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, 23 August 2022**
Time:	**12.45pm**
Location:	**Council Chamber, Third Floor Office of the Waitaki District Council 20 Thames Street, Oamaru**

Agenda

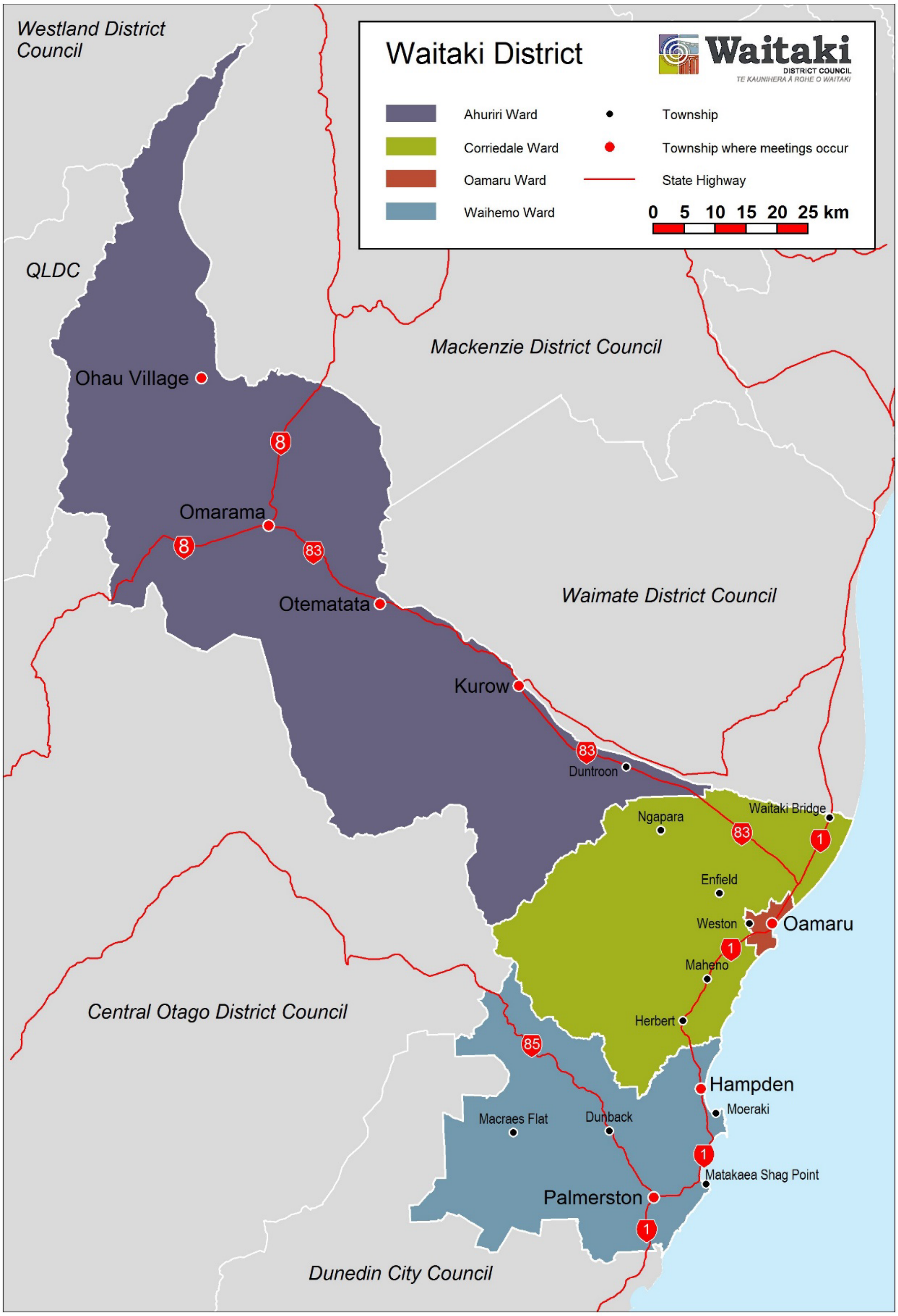
Performance, Audit and Risk Committee Meeting

23 August 2022

Performance, Audit and Risk Committee

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

Alex Parmley
Chief Executive


Waitaki District
Waitaki DISTRICT COUNCIL TE KAUNIHERA Ā ROHE O WAITAKI
Ahuriri Ward
Corriedale Ward
Oamaru Ward
Waihemo Ward
Township
Township where meetings occur
State Highway
0 5 10 15 20 25 km
Westland District Council
QLDC
Mackenzie District Council
Waimate District Council
Central Otago District Council
Dunedin City Council
Ohau Village
Omarama
Otematata
Kurow
Duntroon
Ngapara
Waitaki Bridge
Enfield
Weston
Oamaru
Maheno
Herbert
Hampden
Moeraki
Macraes Flat
Dunback
Matakaea Shag Point
Palmerston
8
83
1
85


STRATEGIC FRAMEWORK
Waitaki
THE BEST PLACE TO BE!
Waitaki - Whenua taurikura
EMPOWERING OUR PEOPLE AND PLACE TO THRIVE
Whakapuāwai takata, Whakapuāwai whenua
COMMUNITY OUTCOMES
economic
PROSPEROUS DISTRICT
Attractive to new opportunities
Support local businesses
Foster a diverse and resilient economy
social and cultural
STRONG COMMUNITIES
Enable safe and healthy communities
Connected, inclusive communities
Promoting a greater voice for Waitaki
Celebration of our community identity
QUALITY SERVICES
Robust core infrastructure and services
Community facilities and services we are proud of
environment
VALUED ENVIRONMENT
Protecting our diverse landscapes and water bodies
Meeting environmental and climate change challenges
STRATEGIC PRIORITIES
Providing high-quality core infrastructure and services
Determining the best way to deliver 3-waters for the community
Working with the community to respond to COVID-19 challenges
Creating a District Plan that is fit for Waitaki's future
Striving towards better Council performance
Driving best value for rates
Ensuring we get core business done while delivering on our strategic priorities and achieving our community outcomes
Engagement with the community and partners
Strategies, plans and partnerships
Long Term Plan and Annual Plan
Our service delivery approach
Monitoring and reporting on our progress
Waitaki DISTRICT COUNCIL
TE KAUNIHERA Ā ROHE O WAITAKI

