



Waitaki

DISTRICT COUNCIL
TE KAUNIHERA Ā ROHE O WAITAKI

I hereby give notice that the
Performance, Audit and Risk Committee Meeting
will be held on:

Date: Tuesday, 24 August 2021
Time: 2.00pm
Location: Council Chamber, Third Floor
Office of the Waitaki District Council
20 Thames Street, Oamaru

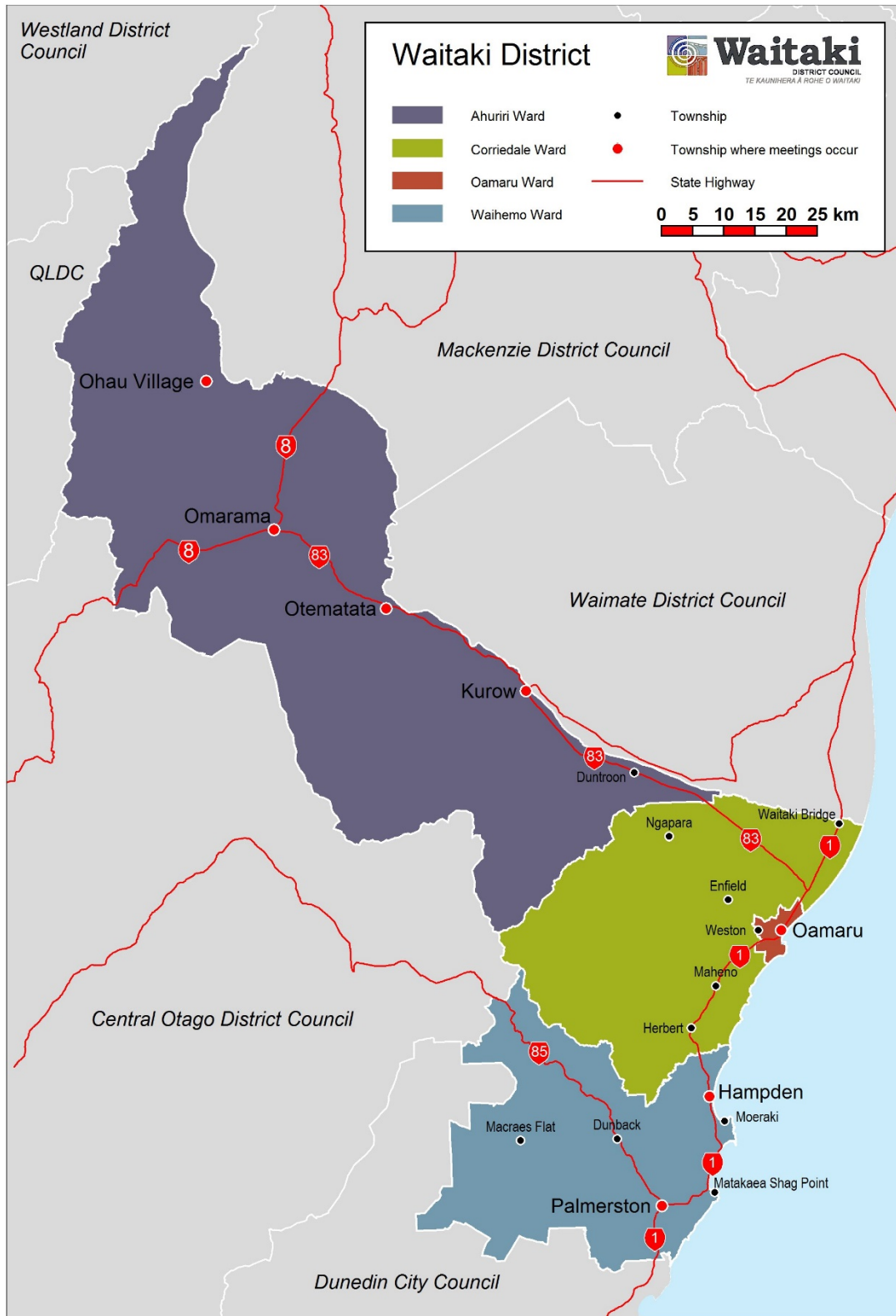
Agenda

Performance, Audit and Risk Committee Meeting 24 August 2021

Performance, Audit and Risk Committee Membership

| | |
|--------------------|--|
| Cr Colin Wollstein | Chair |
| Cr Jeremy Holding | Associate Chair (Information Services) |
| Cr Ross McRobie | Associate Chair (Risk) |
| Cr Hana Halalele | Member |
| Cr Jim Hopkins | Member |
| Cr Bill Kingan | Member |
| Cr Guy Percival | Member |
| Mayor Gary Kircher | Member |
| Mr Simon Neale | Independent Member |

Alex Parmley
Chief Executive





COMMUNITY OUTCOMES



STRATEGIC PRIORITIES



Ensuring we get core business done while delivering on our strategic priorities and achieving our community outcomes



Agenda Items

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- 1 APOLOGIES**
- 2 DECLARATIONS OF INTEREST**

3 CONFIRMATION OF PREVIOUS MEETING MINUTES

**3.1 PUBLIC MINUTES OF THE PERFORMANCE, AUDIT AND RISK COMMITTEE MEETING
HELD ON 3 AUGUST 2021**

Author: Ainslee Hooper, Governance and Policy Advisor

Authoriser: Lisa Baillie, People and Culture Group Manager

Attachments: 1. **Public Minutes of the Performance, Audit and Risk Committee Meeting held on 3 August 2021**

RECOMMENDATION

That the Performance, Audit and Risk Committee confirms the Public Minutes of the Performance, Audit and Risk Committee Meeting held on 3 August 2021, as circulated, as a true and correct record of that meeting.

UNCONFIRMED MINUTES

**OF THE PERFORMANCE, AUDIT AND RISK COMMITTEE MEETING
HELD IN THE COUNCIL CHAMBER, THIRD FLOOR,
OFFICE OF THE WAITAKI DISTRICT COUNCIL, 20 THAMES STREET, OAMARU
ON TUESDAY, 3 AUGUST 2021 AT 9.15AM**

PRESENT: Cr Ross McRobie (Chair), Cr Jeremy Holding (Associate Chair), Cr Hana Halalele, Cr Jim Hopkins, Cr Bill Kingan, Cr Guy Percival, Mayor Gary Kircher, and Independent Member Mr Simon Neale

APOLOGY: Cr Colin Wollstein (on approved leave of absence)

IN ATTENDANCE: Deputy Mayor Melanie Tavendale
Cr Jim Thomson
Alex Parmley (Chief Executive)
Paul Hope (Finance and Corporate Development Group Manager)
Lisa Baillie (Deputy Chief Executive / People and Culture Group Manager)
Roger Cook (Acting Heritage, Environment and Regulatory Group Manager)
Bill Chou (Information Services Group Manager)
Ainslee Hooper (Governance and Policy Advisor)

IN ATTENDANCE FOR SPECIFIC AGENDA ITEMS:

Richard Maher (Finance and Corporate Development Operations Manager)
Bill Nelson (Health and Safety Advisor)

MEETING OPEN

The Chair declared the meeting open at 9.15am and welcomed everyone present in the Council Chamber and those people watching the livestream of the meeting online.

1 APOLOGIES

RESOLVED PAR 2021/039

Moved: Cr Bill Kingan
Seconded: Cr Jeremy Holding

That the apology received from Cr Colin Wollstein be accepted.

CARRIED

2 DECLARATIONS OF INTEREST

There were no declarations of interest.

3 CONFIRMATION OF PREVIOUS MEETING MINUTES

3.1 PUBLIC MINUTES OF THE PERFORMANCE, AUDIT AND RISK COMMITTEE MEETING HELD ON 18 MAY 2021

RESOLVED PAR 2021/040

Moved: Cr Jim Hopkins
Seconded: Cr Jeremy Holding

That the Performance, Audit and Risk Committee confirms the Public minutes of the Performance, Audit and Risk Committee Meeting held on 18 May 2021, as circulated, as a true and correct record of that meeting.

CARRIED

4 MEMORANDUM REPORTS

4.1 AUDIT NEW ZEALAND RECOMMENDATIONS - ACTIVITY UPDATE

The report, as circulated, updated the Performance, Audit and Risk Committee on progress made towards the business improvement opportunities identified by Audit New Zealand's Interim Management Letter 2020.

Group Manager Paul Hope summarised the update, noting that the most significant pieces of work had been done, with some training still to be completed on another key item – the fraud policy. Finance and Corporate Development Operations Manager Richard Maher added that some enduring items would take longer, alongside business as usual work.

It was clarified that the revaluations referred to were for the annual report (eg Three Waters, Property and Parks). They did not refer to general revaluations.

With regard to establishing a contract management procedure, Audit was looking for an overarching approach to contract management rather than the current variations between departments. Officers will be considering how best to achieve that and what type of structure would provide the best value.

The Chair congratulated staff on the huge number of completed (ie "done") items. Some residual concern was raised shared about what "done" actually meant, in that there was no detail provided on how big the tasks were and how long they might take or what was really important and should be priorities. A request for prioritisation and a timeline was made, so that the Committee could determine what the important risks were.

ACTION: Group Manager Paul Hope

An updated policy for the Appointment of Council Controlled Organisations' Directorships was discussed, and it was suggested that the Executive Committee could provide direction on that at its next meeting when the policy and the timetable for the 2021 CCO Directorship process would be discussed.

ACTION: Executive Committee, with Governance Advisor

RESOLVED PAR 2021/041

Moved: Cr Jim Hopkins
Seconded: Cr Hana Halalele

That the Performance, Audit and Risk Committee receives and notes the information.

CARRIED

Cr Jeremy Holding left the meeting at 9.28am.

4.2 COUNCILMARK RECOMMENDATIONS - ACTIVITY UPDATE

The report, as circulated, updated the Performance, Audit and Risk Committee on progress made towards the business improvement opportunities identified in the CouncilMARK report.

Finance and Corporate Development Operations Manager Richard Maher spoke to the report, and noted that most of the remaining items would require a sustained and enduring effort, with the 'quick wins' having already been done.

A query about the need to prioritise the simplification of delegations was raised. Group Manager Paul Hope noted that a major exercise in updating the delegations register had been led by former Group Manager Lichelle Guyan early in the triennium. This one was specifically focused on the financial limits, which were considered by CouncilMARK to be too high and could be reviewed. This was an important discussion to have with the Chief Executive. The simplification would be to move from a paper-based system to something far easier to look up digitally; they was work in progress but it would take time to complete.

With regard to financial reporting, Mr Hope suggested that it could be a decision for the next Council to review and decide what level of reporting was appropriate. One elected member suggested that Council needed to be looking more regularly behind the numbers, and quarterly was perhaps not regular enough, especially when the committee met monthly. Exceptions should be reported to every meeting, with high-level numbers only so that they could be given greater scrutiny. There was a preference for that type of reporting to be re-introduced. In response, Mr Hope acknowledged that was a direction from this meeting, and said officers would work up a proposal and try to provide a 1-2 page report to cover the items required. He noted that the reporting was done anyway other than in the first month of the financial year (where there were many year-end adjustments involved), and it would include charts.

ACTION: Group Manager Paul Hope, with Finance team

With regard to the project management findings, it was clarified that CouncilMARK was looking for an alignment of work with a methodology; to be sure that projects were run in a controlled environment and that that control is uniform across the enterprise. There could be traffic lights per project relating to money, time and resources, and that a Committee is receiving that information consistently. It was noted that the workshop paper for the project governance workshop later in the day addressed these matters.

RESOLVED PAR 2021/042

Moved: Cr Jim Hopkins

Seconded: Cr Bill Kingan

That the Performance, Audit and Risk Committee receives and notes the information.

CARRIED

4.3 RISK WORKING GROUP UPDATE

The report, as circulated, provided the Performance, Audit and Risk Committee with an update on the activities of the Risk Working Group.

Finance and Corporate Development Operations Manager Richard Maher spoke to the report and noted that feedback from the Risk Working Group on the draft position description for the risk and procurement role had since been incorporated. The role would provide hands on support, but would also be a unifying function to ensure that risk management was being addressed across all Council functions.

One Committee Member noted that there seemed to be a dependence on recruiting to this role before work proceeds on risk management. Some 3-4 months previously, the Committee had discussed the risk matrix but the focus was still on recruitment. They asked if anything more could be done to move things along until someone is appointed, given that the appointment process could take some time.

Group Manager Paul Hope advised that issues were continuing to be addressed, and the pace of change was likely to accelerate once the role was filled. There was certainly a commitment to progressing the risk management work, but until recently the priority had had to be on the Long Term Plan. With that now completed, the Operations Manager would be focusing on risk management issues in consultation with the Risk Working Group.

It was suggested that the Risk Working Group should get together to discuss the Risk Register.

ACTION: FCD Operations Manager, with Governance Advisor (scheduling)

In response to concerns about the need for a full-time or permanent risk and procurement role, it was clarified that Council had already discussed the role several times, it was approved, and is in the LTP with funding attached to it. The discussion here was to ensure that the role would meet the expectations of the Committee in terms of reporting within the risk and procurement area. Another view was put forward that not having the role was a glaring omission in the organisation.

Asked to comment, new Chief Executive Alex Parmley advised that, having read the CouncilMARK report, he was satisfied that the role was needed and that it would be an ongoing support for Council.

RESOLVED PAR 2021/043

Moved: Cr Guy Percival
Seconded: Mayor Gary Kircher

That the Performance, Audit and Risk Committee receives and notes the information.

CARRIED

4.4 HEALTH AND SAFETY UPDATE

The report, as circulated, updated the Performance, Audit and Risk (PAR) Committee with information on key health and safety (H&S) risks and the measures in place to mitigate those risks at Waitaki District Council workplaces.

Group Manager Paul Hope introduced the report, and highlighted the work that had been done by the Health and Safety Advisor and Finance and Corporate Development Operations Manager. He noted that one of the stated tasks was a site visit by elected members, which had occurred ahead of today's meeting.

Health and Safety Advisor Bill Nelson then addressed the meeting. He highlighted that Council officers had been challenged to follow through with contractors on health and safety matters and

reporting, and the Health and Safety Committee had also stepped up a notch in recent times and was very focused on staff wellbeing in particular. Mr Nelson spoke about contractor management and the aim for consistency across Council; drafting a policy about how to deal with low risk, low value contract management; about crisis preparedness which had been guided by a high-level approach so far but there were now significant bodies of work to come out of that (and Waitaki was ahead of other councils in this regard). On wellbeing, Mr Nelson noted that Mr Parmley had spoken about several initiatives during his health and safety induction for wellbeing amongst staff, elected members and in the community and he was looking forward to working with the Chief Executive to bring those to fruition.

Health and safety reporting was being tweaked to better reflect the expectations of CouncilMARK and Audit, and that would continue with the whole team to produce the best result.

Regarding the crisis response team, the Waimakariri model had been reviewed which took an alert level approach rather than the comprehensive one being taken by Waitaki. That said, two items in their process had been added to ours, and Mr Nelson would continue to seek guidance from other councils to assist in developing a best practice outcome.

Elected Members thanked Mr Nelson for the undertaking to provide elected members with a due diligence pack.

It was clarified that most of the incidents at the pool with the slippery floor had happened in the first few months and remedial action taken had brought that issue under control with very few incidents now being reported in relation to the floor.

When asked, Mr Nelson explained that first responders, tour guides and riders were providing more and more information about health and safety matters on the A2O which helped determine whether there was a maintenance issue to address or rider errors at fault. Helicopters would be used to remove someone from the trail if necessary. Mr Nelson undertook to find out how many incidents had occurred on the Sailors Cutting section since it had opened.

ACTION: Health and Safety Advisor

It was noted that, while the level of reporting around specific 'hard' incidents was very good, more information on the 'softer' issues was required – eg abuse of staff, stress and anxiety about working from home, monitoring of sick leave and redundancies; the overall health of the whole team. Mr Hope briefed the meeting what the Executive Leadership Team was doing about these issues, and the priority around wellbeing issues for management, the health and safety committee, and representatives within departments. There was a considerable amount of self-reporting happening, and people were looking after each other, which was good to see. The increased abuse of staff and negative interactions with customers were taking a toll.

The Chair thanked Mr Hope and Mr Nelson for the update. He advised that the Committee took health and safety extremely seriously and invited either or both officers to seek assistance from the Committee if they felt it was necessary or would contribute to efforts already being taken.

RESOLVED PAR 2021/044

Moved: Cr Jeremy Holding

Seconded: Cr Jim Hopkins

That the Performance, Audit and Risk Committee receives and notes the information.

CARRIED

5 RESOLUTION TO EXCLUDE THE PUBLIC

RESOLVED PAR 2021/045

Moved: Cr Jim Hopkins

Seconded: Cr Bill Kingan

That the public be excluded from the following parts of the proceedings of this meeting.

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

| General subject of each matter to be considered | Reason for passing this resolution in relation to each matter | Ground(s) under section 48 for the passing of this resolution |
|---|--|--|
| 6.1 - Public Excluded Minutes of the Performance, Audit and Risk Committee Meeting held on 18 May 2021 | s7(2)(a) - the withholding of the information is necessary to protect the privacy of natural persons, including that of deceased natural persons s7(2)(i) - the withholding of the information is necessary to enable Council to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations) | s48(1)(a)(i) - the public conduct of 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 under section 6 or section 7 |
| 6.2 - Water Charges Remission PE | s7(2)(a) - the withholding of the information is necessary to protect the privacy of natural persons, including that of deceased natural persons s7(2)(i) - the withholding of the information is necessary to enable Council to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations) | s48(1)(a)(i) - the public conduct of 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 under section 6 or section 7 |

CARRIED

6 PUBLIC EXCLUDED SECTION

The Public Excluded Minutes apply to this section of the meeting.

7 RESOLUTION TO RETURN TO THE PUBLIC MEETING

RESOLVED PAR 2021/048

Moved: Mayor Gary Kircher
Seconded: Cr Jim Hopkins

That the Performance, Audit and Risk Committee resumes in open meeting and decisions made in the public excluded session are confirmed and made public as and when required and considered.

