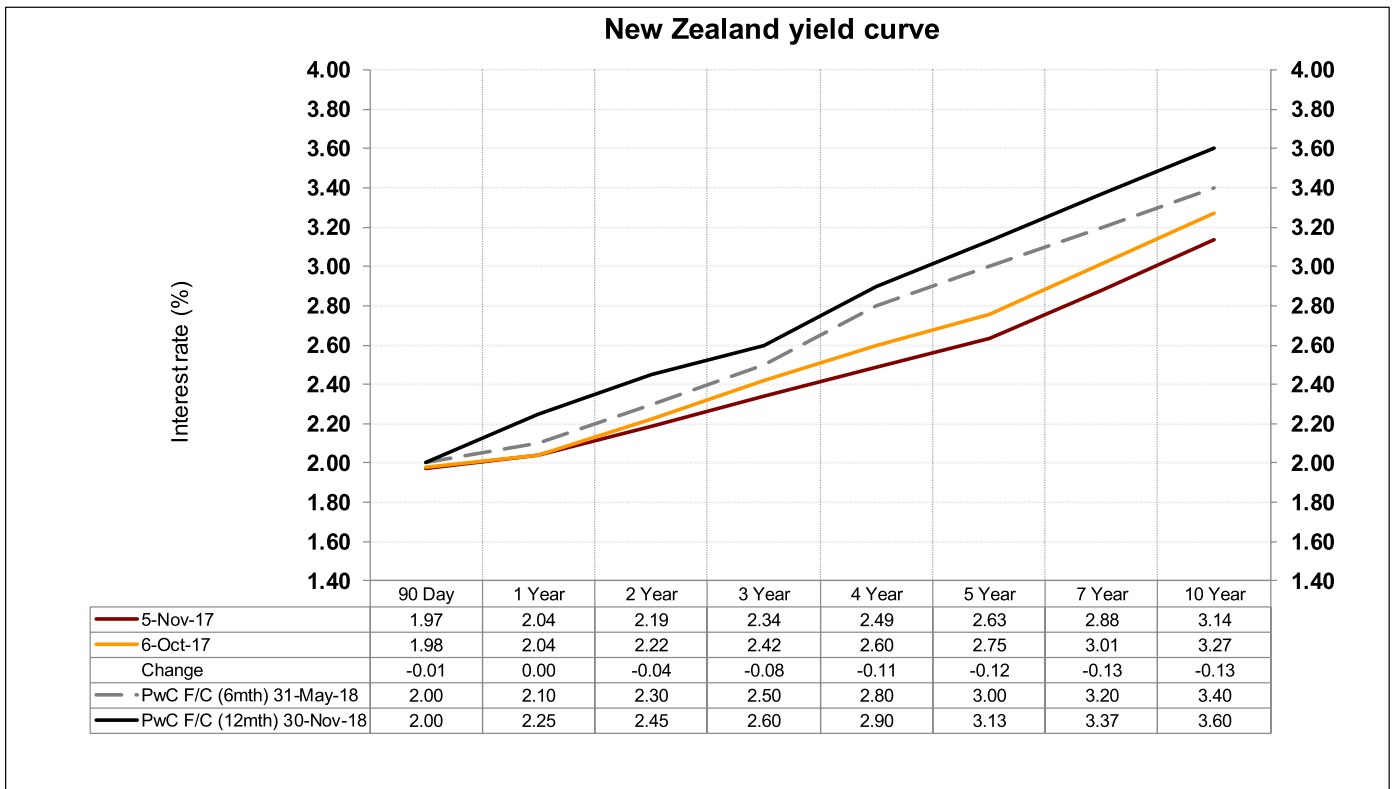
## ***NZ specific borrower hedging recommendations for Kaipara District Council***