Agenda Items

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 26 JULY 2022

Author: **Ainslee Hooper, Governance and Policy Advisor**

Authoriser: **Lisa Baillie, People and Transformation Group Manager**

Attachments: **1. Public Minutes of the Performance, Audit and Risk Committee Meeting held on 26 July 2022**

RECOMMENDATION

That the Performance, Audit and Risk Committee confirms the Public Minutes of the Performance, Audit and Risk Committee Meeting held on 26 July 2022, 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 AND VIA ZOOM VIDEO-CONFERENCE ON TUESDAY, 26 JULY 2022 AT 9.00AM

PRESENT: Cr Colin Wollstein (Chair), Mr Simon Neale (Associate Chair), Cr Hana Halalele, Cr Jeremy Holding, Cr Jim Hopkins, and Cr Bill Kingan

APOLOGIES: Cr Guy Percival and Mayor Gary Kircher

IN ATTENDANCE: Cr Kelli Williams
Paul Hope (Finance and Corporate Development Group Manager and Acting Assets Group Manager) (via Zoom)
Ainslee Hooper (Governance and Policy Advisor)

IN ATTENDANCE FOR SPECIFIC AGENDA ITEMS:

Ian Wells (Accounting Manager)
Amelia Lines (Risk and Procurement Advisor)
Audit New Zealand Director Rudie Tomlinson (via Zoom from 9.30am)
Audit New Zealand Manager Jenna Hills (via Zoom from 9.30am)

MEETING OPEN

The Chair declared the meeting open at 9.00am and welcomed everyone present. He sought and received confirmation from the Governance Advisor that a quorum of members had been reached to enable the meeting to proceed.

1 APOLOGIES

RESOLVED PAR 2022/036

Moved: Cr Jeremy Holding
Seconded: Cr Jim Hopkins

That the apologies received from Cr Guy Percival and Mayor Gary Kircher 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 14 JUNE 2022

RESOLVED PAR 2022/037

Moved: Cr Jim Hopkins
Seconded: Cr Hana Halalele

That the Performance, Audit and Risk Committee confirms the Public Minutes of the Performance, Audit and Risk Committee Meeting held on 14 June 2022, as circulated, as a true and correct record of that meeting.

CARRIED

4 MEMORANDUM REPORTS

4.1 FINANCIAL SUMMARY AND OVERVIEW - PROJECTED FOR YEAR ENDED 30 JUNE 2022

The report, as circulated, presented a high-level summary of Council's projected financial performance for the year ended 30 June 2022. This information is based on actual results to date and estimates of items yet to be finalised, and may be expected to change, possibly materially.

The dividend from Whitestone Contracting Limited was highlighted as being lower than in previous years and it was suggested that Council was not obliged to simply accept it. Group Manager Paul Hope advised that the dividend amount was in accordance with the dividend policy that was set out in the company's Statement of Intent and a direct reflection of the results achieved in FY 2021. The FY 2022 results had not yet been announced. In addition, whilst other Councils may require a specific amount to be paid as a dividend by their CCOs, for Waitaki District Council to reject the amount and request more would constitute a major variance from past practice. This advice was acknowledged.

During discussion on costs, it was noted that departments have different interpretations about what constitutes a 'consultant' and a 'contractor'; some use the term interchangeably, others do not. The over-expenditure and under-expenditure in those two categories reflected those differences. However, if the totals were combined, then actual expenditure was around $1M under-budget. It was also noted that payments for external services were higher in some areas (regulatory, planning and building consent work, for example) because they were for essential specialist advice or assistance. The over-expenditure in the Three Waters area had been incentivised by the receipt of the Tranche One funding.

It was suggested that there was a consistent trend that budgets were not being met, and that highlighted a need to prune back what could be done each year or find other ways to accelerate projects in order to address the capacity issues. It was noted that budget workshops and the 2024 LTP process would provide further opportunities to elected members to give further thought to prioritisation of projects going forward. It was also highlighted that capacity issues were not solely a problem for Council, as it had been an unusual year also for restricted capacity of external contractors, which had impacted work in the roading and parks and reserves areas especially. Group Manager Paul Hope also advised that there would need to be a serious review of Council's capacity and that of external service providers in the near future, so that reporting could address the impacts of such trends.

In response to questions, Accounting Manager Ian Wells briefed the meeting on the valuation/revaluation processes, and the Audit requirements. It was highlighted that revaluations may be required more than every three years now, if there is a material change in values. Roading could require another revaluation as a result of price increases in that area of the marketplace.

Brief discussion on the non-trading loss associated with leaving pipes in the ground when a section of pipework is replaced clarified that this resulted in the asset having reached the end of its life for accounting purposes as it was no longer providing a service.

RESOLVED PAR 2022/038

Moved: Cr Jim Hopkins
Seconded: Cr Jeremy Holding

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

CARRIED

The Chair directed the meeting forward to agenda item 4.3.

4.3 AUDIT NEW ZEALAND AUDIT PLAN AND FEE

The report, as circulated, attached for discussion the Audit New Zealand Audit Plan in relation to the Annual Report audit process for FY 2021/2022.

Audit New Zealand Director Rudie Tomlinson and Manager Jenna Hills joined the meeting via Zoom for this agenda item. Director Tomlinson briefed the Committee on key aspects of the audit, including the revaluation of land and buildings (a complex exercise, that could be expected to show a significant uplift in values since the valuation was last done in 2019); fair value assessments (depending on the uplift in values, a full revaluation may need to be done – roading in particular and also three waters could be factors here); impairment of equipment (eg management assessment of assets that may have been impaired (eg damaged by flooding, earthquakes); and group consolidation.

Regarding group consolidation, Director Tomlinson advised the Committee that the Board of WDHSL has decided not to sign the engagement letter with Audit New Zealand for the 2022 audit, and they will not approve the Audit plan, either. The worst-case scenario from that would be that WDHSL may choose not to consolidate the Observatory Village (OV) group. That would lead to a qualified opinion for WDHSL, which would in turn flow up to Council – it could be expected that Council will need to consider deconsolidating the OV group and the Council's accounts will be qualified as well. The matter has been sent back to the Office of the Auditor-General's (OAG) legal team to identify the options available. No response has yet been received but the Director would keep Mr Hope and the team appraised as the process continues.

