



Waitaki

DISTRICT COUNCIL

TE KAUNIHERA Ā ROHE O WAITAKI

Date: Tuesday, 26 March 2024
Time: 2.00pm
Location: Council Chamber, Third Floor
Office of the Waitaki District Council
20 Thames Street, Oamaru

Agenda Addendum

for Performance, Audit and Risk Committee Meeting

26 March 2024

Performance, Audit and Risk Committee Members

Mr Simon Neale	Independent Chairperson
Deputy Mayor Hana Halalele	Deputy Chair
Cr Tim Blackler	Member
Cr Jim Hopkins	Member
Cr John McCone	Member
Cr Rebecca Ryan	Member
Mayor Gary Kircher	Member

Alex Parmley
Chief Executive

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AGENDA ADDENDUM ITEM – ITEM NUMBER AS REFERENCED IN MAIN AGENDA

4.1 TREASURY STRATEGY FY 2023-2024 FOURTH QUARTER

Author: Amanda Nicholls, Chief Financial Officer

Authoriser: Alex Parmley, Chief Executive

RECOMMENDATION

That the Performance, Audit and Risk Committee recommends:

That Council adopts a Treasury Strategy for the fourth quarter of the 2023-24 financial year, which includes:

- Continuing to monitor available cash and projecting future cash requirements; and
- Continuing to liaise with the Local Government Funding Agency (LGFA) to ensure Council's ability to function and to deliver on behalf of the community is not impeded by a lack of funds; and
- Obtaining advice from Bancorp Treasury Services on key projects in addition to ensuring compliance with policy limits; and
- Investing funds considered surplus to immediate requirements based on current forecasts to best advantage to maximise returns.

DECISION OBJECTIVE

To report and discuss Council's proposed Treasury Strategy for the fourth quarter of the 2023-24 financial year, to review benefits arising from Council's membership of the Local Government Funding Agency (LGFA), and to consider the above recommendations.

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.

A copy of the Bancorp Treasury Report for the quarter ended 31 December 2023 was presented as part of the Treasury Report for 31 December 2023 at the Performance, Audit and Risk (PAR) Committee Meeting held on 27 February 2024. It provided analysis of current market pressures and compared Council's borrowing rates against current market rates.

DECISION-MAKING EXPECTATIONS

Governance Decision-Making:	To adopt the proposed Treasury Strategy
Operational Decision-Making:	To implement the Treasury Strategy
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

Historically, Council has been a net investor of funds, using both short-term deposits and longer-term community-based loans as its primary investment options. As Council has invested more in those community-based activities, it has needed to use external sources of funds to meet its operational cashflow requirements. Initially, this was supplied by trading banks. However, once Council joined the LGFA, that entity has become the primary lender.

Council has a regular and generally predictable cashflow pattern which assists with cashflow, debt, and investment planning.

CURRENT SITUATION – THE MARKET

The Bancorp report provided at the 27 February 2024 PAR Committee Meeting provided analysis of current market conditions. The Official Cash Rate (OCR) has remained at 5.50%, although there are indications that it may yet increase further and remain at an elevated level for an extended period before projected OCR cuts in 2025.

The recent rapid changes in the OCR have seen Council’s borrowing costs increase markedly, but they have also seen bank deposit rates reach levels not seen since 2017. The OCR has also resulted in increased interest rates now applying to Council’s lending to external entities.

CURRENT SITUATION – INVESTMENTS

Loans to external parties \$35M

- Observatory Village Charitable Trust – \$16.699M. Interest rates vary over four tranches structured as: \$1.5M 5.98%, \$1.5M 5.20%, \$12.44M 5.32%, and the most recent \$1.1M (still growing, with a limit of \$2.5M) 10.39%. Principal repayments to commence June 2025.
- North Otago Irrigation Company Limited (NOICL) – \$13.592M. Interest rates are set quarterly based on the 90-day bill rate plus a margin and are currently 8.035%. Annual principal repayments of \$266k, with a balloon payment in February 2031 of \$11.825M.
- Kurow-Duntroon Irrigation Company Limited – \$3.165M. Interest rate 7.72% with principal repayments of \$19k to be made in 2023-24.
- Waitaki District Health Services Limited – \$1.95M. Interest rate 7.89% reset quarterly.
- Ōamaru Whitestone Civic Trust – \$0.435M. \$382k at interest rate of 4.67% currently (Council’s cost of borrowing for that quarterly period). \$72k interest free.
- Whalan Lodge Trust – original loan \$0.760M. Interest rate 4.57%. Interest compounds on the loan until it reaches \$0.780M. New loan \$0.302M, interest rate 5.33%, with interest compounding until the loan balance reaches \$0.700M.