CARRIED

8 RELEASE OF PUBLIC EXCLUDED INFORMATION

In accordance with Waitaki District Council Standing Orders, and pursuant to resolutions in the public excluded session of the meeting, the Performance, Audit and Risk Committee decided to release the following previously Public Excluded information under this agenda item in the Public Minutes of this meeting:

6.1 PUBLIC EXCLUDED MINUTES OF THE PERFORMANCE, AUDIT AND RISK COMMITTEE MEETING HELD ON 18 MAY 2021

RESOLVED PAR 2021/046

Moved: Cr Jim Hopkins
Seconded: Cr Guy Percival

That the Performance, Audit and Risk Committee confirms the Public Excluded Minutes of the Performance, Audit and Risk Committee Meeting held on 18 May 2021, as circulated, as a true and correct record of that meeting.

CARRIED

9 MEETING CLOSE

There being no further business, the Chair declared the meeting closed, at 10.20am.

TO BE CONFIRMED at the Performance, Audit and Risk Committee Meeting to be held on Tuesday, 24 August 2021.

.....
CHAIRPERSON

4 DECISION REPORTS

4.1 AUDIT NEW ZEALAND AUDIT PLAN AND FEE PROPOSAL

Author: Ian Wells, Accounting Manager

Authoriser: Paul Hope, Finance and Corporate Development Group Manager

Attachments:

- 1. Audit Plan Waitaki District Council and Group for Year Ending 30 June 2021 (Audit New Zealand)**
- 2. Audit New Zealand Fee Proposal Letter**

RECOMMENDATION

The Performance, Audit and Risk Committee receives the information.

PURPOSE

To discuss with Audit New Zealand staff two documents they have provided in relation to the Annual Report audit process.

SUMMARY

These documents are the Audit Plan and Fee Proposal, included as Attachments 1 and 2.

The Audit Plan sets out the approach that will be taken for the audit of the Annual Report, the areas where there will be an audit focus, and other matters in relation to conduct of the audit.

The Audit Fee Proposal sets out the matters that have influenced the proposed increase in the fee for the next two audits.

These matters are for discussion only. The attached documents need to be signed off prior to the start of the final audit process.

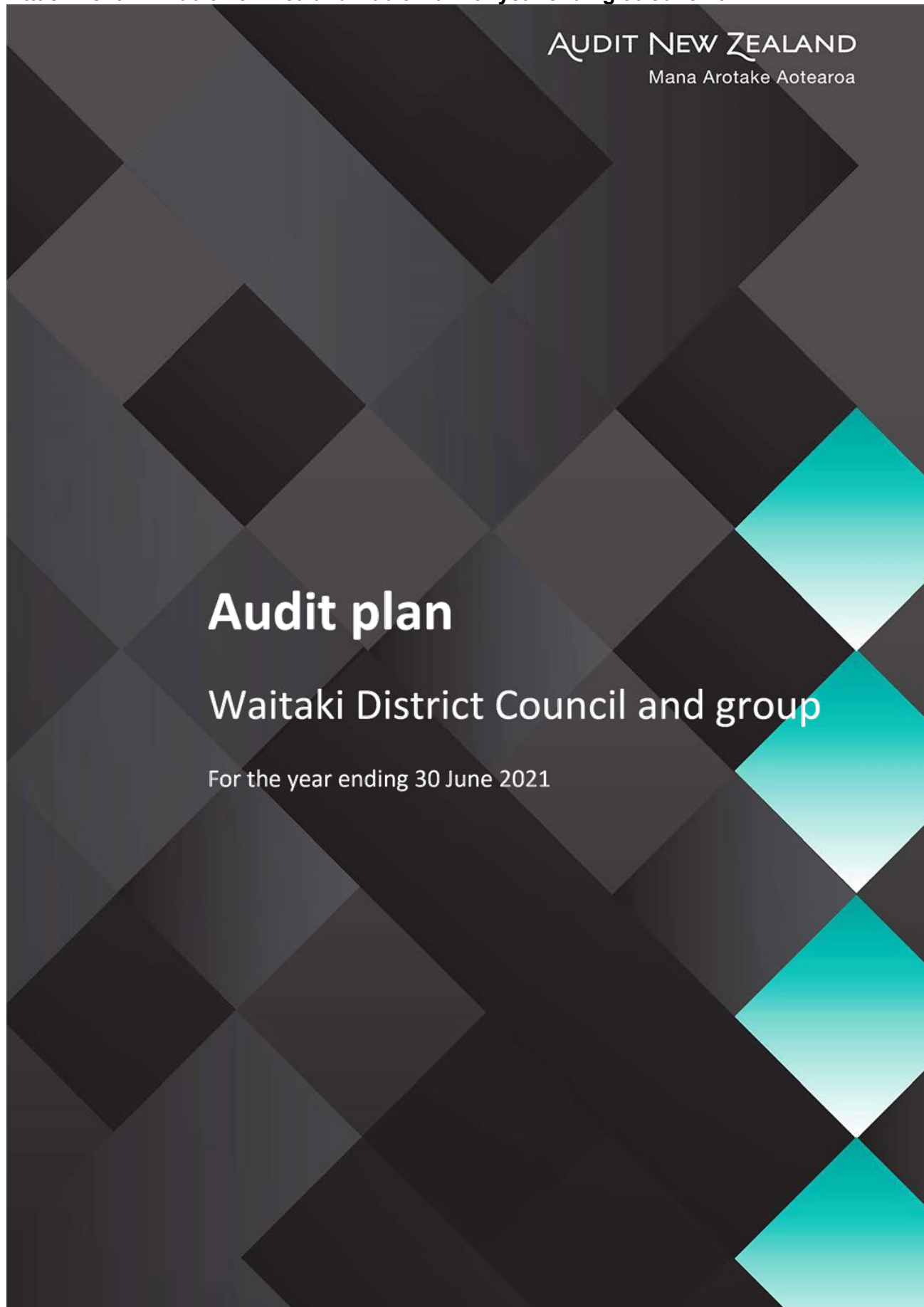
In the past, these matters have been addressed directly by the Committee Chair or the Mayor. However, given that some of the issues that Audit New Zealand has faced in recent audits, officers believe that a discussion with the whole Committee is appropriate.

Staff from Audit New Zealand will be in attendance to speak to the documents and answer any questions.

CONCLUSION

It is important that members of the Performance, Audit and Risk Committee have a good understanding of the nature and scope of the audit process. It is believed that a discussion with Audit New Zealand on two of the key documents in relation to the audit will assist with this understanding.

Attachment 1 – Audit New Zealand Audit Plan for year ending 30 June 2021



Audit plan

I am pleased to present our audit plan for the audit of Waitaki District Council (the District Council) and group for the year ending 30 June 2021. The purpose of this audit plan is to discuss:

| | |
|--------------------------|----|
| Risks and issues..... | 2 |
| Group audit..... | 9 |
| Our audit process..... | 11 |
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| Audit logistics..... | 18 |
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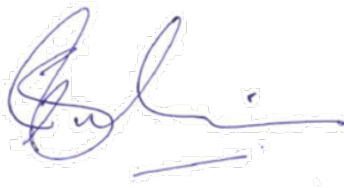
We have developed the contents of this plan through discussions with the Chair of the Performance, Audit and Risk committee, and other members of senior management.

We will be happy to elaborate further on the matters raised in this plan.

Our work improves the performance of, and the public's trust in, the public sector. Our role as your auditor is to give an independent opinion on the financial statements and performance information. We also recommend improvements to the internal controls relevant to the audit.

If there are additional matters that you think we should include, or any matters requiring clarification, please discuss these with me.

Yours sincerely



Rudie Tomlinson
Appointed Auditor
11 June 2021

Risks and issues

Focus areas



Based on the planning work and discussions that we have completed to date, we set out in the table below the main audit risks and issues. These will be the main focus areas during the audit.

| Risks and issues | Our audit response |
|---|--|
| Revaluation, fair value assessments and impairment of property, plant and equipment (PPE) | |
| <p>The District Council periodically revalues its land, buildings, infrastructural assets, and library collections.</p> <p>This year the District Council intends to perform a valuation of its three water assets.</p> <p>Risk</p> <p>Due to the judgmental nature of these revaluations, there is a risk of bias or error in the assumptions and inputs used, which may result in material errors in values for infrastructure assets.</p> <p>Fair value</p> <p>PBE IPSAS 17 <i>Property, Plant and Equipment</i> requires that the revaluation of assets accounted for using the revaluation model be conducted with sufficient regularity to ensure that the carrying amounts of qualifying assets do not differ materially from the fair value at the balance date.</p> <p>Where an asset class that applies the revaluation model is not revalued at balance date, the District Council will need to undertake an assessment as to whether the estimated fair value of the asset class is materially different from the carrying value.</p> | <p>We will:</p> <ul style="list-style-type: none"> • assess relevant controls that management has put in place to support the integrity of the underlying data and schedules supplied to the valuers; • obtain an understanding of the underlying data; • evaluate the qualifications, competence and expertise of the external valuers used; • review the method of valuing and assess if the applicable methods used are in line with the financial reporting framework and valuation standards; • engage with the valuers to assess the reasonableness of the assumptions used; and • review the appropriateness of the accounting entries and the fixed asset register to ensure the values are correctly updated. <p>Understand the continued impact Covid-19 may have on asset classes which are not revalued this year we will review the District Council's assessment of whether there is any significant difference between the carrying amount and fair value of those asset classes that are not being revalued in 2020/21.</p> <p>We expect to receive these assessments from the District Council no later than 13 August 2021. This should allow sufficient time to complete a revaluation (if a revaluation is required) without impacting on the annual report process.</p> |

| Risks and issues | Our audit response |
|--|--|
| <p>Risk</p> <p>The carrying value of PPE disclosed in the financial statements is materially different from the fair value. The District Council should ensure they have the necessary controls in place to ensure the assets are properly valued.</p> | <p>We will review the District Council's impairment assessment to ensure that any impairment is correctly accounted for in compliance with the accounting standards.</p> |
| Group audit timetable | |
| <p>The delivery of our audit opinion on the District Council and group's financial statements in a timely manner is dependent on the completion of all significant group component audits within the agreed time frame. The oversight and review of adherence to these timetables is the responsibility of the District Council. This oversight should include:</p> <ul style="list-style-type: none"> • regular contact between District Council and individual entity Boards to monitor that key deliverables are on track to being met; and • monitoring by the District Council or District Council management of the timeliness, adequacy and quality of financial and performance information being supplied by these components for inclusion in the group financial statements. <p>Risk</p> <p>The District Council financial statements are not signed off on before the legislative deadline.</p> | <p>We will:</p> <ul style="list-style-type: none"> • review the process the District Council has put in place to ensure the "readiness" of significant group components for audit; and • seek to communicate potential delays arising from non-adherence to agreed timetables or the supply of sub-standard financial information for audit, to the District Council and District Council management as soon as we consider this to be an issue. |
| Group consolidation | |
| <p>The District Council has a complex group structure, which includes investments in subsidiaries and associates. Each year the District Council must present the audited financial results of both the parent and the consolidated group.</p> <p>The group reporting involves the District Council applying the "public benefit" entity accounting framework, while some of the group entities apply the for-profit accounting framework, also referred to as a "mixed group".</p> <p>It will be necessary for changes to be made to bring the accounting of some group entities in line with the District Council's accounting policies</p> | <p>We will:</p> <ul style="list-style-type: none"> • review the District Council's arrangements with other entities and assess whether the District Council has appropriately accounted for its investments in group entities; • review the consolidation schedules to gain assurance that it is prepared in accordance with accounting standards and that all material inter-entity transactions have been eliminated; • review the accounting policies and other financial information to gain assurance it has been prepared on a consistent basis |

| Risks and issues | Our audit response |
|---|--|
| <p>before their results are consolidated into the group.</p> <p>The District Council should identify the changes required and adjust these prior to the audit to aid in the development of accurate consolidated accounts.</p> <p>During the group audit process we will meet regularly with District Council management to discuss the consolidation process and any significant group concerns that could affect the group consolidation or reporting timeframes.</p> <p>Risk</p> <p>The consolidated financial statements are materially misstated due to the application of inappropriate accounting policies.</p> | <p>across the group and that these have been disclosed appropriately;</p> <ul style="list-style-type: none"> • identify audit risks in relation to significant components of the group, such as carrying values of investments in subsidiaries and the valuation/impairment of PPE; and • consider responses from the significant components to those risks. <p>We will convey our findings to the District Council as the parent governing body.</p> |
| Rates | |
| <p>Rates are the District Council's primary funding source. Compliance with the Local Government (Rating) Act 2002 (LGRA) in rates setting and collection is critical to ensure that rates are validly set and not at risk of challenge. The Council should ensure it has appropriate processes in place, including seeking legal advice where appropriate, to ensure compliance of its rates and rating processes with legislation.</p> <p>Risk</p> <p>Rates are not validly set and are at risk of challenge.</p> | <p>For 2020/21 we will again consider the District Council's compliance with aspects of the LGRA that potentially materially impact on the financial statements. Principally this means a focus on the rates setting process – the consistency and completeness of the resolution and the funding impact statement.</p> <p>We will also review selected differentially set and/or targeted rates to assess whether the matters and factors used are consistent with the LGRA.</p> <p>We stress that our review of compliance with legislation is completed for the purposes of expressing our audit opinion. It is not, and should not be seen, as a comprehensive legal review. This is beyond the scope of the audit, and our expertise as auditors. The District Council is responsible for ensuring that it complies with applicable laws and regulations.</p> |
| Joining the Local Government Funding Agency (LGFA) | |
| <p>The District Council has become an investor in LGFA bonds.</p> <p>Appropriate decision making and approval processes are needed to ensure all investments are appropriate and align with the objectives of the District Council.</p> | <p>We will review the decision making process and any significant transactions undertaken in the current year.</p> <p>We will obtain a confirmation at balance date to confirm the value of any investments held.</p> |

| Risks and issues | Our audit response |
|--|---|
| Covid-19 pandemic | |
| <p>On 11 March 2020, the World Health Organisation declared the outbreak of coronavirus (Covid-19) a pandemic. The New Zealand Government has taken steps to deal with the spread of Covid-19 which has included significant restrictions on the movement and interaction of people within New Zealand.</p> <p>This has had significant impacts on individuals, communities, the economy, businesses, the wider public sector, and each public sector entity.</p> <p>Last year, we requested the District Council to prepare an assessment of the impact of the Covid-19 pandemic on the District Council's operations and any effect this has on the financial and performance. We ask that this is updated for developments since then and, where appropriate that the District Council ensures that the impacts are appropriately accounted for or disclosed.</p> <p>Risk</p> <p>Financial or other performance information is inadequate in disclosing the full impact of Covid-19.</p> | <p>We will review the impact of the Covid-19 pandemic on the financial performance of the Council, to ensure that the impacts are appropriately accounted for or appropriate disclosure is made.</p> <p>We will use last year's work as a base and plan to take a more streamlined approach.</p> |
| The risk of management override of internal controls | |
| <p>There is an inherent risk in every organisation of fraud resulting from management override of internal controls. Management are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. While management override by its nature circumvents controls, Council is responsible for ensuring this risk is mitigated through setting a clear tone from the top. Auditing standards require us to treat this as a risk on every audit.</p> | <p>Our audit response to this risk includes:</p> <ul style="list-style-type: none"> • testing the appropriateness of selected journal entries; • reviewing accounting estimates for indications of bias; and • evaluating any unusual or one-off transactions, including those with related parties. |

Other areas of focus for all local authorities

| Area of audit focus | Our audit response |
|--|--|
| The District Council's governance role over council-controlled organisations (CCOs) | |
| <p>CCOs are responsible for meeting the accountability requirements of the Local Government Act 2002 (LGA). This includes preparing a statement of intent (SOI) with appropriate involvement from their parent local authorities.</p> <p>Local authorities are responsible for the effective oversight of their CCOs. This includes monitoring their CCOs' performance and reviewing and commenting on their draft SOIs within the timeframe in the LGA.</p> <p>Local authorities should ensure that they have a clearly articulated rationale for their investment in their CCOs.</p> | <p>We will review the District Council's arrangements for effectively fulfilling its oversight responsibilities relating to its subsidiaries. This includes establishing the rationale for its investment and the monitoring of their performance.</p> |
| Annual report disclosures | |
| <p>Schedule 10 of the Local Government Act and the Local Government (Financial Reporting and Prudence) Regulations 2014 detail disclosures to be included in the annual report. The District Council should review these requirements to ensure all disclosures have been included in the annual report.</p> | <p>We will ensure that the disclosures required by Schedule 10 of the Local Government Act and the Local Government (Financial Reporting and Prudence) Regulations 2014 have been appropriately included in the District Council's annual report.</p> |
| Procurement and contract management | |
| <p>An effective procurement management system can reduce the risk of challenges to the procurement decision-making processes, retain credibility with suppliers, and may decrease the cost of procurement of goods and services. An effective contract management system can provide significant value to an entity throughout the lifecycles of the contracts procured.</p> | <p>We will:</p> <ul style="list-style-type: none"> • update our understanding of current procurement and contract management practices; and • assess whether the District Council's procurement policies and processes are up to date and appropriate. |
| Prudent expenditure decisions | |
| <p>We expect all public entities to apply a number of principles to expenditure decisions, including that the expenditure has a justifiable business purpose, preserves impartiality, is made with integrity, is moderate and conservative in respect of the circumstances and is made transparently.</p> | <p>We will remain alert to public sector concerns, including issues and risks about effectiveness and efficiency, waste, and a lack of probity or financial prudence. This means looking at some transactions or other arrangements in more detail</p> |

| Area of audit focus | Our audit response |
|---|---|
| | <p>to ensure expenditure is in line with the public sector principles.</p> <p>Aside from specific testing across a sample of sensitive transactions, this will also involve making certain enquiries of the District Council, management, and staff, and maintaining awareness of public sector concerns throughout our audit work.</p> |
| Three waters reform | |
| <p>In July 2020, the Government released its three waters reform, a three-year programme to change the way drinking water, sewer and stormwater are delivered, to improve public health, environmental and economic outcomes.</p> <p>At the same time, the Government offered a multi-million-dollar stimulus funding package, to maintain and improve three waters infrastructure across New Zealand. The District Council signed a Memorandum of Understanding (MoU) with the Government and received stimulus funding. By signing this MoU, the District Council agreed to participate in the exploration of future service delivery options for the three waters services and to collaborate with agencies involved in the reform.</p> <p>The Government is expected to make decisions on the reform mid-2021. The District Council will then need to decide whether to opt out of the proposed new service delivery model. There is still considerable information to come as to what these reforms mean for the District Council before this decision will be made.</p> | <p>We will monitor the information that will be released and discuss the implications with you to ensure that the District Council, as appropriate, it correctly accounts for the impacts and/or includes relevant disclosures.</p> |

Please tell us about any additional matters we should consider, or any specific risks that we have not covered. Additional risks may also emerge during the audit. These risks will be factored into our audit response and our reporting to you.