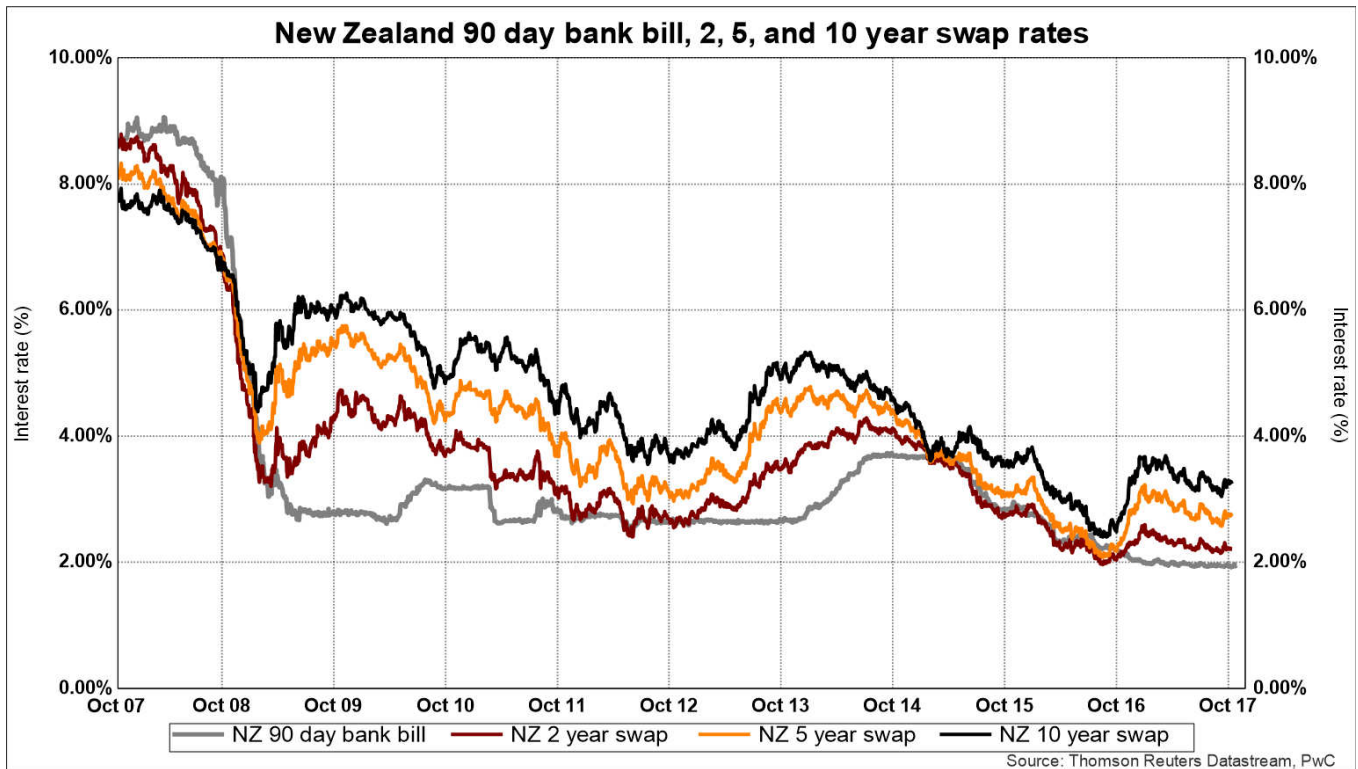
- 17/10: No change to current funding or interest rate positions recommended until LTP debt projections are finalised. Monitor banking facilities for maturity extensions in near term.

## NZ interest rate summary

Please find the links to the NZ Interest Rate reports over the month below:

- [24-October-NZ-Interest-Rate-report-by-PwC-Treasury-Advisory.pdf](#)
- [16-October-NZ-Interest-Rate-report-by-PwC-Treasury-Advisory-1.pdf](#)
- [9-October-NZ-Interest-Rate-report-by-PwC-Treasury-Advisory.pdf](#)
- [2-October-NZ-Interest-Rate-report-by-PwC-Treasury-Advisory.pdf](#)