- Corriedale Water Management Company Limited – \$17.5k. Interest-free providing initial set-up funding. This advance will be repaid as part of the final settlement when Council’s waters assets are relinquished.
- Ōmārama Airfield Limited – \$0.348M interest rate 10.89% with interest compounding up to \$100k or the date of practical completion. Although Council approved funding of up to \$0.550M, this was contingent on no further drawdowns being made after 28 February 2024, which has now passed.

Interest rate mis-match has been of concern to the PAR Committee. This is the situation where funds lent by Council earn less interest than Council pays on funds effectively borrowed to facilitate the lending. This situation particularly affected advances to Observatory Village and NOIC. Both of these borrowers have now agreed varied terms that see the applicable interest rates set quarterly, based on current market rates, rather than being fixed for lengthy periods.

Bank / call account / term deposits

Council’s cashflows are extremely cyclical and regular, with four months that may be regarded as “high cash balance” months – August, November, February, and May. These months are when quarterly rate instalments, water billing, and trade waste charges fall due for payment. In each of these months, and when other large inflows, like loan principal repayments, are received, officers must decide how best to deal with the resulting surplus funds, which effectively support Council activities through to the next “high cash balance” month. In making these decisions, officers consider:

- operational requirements; and
- loan repayment obligations (only applicable if the BNZ facility has been utilised); and
- term deposit opportunities.

Interest rates for term deposits have already improved following changes in the OCR. They currently range from 2.75% for Council’s call account and term deposits up to three months, to around 6.00% for terms between nine (9) and 12 months.

Council currently holds no funds on term deposit and, following the inwards movement of funds resulting from payment of the third instalment of rates on 25 February, was holding over \$6M in the Call account. The balance in this account is highly flexible and changes daily depending on immediate cashflow requirements. These funds will largely be fully utilised in meeting payment obligations on 20 March 2024.

CURRENT SITUATION – BORROWINGS

Local Government Funding Agency (LGFA)

Council has borrowed a total of \$61M since joining the LGFA.

Borrowings from the LGFA are spread across three types of loan, being Commercial Paper (CP), Floating Rate Notes (FRN), and Fixed Rate Bills (FRB), with maturity dates ranging from April 2023 to May 2028. The position at 29 February 2024 is detailed in the table below.

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

Type of security	Maturity	Interest rate	Principal \$
LGFA CP	15-Apr-24	5.81%	9,000,000
LGFA FRN	15-Apr-24	6.35%	2,000,000
LGFA FRN	15-Apr-24	6.35%	2,000,000

LGFA FRN	15-Apr-25	6.20%	2,000,000
LGFA FRN	15-Apr-26	6.26%	2,000,000
LGFA FRN	15-Apr-26	6.34%	2,500,000
LGFA FRN	15-Apr-26	6.36%	2,000,000
LGFA FRN	15-Apr-26	6.47%	1,000,000
LGFA FRN	15-Apr-27	6.32%	2,000,000
LGFA FRN	15-Apr-27	6.45%	2,000,000
LGFA FRN	15-Apr-28	6.46%	2,500,000
LGFA FRN	15-May-28	6.50%	2,000,000
LGFA FRN	20-Apr-29	6.67%	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-25	4.93%	2,500,000
LGFA FRB	15-Apr-26	0.84%	1,500,000
LGFA FRB	15-Apr-26	5.55%	1,000,000
LGFA FRB	15-Apr-26	6.22%	2,500,000
LGFA FRB	15-Apr-27	0.93%	2,000,000
LGFA FRB	15-Apr-27	4.17%	2,000,000
LGFA FRB	15-Apr-27	5.16%	1,500,000
LGFA FRB	15-Apr-27	5.66%	3,000,000
LGFA FRB	15-May-28	2.32%	3,000,000
LGFA FRB	15-May-28	4.26%	1,000,000
LGFA FRB	15-May-28	5.18%	2,000,000
LGFA FRB	15-May-28	5.74%	3,000,000

		Total principal	\$61,000,000
		Accrued interest	58,373
		Total	\$61,058,373

Borrowings maturing in April will be refinanced as the present capital expenditure programme allows little leeway to accommodate repayments. The 2023-24 Annual Plan projected Council's borrowings would increase to \$50M by 30 June 2024. The balance is currently \$61M and capital projects as well as commitments regarding funding arrangements with external entities will require that figure to increase further, potentially by a further \$10M. If this transpires, borrowings at June will reach \$71M, which is less than the \$80M indicated previously.

Expenditure continues on significant waters projects (including Weston mains replacement, Kakanui mains replacement, Ōamaru Rural mains replacement, South Hill Reservoir, and Waihemo Rural water mains replacement) as well as Kakanui Bridge design work, ongoing District Plan costs, 20 Thames Street roof repairs, Forrester Gallery initial costs, and bringing forward the Hampden landfill

Project Reclaim (re-forecast estimated \$7M cost prior to 30 June 2024). All this will require additional funding prior to the 25 May rates instalment.