Fraud risk

Misstatements in the financial statements and performance information can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action is intentional or unintentional. In considering fraud risk, two types of intentional misstatements are relevant – misstatements resulting from fraudulent reporting, and misstatements resulting from misappropriation of assets.

The primary responsibility for the prevention and detection of fraud and error rests with the Council, with assistance from management. In this regard, we will discuss the following questions with you:

- What role does the District Council play in relation to fraud? How do you monitor management's exercise of its responsibilities?
- Has a robust fraud risk assessment been completed? If so, is the District Council satisfied that it had appropriate input into this process?
- How does management provide assurance that appropriate internal controls to address fraud risks are in place and operating?
- What protocols/procedures have been established between the District Council and management to keep you informed of instances of fraud, either actual, suspected, or alleged?
- Are you aware of any actual, suspected, or alleged fraud? If so, have the results of management's investigation been reported to the District Council? Has appropriate action been taken on any lessons learned?

Our responsibility

Our responsibility is to obtain reasonable, but not absolute, assurance that the financial statements and performance information are free from material misstatement resulting from fraud. Our approach to obtaining this assurance is to:

- identify fraud risk factors and evaluate areas of potential risk of material misstatement;
- evaluate the effectiveness of internal controls in mitigating the risks;
- perform substantive audit procedures; and
- remain alert for indications of potential fraud in evaluating audit evidence.

The Auditor-General has published useful information on fraud that can be found at oag.parliament.nz/reports/fraud-reports.

Group audit



The group comprises:

- Waitaki District Council (parent) and its group entities:
- Whitestone Contracting Limited
- Tourism Waitaki Limited (non-significant component)
- Waitaki District Health Services Limited group, comprising:
 - Waitaki District Health Services Limited
 - Waitaki District Health Services Trust (non-significant component)
 - Observatory Village Charitable Trust group, comprising:
 - Observatory Village Charitable Trust
 - Observatory Village Lifecare Limited
 - Observatory Village Care Limited
- Waitaki Whitestone Geopark Trust group (non-significant component):
 - Waitaki Whitestone Geopark Trust
- Omarama Airfield Limited (non-significant component)

Our auditor's report covers the group as a whole. Our audit approach is developed to ensure we have sufficient information to give an opinion on the group. In designing our group audit approach, we considered the structure of the group and identified the entities which are included in the group financial statements. Each entity is referred to as a component. We have assessed the risks of material misstatement and have identified our approach for each component. The table below shows the work planned for each significant component.

| Significant component | Work to be performed |
|--------------------------------|--|
| Whitestone Contracting Limited | <p>This component will be audited by an Appointed Auditor from another audit service provider.</p> <p>Group instructions will be issued to the component auditor that will specify the information we require and when it is required. This will include matters such as confirming audit risks and materiality the component auditor will use for audit purposes. We will also request the component auditor's working papers and assess the results of their audit work.</p> |

| | |
|---|--|
| | <p>The audit risks relevant to Whitestone Contracting Limited are:</p> <ul style="list-style-type: none"> • risk of management override; and • operating revenue – risk of fraud in revenue recognition. <p>The audit work on this component will be a full financial statement and performance report.</p> |
| <p>Waitaki District Health Services Limited group</p> | <p>This entity will be audited by Audit New Zealand. The material component Observatory Village Charitable Trust group is audited separately by Grant Thornton.</p> <p>A separate audit plan is issued to the Board of Waitaki District Health Services Limited outlining the key audit and accounting risks.</p> <p>Group instructions will be issued to the component auditor that will specify the information we require and when it is required. This will include matters such as confirming audit risks and materiality the component auditor will use for audit purposes. We will also request the component auditors working papers and assess the results of their audit work.</p> <p>The audit risks relevant to the entities that form part of the Waitaki District Health Services group are:</p> <ul style="list-style-type: none"> • risk of management override; • financial viability; • impairment of property, plant and equipment; • valuation of investment properties; and • valuation of the occupational right agreements. <p>The audit work on this component will be a full financial statement and performance report audit.</p> |

For non-significant components, we will perform analytical procedures at the group level to identify unexpected movements. If any of these component could become material or enter into material transactions we ask that you alert us immediately.

We will report any significant internal control deficiencies to the Council and management of the group. This will include any deficiencies identified by the group engagement team or brought to our attention by the component auditor. We will communicate deficiencies related to:

- group-wide internal controls; or
- internal controls at each component.

We will also communicate any fraud identified by the group engagement team or brought to our attention by the component auditor.

Our audit process

Initial planning

Initial planning activities include verifying compliance with independence requirements and building the audit team.

Understand your business and environment

We use our extensive sector and business knowledge to make sure we have a broad and deep understanding of the District Council, your business, and the environment you operate in.

Assess audit risk

We use our knowledge of the business, the sector and the environment to identify and assess the risks that could lead to a material misstatement in the financial statements and performance information.

Evaluate internal controls

We update our understanding of internal controls relevant to the audit. This includes reviewing the control environment, risk assessment process, and relevant aspects of information systems controls. Most of this work is done during the initial audit visits. We evaluate internal controls relevant to the audit for the whole financial year, so we consider internal controls relevant to the audit at all visits.

Finalise the audit approach

We use the results of the internal control evaluation to determine how much we can rely on the information produced from your systems during our final audit.

Gather audit evidence

During the final audit we audit the balances, disclosures, and other information included in the District Council's financial statements and performance information.

Conclude and report

We will issue our audit report on the financial statements and performance information. We will also report to the District Council covering any relevant matters that come to our attention.

Materiality

In performing our audit, we apply materiality. In the public sector, materiality refers to information that if omitted, misstated, or obscured could reasonably be expected to:

- influence readers' overall understanding of the financial statements and service performance information; and
- influence readers in making decisions about the stewardship and allocation of resources, or assessing your performance.

This definition of materiality is broader than the one used in the private sector.

It is a matter of judgement whether information is material. We consider the nature (qualitative) and amount (quantitative) of each item judged in the surrounding circumstances and its impact. In the public sector qualitative considerations are of equal significance as quantitative considerations. Qualitative considerations are of primary importance in our assessment of materiality in the context of disclosures for transparency and accountability reasons, and in evaluating any non-compliance with laws and regulations.

The District Council and management need to consider materiality in preparing the financial statements and service performance information and make their own assessment of materiality from a preparer's perspective. IFRS Practice Statement 2, *Making Materiality Judgements*, provides guidance on how to make materiality judgements from a financial statements preparer's perspective. Although this guidance is primarily aimed at for-profit entities, the same principles can be applied by public benefit entities. Management and the District Council should not rely on our materiality assessment as a basis for owning and making judgements about the integrity of the financial statements and service performance information.

Financial statements materiality

For planning purposes we have set the District Council's **overall materiality** for the financial statements at \$74,377,200 based on last year's total assets. We have set the group's **overall materiality** for the financial statements at \$78,720,000 based on last year's total assets.

This is subject to change once the actual results for the current year are available. For this audit we are only applying this overall materiality to the fair value of PPE.

For this audit we have set a lower, **specific materiality** for the District Council of \$1,350,000 for all items not related to the fair value of PPE.

| | |
|---|--------------|
| Overall group materiality (applies to the fair value of PPE) | \$78,720,000 |
| Specific group materiality | \$2,310,000 |
| Group clearly trivial threshold | \$115,500 |
| Overall parent materiality (applies to the fair value of PPE) | \$74,377,200 |
| Specific parent materiality | \$1,350,000 |
| Parent clearly trivial threshold | \$67,500 |

For group we have set a lower, **specific materiality** of \$2,310,000 for all items not related to the fair value of PPE.

A lower specific materiality is also determined separately for some items due to their sensitive nature. For example, a lower specific materiality is determined and applied for related party and key management personnel disclosures.

We design our audit procedures to detect misstatements at a lower level than overall materiality. This takes account of the risk of cumulative misstatements and provides a safety net against the risk of undetected misstatements.

We will report all uncorrected misstatements to the Council other than those that are **clearly trivial**. We consider misstatements of less than \$67,500 (\$115,500 for the group) to be clearly trivial unless there are qualitative considerations that heighten its significance. We will ask for each misstatement to be corrected, other than those that are clearly trivial. Where management does not wish to correct a misstatement we will seek written representations from management and the Council on the reasons why the corrections will not be made.

Misstatements

Misstatements are differences in, or omissions of, amounts and disclosures that may affect a reader's overall understanding of your financial statements and service performance information. The effects of any detected and uncorrected misstatements, individually and in aggregate, are assessed against overall materiality and qualitative considerations.

Overall financial statement materiality does not apply to any matters of effectiveness and efficiency, waste, or a lack of probity or financial prudence.

Materiality for service performance information

At an overall level, we assess whether the service performance information is suitable, given your purpose and the nature of your activities, and whether the reporting allows for an informed assessment of the District Council's performance. In doing this we consider whether the information is relevant, complete, reliable, neutral, and understandable.

We set materiality for service performance information at an individual measure level based on what we expect would influence readers' overall understanding, decision making, or assessment of the District Council's performance. We consider a variety of factors including the level of public interest and potential public risk. Because of the variety of measurement bases applied, we normally express this materiality as a percentage of the reported result.

We have identified the following measures as material and assessed materiality for planning purposes. We will reassess this during the audit.

| Material measure | Materiality |
|---|--|
| Department of Internal Affairs (DIA) mandatory measure – safety of drinking water | Quantitative materiality is not applicable. The reported result is to be qualitatively consistent with supporting information. |
| DIA mandatory measure – water supply - customer satisfaction | 8% |
| DIA mandatory measure - water supply - water loss | 5% |
| DIA mandatory measure – dry weather sewerage overflows | 5% |
| DIA mandatory measure – wastewater discharge compliance | 5% |
| DIA mandatory measure – stormwater flooding - system adequacy | 8% |
| DIA mandatory measure – road condition | 8% |
| DIA mandatory measure – road safety | 8% |

We will carry out detailed testing on the above measures. For all other performance measures, we have assessed these as immaterial, therefore we only perform limited checks on this information, this includes obtaining explanations from the District Council for variances of +/- 10% compared to target or prior year and considering the reasonableness of those explanations. We also carry out basic checks such as confirming all performance measures included in the long-term plan and/or annual plan are reported in the annual report. We also check targets and prior year results agree back to the annual plan and prior year annual report.

Professional judgement and professional scepticism

Many of the issues that arise in an audit, particularly those involving valuations or assumptions about the future, involve estimates. Estimates are inevitably based on imperfect knowledge or dependent on future events. Many financial statement items involve subjective decisions or a degree of uncertainty. There is an inherent level of uncertainty which cannot be eliminated. These are areas where we must use our experience and skill to reach an opinion on the financial statements and performance information.

The term “opinion” reflects the fact that professional judgement is involved. Our audit report is not a guarantee but rather reflects our professional judgement based on work performed in accordance with established standards.

Auditing standards require us to maintain professional scepticism throughout the audit. Professional scepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence. Professional scepticism is fundamentally a mind-set. A sceptical mind-set drives us to adopt a questioning approach when considering information and in forming conclusions.

Exercising professional scepticism means that we will not accept everything we are told at face value. We will ask you and management to provide evidence to support what you tell us. We will also challenge your judgements and assumptions and weigh them against alternative possibilities.

How we consider compliance with laws and regulations

As part of the Auditor-General's mandate, we consider compliance with laws and regulations that directly affect your financial statements or general accountability. Our audit does not cover all of your requirements to comply with laws and regulations.

Our approach involves first assessing the systems and procedures that you have in place to monitor and manage compliance with laws and regulations relevant to the audit. We may also complete our own checklists. In addition, we will ask you about any non-compliance with laws and regulations that you are aware of. We will evaluate the effect of any such non-compliance on our audit.

Wider public sector considerations

A public sector audit also examines whether:

- the District Council and group carries out its activities effectively and efficiently;
- waste is occurring or likely to occur as a result of any act or failure to act by the District Council and group;
- there is any sign or appearance of a lack of probity as a result of any act or omission by the District Council and group or by one or more of its members, office holders, or employees; and
- there is any sign or appearance of a lack of financial prudence as a result of any act or omission by the District Council and group or by one or more of its members, office holders, or employees.

Reporting protocols

Communication with management and the District Council



We will meet with management and the District Council throughout the audit. We will maintain ongoing, proactive discussion of issues as and when they arise to ensure there are “no surprises”.

| Meeting with | Planned timing |
|--|--|
| The District Council | <ul style="list-style-type: none"> • Attend the annual report adoption meeting and any other meetings (as required). Informally meet with the Mayor on an annual basis. • Our objective is: <ul style="list-style-type: none"> ○ to discuss key issues, risks and changes, and the areas of focus for the audit, and approach; ○ to discuss results of interim audit; and ○ to discuss results of final audit. |
| Performance, Audit and Risk Committee | <ul style="list-style-type: none"> • Attend all formal meetings and informally meet with the Chair on an annual basis. • Our objective is: <ul style="list-style-type: none"> ○ to discuss key issues, risks and changes, and the areas of focus for the audit, and approach. |
| Management of the District Council | <ul style="list-style-type: none"> • Meet with the Chief Executive at least every six months. • Meet with the Finance and Corporate Group Development Manager when required (more frequently during audits). • Meet with all other members of the management team on an annual basis. • Our objective is: <ul style="list-style-type: none"> ○ to discuss key issues, risks and changes, and the areas of focus for the audit, and approach; ○ to discuss preliminary results of interim audit and approach for final audit; ○ to discuss preliminary results of the final audit; and ○ to de-brief on the audit process in the current year to identify areas for improvement. |

Reports to the District Council



We will provide a draft of all reports to management for discussion/clearance purposes. In the interests of timely reporting, we ask management to provide their comments on the draft within 10 working days. Once management comments are received the report will be finalised and provided to the District Council.

We will also follow up on your progress in responding to our previous recommendations.

As part of our final reporting to the District Council we set out non-trivial uncorrected misstatements, along with reasons that the adjustments have not been made. As part of our continued focus on improving the efficiency of the annual reporting and audit process, this year we will also report adjusted misstatements in the report to the District Council. The adjusted misstatements will be any made to the draft annual report received at the start of the audit.

Audit logistics

Our team



Our engagement team is selected to ensure that we have the right subject matter expertise and sector knowledge. Each member of the audit team has received tailored training to develop their expertise.

Our senior audit team members are:

| | |
|-----------------|--|
| Rudie Tomlinson | Appointed Auditor |
| Athol Graham | Engagement Quality Review (EQR) Director |
| Jenna Hills | Audit Manager |

The Engagement Quality Review (EQR) Director forms an important part of our internal quality assurance process to maintain and enhance the quality of your audit. The EQR Director is an experienced Audit Director who has sufficient and appropriate experience to objectively evaluate the judgements made by the audit team. They are independent from the day to day audit field work, and so can provide an independent challenge to the audit team on their judgements. The EQR Director will work with your Appointed Auditor and the audit team, but will not have direct contact with you.

Timetable



Our proposed timetable is:

Parent entity

| | |
|---|-------------------|
| Interim audit begins | 02 August 2021 |
| Attendance at Performance, Audit and Risk Committee to present the final interim District Council report and audit plan | 03 August 2021 |
| Draft Interim report (on internal controls) to the Council issued | 28 August 2021 |
| Draft financial statements available for audit (including notes to the financial statements) with actual year-end figures, statement of service performance and including any Mayor and Chief Executive's overview or reports | 22 September 2021 |
| Final audit begins | 27 September 2021 |

| | |
|--|------------------|
| Verbal audit clearance given | 28 October 2021 |
| Audit opinion issued | 01 November 2021 |
| Draft report to the District Council issued | 01 November 2021 |
| Final detailed report to the District Council issued | 17 November 2021 |
| Attendance at Performance, Audit and Risk committee to present the final District Council report | 07 December 2021 |

The extension to statutory timeframes last year, as a one-off Covid-19 response, was important for most entities with a 30 June 2020 balance date. However, this shift in our normal scheduling had implications for some of the work we would normally carry out in November and December and even in the early part of the new year. This includes planning and starting our work on entities in other sectors.

As a result, it will be another busy year, but we are starting with a good understanding of the residual effects of Covid-19. There's no hiding from the fact that the actions required to deal with Covid-19 changed some of the ways we do things and our usual timeframes. It will be important that we work together to avoid frustrations as we deal with the effect of these changes. This will require early communication with you if timeframes will be impacted due to the adherence to the Office of the Auditor-General's prioritisation framework.

AuditDashboard

During the audit, your staff provide us with a significant number of files. These files contain information that we have asked for about your internal controls or financial and non-financial information to support the contents of your annual report. When all of this information is available in a timely manner, it helps the audit process to run as smoothly and effectively as possible for both you and us.

During 2021 we are implementing a new online portal called AuditDashboard. AuditDashboard allows for easier collaboration and file sharing between and your audit team. It is a robust, secure digital platform that is specifically designed to streamline the process of sharing information with us. More information on this new tool can be found at: [Information about AuditDashboard](#).