**Likely trading range next month**

NZ 90 day bank bills	1.90 per cent. – 2.05 per cent.	Bias: ↓
NZ 3 year swap rate	2.25 per cent. – 2.60 per cent.	Bias: →
NZ 10 year swap rate	3.00 per cent. – 3.40 per cent.	Bias: →
US 10 year government bonds	2.15 per cent. – 2.35 per cent.	Bias: →

**Likely trading range next six months**

NZ 90 day bank bills	1.90 per cent. – 2.40 per cent.	Bias: ↓
NZ 3 year swap rate	2.20 per cent. – 2.75 per cent.	Bias: → / ↑
NZ 10 year swap rate	2.80 per cent. – 3.60 per cent.	Bias: → / ↑
US 10 year government bonds	2.10 per cent. – 2.50 per cent.	Bias: → / ↑

---

## Get in touch



**Stuart Henderson**  
**Partner**

T: +64 9 425 0158  
M: +64 21 343 423  
E: [stuart.r.henderson@nz.pwc.com](mailto:stuart.r.henderson@nz.pwc.com)



**Roger Kerr**

T: +64 9 355 8181  
M: +64 21 935 288  
E: [roger.j.kerr@nz.pwc.com](mailto:roger.j.kerr@nz.pwc.com)



**Brett Johanson**  
**Partner**

T: +64 4 462 7234  
M: +64 21 771 574  
E: [brett.a.johanson@nz.pwc.com](mailto:brett.a.johanson@nz.pwc.com)



**Chris Hedley**  
**Director**

T: +64 9 355 8183  
M: +64 21 479 680  
E: [chris.m.hedley@nz.pwc.com](mailto:chris.m.hedley@nz.pwc.com)



**James McHardy**  
**Director**

T: +64 9 355 8342  
M: +64 21 263 4282  
E: [james.c.mchardy@nz.pwc.com](mailto:james.c.mchardy@nz.pwc.com)



**Jason Bligh**  
**Associate Director**

T: +64 4 462 7265  
M: +64 21 386 863  
E: [jason.p.bligh@nz.pwc.com](mailto:jason.p.bligh@nz.pwc.com)



**Alex Wondergem**  
**Associate Director**

T: +64 9 355 8252  
M: +64 21 041 2127  
E: [alex.j.wondergem@nz.pwc.com](mailto:alex.j.wondergem@nz.pwc.com)



**James Butler**  
**Treasury Analyst**

T: +64 9 355 8265  
E: [james.p.butler@nz.pwc.com](mailto:james.p.butler@nz.pwc.com)



**Ollie McDowell**  
**Treasury Analyst**

T: +64 4 462 7316  
E: [ollie.a.mcdowell@nz.pwc.com](mailto:ollie.a.mcdowell@nz.pwc.com)



**Tom North**  
**Treasury Analyst**

T: +64 9 355 8497  
E: [tom.o.north@nz.pwc.com](mailto:tom.o.north@nz.pwc.com)



**Rajeev Verma**  
**Treasury Analyst**

T: +64 9 355 8468  
E: [Rajeev.c.verma@nz.pwc.com](mailto:Rajeev.c.verma@nz.pwc.com)

---

***[pwc.co.nz/corporate-treasury-advisory-services/](http://pwc.co.nz/corporate-treasury-advisory-services/)***

DISCLAIMER: This report is for PwC retained treasury clients and is subject to the individual agreed engagement letter and the following restrictions. This report should not be reproduced or supplied to any other party without first obtaining our (PwC New Zealand) written consent. We accept no responsibility for any reliance that may be placed on our report should it be used for any purpose other than that set out below and in any event we will accept no liability to any party other than you in respect of its contents. The purpose of the report is to summarise our financial market views and document generic and tailored hedging recommendations. The statements and opinions contained in this report are based on data obtained from the financial markets and are so contained in good faith and in the belief that such statements, opinions, recommendations and data are not false or misleading. In preparing this report, we have relied upon information which we believe to be reliable and accurate. We reserve the right (but will be under no obligation) to review our assessment and if we consider it necessary, to revise our opinion in the light of any information existing at the date of this report which becomes known to us after that date. This report must be read in its entirety. Individual sections of this report could be misleading if considered in isolation from each other.