The implementation of the P2P (procurement) system in April 2022 would mean that two systems would be audited – up to the change at the end of April and again for the new P2P up to the end of FY 2022. If the implementation were properly conducted, the necessary controls would have been put in place and that would mean that, for FY 2023, the Audit team could start to rely on those controls in the expenditure area which would reduce the amount of auditing that would need to be done.

In response to a question about the risk of a fair value assessment requiring a full revaluation, Director Tomlinson identified roading and waters as areas that could fall into this category, given valuations that had already been performed elsewhere in the country had shown increases of 100-200% in values. Of those two, roading was where Audit expected a revaluation would be required. It was clarified that a value (rather than a percentage) was required as a fair value assessment threshold for significant variance and whilst Audit's materiality for assets in total would be around $104M - $105M, it did not expect Council's materiality to be that high. It is an internal decision because it affects depreciation. Director Tomlinson offered to make some enquiries about examples from other councils, which was accepted by the Chair.

ACTION: Audit New Zealand, in liaison with Group Manager Paul Hope

There was further discussion on the qualified audit that could arise as a result of the WDHSL decision not to sign for reporting for the OV group when it did not have control over that group. Director Tomlinson advised that the OAG had ruled in response to representations from Council and OV, they had confirmed that the status quo would remain. In responses to questions around the implications of Council receiving a qualified audit, Mr Hope advised that any such qualification would be reported to Parliament as part of the Auditor-General's report on the annual reporting round. A new matter in the process for Council would be the need to have a discussion with the LGFA to see if it had any concerns. Given that it is a technical qualification and nothing to do with Council itself but instead all about the group (and the LGFA lends to Council, not the group), he did not believe the LGFA would be particularly concerned. Council's credit rating would not be harmed. Reputation and the matter being raised in Parliament would be the key concerns.

Director Tomlinson added that the qualification would likely mirror the one Council received in 2019 when this issue was first raised. It did not have any impact on Council, because it was a group matter. The concern he had would be for the directors of WDHSL, because – under the Act, non-compliance with accounting standards is a serious matter. It was noted that the Directors of WDHSL would be exposed, whether they chose to sign for reporting for the OV group or not. This was acknowledged.

It was suggested that the OAG's position could perhaps be challenged in court, given that it would have an adverse impact on Council. Asked for comment, Mr Hope commented that an initial consideration of that had identified the difficulty of finding a venue for such a matter to be heard, because it is not a legal matter but rather an interpretation of an accounting standard. There was no Minister to whom the matter could be referred because the Auditor-General is an officer of Parliament and was not accountable to a Minister. He is an independent officer with some strong discretionary powers. Council would continue to look into the options and there were other options that have not yet been discussed with Audit. However, once they had been, another report to a future Committee meeting would detail the options available to Council. Mr Hope acknowledged that this was a challenging matter for everyone involved. The Chair thanked Mr Hope for his advice and comments.

When asked if he were confident that additional hours would not be required for the 2022 audit, as they had been in some previous years, Director Tomlinson advised that he was not confident, but a cap had been placed on extra hours for audits in 2021 and 2022, due to distortions in the actual hours being affected by COVID amongst other factors. The only way that the fee would increase in 2022 from that stated in the 2021 letter attached to the report would be if there was more audit work to be done (eg to audit another revaluation if a fair value assessment resulted in a material difference that met the agree threshold). Other potential options for fee increases would be related to any additional work required to audit the P2P, or on the qualified opinion and deconsolidation. Other than that, the actual hours for the audit would not be a factor in the 2022 fee.

There was brief discussion about a fraud risk questionnaire and/or direct discussion with the Committee and/or Council, and the timeframe allowed for the audit. On the latter, Director Tomlinson advised that his team could only commit to the statutory deadline of having the draft financial statements available by 30 September, with the Audit Opinion availability "to be confirmed" but not later than 21 December 2022. It was important that the OV consolidation issue is resolved as soon as possible because that would make a material difference in the time allocated to the audit.

The Chair thanked the Audit Director and Manager for their participation in the meeting and their answers and comments in response to elected members' questions.

Audit New Zealand representatives left the online meeting.

RESOLVED PAR 2022/039

Moved: Cr Jim Hopkins
Seconded: Cr Jeremy Holding

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

CARRIED

The Chair directed the meeting back to Agenda Item 4.2.

4.2 STRATEGIC RISK UPDATE

The report, as circulated, presented the updated Waitaki District Council Strategic Risk Register to the Performance, Audit and Risk Committee.

Risk and Procurement Advisor Amelia Lines spoke to the report and highlighted (i) the change to the COVID disruption risk to focus on changes to alert levels or emergence of new variants rather than the previous focus on lockdowns; (ii) the increased risk (to number 3 in the register) of default from a borrowing entity; and (iii) the continued top risk related to the roading maintenance contract (which was expected to reduce as that contract is agreed in the coming weeks). Mrs Lines also advised that, in an ideal world, the risks with an orange residual risk rating (right-hand column) are, by their very nature, influenced by external risks over which Council has no control.

The methodology used to adjust the impact rating to 7 of the roading maintenance contract, which is the highest risk on the register, was queried. Mrs Lines referenced the bottom descriptor in the "Major" (ie 7 score) table under 'Financial' and the lower threshold figures stated within the applicable range which were of relevance. A further query was raised about why the higher cost level was 'unbudgeted' when higher prices for the contract had already been acknowledged and built into the new tender. In response, officers advised that the rating reflected the wider sector results that some councils were seeing. Whilst an allowance for a reasonably significance increase had been made by our Council, the final outcome was still not yet known so the risk remained high and was continuing to be brought to Council so that they could be kept informed of the worst-case scenario and the likelihood. It was hoped that the risk level for this matter would drop very significantly over the next few weeks as the tender process was implemented. However, the Tender Evaluation Team had not yet met, and it was important for elected members to not lose sight of the potential for Council needing to make some mitigating decisions.

A separate request was made for a better evaluation of risks at the governance level, based on a view that the register remained "very operational" and without an overall governance framework. Mrs Lines acknowledged this and advised that a new framework was in development. It would be used to report the risk register to the next PAR Committee Meeting, and training in how to use it to help make decisions would be provided. The Chair acknowledged that work in progress.

Concern was raised that there was still nothing about climate change featuring on the risk register, especially given the weather events of recent weeks. Mrs Lines commented that she too believed it was a 'glaring omission' and that climate change would be added as it was developed into more of a strategic register.