The benefits of AuditDashboard

Your team will be invited to collaborate on one central request list in a shared space. The ability to drag and drop files makes it easy to fulfill requests. Real-time status updates provide greater visibility to everyone and helps to keep everyone organised and on the same page. It will be easy to:

- see what has been asked for;
- assign specific tasks to your own people and see who each request is assigned to;
- see when each request is due and track the progress of requests;

- exchange information securely; and
- see what has been uploaded.

Rather than obtaining information from management as we need it, we will send requests in advance. Your team will have time to gather the relevant information, upload the files, and submit them to us at any time that suits them up to the due date. When we start work, we will already have access to this information and can get started straight away.

We intend to start using AuditDashboard at our final audit stage. We have provided the Finance and Corporate Development Group Manager with an overview and an agreement to use AuditDashboard.

We will work with your team to onboard them to AuditDashboard, answer any questions you might have, and ensure your team understand how to use it.

Expectations



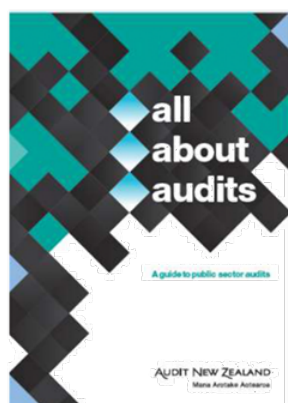
For the audit process to go smoothly for both you and us, there are expectations that each of us need to meet.

Our respective responsibilities are set out in our audit engagement letter.

We expect that:

- you will provide us with access to all relevant records and provide information in a timely manner;
- staff will provide an appropriate level of assistance;
- the draft financial statements, including all relevant disclosures, will be available in accordance with the agreed timetable;
- management will make available a detailed workpaper file supporting the information in the financial statements; and
- the annual report, financial statements and performance information will be subjected to appropriate levels of quality review before being provided to us.

To help you prepare for the audit, we will liaise with management and provide them with a detailed list of the information we will need for the audit. We have also published information to help explain the audit process:



Health and safety



The Auditor-General and Audit New Zealand take seriously their responsibility to provide a safe working environment for audit staff.

Under the Health and Safety at Work Act 2015, we need to make arrangements with management to keep our audit staff safe while they are working at your premises.

We expect you to provide a work environment for our audit staff that minimises or, where possible, eliminates risks to their health and safety. This includes providing adequate lighting and ventilation, suitable desks and chairs, and safety equipment where required. We also expect management to provide them with all information or training necessary to protect them from any risks they may be exposed to at your premises. This includes advising them of emergency evacuation procedures and how to report any health and safety issues.



AUDIT NEW ZEALAND
Mana Arotake Aotearoa

www.auditnz.parliament.nz

PO Box 232
Dunedin 9054



31 May 2021

Colin Wollstein
Chair, Performance, Audit and Risk Committee
Waitaki District Council
Private Bag 50058
Oamaru 9444

Dear Colin

Proposed audit fees for the 30 June 2021 and 30 June 2022 financial years

Our audit proposal letter dated 15 May 2020 for the three financial years ending 30 June 2022 only included audit fees for the 30 June 2020 financial year and said we would agree the fees for the 30 June 2021 and 30 June 2022 audits at a future date.

The purpose of this letter is to provide information on:

- the hours we plan to spend on the audits and the reasons for any change in hours; and
- our proposed audit fee for each financial year, and the reasons for the proposed change in fee.

Please read this letter in conjunction with our audit proposal letter dated 15 May 2020.

1 Background to the fee increases

In our audit proposal letter dated 4 June 2020, we set out the statutory basis for our audit and how fees are set.

We also referred to a letter that the Auditor-General had sent to councils in April 2020 setting out his thoughts on the matter of council audit fees. He reflected that for a number of years there has been a significant and growing under recovery of audit fees across much of the local government sector, for a range of reasons. He advised that audit fees will, in the future, need to be increased to reflect the real costs.

The Auditor-General has now agreed to allow us to discuss with you an approach to increasing audit fees to better reflect those real costs.

2 Team mix and hours for the year ending 30 June 2021 and 30 June 2022

| Audit team member | 2020 budget | 2020 actual | 2021 proposed | 2022 proposed |
|---|-------------|-------------|---------------|---------------|
| Appointed Auditor | 68 | 151 | 86 | 86 |
| Engagement Quality Review Director | 12 | 10 | 12 | 12 |
| Audit Manager | 106 | 183 | 125 | 125 |
| Other Chartered Accountant (CA) qualified staff | 204 | 579 | 204 | 204 |
| Non CA qualified staff | 410 | 751 | 410 | 410 |
| Other specialists | 19 | 59 | 19 | 19 |
| Total audit hours | 819 | 1733 | 856 | 856 |
| Increase withheld until 2019/20 (relating to unavoidable travel time) | 37 | - | - | - |
| Total audit hours | 856 | 3466 | 1712 | 1712 |

**Note – Total actual audit hours are all hours incurred. These hours have not been adjusted to eliminate any hours that were due to auditor inefficiencies.*

3 Proposed audit fee for the year ending 30 June 2021 and 30 June 2022

Our proposed fee for your audits (compared to budgeted and actual data from the previous financial year) are:

| Structure of audit fees | 2020 budget | 2020 actual* | 2021 proposed | 2022 proposed |
|--|----------------|----------------|----------------|----------------|
| | \$ | \$ | \$ | \$ |
| Net audit fee (excluding Office of the Auditor-General (OAG) overhead and disbursements) | 146,374 | 146,374 | 159,548 | 166,248 |
| OAG Audit Standards and Quality Support (ASQS) fee | 10,815 | 10,815 | 11,788 | 12,260 |
| Additional audit fee | - | 27,070 | - | - |
| Total audit fee (excluding disbursements) | 157,189 | 184,259 | 171,336 | 178,508 |
| Estimated disbursements | 9,000 | 17,290 | 9,000 | 9,000 |
| Total billable audit fees and charges (excluding GST) | 166,189 | 201,549 | 180,336 | 187,508 |

**Note – 2020 actual audit fees charged were \$184,259 compared to our actual 2020 audit costs of \$305,075. These costs have not been adjusted to eliminate any matters arising from auditor inefficiencies.*

Our proposed audit fees have been restricted based on OAG directives. The effect of these was a reduction in the proposed fee for the 2021 audit (based on proposed hours and actual charge out rates) of \$1,748.

The audit fees allow for the audit team to carry out specific tasks identified in the OAG Sector Brief and for the OAG ASQS fee.

We have also estimated the reasonable cost of disbursements (including travel and accommodation where necessary). Disbursement costs are indicative only and will be charged on an actual and reasonable basis.

Reasons for increase in audit fee

The main changes in cost components for future audits are:

| Reasons for increased audit fee compared to previous period budgeted fees: | 2021 | 2022 |
|---|---------------|--------------|
| Staff salary cost movements | 13,174 | 6,700 |
| OAG overhead increase | 973 | 472 |
| Total increase in audit fees | 14,147 | 7,172 |

4 Assumptions relating to our audit fee

Our proposed audit fee is based on the assumptions included in our audit proposal letter dated 15 May 2020.

Our hours and fees are based on one revaluation for each class of asset in the three-year period and are incorporated into our overall hours and spread evenly across the three years.

5 Conclusion

As the Appointed Auditor, I am committed to providing you and the Auditor-General with the highest level of professional service. I intend to work with you, the OAG, and the Auditor-General in a partnership environment to resolve any issues that may arise.

If you require any further information, please contact me.

Please counter-sign this letter (below) to confirm that you, and the governing body of Waitaki District Council, agree with its contents. This letter will then form the basis for a

recommendation to the Auditor-General on the audit fee that should be set. The schedules of audit hours and fees will also be incorporated into my contract with the Auditor-General to carry out the audit of Waitaki District Council as the agent of the Auditor-General.

Yours sincerely

Rudie Tomlinson
Appointed Auditor
Audit New Zealand

I accept the audit fees for the audit of the financial years as stated above.

Full name: Colin Wollstein Position: Chair, Performance, Audit and Risk Committee

Authorised signature: _____ Date: _____

Entity name: Waitaki District Council

- 1 Make a copy of this signed proposal and keep it for your file.
- 2 Send the original to: Rudie Tomlinson
Audit New Zealand
PO Box 232
Dunedin 9054

4.2 TREASURY STRATEGY, 2021-22 FINANCIAL YEAR - SECOND QUARTER

Author: Ian Wells, Accounting Manager

Authoriser: Paul Hope, Finance and Corporate Development Group Manager

Attachments: 1. Bancorp Treasury Report for June 2021

RECOMMENDATIONS

That the Performance, Audit and Risk Committee recommends:

That Council adopts a Treasury Strategy for the second quarter of the 2021-22 financial year. This Strategy includes:

- Continuing to review and manage present borrowings from the Local Government Funding Agency (LGFA) by rolling maturity dates and replacing maturing facilities with new ones to remain within the borrowing limits previously approved by Council;
- Continuing the review and rationalisation of other banking facilities as previously approved and as Council's financial circumstances allow; and
- Investing any available funds to best advantage to maximise returns.

DECISION OBJECTIVE

To report and discuss Council's proposed Treasury Strategy for the second quarter of the 2021-22 financial year, to actively manage Council's exposure to and dealings with the Local Government Funding Agency (LGFA), and to invest surplus funds when these are available to best advantage.

SUMMARY

The Investment Policy adopted as part of the 2021-31 Long Term Plan sets out reporting and accountability requirements which include regular reporting of outcomes in the Treasury activity and the adoption of a quarterly Treasury Strategy.

DECISION-MAKING EXPECTATIONS

| | |
|------------------------------|--|
| Governance Decision-Making: | To adopt the proposed Treasury Strategy |
| Operational Decision-Making: | Implement the Treasury Strategy, engage with LGFA to arrange borrowings and repayments and amend and adjust maturity dates as needed, and to update Council's relationships with its other bankers as appropriate |
| Communications | Media Releases – contributed to by officers and Elected Members Media/public enquiries regarding governance decision-making topics above can be addressed by governance Media/public enquiries regarding operational decision-making topics above can be addressed by officers |

SUMMARY OF DECISION-MAKING CRITERIA

| | No/Moderate/Key | | No/Moderate/Key |
|--------------------|-----------------|------------------------------|-----------------|
| Policy/Plan | Key | Environmental Considerations | No |
| Legal | No | Cultural Considerations | No |
| Significance | No | Social Considerations | No |
| Financial Criteria | No | Economic Considerations | No |
| Community Views | No | Community Board Views | No |
| Consultation | No | Publicity and Communication | No |

BACKGROUND

Officers have historically invested surplus funds on relatively short-term bases (generally for no longer than 12 months, often for periods of less than 30 days) with any of four primary banking institutions in order to maximise the returns available.

During the 2020-21 financial year, opportunities to make such investments were infrequent, and the returns were not significant. However, there are now strong indications that, with interest rates expected to rise, those returns may increase materially. With increased rates revenue, with the expected receipt of the balance of Council's funding from Tranche 1 of the Three Waters funding and with projected repayments from external borrowers, Council is likely to have greater opportunity to generate increased revenue from this source.

However, Council faces issues over the next year that will adversely impact its available cash reserves –

- The projected capital spend for 2021-22, the first year of the 2021-31 Long Term Plan, is about \$25m, to which must be added unfinished projects from 2021. While Waka Kotahi will fund its share of Roading works and extra funding is expected to be received to complete Tranche 1 projects, Council must fund the balance of these projects. Depending on the timing of the expenditure, there is no doubt that increased borrowings will be required.
- There may be a need to bring projects forward from later years in the LTP, again potentially placing strain on Council's ability to fund those works without new borrowings.
- The mould infestation in the Forrester Gallery, the Lake Ōhau Village fire event and the COVID-19 pandemic were events that could not have been foreseen, but which have had significant and ongoing impacts on Council's financial resources. Any similar events in the future would likely have a similar result and require Council to consider additional borrowing.

In short, having made the decision to take on external debt, and no longer being in the position of being able to rely on invested funds to support capital projects, Council must now actively manage that debt and its exposure to the LGFA to best advantage.

To that end, Council's Long Term Plan projects borrowings at 30 June 2022 will be \$25M.

As has been outlined in previous Treasury Strategy discussions, Council has cashflows that are highly predictable, and that have historically followed the pattern outlined below:

| High cash balance | Medium cash balance | Low cash balance |
|--------------------------|----------------------------|-------------------------|
| August | September | October |
| November | December | January |
| February | March | April |
| May | June | July |

This regularity of cashflows results from invoicing annual rates in four instalments and charging water-by-meter and trade waste on a quarterly basis. Provided payment of rate instalments and those other regular charges is made by the due date, Council can rely on having surplus funds in four months each year. These surplus funds have historically been used for investment purposes, with term deposits maturing over subsequent months to provide funds for operational purposes.

Council's projected cashflows for the 2021-22 financial year are improved over those for the previous period because of the significant increase in rates revenue and expected receipt of the Tranche 1 funding. However, this improved revenue is offset by the level of capital expenditure and increased operational costs budgeted.

Council has approved increased borrowings from the LGFA of from \$15M to \$25M. On 29 July, the LGFA provided \$5M of this approved increase which was necessary to meet increased levels of creditor payments and to repay amounts borrowed from the BNZ for day-to-day requirements. The increased borrowings will be replaced with longer term loans at the end of August.

Bancorp's Treasury report accompanies this report as Attachment 1. Mr Miles O'Connor of Bancorp is meeting with officers before this meeting to develop a plan and structure around the new borrowing facilities and will then present the Bancorp report to the Committee Meeting and respond to any questions arising.

Loans to external parties

Council has made decisions in previous years to use accumulated funds to support community-driven developments intended to improve and expand economic and community benefits. These have included increasing irrigation opportunities, developing accommodation and care facilities for the elderly, and supporting and promoting the region's history, heritage, and culture. These loans have provided good levels of return to Council and are reported in each Treasury Report presented to the Committee.

The interest rates on these loans are market-based and set at the start of each financial year. Despite the current indications that interest rates will rise this year, because the largest of Council's external loans have had rates set in May for the full year, Council will not benefit significantly from the expected improvement in rates during the 2021-22 financial year.

Term Deposits

During months listed as "high cash balance" in the table above, or when principal repayments are made by external borrowers, officers must make decisions on how to deal with the resulting funds in the following order of priority:

- Firstly, consideration is given to operational requirements
- Secondly, loan repayment obligations
- Lastly, term deposit opportunities.

Term deposits have been something of a luxury in recent years as Council has seen a greater reliance on borrowings, and surplus cash has primarily been used to repay loans, particularly those to the BNZ. The more fixed nature of the LGFA loans means Council has more opportunity to place surplus cash on deposit and so should be well placed to take advantage of increasing interest rates as these become available.

External Borrowing options

Local Government Funding Agency (LGFA)

Council joined the LGFA and received loan funding of \$15M on 4 November 2020. That debt consists of one tranche of Commercial Paper (CP), three Floating Rate Notes (FRN) and four Fixed Rate Bills (FRB) as detailed below.

Since then, Council has rolled the original commercial paper twice, and has drawn a further \$5M to meet immediate funding needs. As a result of this additional funding, there is much less likelihood that Council will need to utilise the BNZ facilities in future.

| Type of security | Maturity | Interest rate | Principal \$ |
|-------------------------|-----------------|----------------------|---------------------|
| LGFA CP | 31-Aug-21 | 1.065% | \$5,000,000 |
| LGFA CP | 11-Feb-22 | 0.85% | \$2,500,000 |
| LGFA FRN | 14-Apr-22 | 0.895% | \$2,000,000 |
| LGFA FRN | 15-Apr-23 | 0.90% | \$2,000,000 |
| LGFA FRN | 15-Apr-24 | 0.92% | \$2,000,000 |
| LGFA FRB | 15-Apr-24 | 0.65% | \$1,500,000 |
| LGFA FRB | 15-Apr-25 | 0.73% | \$1,500,000 |
| LGFA FRB | 15-Apr-26 | 0.84% | \$1,500,000 |
| LGFA FRB | 15-Apr-27 | 0.93% | \$2,000,000 |
| | | Total | \$20,000,000 |

- Commercial Paper maturing on 31 August will be replaced with Bills or Notes with much longer maturity dates based on advice from Bancorp.
- Commercial Paper maturing on 11 February 2022 will be rolled again for another six months.
- Debt maturing in April 2022 will be repaid on the due date and a new loan taken out or, depending on Council's financial projections, that replacement loan might be delayed.

Bank of New Zealand (BNZ)

Council has retained Customised Average Rate Loan (CARL) facilities with the BNZ totaling \$5M as well as an overdraft facility of \$0.250M. At 30 June 2021, Council had drawn \$1M from the CARL facilities. This had increased by 20 July but was fully repaid with the new borrowing from the LGFA.

Future Requirements

Council has approved increasing borrowings from the LGFA to \$25M, and officers believe that, given the pressures on Council to achieve operational and capital expenditure targets, the full amount will be required by year end.

Council has also approved the cancellation of the BNZ facilities. This is a staged process, with the facility having already been reduced to the present \$5M. It is intended to reduce this further to \$1M as part of this strategy.

SUMMARY OF OPTIONS CONSIDERED

Option 1 – That Council adopts a Treasury Strategy for the second quarter of the 2021-22 financial year. This strategy includes:

- Continuing to review and manage LGFA borrowings while remaining within those previously approved limits;
- Reviewing and rationalising current arrangements with other banking providers; and
- the investing of any available funds to best advantage to maximise returns.

Option 2 – Direct officers to research and present an alternative strategy.

ASSESSMENT OF PREFERRED OPTION

Option 1 is preferred, as it is the continuation of the current Treasury Strategy and is viewed by officers as the most viable available option given Council's present funding circumstances.

CONCLUSION

If this proposed Treasury Strategy is adopted, officers will continue to direct their efforts to maximising, wherever possible, returns from Council's investments whilst minimising as much as is practicable the costs of financing Council's ongoing operational and capital funding requirements.