**File number:** 2304.15 **Approved for agenda**   
**Report to:** Audit, Risk and Finance Committee  
**Meeting date:** **01 December 2017**  
**Subject:** **Audit Action Update**  
**Date of report:** 23 November 2017  
**From:** Rick Groufsky, Financial Services Manager  
**Report purpose**  **Decision**  **Information**  
**Assessment of significance**  **Significant**  **Non-significant**

### Summary

Under the Local Government Act 2002 (LGA 2002) Council is required to have its Annual Report and Long Term Plans (including Long Term Plan Amendments) audited.

Following completion of the audits, Council's auditors, Deloitte, produce a report to Council detailing findings from each review and highlighting areas for improvement.

In addition, where internal audits are undertaken the findings are reported with areas for improvement highlighted.

These improvements are incorporated into schedules and reviewed by management regularly to ensure actions are being undertaken to resolve the issues. A summary of outstanding items is presented to each Audit, Risk and Finance Committee (the Committee) meeting with an explanation of the more critical issues and a summary of progress where applicable.

### Recommendation

*That the Audit, Risk and Finance Committee receives the Financial Services Manager's 'Audit Action Update' dated 23 November 2017, and the information contained therein.*

### Reason for the recommendation

It is appropriate that the Audit, Risk and Finance Committee monitors progress in addressing actions identified by Council's auditors and receives communications in relation to the audits conducted.

### Reason for the report

To enable the Committee to review the outstanding External Audit Management Letter action items, Key Risk Treatment Plan and Internal Audit action items and review communications received relating to the audits.

### Background

#### External audit

Under the Local Government Act 2002 (LGA 2002) Council is required to have its Annual Report audited. This work was completed by Deloitte for the 2012/2013 to 2016/2017 years on behalf of the Auditor-General.



In addition to their formal audit opinion, which is included in the Annual Report, the auditors also produce a 'Report to the Council' and a 'Constructive Report to Management'.

External auditors summarise the overall findings from their audits, note the range of issues that Council faces or should consider (such as improvements that could be made to Council processes) and makes recommendations for action by Council.