It was suggested that a political element should be added to the register. It was noted that, whether there were elections, changes in directions, or an elected member was causing damage in some realm or another for whatever reason, politics could generate risk and have an impact because it was a very real element in the world of local government. Mrs Lines said she had noted it for consideration to be added.

RESOLVED PAR 2022/040

Moved: Cr Jim Hopkins
Seconded: Mr Simon Neale

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

CARRIED

5 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, 23 August 2022.

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CHAIRPERSON

4 MEMORANDUM REPORTS

4.1 FINANCIAL REPORT FOR THE 2021-22 FINANCIAL YEAR

Author: Ian Wells, Accounting Manager

Authoriser: Paul Hope, Finance and Corporate Development Group Manager

Attachments:
1. **Treasury Report for the 2021-22 Financial Year**
2. **Bancorp Waitaki DC Treasury Report June 2022**
3. **Interpretation of Terms used in the Bancorp Treasury Report**

RECOMMENDATION

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

PURPOSE

The report is primarily focused on Treasury activities for the 2021-22 financial year and includes the separate Treasury Report as at 30 June 2022 provided by Bancorp, and guidance aimed at assisting in interpreting elements of that report

COMMENTARY

An update on the 2022 operating result has not been included. The Committee reviewed and discussed projected operating results for the 2021-22 financial year at its meeting on 26 July 2022, and there has been no material change to those numbers. Officers continue their work aimed at providing a completed Annual Report document for audit, at which time a draft will be provided for elected members' information.

For the same reason, details of internal loans, special reserves and separate rate account balances are not provided, simply because these have not yet been finalized for the year.

The focus of this report is on the Treasury activity, and its purpose is to present to the Committee both the year end position and outline actions that have led to the current position.

The Bancorp report details Council's position at 30 June in relation to borrowings and presents this information in the context of the wider economy.

Bancorp is currently preparing reports for Council relating to

- Identifying and managing the "gap" between interest charged by Council to external borrowers and interest paid by Council on funds required to provide those advances
- Proposing a long-term strategy for managing Council's borrowings from the LGFA, particularly in light of the uncertainty surrounding aspects of the proposed 3 Water Reforms

Members of the Committee have, at previous meetings, sometimes expressed confusion about some of the information presented in the Bancorp report. For that reason, Attachment 3 to this report is an attempt to clarify certain terms used in the Bancorp report, and the purpose for some of the tables that are included.

TREASURY REPORT FOR THE FULL 2021-22 FINANCIAL YEAR

Cash and deposits

Type of account	Maturity	Interest rate	Balance $	Budget $
BNZ current accounts	N/A	0% - 0.3%	558,203	761,000
BNZ deposits	various	0.5% -1.05%	3,500,000	14,000,000
ANZ current account	N/A	0.3%	760	-
Accrued interest			4,423	30,000
Reported as				
Cash and Cash Equivalents			**2,059,926**	**1,761,000**
Term Deposits			**2,003,460**	**13,030,000**
Total Cash Resources			**$4,063,386**	**$14,791,000**

Deposits with original terms less than 90 days are included as part of Cash and Cash Equivalents while those with original maturity dates over 90 days are Term Deposits. The budget split between the two categories has not been achieved due to a number of factors, including increased lending to external parties, changed loan agreements affecting principal repayments, reduced dividend income and increased expenditure in other areas of Council's operations.

Interest earned on bank deposits amounted to $26,886 for the year, an improvement on the budgeted amount of $24,730. Interest rates available on term deposits and the call account have been increasing rapidly in the fourth quarter of the 2021-22 financial year and are likely to continue to do so over the 2023 financial year as further changes to the Official Cash Rate have been signaled.

TREASURY REPORT FOR THE FULL 2021-22 FINANCIAL YEAR (CONTINUED)

Other Investments – Loans and advances

Council has loans to community groups and other entities at year end as detailed below. Interest in charged and paid either monthly or quarterly on all loans.

North Otago Irrigation Company Limited –
- Balance $14,291,699
- Interest earned for the period $471,826
- Principal repayments of at least $376,963 will be made in June.

Observatory Retirement Village Trust –
- Balance $15,548,638
- Interest earned for the period on interest-bearing components was $302,176.
- New loan agreements require no principal repayments in either 2022 or 2023.

Kurow-Duntroon Irrigation Company Limited –
- Balance $3,111,934
- Interest earned for the period $73,753
- Repayments start date to be confirmed once the project achieves "practical completion".
- The borrower is currently operating under administration while certain matters are resolved, but this is not expected to affect Council's loan or security

Oamaru Whitestone Civic Trust –
- Balance $508,500 ($396,000 interest-bearing, $116,000 interest-free)
- Interest earned for the period $15,339
- Approved loan facility with Council of up to $500,000, plus further Heritage Fund facilities
- Principal repayments of $24,000 are expected by June 2023.

New Zealand Airline Academy Limited –
- Loan was repaid in full 12 December 2021 – balance $0
- Interest earned for the period to 12 December $2,235.

Waitaki District Health Services Limited –
- Loan was repaid in full in 1 March 2022
- Interest earned for the period to 1 March $14,493

Interest rates on loans to external parties are generally set on the following bases:
- North Otago Irrigation – the present interest rate of 3.26% applies until June 2024
- Observatory Village – for 2022 was 2.80%, for 2023
  - $1,500,000 4.67%,
  - $1,500,000 5.20%
  - the balance 5.32%
- Kurow-Duntroon Irrigation – for 2022 was 2.37%, 5.575% for 2023
- Oamaru Whitestone Civic Trust – interest rate matches Council's internal loan rate which is set for each quarterly invoice

Other Investments – CCOs

The 2021-22 dividend received from Whitestone Contracting Limited was $31,509 (budget $350,000) , which is in line with the company's Statement of Intent and the agreed formula for calculating the level of dividend payable

TREASURY REPORT FOR THE FULL 2021-22 FINANCIAL YEAR (CONTINUED)

Other Investments – Joint Venture
Council accounts for its 50% holding in Ōmārama Airfield Limited 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 now holds $512,500 in borrower notes. Interest is paid at varying rates, and is payable on maturity, which occurs when the associated borrowing matures. Interest earned for the period $4,703.
Because of the nature of this particular investment, this revenue must be reported separately in the 2022 Annual Report.