Interest rates available from the LGFA have reduced in the last few months. Council can currently borrow from the LGFA at around 5.50% fixed, 5.70% floating, and 5.80% on commercial paper for shorter terms.

Bank of New Zealand (BNZ)

Council has a Customised Average Rate Loan (CARL) facility with the BNZ with a limit of \$1M, and an overdraft limit of \$0.250M (with interest rates currently of 7.89% and 12.15% plus a margin, respectively). These facilities are only used infrequently when other avenues of funding have been exhausted, and only for very short periods of time, as both are much more expensive than funding from the LGFA. For longer-term requirements, the LGFA will always be the preferred funding source.

Future Borrowing Requirements

The LGFA has proven extremely responsive to requests for funding assistance and will provide funds for very short periods of time if needed. Although obtaining new, and refinancing existing, loans from the LGFA requires more paperwork than simply processing a transfer from the CARL facility, LGFA debt will always be more reasonably priced.

Initial work completed on the 2024-34 Long Term Plan indicated that borrowings would reach \$414M by 2034. The decision to proceed with an Annual Plan on 2024-2025 rather than the full LTP provides much needed time to further review and analyse the capital projects that are the cause of this significant escalation in funding requirements.

Further projects

- Bancorp has been tasked with providing advice to Council on how best to structure Council's external borrowings to ensure that Council is not disadvantaged in any potential transfer of 3 Waters assets and related debt to another entity. This is a fluid situation, with the future ownership structure and timing of any change currently unknown. However, it is critical that Council is adequately prepared for that significant development and the debt is structured to allow for a potential transfer of debt to another entity.
- Bancorp and other external agencies will be engaged to advise/recommend options for alternative revenue streams which might be used to mitigate future rates increases after the removal of 3 Waters from Council's activities.

Discussion

This Treasury Strategy will continue to provide:

- flexibility in accessing and applying operational funding
- certainty of funding for capital projects
- certainty and savings in loan servicing and facility costs
- funds which, when not required for operational or capital funding purposes, can be used to generate investment revenue
- reporting on options available to Council arising from the transition to the new 3 Waters entity.

SUMMARY OF OPTIONS CONSIDERED

Option 1 – Adopt a Treasury Strategy for the fourth quarter of the 2023-24 financial year which:

- (a) uses the expertise of external consultants in relation to external borrowing and lending, and the most suitable and beneficial structuring of Council debt; and
- (b) continues to restrict the use of the BNZ CARL and overdraft facilities; and
- (c) invests funds considered surplus to immediate requirements to best advantage to maximise returns.

(Recommended)

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

ASSESSMENT OF PREFERRED OPTION

Option 1 is preferred, as it is effectively the continuation of the current Treasury Strategy and includes several new and key parcels of work. This is regarded by officers as the most viable option given Council's present funding circumstances.

CONCLUSION

Officers will continue to maximise, wherever possible, returns from Council's investments whilst minimising as much as practicable the costs of financing Council's ongoing operational and capital funding requirements. This Treasury Strategy has been developed and improved to ensure that objective is met.

ADDITIONAL DECISION-MAKING CONSIDERATIONS

Waitaki District Council Strategic Framework

Outcomes

Community Outcomes

Prosperous District

- Attractive to new opportunities
- Supporting local businesses
- Fostering a diverse and resilient economy

Strong Communities

- Enabling safe, healthy communities
- Connected, inclusive communities
- Promoting a greater voice for Waitaki
- Celebrating our community identity

Quality Services

- Robust core infrastructure and services
- Community facilities and services we are proud of

Valued Environment

- Protecting our diverse landscapes and water bodies
- Meeting environmental and climate change challenges

Financial Considerations

Approval of a Treasury Strategy underpins and is critical to Council's ongoing operations.

AGENDA ADDENDUM ITEM – ITEM NUMBER AS REFERENCED IN MAIN AGENDA

5.3 FINANCIAL SUMMARY (TO 29 FEBRUARY 2024)

Author: Amanda Nicholls, Chief Financial Officer

Authoriser: Alex Parmley, Chief Executive

RECOMMENDATION

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

PURPOSE

This report presents a high-level financial summary for the period ending 29 February 2024.

COMMENTARY

This report does not replace the regular financial reporting that is provided at each quarter's end. Instead, it is intended to supplement that reporting and bridge the gap between the quarters.

While individual operating revenue and expense categories report variances from budget, Council's overall operating result for the period, being a deficit of (\$9,160), is a slight improvement on the budgeted deficit of (\$9,498k).