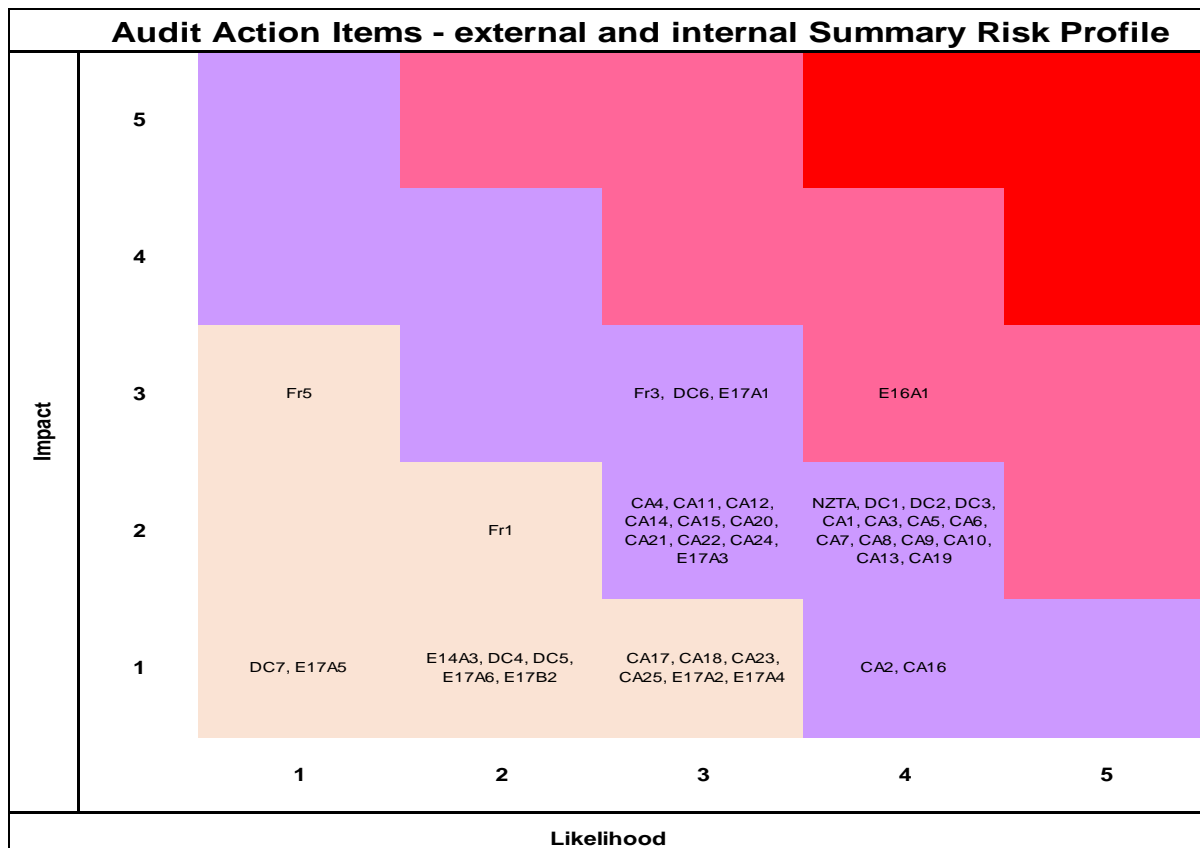
**Internal audit**

In addition to the external audit, further work is undertaken to review systems and practises within Council. This work is not required under legislation however it is considered good practice to carry out independent reviews of Council's activities. In a similar manner to the external audit, the internal auditor produces a report with their findings and a list of recommendations for Council to implement with a view to improving their operation. Again audit action schedules are prepared which list the recommendations from the internal auditors, identifies the issues where it is considered that further follow-up action is warranted and notes progress against the recommendations until the action is complete.

**Audit Summary Risk Profile**

An Action Schedule has been created in order to track and action the outstanding issues identified by Deloitte and internal audits. The audit action schedules list the recommendations from the respective auditors, identify the issues where it is considered further follow-up action is warranted and notes progress against the recommendations until the action is complete.

Rather than provide the full detail of all outstanding matters with the report to the Committee a summary grid has been prepared. This sets out a listing of all outstanding items and their relative risk to Council. A key to the source of the points is included.



Impact	Likelihood	Key	(plus point number)
1 Insignificant - little or no impact	Rare - only exceptional circumstances	E14	External audit y/e 2014
		E15	External audit y/e 2015
2 Minor -some effect but within tolerable limits	Unlikely - infrequent and unpredictable	E16	External audit y/e 2016
		E17	External audit y/e 2017
3 Moderate - will affect but still tolerable	Moderate - occasional and unpredictable	Fr	Fraud review - Deloitte
		CA	Internal audit - cash handling
4 Major - Effect beyond tolerable limits	Likely - Regular and predictable	DC	Internal audit - development contributions
		NZTA	NZTA audit
5 Extreme - Effect on viability	Almost certain - frequent and established history		

In addition, the summary below totalling the number of items outstanding from the previous report, new items added and items completed will give a guide to progress by staff in the period.

### Outstanding Items Summary

		Total Previous	New	Closed	Total Outstanding
Extreme	9-10 points	Nil			Nil
Major Impact	7 – 8 points	3		2	1
Moderate Impact	5 – 6 points	29	2	2	29
Low Impact	2 – 4 points	11	5	1	15
Total		<u>43</u>	<u>7</u>	<u>5</u>	<u>45</u>

Comment will be made on all items with a score of 7 or more i.e. matters with a potentially major impact on Council, plus others of importance. It will be noted there are a number of items on the grid which although still outstanding do not greatly impact risk to Council. These have a score of 4 or less.