Interest Income

Council has earned Interest income of $915k for the year, which is over budget by $60k. However interest in LGFA Borrower Notes of $5k must be reported separately, so Note 4 of the Annual Report will show only $910k

Revenue source	2022 Actual $000	2022 Budget $000	2021 Actual $000
Bank deposits	27	25	7
External borrowers	888	830	971
Total Finance income	915	855	976

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TREASURY REPORT FOR THE FULL 2021-22 FINANCIAL YEAR (CONTINUED)

Borrowings

Borrowings at 30 June 2022, and subsequent changes, are detailed below.

Key: CP = Commercial Paper FRN = Floating Rate Notes FRB = Fixed Rate Bills

Type of security	Maturity	Interest rate	Principal $
LGFA CP	11-Aug-22	1.64%	2,500,000
LGFA CP	11-Aug-22	2.08%	2,000,000
LGFA FRN	15-Apr-23	2.53%	2,000,000
LGFA FRN	15-Apr-24	2.55%	2,000,000
LGFA FRN	15-Apr-25	2.285%	2,000,000
LGFA FRN	15-Apr-26	2.46%	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
LGFA FRB	15-Apr-27	4.17%	2,000,000
LGFA FRB	15-May-28	2.32%	3,000,000
LGFA FRB	15-May-28	4.26%	1,000,000
		Accrued interest	73,643
		Total	**$25,073,643**

On 4 August 2022 new borrowings were arranged on short-term commercial paper. The new loan is:

LGFA CP	7-Sept-22	3.06%	4,000,000

The commercial paper loans maturing 11 August were rolled to mature 7 September 2022, by which time further guidance regarding the structure of Council's LGFA borrowings is expected from Bancorp.

LGFA CP	7-Sept-22	3.14%	4,500,000

Total borrowing from LGFA at 11 August 2022 (principal only)	**29,000,000**

It should be noted that Council's 2022-23 Annual Plan projects that borrowings will increase to $38,000,000 over the course of the 2023 financial year

TREASURY REPORT FOR THE FULL 2021-22 FINANCIAL YEAR (CONTINUED)

Council has utilised LGFA funding for these purposes

In the 2020 and 2021 financial years, Council used the Customised Average Rate Loan (CARL) facility offered by the BNZ to progress capital works

LGFA funding has proven to be a critically important, and less expensive, source of funding which has largely replaced the BNZ CARL facility, allowing Council to progress key projects at a much lower cost.

LGFA funding November 2020 $15,000,000

Hamnak water pipeline, South Hill water mains and other 3 Waters projects – these were funded using the BNZ CARL facility, but the cost proved too expensive. This initial LGFA borrowing effectively repaid the CARL facility.

LGFA funding July 2021 $5,000,000

Further 3 Waters projects, primarily the new Oamaru reservoir $3.8M and desludging the sewer ponds at a cost of $1.9M. Despite the initial LGFA loans, Council was still using the BNZ CARL facility as needed up until 31 July to progress these projects. This new lending enabled Council to repay funds that had been borrowed from the BNZ facility

LGFA funding April 2022 $5,000,000

New lending funded the refinancing of the advance from Waitaki District Health Services Ltd to the Observatory Village Charitable Trust at a cost of $4,600,000.

LGFA funding August 2022 $4,000,000

New lending was required for operational cashflow due to receiving no principal repayment from Observatory Village Lifecare Trust, and a reduced dividend from Whitestone Contracting and initially repaid short-term funding from BNZ and will be used for

- 3 Waters projects now that the tranche 1 funding is almost fully utilised, and some projects have used their allocated funding from this source but have still to be completed
- preparatory work for the proposed Events Centre development
- progressing other capital projects as budgeted

Borrowing Costs

Borrowing costs total $299k (budget $182k, 2021 actual expense $169k) because of changes to rates charged on floating rate loans by the LGFA, and increased rates on new LGFA borrowings.

The 2021-22 budget assumed reliance on LGFA and no use of the CARL facility, which has now been reduced to a stand-by facility of $1M, and which may be accessed for immediate funds at any time.

The 2022-23 Annual Plan allows for significantly larger borrowing costs, as it projects increased use of LGFA funding and higher interest rates overall

TREASURY REPORT FOR THE FULL 2021-22 FINANCIAL YEAR (CONTINUED)

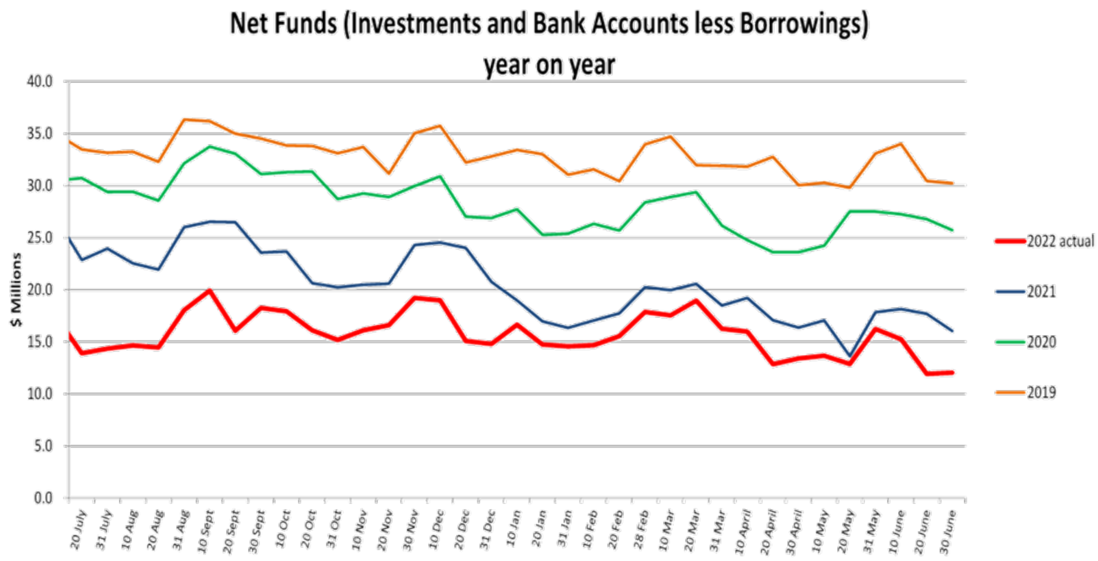
Overall Cash Position

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

- Bank and call account balances
- Term deposits
- Loans to external parties

Offset by:

- Borrowings from the Local Government Funding Agency (from November 2020)
- Borrowings from the BNZ (October 2019 to November 2020, casual until July 2021)



CASHFLOW SUMMARY	2022 projected $000	2021 $000	2020 $000	2019 $000	2018 $000
Operational cashflows	16,202	13,809	14,076	11,429	13,034
Capital purchases	(19,722)	(23,485)	(18,209)	(16,540)	(15,301)
- *3 Waters*	*(9,808)*	*(10,545)*	*(7,933)*	*(6,064)*	*(6,767)*
- *Roading*	*(5,011)*	*(8,628)*	*(6,724)*	*(7,067)*	*(6,004)*
- *Property, Parks*	*(3,263)*	*(2,620)*	*(2,802)*	*(2,648)*	*(1,201)*
- *Other*	*(1,640)*	*(1,692)*	*(750)*	*(761)*	*(665)*
Movement in Investments	(5,600)	2,696	(3,072)	3,060	1,714
Movement in Borrowings	9,000	8,600	7,400	-	-
Net change in Cash	(120)	1,620	195	(1,851)	(2,267)
Closing Cash	2,060	2,180	560	365	2,216
Closing Investments (principal)	35,945	30,345	33,041	29,892	32,952
Closing Borrowings (principal)	(25,000)	(16,000)	(7,400)	-	-
Net position (basis for graph)	**13,005**	**16,525**	**26,201**	**30,257**	**35,168**

TREASURY REPORT

FOR

Waitaki
DISTRICT COUNCIL
TE KAUNIHERA Ā ROHE O WAITAKI

AS AT

30 JUNE 2022

BANCORP

BANCORP TREASURY SERVICES LIMITED

AUCKLAND • CHRISTCHURCH

CONTENTS

1. MARKET ENVIRONMENT

1.1 GLOBAL MARKETS OVERVIEW (AS AT 30 JUNE 2022)

Financial market sentiment is increasingly fixated on the trade-off between central banks getting global inflation under control and what higher interest rates could mean for the global growth outlook. Signs of inflationary pressures have seen 'risk-off' flows drive bond yields higher, support a stronger US dollar, and lower equity indices. In contrast, data projecting weaker growth has seen interest rates pare back their gains with 'risk-on' flows capping the USD dollar and supporting equity prices, which would be a strange reaction to a weak growth outlook in 'normal' times.

As has been the case over recent months, June was characterised by high levels of volatility across markets and large intra-month swings in pricing. The US 10-year bond yield traded between 2.87% and 3.51% and had an intra-day trading range in excess of 0.25bps on more than one day. It closed the month just above 3.00% as growth concerns increased on weakening data, 0.50% below the intra-month high. Equity markets saw similar levels of volatility, with the S&P500 trading in a 525-point (13.5%) range between 3,640 and 4,165 before closing just under 3,800 to record its lowest monthly close since January 2021.

Financial markets have again aggressively increased pricing expectations around the quantum, and speed, of central bank rate hikes over the rest of this year. In mid-June, the Federal Reserve ("Fed") increased its cash rate mid-point by 0.75% to 1.625%, with comments from Fed Chairman, Jerome Powell, implying that another 0.75% hike in July was possible. The 0.75% hike was in response to a larger than expected increase in the US CPI over the 12-months to 31 May, up by 8.6% (a 41-year high) against consensus forecasts of an 8.3% increase.

Current pricing is now implying that the Fed will increase its cash rate to 3.45% by Christmas, with a 3.75% peak this cycle in Q1 of 2023. Recessionary fears are having an impact though, with markets pricing in rate cuts from June 2023, with the cash rate back at 3.00% by Christmas 2023. Recent comments from various Fed officials are implying aggressive hikes and ultimately a cash rate above 3.00%, with San Francisco Fed President, Mary Daly, recently saying that a 0.75% hike in July is her "starting point" because "data suggests inflation has not peaked and households still have plenty of savings to spend". She sees rates needing to get to 3.1% this year, her view of "neutral".

The European Central Bank announced in June that it will start hiking rates in July, with market pricing now implying a 1.00% cash rate by Christmas (from -0.50% currently). The Bank of England is expected to deliver a further 1.50% of hikes this year, taking the cash rate to 2.75% by Christmas, and despite the Bank of Japan ("BoJ") reaffirming its current 'easy' stance at its June meeting, market pricing has the BoJ edging the cash rate above 0.0% by the end of this year. In somewhat of a surprise move, the Reserve Bank of Australia ("RBA") raised its cash rate by 50bps to 0.85% in early June. The accompanying statement laid the groundwork for further rate hikes over the coming months as the RBA looks to normalise monetary conditions.

1.2 New Zealand Market Overview (as at 30 June 2022

	OCR	90 day	2 years	3 years	5 years	7 years	10 years
31 Mar 2022	1.00%	1.61%	3.29%	3.38%	3.39%	3.39%	3.38%
30 Jun 2022	2.00%	2.83%	4.06%	4.08%	4.04%	4.07%	4.11%
Change	+1.00%	+1.22%	+0.77%	+0.70%	+0.65%	+0.68%	+0.73%

On 25th May the Reserve Bank of New Zealand ("RBNZ") in its quarterly *Monetary Policy Statement* ("MPS") increased the Official Cash Rate (OCR") as expected by 50 basis points to 2.00%. What was surprising was the tone of the MPS, with the RBNZ saying it is *"resolute"* in its commitment to returning inflation back to within the 1 to 3% inflation range. The RBNZ also increased its terminal OCR by 50 basis points from the last MPS to 3.90% which the RBNZ is forecasting will be reached in June 2023. Of small consolation was that the RBNZ is now forecasting that the OCR should start declining from September 2024

With no meeting in June, markets focused on what to expect from the RBNZ at its July meeting. After the 0.75% Fed hike, speculation increased around a possible 0.75% hike, but softer data over recent weeks means that expectations have drifted back towards a 0.50% July hike. Market pricing has the OCR at 4.00% by Christmas with a 4.25% in the first quarter of 2023. Increasing speculation that OCR hikes of the scale projected will push the economy into recession are seeing the start of an easing cycle tentatively priced in for late 2023.