ADDITIONAL DECISION-MAKING CONSIDERATIONS

Outcomes

We keep our district affordable

We enable opportunities for new and existing business

We provide and enable services and facilities, so people want to stay and move here

We understand the diverse needs of our community

Waitaki's distinctive environment is valued and protected

We maintain the safest community we can

Financial Considerations

These are critical to Council's ongoing operations.

Attachment 1 – Treasury Report for Waitaki District Council (Bancorp, June 2021)

TREASURY REPORT

FOR



AS AT

30 JUNE 2021



AUCKLAND • CHRISTCHURCH

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1. MARKET ENVIRONMENT

1.1 GLOBAL MARKETS OVERVIEW (AS AT 30 JUNE 2020)

Every asset class was a winner in the June quarter. US sharemarkets hit record highs, commodity prices extended their rally to levels not seen since 2011, and bond yields finally slipped after nine months of steepening. Central bankers have altered their tune and adopted a more hawkish stance, calling for rate hikes earlier than previously expected as several Q1 GDP results exceeded expectations and inflationary forces that were deemed 'transitory' could be here to stay.

In the US, the Federal Reserve ("Fed") left its Fed Funds target range unchanged at 0.0-0.25% at the June meeting, although policymakers signalled that rate hikes could come as soon as 2023 after the inclusion of the so-called 'dot plot' of expectations suggested there will be two hikes in 2023. Furthermore, the central bank now forecasts US GDP to grow at 7.0% in 2021. This more optimistic outlook saw the fixed income markets take the 'dot plots' at their projections, although Chair, Jerome Powell, played down the projections saying, *"the dots are not a great forecaster of rate moves. Dots to be taken with a big grain of salt."*

US CPI rose 5.0% in the May year from a year earlier, which was the largest 12-month increase since September 2008. Core inflation came in at 3.8%. The report showed sharp increases in transitory prices for items such as fuel and second-hand motor vehicles, but there was also a residual firmness in core inflation from the likes of rents and hotels, that is hard to ignore.

Despite rising inflation across the globe, the US 10 year Treasury Bond yield has fallen around 0.30% since the last report and finished the quarter at 1.47%. This fall in long term yields is a result of the Fed hikes that are forecasted for 2023, as the market believes these hikes reduce the inflationary pressures in the long term.

In China, the National People's Congress announced an annual GDP growth target of *"above 6.0%,"* and pledged to keep the unemployment rate below 5.5%, while the Chinese Premier, Li Keqiang, reiterated that *"economic growth this year could exceed 6.0%. We need to seek a balance between growth, income, and employment, and we cannot pursue economic growth based on high energy consumption and heavy pollution. China needs growth in employment and income and will have to work more on boosting domestic demand and consumption."*

For all of the comments from members of the Fed over the month, the European Central Bank ("ECB") has been conspicuous by its absence. ECB President, Christine Lagarde, is focussing on a 'green' recovery stating *"we need to add another element to our post-pandemic recovery plan with what I have termed a green capital markets union – a truly green European capital market that transcends national borders."* The German 10 year bund remains entrenched in negative territory, trading in a range between -0.07% to -0.35% during the quarter, finishing June at -0.20%.

1.2 NEW ZEALAND MARKET OVERVIEW (AS AT 30 JUNE 2021)

| | OCR | 90 day | 2 years | 3 years | 5 years | 7 years | 10 years |
|-------------|-------|--------|---------|---------|---------|---------|----------|
| 31 Mar 2021 | 0.25% | 0.35% | 0.48% | 0.66% | 1.10% | 1.54% | 1.91% |
| 30 Jun 2021 | 0.25% | 0.33% | 0.78% | 1.00% | 1.36% | 1.62% | 1.88% |
| Change | 0.0% | -0.02% | +0.30% | +0.34% | +0.26% | +0.08% | -0.03% |

The tone of the Reserve Bank of New Zealand’s (“RBNZ”) May’s *Monetary Policy Statement* (“MPS”) was no doubt more optimistic, with the RBNZ pointing to several areas of an upside, it also emphasised that it would maintain its stimulus “until it is confident that consumer price inflation will be sustained near the 2 percent per annum target midpoint, and that employment is at its maximum sustainable level. The Committee agreed it will take time before these conditions are met.”

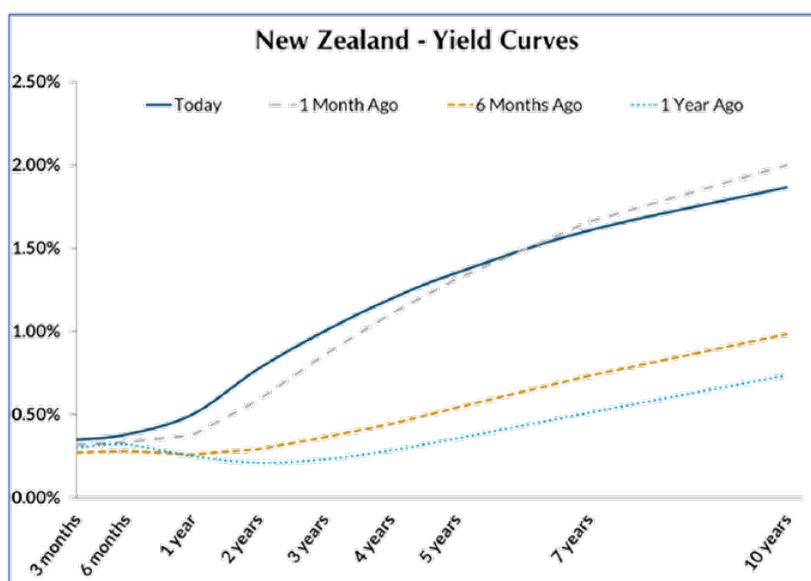
The most interesting aspect of the MPS was the inclusion of the RBNZ’s OCR projections beyond 12 months. These projections suggest the OCR may start rising in the second half of 2022, topping out near 1.75% in mid-2024 as the RBNZ gains greater confidence in its outlook for the economy with “reduced risk of extreme downside shocks.” Following the MPS, New Zealand interest rates climbed between 0.10% and 0.14% across the yield curve.

The economic recovery in New Zealand continues which was confirmed by the sensational March quarter 2021 GDP print. Quite simply, no one forecasted the 1.6% print for the quarter, nor the year on year growth at 2.4%. The RBNZ was projecting a contraction of -0.5% for the quarter, while the banks were calling for +0.5%, highlighting the ‘surprise’ of this print. On a sector level, the strong housing market, domestic spending, and construction offset the losses from tourism and international students. This saw some of the local banks bring forward their OCR hike projections by a quarter or two.

The unemployment rate and participation rate outperformed market expectations in the first quarter, however underlying weakness might be starting to appear. The unemployment rate decreased to 4.7% and the participation rate increased to 70.4%, while expectations were 4.9% and 70.2%. Overall, the initial labour market recovery has been impressive, however absorption of the remaining slack may be more gradual, resulting in muted wage and inflation pressures for some time.

Offshore bond movements drove down yields in New Zealand. The 10 year swap rate tested the 2.00% mark before declining 0.20% due to offshore drivers, although some of this downward movement has been reversed, finishing the quarter at 1.88%. The 3–5 year swap rates are looking the most expensive after the release of the RBNZ’s MPS which illustrated that the OCR projection will reach 1.75% by 2024. The New Zealand 10 year swap rate has bounced off a long term trend line, testing the level of resistance twice within the last few months, both times being rejected and

subsequently falling, suggesting that swap rates have found a trading range. The following graph shows the changes in the shape of the yield curve over the past 12 months.



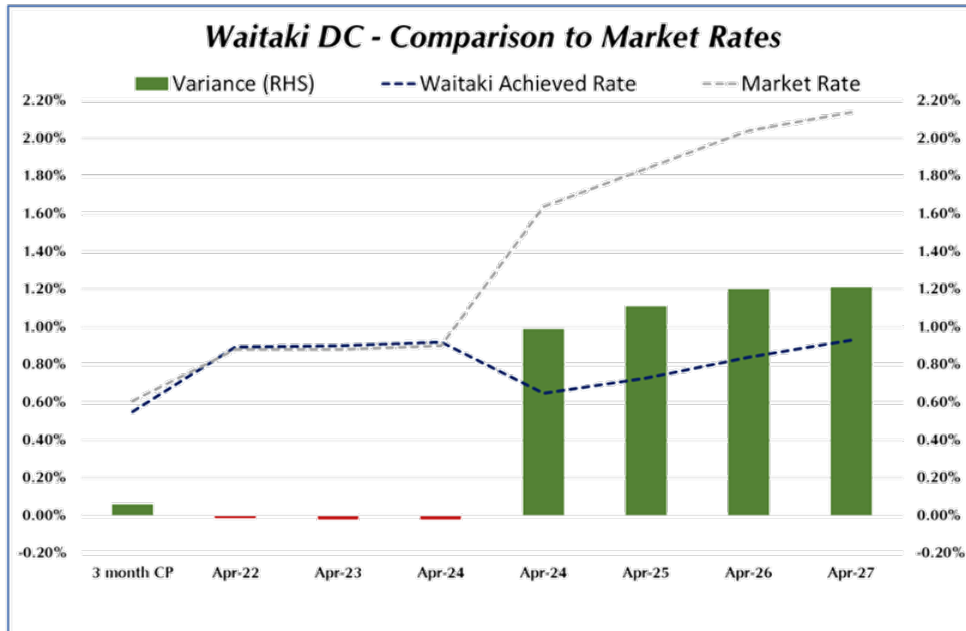
1.3 LOCAL AUTHORITY SECTOR

Listed below are the credit spreads and applicable interest rates for Commercial Paper (“CP”), Floating Rate Notes (“FRN”) and Fixed Rate Bonds (“FRB”), at which Waitaki District Council (“WDC”) could source debt from the Local Government Funding Agency (“LGFA”). The numbers in brackets highlighted in red are the interest rates that WDC achieved for its \$15.0 million of funding in October 2020

| Maturity | Margin | FRN (or CP) Rate | FRB |
|------------|--------|------------------|-------|
| 3 month CP | 0.25% | 0.60% (0.55%) | N/A |
| 6 month CP | 0.25% | 0.60% | N/A |
| April 2022 | 0.42% | 0.77% (0.895%) | 0.73% |
| April 2023 | 0.48% | 0.83% (0.9%) | 0.83% |
| April 2024 | 0.50% | 0.85% (0.92%) | 0.94% |
| April 2025 | 0.56% | 0.90% | 1.19% |
| April 2026 | 0.61% | 0.96% | 1.46% |
| April 2027 | 0.65% | 1.01% | 1.76% |
| April 2029 | 0.74% | 1.09% | 1.99% |
| May 2031 | 0.75% | 1.10% | 2.45% |
| April 2033 | 0.90% | 1.25% | 2.96% |
| April 2037 | 0.94% | 1.29% | 3.35% |

Margins for LGFA debt continued to decrease over the June quarter as the favourable conditions in the credit markets continued. Yields for FRB’s have increased in the short to middle end of the curve

which is driven from the market pricing for interest rate hikes over the next couple of years. This has pushed the 'belly' of the curve out and bringing the long end down, flattening the curve. Yields for FRB's have decreased substantially in the long end. Margins for FRN's have continued to decline and the LGFA have reduced its on lending margin to councils to 15bp from 20bp.

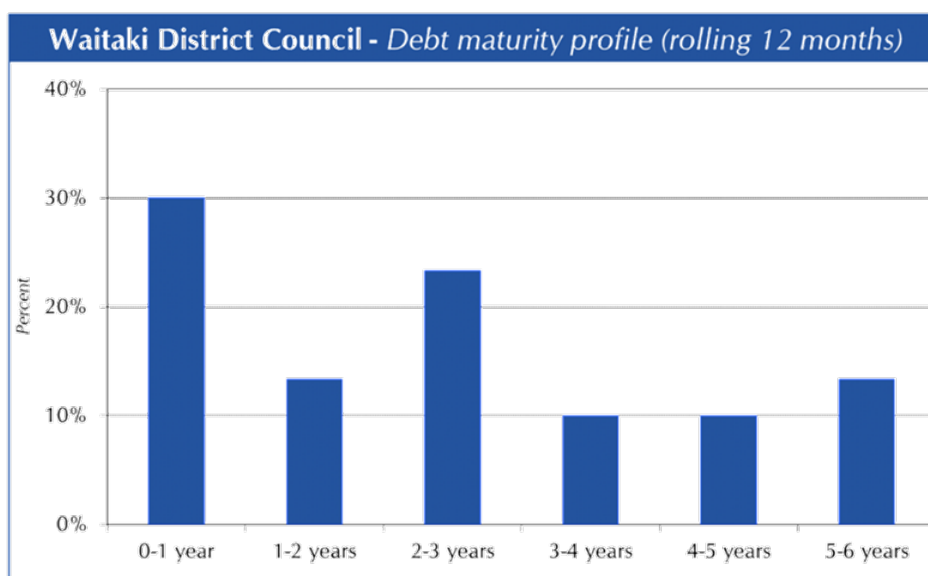


2. DEBT AND COVER PROFILES

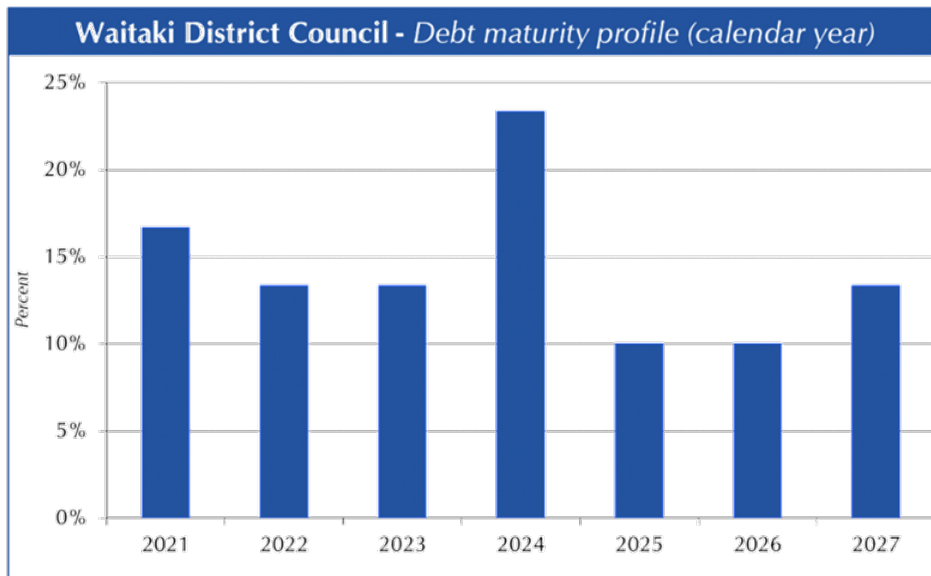
As at 30 June 2021, WDC had \$15.0 million of debt, which was sourced from the LGFA using one tranche of CP, three FRNs and four FRBs. The debt is detailed in the table below.

| Instrument | Maturity | Rate | Amount |
|------------|-----------|--------------|---------------------|
| LGFA CP | 16-Aug-21 | 0.55% | \$2,500,000 |
| LGFA FRN | 14-Apr-22 | 0.94% | \$2,000,000 |
| LGFA FRN | 15-Apr-23 | 0.96% | \$2,000,000 |
| LGFA FRN | 15-Apr-24 | 0.98% | \$2,000,000 |
| LGFA FRB | 15-Apr-24 | 0.65% | \$1,500,000 |
| LGFA FRB | 15-Apr-25 | 0.73% | \$1,500,000 |
| LGFA FRB | 15-Apr-26 | 0.84% | \$1,500,000 |
| LGFA FRB | 15-Apr-27 | 0.93% | \$2,000,000 |
| | | Total | \$15,000,000 |

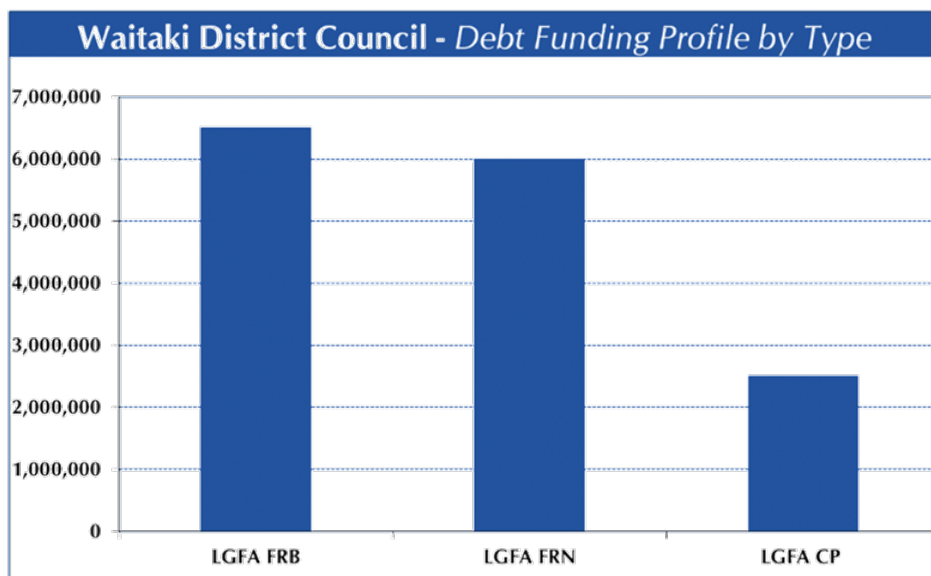
The debt maturity profile, based on a rolling 12 month period, is depicted in the following chart. As at 30 June, WDC was compliant with Section 2.6 of the Liability Management Policy (“LMP”) which states that “No more than 30% or \$10 million (whichever is the higher) of total debt is subject to refinancing in any rolling 12 month period.”



The debt maturity profile based on calendar years is depicted in the chart on the following page.