#### **Comment on significant items**

**E16A1** Collecting data for non-financial performance measures.

Audit concern: No central control of the process leading to difficulties with timeliness of data for audit review and inconsistent methodologies and results. This may also impact on quarterly reporting to ratepayers.

Our response: To assist with this work the LTP 2018/2028 has fewer measures and a “critical” sub-category. Management will ensure these are recorded and monitored regularly during the year.

**Fr3** Fraudulent manipulation of bank payments – use a limited number of suppliers.

Audit concern: With no restriction on suppliers, fictitious suppliers could be set up and paid for similar services.

Our response: System enhancements to further improve supplier security will be reviewed as part of the implementation of electronic purchase orders in MagiQ. This is expected to be implemented before June 2018.

**DC6** Update development contribution projects annually.

Audit concern: The list of projects is required to form the basis of calculating any development contribution.

Our response: Work has commenced with the LTP 2018/2028 to have all development contribution projects and their status updated. This will be made a live document and used for Annual Plans in addition to the LTP. Training of managers will also be undertaken to ensure understanding and acceptance.

#### **E17A1 IT perimeter security**

Audit concern: There are risks to Council data and operations if patches for network software are not installed in a timely manner.

Our response: Council has traditionally relied on software vendors to install patches as part of their support arrangements. As identified by Deloitte some vendors did not undertake this work in a timely manner. Council has implemented plans to move responsibility for the upgrades from the vendors to the IT department where possible. This will be progressed over the next 12 months. For systems where it is not possible IT will closely monitor vendor performance to ensure system security.

Level 2 Impact items. The majority of the level 2 items relate to the cash handling audit completed earlier this year. Work continues to clear these items and significant progress is expected in the coming months.

#### **External Audit 2016/2017**

The constructive report to management has been received. There have been six new items raised and six items carried forward from prior reports. Audit has closed 13 items since their last report in 2016.

#### **Internal Audit**

The last internal audit, covering contract management framework and effectiveness, was undertaken in July 2017. The draft report is being finalised and is expected to be received in December 2017.

#### **Communications from Deloitte (external auditors)**

Nil

#### **Next step**

The Committee should satisfy itself appropriate action is being taken to address outstanding items.

#### 4 Public Excluded Audit, Risk & Finance Committee Agenda Items 1 December 2017

##### Recommended

*That the public be excluded from the following part of the proceedings of this meeting, namely*

- *Risk Register*
- *Contract Monitoring and Reporting: Infrastructure, Community and Regulatory*

*The general subject matter of each matter to be considered while the public is excluded, the reasons for passing this resolution in relation to each matter and the specific grounds under Section 48 (1) of the Local Government Official Information and Meetings Act, 1987 for the passing of this resolution are as follows:*

<b>General subject of each matter to be considered:</b>	<b>Reason for passing this resolution</b>	<b>Ground(s) under Section 48 (1) for the passing this resolution:</b>
<i>Risk Register</i>	<i>Section 7(2)(g) maintain legal professional privilege  Section 7(2)(i) enable any authority holding the information to carry on, without prejudice or disadvantage negotiations (including commercial and industrial negotiations).</i>	<i>Section 48(1)(a) That the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist.</i>
<i>Contract Monitoring and Reporting: Infrastructure, Community and Regulatory</i>	<i>Section 7(2)(g) maintain legal professional privilege  Section 7(2)(i) enable any authority holding the information to carry on, without prejudice or disadvantage negotiations (including commercial and industrial negotiations).</i>	<i>Section 48(1)(a) That the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist.</i>

**Recommended**

*That the meeting returns to Open meeting.*

## **5 Open Agenda Audit, Risk and Finance Committee: 1 December 2017**

### **Recommended**

*That the public be re-admitted to the meeting and resolutions made whilst in Public Excluded, be confirmed in Open meeting.*

## **6 Closure**

**Kaipara District Council  
Dargaville**