On the data front recent releases have shown the New Zealand economy to be slowing down and consumer confidence to be plunging. GDP contracted 0.2% in the March quarter and was up 1.2% over the March year, while the REINZ House Price Index fell 1.6% in May. According to the Westpac McDermott Miller Consumer Confidence Index, consumers are feeling more pessimistic than at any time since the survey began in 1988, as household budgets are being squeezed by higher mortgage rates and increases in fuel, food, local body rates and insurance premiums. The proportion of people who thought it was a good time to purchase a major household item, regarded as a key measure of consumer sentiment, fell 17.9% to a net negative 24.8% in June, a record low.

We believe that an OCR much above 3.00% will be more than sufficient to significantly slow demand and reduce inflation, although we accept that it might go higher. Our concern is that a recession may be the result of ongoing OCR increases in line with market pricing, and our core view is that aggressive hikes over the balance of 2022 will bring forward the next easing cycle into late 2023, with any material surprises to the projected OCR track being to the downside.

1.3 Local Authority Sector

Listed below are the credit spreads and applicable interest rates as at 30 June 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").

Maturity	Margin	FRN (or CP) Rate	FRB
3 month CP	0.20%	3.03%	N/A
6 month CP	0.20%	3.66%	N/A
April 2023	0.37%	3.20%	4.05%
April 2024	0.41%	3.24%	4.54%
April 2025	0.46%	3.29%	4.67%
April 2026	0.57%	3.40%	4.79%
April 2027	0.61%	3.44%	4.79%
April 2028	0.67%	3.50%	4.86%
April 2029	0.69%	3.52%	4.90%
May 2031	0.75%	3.58%	4.99%
April 2033	0.85%	3.68%	5.09%
May 2035	0.93%	2.76%	5.25%
April 2037	0.97%	2.80%	5.31%

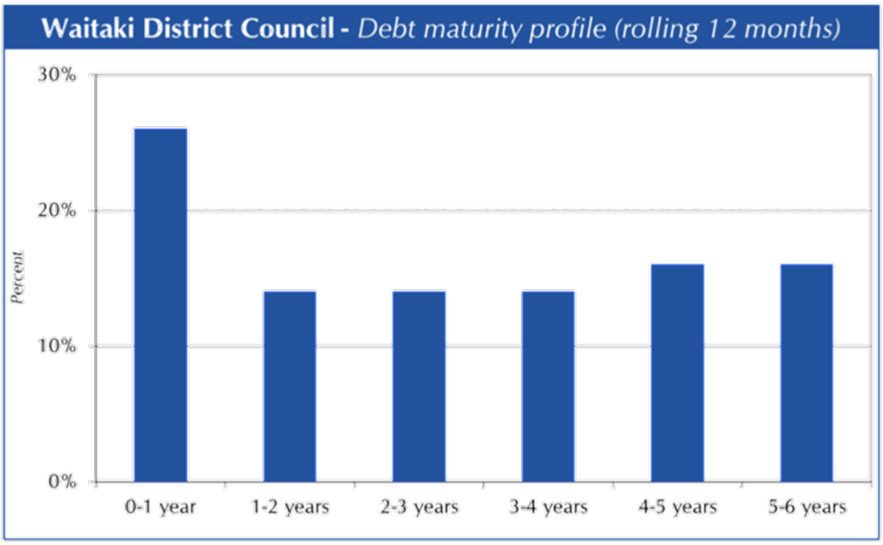
Margins for LGFA debt decreased slightly during the quarter, this going against the trend of credit spreads increasing in the wider capital markets and banking sector. However, the outright yields for LGFA debt increased sharply over the three month period due to increase in underlying rates, as the RBNZ's tightening cycle gathered momentum.

2. DEBT AND COVER PROFILES

As at 30 June 2022, WDC had $25.0 million of debt, which was sourced from the LGFA using two tranche of CP, four FRNs and seven FRBs. There is also a bank facility with Bank of New Zealand for $1.0 million that matures in 2023 and has a non-utilisation fee of 0.35%. The debt is detailed in the table below with the numbers in black in the column titled 'Yield' being the yield that WDC achieved for its funding and the numbers in red the market yield as at 30 June. The debt highlighted in bold was sourced during the June quarter.

Instrument	Maturity	Yield	Amount
LGFA CP	11 Aug-22	1.64% (3.03%)	$2,500,000
LGFA CP	**11-Aug-22**	**2.08% (3.03%)**	**$2,000,000**
LGFA FRN	15-Apr-23	2.53% (3.20%)	$2,000,000
LGFA FRN	15-Apr-24	2.55% (3.24%)	$2,000,000
LGFA FRB	15-Apr-24	0.65% (4.54%)	$1,500,000
LGFA FRB	15-Apr-25	0.73% (4.67%)	$1,500,000
LGFA FRN	**15-Apr-25**	**2.285% (3.29%)**	**$2,000,000**
LGFA FRB	15-Apr-26	0.84% (4.79%)	$1,500,000
LGFA FRN	15-Apr-26	2.46% (3.40%)	$2,000,000
LGFA FRB	15-Apr-27	0.93% (4.79%)	$2,000,000
LGFA FRB	**15-Apr-27**	**4.17% (4.79%)**	**$2,000,000**
LGFA FRB	15-May-28	2.32% (4.86%)	$3,000,000
LGFA FRB	**15-May-28**	**4.26% (4.86%)**	**$1,000,000**
		Total	**$25,000,000**

The debt maturity profile (excluding the bank facility), 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."*