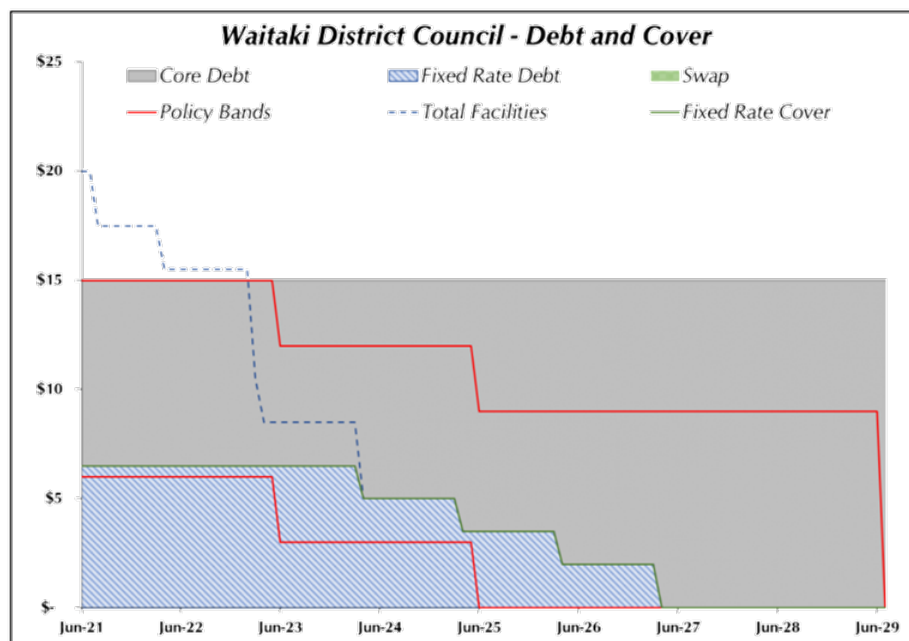
The debt funding profile categorised according to its type (based on a dollar amount) is depicted in the following chart.



To manage its interest rate exposures, WDC’s utilises fixed rate hedging percentages that are contained in Section 2.7 of the LMP Policy that specifies the minimum and maximum amount of fixed rate cover to which WDC shall adhere. These parameters are as follows:

| Fixed Rate Hedging Percentages | | |
|--------------------------------|--------------------|--------------------|
| | Minimum Fixed Rate | Maximum Fixed Rate |
| 0 – 2 years | 40% | 100% |
| 2 – 4 years | 20% | 80% |
| 4 – 8 years | 0% | 60% |

WDC’s debt and hedging profile, based on the current debt level of \$15,000,000 and incorporating the FRBs, is depicted below. The chart shows that as at 30 June, WDC was policy compliant with the fixed rate hedging percentages. The dotted blue line depicts the funding facilities including the bank facility which matures in August 2022.



As at 30 June, WDC’s cost of funds was 0.82% (excluding any bank line fee). WDC’s cost of funds is the lowest in the local authority sector that Bancorp Treasury is aware of based on bank fees being excluded from the calculation.

3. POLICY COMPLIANCE (AS AT 30 JUNE 2021)

| | Yes/No |
|--|--------|
| Are all treasury transactions in compliance with policy? | Yes |
| Are the fixed rate hedging percentages within policy control limits? | Yes |
| Is Council maintaining liquidity within policy control limits? | Yes |
| Is Council maintaining its funding profile within policy control limits? | Yes |
| Are all counterparty exposures within policy control limits? | Yes |
| Are all borrowing covenants/limits being complied with? | Yes |

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**PERFORMANCE, AUDIT AND RISK COMMITTEE
MEETING AGENDA**

5 MEMORANDUM REPORTS

5.1 QUARTERLY FINANCIAL REPORT - PERIOD 12, 30 JUNE 2021

Author: Ian Wells, Accounting Manager

Authoriser: Paul Hope, Finance and Corporate Development Group Manager

RECOMMENDATION

That Performance, Audit and Risk Committee receives and notes the information.

PURPOSE

This report reviews projected financial results for the 2021 financial year and includes the Treasury Report for the full year and summaries of internal loans and balances of special reserves.

COMMENTARY

Work on completing the GAAP Financial Reports is still underway. However, a projected year-end result is summarised in the tables appearing below and is provided in greater detail in Appendix A to this report. These projections are indicative only and are subject to change whether arising from recognition of actual figures or, possibly, from the audit process.

| | Projected Year end \$000 | Budget \$000 | Variance \$000 |
|------------------------------------|--------------------------------|-----------------|-------------------|
| Projected Surplus/(Deficit) | (4,975) | (885) | -4,090 |

Key elements influencing the projected deficit are outlined below:

| | Projected Year end \$000 | Budget \$000 | Variance \$000 |
|---------------------------------------|--------------------------------|-----------------|-------------------|
| Projected Revenue | | | |
| Rates | A 32,848 | 33,109 | -259 |
| Government Grants | B 12,930 | 11,426 | +1,504 |
| Other Grants & Donations | C 587 | 2,186 | -1,599 |
| Development & Financial Contributions | D 1,757 | 954 | +803 |
| Finance Revenue | E 786 | 1,044 | -258 |
| Dividend | F 631 | 500 | +131 |
| Other Income | G 7,663 | 7,300 | +363 |
| Total Projected Revenue | 57,202 | 56,519 | +683 |

| | |
|---|---|
| A | <i>Reduced rate penalties, reduced water usage post-COVID and increased remissions</i> |
| B | <i>DIA 3 Waters Tranche 1 funding unbudgeted +\$2,556k (still to be finalised) MBIE funding including A2O, public toilets and Freedom Camping +\$611k more revenue DIA Libraries partnership +\$179k unbudgeted revenue Prime Minister's Department for Ōhau fire event +\$100k unbudgeted extra income Waka Kotahi 3-year funding programme ended, income under budget -\$118k</i> |

**PERFORMANCE, AUDIT AND RISK COMMITTEE
MEETING AGENDA**

| | |
|----------|---|
| | <i>Funding for Cultural Facilities –\$1,832k less income</i> |
| <i>C</i> | <i>Fundraising for Cultural Facilities development project deferred -\$1,697 less income Unbudgeted \$60k from Mayors Taskforce for Jobs, \$100k from Meridian for Ōhau and Lion Foundation/Network Waitaki \$58k for Christmas Decorations</i> |
| <i>D</i> | <i>Development is continuing to take place, generating significant additional revenue</i> |
| <i>E</i> | <i>Interest rates remained depressed as reported previously, with little opportunity for generating additional income. Extensions for WDHSL and NZAA loans will see better returns in 2021-22</i> |
| <i>F</i> | <i>Whitestone Contracting dividend exceeded expectations</i> |
| <i>G</i> | <i>Other revenue includes \$72k of unbudgeted fines.</i> |

| Projected Expenditure | | Projected Year end \$000 | Budget \$000 | Variance \$000 |
|------------------------------------|---|---|-------------------------|---------------------------|
| Employee Costs | H | 13,059 | 13,099 | -40 |
| Depreciation | I | 15,932 | 16,255 | -323 |
| Finance Charges | J | 169 | 245 | -76 |
| Other Expenses | K | 30,901 | 27,805 | +3,096 |
| Other Losses / (Gains) | L | 2,118 | - | +2,118 |
| Total Projected Expenditure | | 62,179 | 57,404 | +4,775 |

| | |
|----------|---|
| <i>H</i> | <i>Budgeted recoveries from capital works under budget so increased cost +\$290k Budget includes Elected Members remuneration –\$568k as actual cost is in Other Expenses Actual Salaries & Wages essentially over budget by +\$265k</i> |
| <i>I</i> | <i>Increased over 2020 due to effect of Roding revaluation in 2020, but under budget as impact of the revaluation on cost was lower than expected</i> |
| <i>J</i> | <i>Reported under budget due to savings achieved through membership of the LGFA</i> |
| <i>K</i> | <i>Contractors and Consultants over budget +\$1,390k as the sewer pond desludging project was budgeted as capital expenditure Extra grants made – Mayoral relief, economic resilience +319k and Ōhau recovery +\$230k Elected Members remuneration expense included +\$560k – budgeted as Employee Costs</i> |
| <i>L</i> | <i>This estimate may change significantly. This happens annually but cannot be budgeted as there is no basis for establishing a budget. It is increased on the 2020 cost, as the Tranche 1 funding allowed more work to be completed on infrastructure in 2021. However, as these assets are replaced, any remaining value in the old assets must be written off.</i> |

| | | | | |
|--|---|----------------|--------------|---------------|
| Projected Surplus/(Deficit) from operations | | (4,977) | (885) | -4,092 |
| Projected share of Joint Venture Surplus/(Deficit) | M | 2 | - | +2 |
| Projected Surplus/(Deficit) | | (4,975) | (885) | -4,090 |

**PERFORMANCE, AUDIT AND RISK COMMITTEE
MEETING AGENDA**

| | |
|----------|---|
| <i>M</i> | <i>Council recognises 50% of the surplus or deficit reported by Omarama Airfield Ltd as revenue and changes the value of its investment by that amount. Although not expected to be material in 2021, in 2020 the value of the investment increased, and Council's deficit reduced, by \$996k, as the company completed the revaluation of its land and buildings</i> |
|----------|---|

PROJECTED STATEMENT OF FINANCIAL POSITION

Appendix A details the projected Statement of Financial Position. Significant variances and other features are summarized below

| Asset / Liability | | Projected Year end \$000 | Budget \$000 | Variance \$000 |
|---|---|--------------------------------|-----------------|-------------------|
| ASSETS | | | | |
| Property Plant and Equipment | N | 894,923 | 896,272 | -1,349 |
| Loans to Other Entities – Term portion | O | 27,261 | 25,859 | +1,402 |
| Loans to Other Entities – Current portion | O | 2,816 | 2,447 | +631 |
| Cash and Cash Equivalents | P | 2,180 | 1,067 | +1,113 |
| Term Deposits | P | - | 1,250 | -1,250 |
| LIABILITIES | | | | |
| Borrowings – non-current | Q | 10,500 | 5,000 | +5,500 |
| Borrowings – current | Q | 5,521 | 3,000 | +2,521 |
| Trade and Other Payables | R | 10,021 | 6,985 | +3,046 |
| Provisions – non-current | S | 366 | 505 | -139 |
| Provisions – current | S | 256 | 65 | +181 |

| | |
|----------|--|
| <i>N</i> | <i>Capital expenditure on Three Waters has been increased due to Tranche 1 funding. The final value of Property Plant and Equipment will be determined by the revaluation of 3 Waters infrastructure and any write-offs, both of which have been estimated for this projection, but are still to be finalised.</i> |
| <i>O</i> | <i>Loans to WDHSL and NZ Airline Academy were to be repaid in 2021, but terms have been extended. Repayment requirements in the revised NOIC loan agreement differ from those on which the budget was based.</i> |
| <i>P</i> | <i>Cash and Cash Equivalents include short-term deposits of \$2M. No funds were held on deposit with maturity dates greater than 90 days.</i> |
| <i>Q</i> | <i>When the budget was prepared, it was recognised that external borrowings would be necessary, but the quantum was not known. Actual borrowings are made up of \$1M from BNZ and \$15M plus accrued interest from LGFA.</i> |
| <i>R</i> | <i>Includes Rates paid in advance, Tranche 1 funding and Mayors Taskforce for Jobs funding in advance \$2,969k.</i> |
| <i>S</i> | <i>The split between current and non-current is based on anticipated works over the next 12 months and differs from budget due to a reassessment of tasks and timing.</i> |

CAPITAL EXPENDITURE

Total capital expenditure is reported as \$24.710M, which is under the forecasted \$35M (which includes \$9.9M of projects carried forward from prior periods). Significant variations are mainly due to budget timing issues:

- Roading – total \$8.667M is under budget by \$2.869M, primarily due to works delayed or deferred due to operational requirements – such as resolving flood damage in January. Indications are that much of this work will be completed in the next financial year.
- Water – total \$10.149M is over budget by \$2.600M due to works undertaken with the assistance of the Tranche 1 funding, and the additional reservoir construction project.
- Sewer – total \$0.403M is under budget by \$0.499M, principally due to projects deferred for the Oamaru sewer system.
- Property – total \$1.569M is under budget by \$2.956M. The shortfall principally relates to the Holmes Wharf re-decking and restoration project which is ongoing, and which will be carried forward to the 2021-22 financial year, and to the Cultural Facilities redevelopment project which will be undertaken next year.
- Parks and Recreation – total \$0.627M is under budget by \$1.156M. Little construction and development of public toilet facilities progressed during the year as funding from MBIE was not as forthcoming.
- Alps2Ocean – total \$1.396M is ahead of budget by \$0.724M, due to the need to complete as much work as possible prior to the end of the MBIE funding contract. Work continues at a slower pace while alternative funding sources are explored, and a new business case is prepared for consideration by MBIE.
- Motor Vehicles – total \$0.258M, under budget by \$0.020M. Note that one vehicle was purchased using Tranche 1 funding.
- Information Systems – total \$1.161M is under budget by \$1.172M as the department continues to undertake development work, fills staff vacancies and prioritises projects, including those carried forward from previous periods.

More detail on individual projects and budgets has been, or will be, provided in separate group activity reports.

IMPACT OF COVID-19 AND OTHER MATTERS

The lingering effects of COVID-19 can be seen reflected throughout this report. The pandemic has resulted in reduced revenue from parking, property rentals, penalties on overdue rates and reduced water usage in the first two billing cycles of the year. It has also seen Council provide additional grants and financial support to a number of organisations.

Council has also been adversely impacted by the ongoing effects of the Lake Ōhau Village fire event, which saw homes destroyed and residents displaced, and caused significant damage to Council's infrastructure in the area. Although \$230k was provided by way of financial support from central government, Meridian and members of the community, Council's costs have far exceeded this unexpected revenue.

Attachments

Appendix A – Financial Reports, projected at Period 12, with explanations for significant variances

Appendix B – Treasury Report

Appendix C – Internal Loans at 31 March 2021

Appendix D – Special Funds and Reserves at 31 March 2021

APPENDIX (A) – FINANCIAL REPORT, PROJECTED AT 30 JUNE 2021

Statement of Comprehensive Revenue and Expense

Projected for the year ended 30 June 2021

| | 2021 | 2021 | 2020 | Variance from | | Commentary on key items | \$000 |
|-----------------------------------|---------------|---------------|---------------|---------------|-------------|--|---------|
| | Projected | Annual Plan | Actual | Annual Plan | | | |
| | \$000 | \$000 | \$000 | \$000 | % | | |
| Revenue | | | | | | | |
| Rates Revenue | 32,848 | 33,107 | 32,833 | (259) | -1.1% | Penalties reduced to 5%, now back to 10% | - -113 |
| | | | | | | Water billing reduced on budget | - -159 |
| User Charges | 3,031 | 2,955 | 2,230 | 76 | 3.3% | | |
| Property Rental | 2,045 | 2,251 | 2,058 | (206) | -12.2% | Rent holidays due to Covid | - -140 |
| | | | | | | Residential rent increase held until January | - -33 |
| Regulatory Charges | 2,203 | 1,831 | 1,746 | 372 | 26.4% | Consent fees up due to levels of activity | + 334 |
| | | | | | | LIM charges up due to levels of activity | + 33 |
| | | | | | | McAughtrie fine | + 72 |
| | | | | | | Liquor licences | - -15 |
| | | | | | | Licences & Permits | - -47 |
| Development and RMA Contributions | 1,757 | 954 | 1,028 | 803 | 112.3% | Water | + 440 |
| | | | | | | Sewer | + 213 |
| | | | | | | RMA | + 200 |
| | | | | | | Roading | - -50 |
| Government Grants and Subsidies | 12,930 | 11,426 | 8,114 | 1,504 | 18.8% | DIA for Water sustainability projects | + 1432 |
| | | | | | | MBIE for Alps2Ocean construction/support | + 881 |
| | | | | | | PGF for Palmerston Sports Hall | + 111 |
| | | | | | | Central Government for Lake Ohau relief | + 100 |
| | | | | | | DIA National Library partnership | + 179 |
| | | | | | | MSD for family violence programme | + 36 |
| | | | | | | MBIE for freedom camping ambassadors | + 20 |
| | | | | | | Gallery/Museum funding | - -1832 |
| | | | | | | MBIE for public toilet projects | - -278 |
| | | | | | | NZTA Rooding subsidy - timing of works | - -118 |
| Other Grants and Donations | 587 | 2,186 | 425 | (1,599) | -405.8% | Meridian & community for Ohau | + 130 |
| | | | | | | Mayors' Taskforce for Jobs | + 63 |
| | | | | | | Bequest - Est R Mitchell | + 62 |
| | | | | | | Lion Fndn/Network Waitaki Xmas decorations | + 58 |
| | | | | | | Alps2Ocean general donations reduced | - -140 |
| | | | | | | Cultural Facility fundraising deferred | - -1697 |
| | | | | | | Refer Treasury Report | |
| Finance Revenue | 786 | 1,044 | 976 | (258) | -33.0% | | |
| Petrol Tax | 203 | 205 | 200 | (2) | -1.3% | | |
| Infringements and Fines | 51 | 60 | 45 | (9) | -20.0% | | |
| Dividends received | 631 | 500 | 1,004 | 131 | 26.2% | | |
| Assets vested in Council | 130 | - | 120 | 130 | | | |
| Total Revenue | 57,202 | 56,519 | 50,779 | 683 | 1.7% | | |

APPENDIX (A) – FINANCIAL REPORT, PROJECTED AT 30 JUNE 2021 (CONTINUED)