Income and Expenditure

- Revenue from external grants is under budget by -\$1,243k.
 - The Ministry of Health has provided funding of \$342k towards fluoridation of the Ōamaru Water Treatment Plant.
 - Roothing subsidies are slightly behind plan.
 - The Mayors' Taskforce for Jobs programme was not expected to generate as much revenue in FY2024. This is a pleasing reflection of the amount of work completed on that project to equip young people for work.
 - The budget anticipated the receipt of \$1,280k external grants and donations for the Events Centre project which have yet to be realised. It should be noted that the budget includes the receipt of \$4,900k by year end for this project – refer to Projections later in this report.
 - Grants of \$400k have been received towards the Gallery extension, well ahead of budget to date of \$180k, and the annual budget of \$270k.
- Depreciation is reported over budget by \$759k, largely a consequence of the larger-than-expected Roothing revaluation at June 2023. This variance will continue to grow until year end.
- Personnel costs are under budget by \$255k, reflecting vacancies remaining unfilled and better recoveries from capital projects.
- Finance Revenue is significantly over budget, reflecting increased lending to outside parties and improved interest rates, while Finance Cost is extremely close to budget for the period, despite increased borrowing from the LGFA.

A number of aspects of the February period have still to be finalised, so the result reported here is an interim one and is provided as an indication of financial performance.

KEY FINANCIAL UPDATE AT 29 FEBRUARY 2024

REVENUE	ACTUAL YTD FEB 2024 \$000	BUDGET YTD FEB 2024 \$000
Rates	27,391	27,286
Grants	7,776	9,019
User charges and Property rental	3,881	4,384
Statutory charges	1,558	1,640
Other revenues – DCs, Petrol tax, and infringements	1,022	954
Investment income	1,477	1,102

EXPENDITURE	ACTUAL YTD FEB 2024 \$000	BUDGET YTD FEB 2024 \$000
Employee costs	12,058	11,994
Depreciation	13,464	12,619
Contractors – Roading	3,467	3,352
Contractors – Waters	3,736	2,692
Contractors – Property	905	654
Contractors – Parks and Recreation	2,607	2,137
Contractors – Economic Development	276	818
Project Reclaim	1,985	7,230
Backfill for staff vacancies	195	-
Consultants, Solicitors, Valuers = Professional services	1,722	1,638
Grants	718	733
Finance costs	1,351	1,348
Electricity	1,640	1,564
Insurance	1,163	1,067
Other expenses	7,120	5,998

OPERATING SURPLUS / (DEFICIT) – YEAR TO DATE	(\$9,160)	(\$9,498)
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The budget for Project Reclaim has been brought forward from later periods and is still subject to negotiation. It presents a “worst-case” scenario which involves the purchase and surrendering of carbon credits and incurring considerable waste minimisation levies, neither of which may come to fruition. As reported above, actual cost incurred to date is well within the budget.

CAPITAL EXPENDITURE	ACTUAL YTD FEB 2024 \$000	BUDGET YTD FEB 2024 \$000
Roading	6,250	8,603
Waters	11,295	9,632
Property	815	1,632
Parks and Recreation	814	4,285
Information Systems	966	1,444
Solid waste	685	1,080
Other business units	496	549
Council – all business units	\$21,321	\$27,225

Capital Expenditure for the period to February 2024 varies considerably against budget. Waters projects are progressing better than anticipated, but other units are not faring as well. Delays in starting the Events Centre project have significantly impacted Parks and Recreation, and ongoing staffing issues continue to hamper IT projects.

SUMMARY STATEMENT OF FINANCIAL POSITION	ACTUAL YTD FEB 2024 \$000	ANNUAL BUDGET 2024 \$000
Property, Plant and Equipment (1)	1,149,624	1,197,024
Loans to other entities (2)	37,438	33,257
Cash and Cash Equivalents (3)	7,129	3,384
Receivables	4,327	5,355
Borrowings (2)	61,058	50,265
Accounts Payable	7,642	13,175
Employee Entitlements	1,998	1,932

Budget figures appearing in the table above represent the projected year-end position, and so may not be directly comparable with the year-to-date position.

1. The budget for Property, Plant and Equipment includes not only the full year's capital expenditure, less Depreciation, but also the Waters revaluation to be processed in June 2024.
2. Loans to Other Entities and Borrowings are detailed as part of the Quarterly Treasury Report and the Treasury Strategy.
3. Cash and Cash Equivalents are historically higher than normal at the end of February, following receipt of the bulk of payments related to the third instalment of 2023-24 rates.

Projections

As noted earlier in the report, actual results have been impacted by two significant factors:

- To date, no grants or donations have been received by Council in relation to the Events Centre project. The 2023-24 budget includes revenue of \$4,900k for it. The receipt of the funds is tied to the construction programme. If these funds are not received, Council's annual financial result will be adversely affected.
- Annual Depreciation charge will definitely exceed budget because of the revaluation of Roading at June 2023 which exceeded expectations. It is likely that the additional cost will amount to at least \$1,150k, which will further worsen the financial result for the year ended June 2024.