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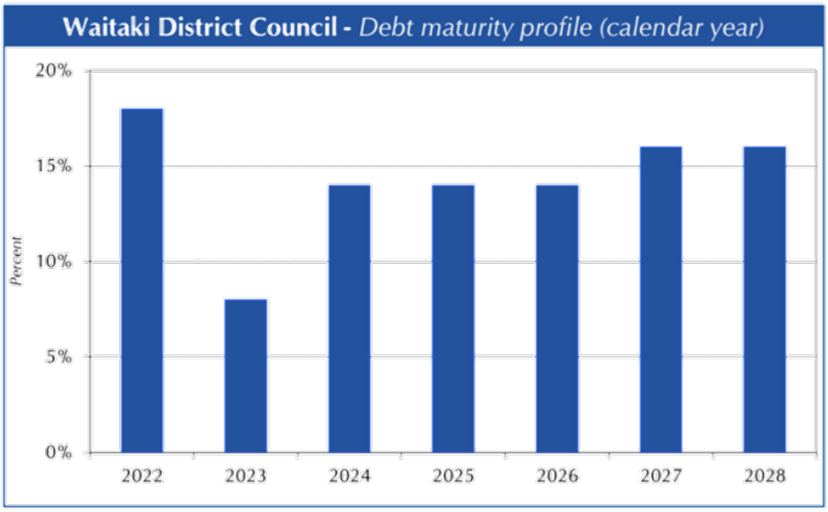
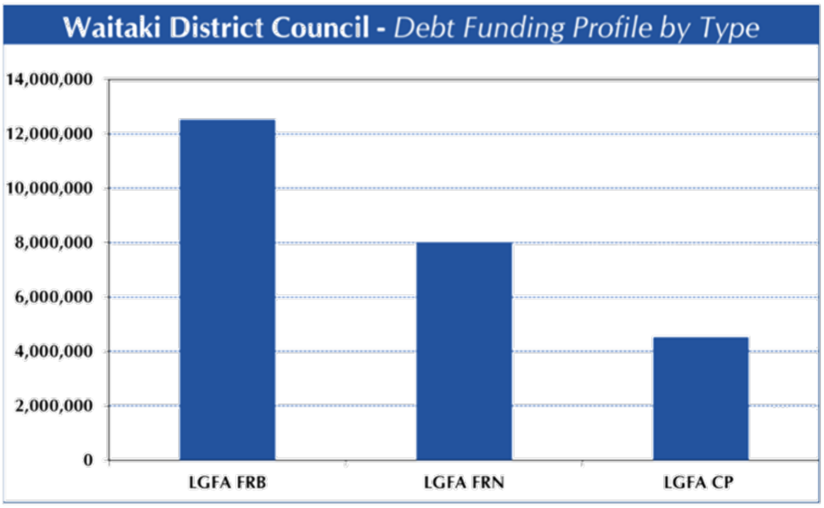
Page 4

The debt maturity profile (excluding the bank facility) based on calendar years is depicted in the following chart.



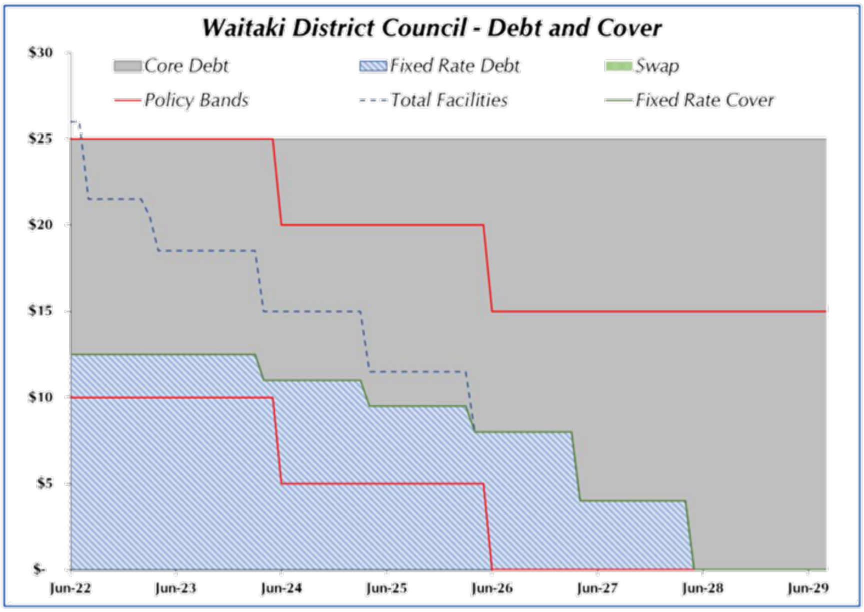
The debt funding profile categorised according to its type (based on a dollar amount) is depicted in the following chart.



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 $25.0 million 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 LGFA funding maturities and the bank facility for $1.0 million which matures in March 2023.



As at 30 June, WDC's cost of funds was 1.74%, up from 1.48% at the end of March. The increase in the cost of funds was due to WDC acquiring an additional $5.0 million of debt at significantly higher rates than it had previously obtained funding at and the significant increase in the floating rate during the June quarter (the 3 month bank bill rate increased by 1.22% over the three month period). Despite the increase WDC's cost of funds remains one of the very lowest (if not the lowest) in the local authority sector that Bancorp Treasury is aware of.

3. POLICY COMPLIANCE (AS AT 30 JUNE 2022)

	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

Interpretation of terms used in the Bancorp Treasury Report

The report provided each quarter by Bancorp provides an overview of economic trends and an analysis of Council's borrowings to give assurance that those borrowings are within the limits established by the Liability Management and Investment Policy.

Two tables contained in the report have proven confusing to members at previous meetings, so it might be helpful to review those:

- At page 3 of the Bancorp report, members will note a table of interest rates being charged to Councils for new borrowings at 30 June 2022.
- A table appears on page 4 of the Bancorp report comparing Council's actual cost for each of its loans (recorded in black) with the cost Council would incur if those funds had been borrowed for the same terms at 30 June 2022 (referred to as the FRN (or CP) rate in the table on page 3, recorded in red).
- The purpose of this second table is to demonstrate the benefits to Council of having started its relationship with the LGFA when it did, when borrowing costs were at about their lowest-ever point.
- In both tables, the word "Yield" refers to the applicable interest rate for each borrowed amount

Just above the table on page 4 of the Bancorp report, the narrative refers to a number of terms which are expanded on in the Treasury Report, but are also outlined below:

CP Commercial Paper –

usually used for terms no longer than 6 months, interest paid up front

FRB Fixed Rate Bonds –

`the interest rate at the start holds for the term of the loan

FRN Floating Rate Notes –

the interest rate may vary during the term of the loan. Changes may be made either quarterly or six-monthly, depending on the loan documentation

The bank facility also referred to is the Customised Average Rate Loan facility provided by BNZ

5 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
6.1 - Debtors' Report - 2022, Fourth Quarter PE	s7(2)(a) - the withholding of the information is necessary to protect the privacy of natural persons, including that of deceased natural persons	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 - Accounts Payable Analysis - 2022 full year 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)(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 s7(2)(h) - the withholding of the information is necessary to enable Council to carry out, without prejudice or disadvantage, commercial activities	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 PUBLIC EXCLUDED SECTION

7 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.

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, 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.

9 MEETING CLOSE