Statement of Comprehensive Revenue and Expense

Projected for the year ended 30 June 2021

| | 2021 Projected \$000 | 2021 Annual Plan \$000 | 2020 Actual \$000 | Variance from Annual Plan | | Commentary on key items | \$000 |
|--|----------------------------|------------------------------|-------------------------|------------------------------|--------------|---|-------|
| | | | | \$000 | % | | |
| Expenses | | | | | | | |
| Personnel costs | 13,059 | 13,099 | 12,062 | (40) | -0.4% | Elected Members reported in Other Expenses - | -560 |
| | | | | | | Kiwisaver - Council contributions | -9 |
| | | | | | | Wages & salaries | + 265 |
| | | | | | | Recoveries from projects under budget | + 290 |
| Depreciation and amortisation | 15,932 | 16,255 | 15,177 | (323) | -2.7% | Depreciation ex roading valuation lower than budgeted | |
| Finance Costs | 169 | 245 | 148 | (76) | -41.3% | Refer Treasury Report | |
| Other expenses | 30,901 | 27,805 | 26,153 | 3,096 | 13.5% | Contractors in total over budget | + 796 |
| Note that much of this apparent overspend is associated with either | | | | | | Consultants in total over budget | + 594 |
| <i>Water sustainability projects, which have resulted in unbudgeted Tranche1 revenue</i> | | | | | | Elected Members budgeted in Employee Cost | + 560 |
| <i>The Lake Ohau Village fire event, which has resulted in increased revenue</i> | | | | | | Resilience grants - economic/Mayoral/Ohau | + 319 |
| | | | | | | Electricity | + 278 |
| | | | | | | Lake Ohau fires & recovery | + 230 |
| | | | | | | Recruitment costs | + 125 |
| | | | | | | Change landfill closure provision | + 117 |
| | | | | | | Software licensing | + 114 |
| | | | | | | Tourism Waitaki - Covid-19 support | + 84 |
| | | | | | | Solicitors fees | + 77 |
| | | | | | | Lease of Wear Street offices | + 65 |
| | | | | | | ACC | - 13 |
| | | | | | | Bad Debts (rating sales & other writeoffs) | - 60 |
| | | | | | | Travel/accommodation/training - Covid-19 | - 76 |
| | | | | | | Losses on disposal/Write-offs. | |
| Non-Trading Losses / (Gains) | 2,118 | - | 1,359 | 2,118 | 0.0% | | |
| Total Expenses | 62,179 | 57,404 | 54,899 | 4,775 | 10.8% | | |
| Share of joint venture's surplus / (deficit) | 2 | - | 996 | | | | |
| Surplus / (Deficit) before Tax | (4,975) | (885) | (3,124) | (4,092) | | | |
| Other Comprehensive Revenue and Expense | | | | | | | |
| Gain/(Loss) on revaluation of Infrastructural Assets | 7,500 | 56,500 | 45,785 | | | Note - Roothing revaluation recognised in 2020 | |
| Gain/(Loss) on revaluation of Properties | - | - | 38,711 | - | | Current Year reflects revaluation of 3 Waters assets | |
| Total Other Comprehensive Revenue and Expense | 7,500 | 56,500 | 84,496 | | | | |
| Total Comprehensive Revenue and Expense | \$2,525 | \$55,615 | \$81,372 | 6,044 | | | |

**PERFORMANCE, AUDIT AND RISK COMMITTEE
MEETING AGENDA**

APPENDIX (A) – FINANCIAL REPORT, PROJECTED AT 30 JUNE 2021 (CONTINUED)

Statement of Financial Position

Projected for the year ended 30 June 2021

| | 2021 Projected \$000 | 2021 Budget \$000 | 2020 Actual \$000 |
|----------------------------------|----------------------------|-------------------------|-------------------------|
| Public Equity | | | |
| Ratepayers' Equity | 310,208 | 310,208 | 310,208 |
| Revaluation Reserve | 571,428 | 576,287 | 564,372 |
| Operating Reserve | 16,955 | 22,996 | 22,615 |
| Other Reserves | 16,485 | 15,875 | 15,356 |
| Total Public Equity | \$915,076 | \$925,366 | \$891,596 |
| Non-Current Assets | | | |
| Property Plant and Equipment | 894,923 | 896,272 | 881,049 |
| Intangible Assets | 962 | 833 | 785 |
| Forestry | 357 | 394 | 286 |
| Assets held for Sale | 1,150 | 1,150 | 1,150 |
| Other Financial Assets | | | |
| - Investments in Subsidiaries | 4,703 | 4,912 | 4,703 |
| - Investment in Joint Venture | 1,680 | - | 1,675 |
| - Investments in other entities | 458 | 145 | 145 |
| - Loans to other entities | 27,261 | 25,859 | 28,534 |
| | 931,494 | 929,565 | 918,327 |
| Current Assets | | | |
| Cash and Cash Equivalents | 2,180 | 1,049 | 560 |
| Receivables | 5,751 | 6,365 | 5,153 |
| Prepayments | 732 | 663 | 642 |
| Inventory | 154 | 12 | 140 |
| Other Financial Assets | | | |
| - Term deposits | - | 1,250 | - |
| - Loans to other entities | 2,816 | 3,447 | 4,507 |
| Assets held for Sale | - | - | 386 |
| | 11,633 | 12,786 | 17,408 |
| Total Assets | 943,127 | 942,351 | 903,372 |
| Non-Current Liabilities | | | |
| Borrowings | 10,500 | 5,000 | - |
| Provisions | 366 | 505 | 413 |
| | 10,866 | 5,505 | 413 |
| Current Liabilities | | | |
| Trade and Other Payables | 10,021 | 6,985 | 7,565 |
| Short Term Borrowings | 5,521 | 3,000 | 7,400 |
| Employee Entitlement Liabilities | 1,398 | 1,430 | 1,632 |
| Provisions | 256 | 65 | 154 |
| | 17,196 | 11,480 | 16,751 |
| Total Liabilities | 28,062 | 16,985 | 11,776 |
| Net Assets | \$915,065 | \$925,366 | \$891,596 |

**PERFORMANCE, AUDIT AND RISK COMMITTEE
MEETING AGENDA**

APPENDIX (B) – TREASURY REPORT 2020-21

Treasury Overview

Borrowings

Borrowings at 30 June 2021 are detailed below:

| Type of security | Maturity | Interest rate | Principal \$ |
|------------------|-----------|---------------|---------------------|
| LGFA CP | 11-Feb-22 | 0.85% | \$2,500,000 |
| LGFA FRN | 14-Apr-22 | 0.895% | \$2,000,000 |
| LGFA FRN | 15-Apr-23 | 0.90% | \$2,000,000 |
| LGFA FRN | 15-Apr-24 | 0.92% | \$2,000,000 |
| LGFA FRB | 15-Apr-24 | 0.65% | \$1,500,000 |
| LGFA FRB | 15-Apr-25 | 0.73% | \$1,500,000 |
| LGFA FRB | 15-Apr-26 | 0.84% | \$1,500,000 |
| LGFA FRB | 15-Apr-27 | 0.93% | \$2,000,000 |
| | | Total | \$15,000,000 |
| BNZ CARL | On call | 2.3% | \$1,000,000 |
| Accrued interest | | | \$21,393 |
| | | | \$16,021,393 |

Borrowings were budgeted at \$7.4M, based on casual use of the BNZ facilities. Operational and capital requirements, the effect of adopting a budget with effectively no increase in rates over the previous year and the impact of both the pandemic and the Lake Ōhau fire event placed immense strain on Council's financial resources. That necessitated Council becoming a member of the LGFA which allowed Council access to increased borrowings at a greatly reduced cost.

Borrowing Costs

Borrowing costs for 2021 total \$169k, which is under budget by \$76k. The budget was based on continued casual use of the BNZ facilities, whereas the actual cost for the year reflects the cost of holding the full amount of the LGFA loans for almost eight months, and casual use of the BNZ facilities throughout the year.

The table below demonstrates clearly the benefit of Council's membership of the LGFA.

| Cost | 2021 Actual \$000 | 2021 Budget \$000 | 2020 Actual \$000 |
|------------------------|----------------------|----------------------|----------------------|
| BNZ Overdraft interest | - | 5 | 3 |
| BNZ CARL interest | 90 | 240 | 145 |
| LGFA interest | 79 | - | - |
| Total Finance expense | 169 | 245 | 148 |

The average cost of utilising BNZ facilities fluctuated over the year from 1.9% to 2.7% (2.3% at 30 June 2021) while LGFA borrowings are at rates that remain fixed until maturity. If Council had not joined the LGFA, it is likely that the total finance cost would have been approximately \$340k (assuming an average 2.5% on \$15M for eight months), so membership has saved Council about \$170k.

**PERFORMANCE, AUDIT AND RISK COMMITTEE
MEETING AGENDA**

APPENDIX (B) – TREASURY REPORT 2020-21 (CONTINUED)

Cash on hand

| Type of account | Maturity | Interest rate | Actual Balance \$ | Budget \$ |
|------------------------------------|------------|---------------|----------------------|------------------|
| Cheque - BNZ | Nil | Nil | 179,133 | 49,000 |
| Call - BNZ | Nil | 0.05% | - | 1,000,000 |
| Deposit - ASB | 20/07/2021 | 0.30% | 1,000,000 | - |
| Deposit - ASB | 20/08/2021 | 0.43% | 1,000,000 | - |
| Accrued interest | | | 620 | - |
| Cash & Cash Equivalents | | | 2,179,753 | 1,049,000 |
| Term Deposits | | | - | 1,250,000 |
| Total Cash Resources | | | 2,179,753 | 2,299,000 |

For reporting purposes, deposits with maturity dates within 90 days of the date of deposit are defined as Cash and Cash Equivalents, while deposits with original maturity dates exceeding 90 days are defined as Term Deposits.

Council has not had opportunity during the year to place funds on deposit for lengthy periods. When surplus funds have been available, these have been used to either repay casual BNZ borrowings, or have been held on call in anticipation of projected immediate operational requirements.

Interest Income

Council has reported Interest income of \$786k. This was under budget by \$258k, and \$190k below the revenue achieved in 2020.

| Cost | 2021 Actual \$000 | 2021 Budget \$000 | 2020 Actual \$000 |
|-----------------------------|----------------------|----------------------|----------------------|
| Bank deposits | 8 | 30 | 5 |
| External borrowers | 778 | 1,014 | 971 |
| Total Finance income | 786 | 1,044 | 976 |

Interest rates available on bank deposits have been depressed all year, but indications are that these are set to rise in the early part of the current financial year.

Interest rates on Council's larger loans to external parties were set at the start of the financial year based on financial indicators determined in the respective loan agreements. This process resulted in varying interest rates – that for North Otago Irrigation was much lower than had been budgeted, while that for Observatory Village was very close to budget.

Council granted the Oamaru Whitestone Civic Trust a year with no interest or principal repayments.

Interest rates set for both NOIC and the Observatory Village for 2021-22 should see budgeted revenue achieved, and the arrangements with the Civic Trust have now returned to normal.

Alternative scenario:

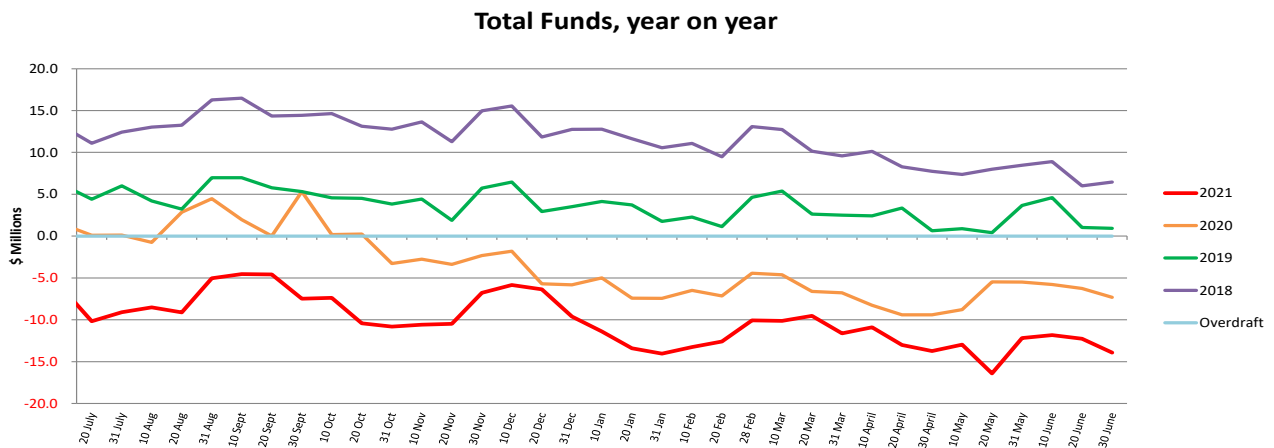
Had Council held \$31,560k (ie the average of lending to external parties over the year) in bank term deposits, using a rate based on the ASB rate for a one-year deposit of 1.1%, it could have earned approximately \$347k.

APPENDIX (B) – TREASURY REPORT 2020-21 (CONTINUED)

Overall Cash Position

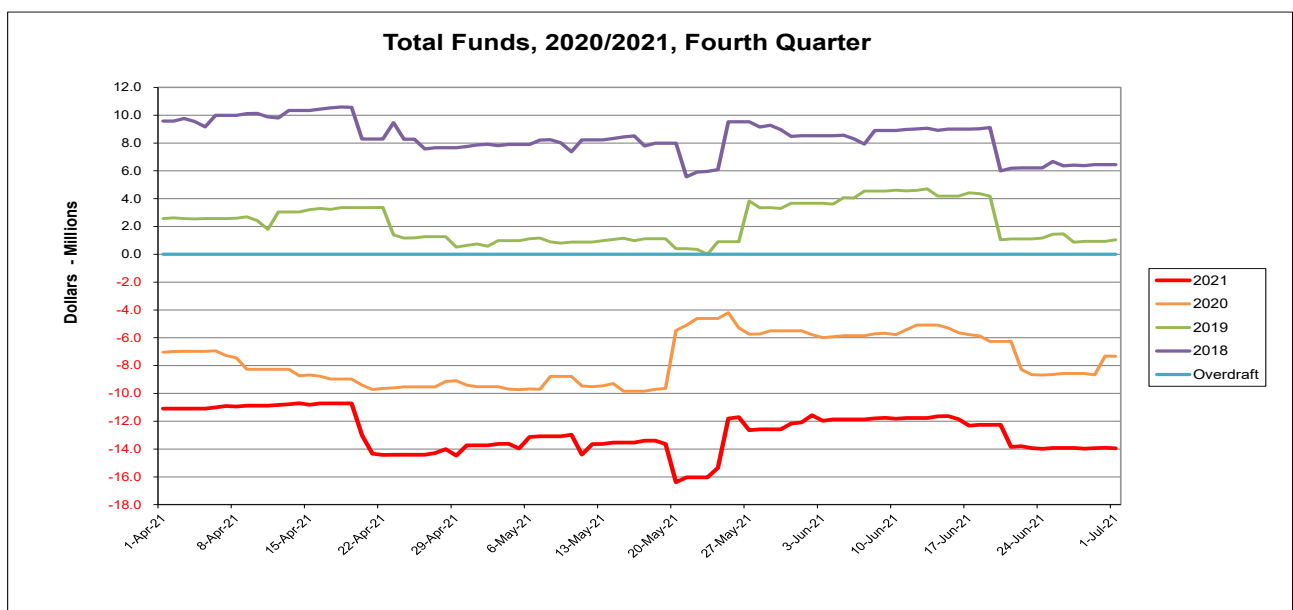
The graph below depicts Council’s cash position over the past four years as it moved from being a net investor to its current status as a net borrower. The cash position includes:

- Bank balances
- Call account balances
- Term deposits
- Borrowings from the Local Government Funding Agency (from November 2020)
- Borrowings from the BNZ (from October 2019 to November 2020, and casual since)



The graph below illustrates the cyclical nature of Council’s operations, largely focused on the inflow of funds arising from the quarterly rating cycle, the fortnightly payroll and related payments to the IRD, and the outflow of cash around the 20th of every month.

Total Funds, 2020/21 Financial Year

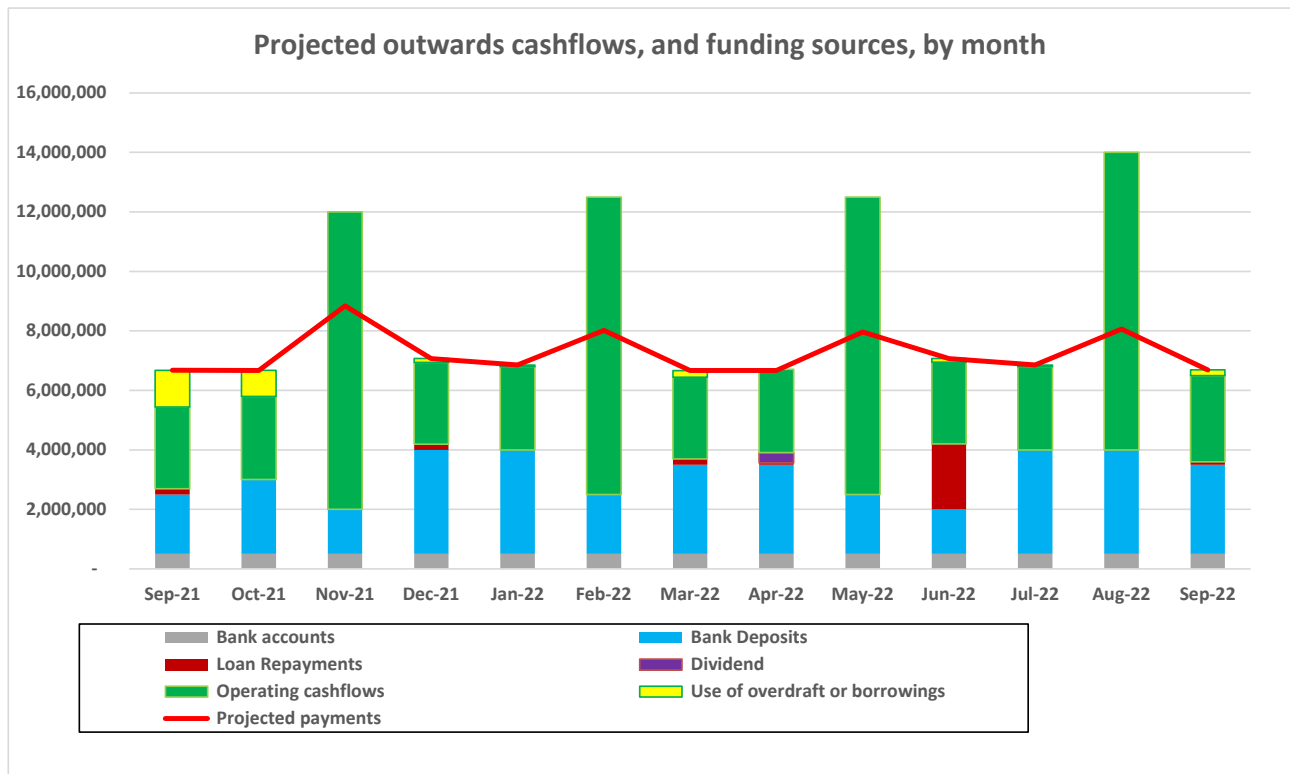


**PERFORMANCE, AUDIT AND RISK COMMITTEE
MEETING AGENDA**

APPENDIX (B) – TREASURY REPORT 2020-21 (CONTINUED)

Projected outgoings analysis and likely source of funds

This graph shows likely cash outgoings by month. Any gap between available funds from operational cash flows and loan repayments, and projected expenditure, is met by additional borrowings. If inwards cashflows exceed operating costs, Council has an opportunity to place surplus funds on deposit.



PERFORMANCE, AUDIT AND RISK COMMITTEE MEETING AGENDA

APPENDIX (B) – TREASURY REPORT 2020-21 (CONTINUED)

Other Investments – Loans and advances

Council has loans outstanding to community groups and other entities as set out below.

North Otago Irrigation Company Limited –

- Balance at 30 June 2021 \$14,698,876
- Interest earned for the year \$300,157
- Interest is charged and paid monthly
- The loan agreements provide for principal repayments of \$336,063 for 2021-22

Observatory Retirement Village Trust –

- Balance at 30 June 2021 – total of Stage 1 and Stage 2 loans \$10,958,868
- Interest earned for the year on interest-bearing components was \$384,141
- Interest on stage 1 is charged quarterly, interest on stage 2 is charged monthly
- The loan agreements provide for principal repayments of \$1,708,000 for 2021-22.

Kurow-Duntroon Irrigation Company Limited –

- Balance at 30 June 2021 \$3,111,934
- Interest earned since 23 September (date of initial loan draw-down) \$69,721
- Interest is charged and paid quarterly.
- Repayments start date to be confirmed once the project achieves “practical completion”

Oamaru Whitestone Civic Trust –

- Balance at 30 June 2021 \$532,500 (\$406,500 interest-bearing, \$126,000 interest-free)
- Interest earned for the year \$Nil – 12 month holiday approved, now ended
- Interest will be charged and paid quarterly during 2021-22
- Council provides a grant to match the quarterly interest charge
- The Trust has an approved loan facility with Council of \$500,000, plus further Heritage Fund facilities
- Annual payments of \$15,000 for the interest-bearing and \$24,000 for the interest-free advance.

New Zealand Airline Academy Limited –

- Balance at 30 June 2021 \$60,000
- Interest earned for the period \$4,800
- Interest is charged and paid quarterly
- The loan has been extended with full repayment now due April 2022.

Waitaki District Health Services Limited –

- Balance at 30 June 2021 \$700,000
- Interest earned for the period \$18,322
- Interest is charged and paid quarterly.
- The loan has been extended with full repayment now expected during the 2021-22 financial year

Other Investments – CCOs

Council has included in its budgets for 2021-22 dividend revenue of \$350,000 from Whitestone Contracting.

Other Investments – Joint Venture

Council accounts for its 50% shareholding in Omarama Airfield Ltd as a joint venture, and increases or decreases the value of the investment by its share of the company's surplus or deficit each year.

LGFA Borrower Notes.

As a condition of borrowing, Council holds \$312,500 in borrower notes, earning 0.5% p.a. with interest payable on repayment. Repayment is due when the associated borrowing matures.

**PERFORMANCE, AUDIT AND RISK COMMITTEE
MEETING AGENDA**

APPENDIX (C) – INTERNAL LOAN BALANCES SUMMARISED BY ACTIVITY AT 31 MARCH 2021

| | Interest Expense \$000 | Balance 1 Jul 20 \$000 | Increased Borrowing \$000 | Principal Repaid \$000 | Balance 31 Mar 2021 \$000 |
|---------------------------------------|------------------------------|------------------------------|---------------------------------|------------------------------|---------------------------------|
| Roads and Footpaths | 10 | 397 | - | (55) | 342 |
| Waste Water | 57 | 2,215 | 1,542 | (59) | 3,698 |
| Stormwater Drainage | - | - | - | - | - |
| Water Supply | 298 | 10,556 | 3,472 | (1,279) | 12,749 |
| Waste Management and minimisation | 4 | 156 | - | (11) | 145 |
| Arts, Heritage and Culture | 2 | 88 | - | (7) | 81 |
| Parks and Recreation | 14 | 566 | 100 | (67) | 599 |
| Community amenities | 18 | 592 | 545 | (42) | 1,095 |
| Oamaru Harbour and Historic Precinct | 75 | 2,836 | 287 | (148) | 2,975 |
| Commercial and Development Activities | 198 | 8,639 | 259 | (450) | 8,448 |
| Support Services | (677) | - | - | - | - |
| | - | 26,045 | 6,205 | (2,118) | 30,132 |

Significant new loans taken out in the nine months to 31 March 2021 are detailed below.

| Project | \$000 |
|--|--------------|
| Oamaru Water – new reservoir | 3,308 |
| Sewer pond desludging | 1,524 |
| Information Services projects | 545 |
| Restore Holmes Wharf | 287 |
| Property compounding loans | 119 |
| Oamaru Water capacity improvements | 112 |
| Museum refurbishment | 92 |
| Oamaru Airport projects | 58 |
| Public Toilets | 55 |
| Indoor recreation centre – initial works | 45 |
| Dunback Drinking Water Standard upgrade | 45 |
| Moeraki wastewater | 16 |

APPENDIX (D) SPECIAL FUNDS AND RESERVES BALANCES AT 31 MARCH 2021

| Type of Reserve | Purpose of Reserve | | Balance at 1 July 2019 \$000 | Transfers to Reserves \$000 | Transfers from Reserves \$000 | Balance at 30 June 2020 \$000 | Transfers to Reserves \$000 | Transfers from Reserves \$000 | Balance at 31 Mar 2021 \$000 |
|------------------------------------|--|---|------------------------------------|-----------------------------------|-------------------------------------|-------------------------------------|-----------------------------------|-------------------------------------|------------------------------------|
| Special Reserves | | | | | | | | | |
| <u>Development Funds</u> | | | | | | | | | |
| Roading | Future expansion and upgrading infrastructure for growth | | 511 | 246 | (273) | 484 | 238 | (217) | 505 |
| Water | | | 850 | 390 | (345) | 895 | 617 | (560) | 952 |
| Sewer | | | 2,695 | 211 | (748) | 2,158 | 342 | (9) | 2,491 |
| Total Development Funds | | A | 4,056 | 847 | (1,366) | 3,537 | 1,197 | (786) | 3,948 |
| <u>Other Council-created Funds</u> | | | | | | | | | |
| Disaster & Insurance Excess Funds | Contingency for rapid response | C | 3,830 | 90 | (139) | 3,781 | - | (438) | 3,343 |
| Land Endowment Fund | Operational funding | D | 720 | 164 | (25) | 859 | 268 | (18) | 1,109 |
| Community Housing Fund | Community housing projects & upgrades | E | 787 | 19 | - | 806 | 12 | - | 818 |
| Forestry Planting Fund | Net proceeds from forestry activities | F | 1,399 | 43 | - | 1,442 | 27 | - | 1,469 |
| Other Council-created funds | Established for other specific purposes | | 2,471 | 865 | (723) | 2,613 | 159 | (116) | 2,656 |
| Total Special Reserves | | | 13,263 | 2,028 | (2,253) | 13,038 | 1,663 | (1,358) | 13,343 |
| Trust Funds | | | | | | | | | |
| Waitaki Heritage Fund | Support for heritage projects | | 271 | 29 | (35) | 265 | 3 | (105) | 163 |
| RMA Reserve | Future recreational developments | G | 1,237 | 331 | (81) | 1,487 | 404 | (231) | 1,660 |
| Oamaru Public Gardens | Grants, donations, bequests and other gifts for specific purposes | | 155 | 5 | - | 160 | 3 | - | 163 |
| North Otago Museum | | | 154 | 5 | (1) | 158 | 17 | (3) | 172 |
| Other community purposes | | | 231 | 7 | (6) | 232 | 197 | (2) | 427 |
| Total Trust Funds | | | 2,048 | 377 | (123) | 2,302 | 624 | (341) | 2,585 |
| Reserved Funds | | | | | | | | | |
| SPARC and Creative NZ Funds | Funds for community organisation grants | | - | 38 | (23) | 15 | 45 | (23) | 37 |
| Loan Funds | Repayments of heritage loans | | 1 | - | - | 1 | - | - | 1 |
| Total Reserved Funds | | | 1 | 38 | (23) | 16 | 45 | (23) | 38 |
| Total Restricted Reserves | | | \$ 15,312 | \$ 2,443 | (\$ 2,399) | \$ 15,356 | \$ 2,332 | (\$ 1,722) | \$ 15,966 |

5.2 FINANCE AND CORPORATE DEVELOPMENT GROUP UPDATE

Author: Richard Maher, Finance and Corporate Development Operations Manager

Authoriser: Paul Hope, Finance and Corporate Development Group Manager

RECOMMENDATION

That the Performance, Audit and Risk Committee receives and notes the information.

PURPOSE

To update the Performance, Audit and Risk Committee on the activity in the Finance and Corporate Development Group over the last six months.

INTRODUCTION

The majority of the significant matters that officers have been working on have flowed through to Council or to the Performance, Audit and Risk Committee. However, behind the scenes, some more internally focused items have been progressed over the reporting period.

These matters included:

- Long term plan (LTP) preparation including workshops
- Adoption of the LTP and subsequent striking of the rates for 2021-22
- Annual Report planning and preparation
- Alignment of the Ibis budgeting system with the current spreadsheet-based budgeting system
- Development and refinement of a variance reporting process for Managers and their Group Managers
- Input into the Three Waters Review process
- Performance and review of the residents survey
- Developing an improvement plan to address issues highlighted by the CouncilMARK and Audit processes.

FINANCE

The focus of the Finance team was firmly on completing the 2021-31 Long Term Plan (LTP) in accordance with relevant legislation. That enabled the LTP to be adopted by Council on 29 June 2021 and the rates resolution to be adopted to enable the striking of the rates for the 2021-22 financial year. This process became quite complex due to late changes to the funding originally anticipated from Waka Kotahi and issues arising from meeting the requirements of the auditors. However, the legislated deadlines were achieved, and the Audit opinion was generally positive, with the matters highlighted in the opinion related to sector rather than Council-specific issues.

The LTP was again prepared utilising a series of large, complex Excel spreadsheets. Although this process continues to operate satisfactorily, it carries with it substantial risk – firstly, it is reliant on a single operator to operate, maintain and support the spreadsheets, and secondly, it is prone to error, both in the application of formulae and in interpretation and inclusion of additional information and decisions arising from Council workshops. For these, and other, reasons, including encouragement from the auditors, the decision was made to purchase the Ibis budgeting system.

The Ibis system provides a range of benefits – it is multi-user, is externally supported, and is becoming the standard for local authorities throughout Australasia. The team spent considerable time and effort entering data into both systems and ensuring that results from the Ibis system matched, or were able to be reconciled with, those from the Excel model. The intent is to use Ibis exclusively for preparation of the 2022-23 Annual Plan.

The focus then switched to achieving orderly close-offs for the various finance systems, along with planning for and preparation of the Annual Report for the 2020-21 financial year. The annual revaluation to be completed in the current financial year relates to 3 Waters infrastructure. The whole revaluation cycle has been moved forward one year – in 2020, Council revalued both the Roding infrastructure and Property, Parks and the Airport. The Waters revaluation is completed internally and peer reviewed. It is expected to be finalised by the end of August. The budgeted gain from the revaluation for 2021 is based on completing the Roding revaluation which has previously been brought to account. Budgets from the 2022 financial year onwards will align with the revised revaluation cycle.

The Quarterly Financial Report presented to this meeting includes the projected results for the year just ended. The financial deficit projected is not as might have been hoped for, but does reflect the year that has been, with its various opportunities and disasters, gains and losses.

There has been a re-shaping of three roles within the Finance team to better meet current and anticipated work requirements. The Accounting Technician role has changed to Financial Analyst – Systems and Reporting. The focus of this role has changed from preparing and processing information into one that focuses on its end use and accessibility. Two Accounting Assistant roles were developed to provide a greater range of skills and opportunities within the team. These roles provide a valuable link between the transaction / customer-focused finance officer roles and the reporting and advice-focused accounting roles.

The department is actively involved in developing and implementing the new Procure2Pay system which will replace the current Sharepoint-based system for assembling and processing suppliers' invoices for payment. The new system will require the use of purchase orders for the majority of purchases and will largely automate the processing of invoices as long as they can be aligned with the relevant purchase order. A long-term benefit for the finance team is expected to be the ability to move the focus of a role from processing to being able to review and provide advice and assurance in terms of process and procedures.

Progress has been made in reviewing and resolving issues raised by Audit New Zealand in recent management reports. It is hoped that reports arising from the audit of the 2021 Annual Report will reflect the work done to date.

RATES

Our Rates team have been extremely busy with maintenance, pre-year end and pre-rates setting, and are now liaising with customers as enquiries are received regarding the rates rise.

The Rates team has returned to its full capacity of three staff after having run one short for five months. Despite resourcing and systems challenges, the Rates have been set, and the instalment invoices were issued on 27 July 2021.

Amendments to the Flat Amenity Rate charged are currently being processed, along with the Separately Used Inhabited Part (SUIP) remissions. Once completed, new invoices will be issued in each case.

It is expected that the team will be kept very busy for some time with queries and that there will be a resurgence of queries with each instalment notice that is issued.

Property sales are still progressing well in Waitaki and are expected to continue to do so, even through the Winter months. Listed properties are selling quickly and are selling for well above the new 2020 valuations. There are still a lot of out-of-town buyers.

POLICY

The Long Term Plan was the most significant piece of work that the Policy team has been working on for the first six months of the year. There were some late challenges noted in the finance function. However, the LTP was adopted by Council on 29 June 2021 following receipt of a non-qualified Audit opinion that also included three matters of emphasis.

After the adoption of the Long Term Plan, the Policy and Strategy Manager, Mike Searle, resigned to start a new position outside of Council. This role will be replaced in the foreseeable future.

Prior to the adoption of the Long Term Plan, the Policy team began work on the Annual Report which is now well underway. Early work is being done on the Annual Plan, with process and timelines currently being reviewed.

The draft Annual Residents' Survey report has been received and circulated to managers. The survey questions and format for the year ahead are currently being reviewed by officers. Both matters will be discussed with elected members at a workshop scheduled for 7 September.

HEALTH and SAFETY

Health and Safety is now reported to the risk-focused meetings of the Performance, Audit and Risk Committee.

6 RESOLUTION TO EXCLUDE THE PUBLIC

RECOMMENDATION

That the public be excluded from the following parts of the proceedings of this meeting.

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

| General subject of each matter to be considered | Reason for passing this resolution in relation to each matter | Ground(s) under section 48 for the passing of this resolution |
|--|---|---|
| <p>7.1 - Public Excluded Minutes of the Performance, Audit and Risk Committee Meeting held on 3 August 2021</p> | <p>s7(2)(a) - the withholding of the information is necessary to protect the privacy of natural persons, including that of deceased natural persons</p> <p>s7(2)(i) - the withholding of the information is necessary to enable Council to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)</p> | <p>s48(1)(a)(i) - the public conduct of 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 under section 6 or section 7</p> |
| <p>7.2 - Accounts Payable Analysis, 2021 year, Third Quarter PE</p> | <p>s7(2)(a) - the withholding of the information is necessary to protect the privacy of natural persons, including that of deceased natural persons</p> <p>s7(2)(b)(ii) - the withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information</p> <p>s7(2)(h) - the withholding of the information is necessary to enable Council to carry out, without prejudice or disadvantage, commercial activities</p> | <p>s48(1)(a)(i) - the public conduct of 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 under section 6 or section 7</p> |
| <p>7.3 - Debtors' Report - 2021, Fourth Quarter PE</p> | <p>s7(2)(a) - the withholding of the information is necessary to protect the privacy of natural persons, including that of deceased natural persons</p> | <p>s48(1)(a)(i) - the public conduct of 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 under section 6 or section 7</p> |
| <p>7.4 - Audit New Zealand Reports to Governors - Consultation Document and Long Term Plan PE</p> | <p>s7(2)(a) - the withholding of the information is necessary to protect the privacy of natural</p> | <p>s48(1)(a)(i) - the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure</p> |

| | | |
|--|--|---|
| | persons, including that of deceased natural persons s7(2)(j) - the withholding of the information is necessary to prevent the disclosure or use of official information for improper gain or improper advantage | of information for which good reason for withholding would exist under section 6 or section 7 |
|--|--|---|

7 PUBLIC EXCLUDED SECTION

8 RESOLUTION TO RETURN TO THE PUBLIC MEETING

RECOMMENDATION

That the Performance, Audit and Risk Committee resumes in open meeting and decisions made in public excluded session are confirmed and made public as and when required and considered.

9 RELEASE OF PUBLIC EXCLUDED INFORMATION

In accordance with Waitaki District Council Standing Orders, and pursuant to resolutions in the public excluded session of the meeting, any previously public excluded information that the Performance, Audit and Risk Committee decides to release will be included under this agenda item in the Public Minutes of this meeting.

10 MEETING CLOSE