



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

Agenda

Performance, Audit and Risk Committee Membership

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**



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 26 MARCH 2024**

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 March 2024**

RECOMMENDATION

That the Performance, Audit and Risk Committee confirms the Public Minutes of the Performance, Audit and Risk Committee Meeting held on 26 March 2024, 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, 26 MARCH 2024 AT 3.30PM**

PRESENT: Mr Simon Neale (Chair) , Deputy Mayor Hana Halalele (Deputy Chair), Cr Jim Hopkins, Cr John McCone, Cr Rebecca Ryan, and Mayor Gary Kircher

APOLOGY; Cr Tim Blackler

IN ATTENDANCE: Cr Guy Percival
Cr Brent Cowles
Cr Jim Thomson (from 3.47pm)
Paul Hope (Finance and Corporate Development Group Manager and Acting Assets Group Manager)
Ainslee Hooper (Governance and Policy Advisor)

IN ATTENDANCE FOR SPECIFIC AGENDA ITEMS:

Amanda Nicholls (Chief Financial Officer)
Amelia Lines (Risk and Procurement Advisor)

MEETING OPEN

The Chair declared the meeting open at 3.30pm and welcomed everyone present.

1 APOLOGIES

RESOLVED PAR 2024/015

Moved: Cr Jim Hopkins
Seconded: Mayor Gary Kircher

That the apology received from Cr Tim Blackler be accepted.

CARRIED

2 DECLARATIONS OF INTEREST

There were no declarations of interest.

The Chair asked if anyone wished to speak to the Public Excluded Minutes of the previous meeting because, if they did not, then he signalled his intention to confirm them in the Public session of the meeting as a new agenda item 3.2. No one wished to speak to those Minutes, so the Chair ruled that they would be confirmed as new Public Agenda Item 3.2.

3 CONFIRMATION OF PREVIOUS MEETING MINUTES

3.1 PUBLIC MINUTES OF THE PERFORMANCE, AUDIT AND RISK COMMITTEE MEETING HELD ON 27 FEBRUARY 2024

Two amendments:

1. Item 4.1, paragraph 7, line two: add the word “the” between “in” and “model”.
2. Item 4.3, paragraph 5, second sentence: To be corrected to read: “It was acknowledged that Council was earning a higher interest rate on money invested.”

RESOLVED PAR 2024/016

Moved: Mayor Gary Kircher

Seconded: Cr Jim Hopkins

That the Performance, Audit and Risk Committee confirms the Public Minutes of the Performance, Audit and Risk Committee Meeting held on 27 February 2024, with two amendments, as a true and correct record of that meeting.

CARRIED

3.2 PUBLIC EXCLUDED MINUTES OF THE PERFORMANCE, AUDIT AND RISK COMMITTEE MEETING HELD ON 27 FEBRUARY 2024

RESOLVED PAR 2024/017

Moved: Mayor Gary Kircher

Seconded: Cr Jim Hopkins

That the Performance, Audit and Risk Committee confirms the Public Excluded Minutes of the Performance, Audit and Risk Committee Meeting held on 27 February 2024, as circulated, as a true and correct record of that meeting.

CARRIED

The Chair directed the meeting to Agenda Item 4.1 and advised that the contents of the agenda report for this item were included in the Agenda Addendum.

4 DECISION REPORTS

4.1 TREASURY STRATEGY FY 2023-2024 FOURTH QUARTER

The report, as circulated, sought Council’s discussion and decisions on the 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).

A summary of key discussion topics is provided below.

New graph formats showing projections for the next ten years would start to be used from the next quarterly meeting of the Committee.

Regarding the list of borrowing from the LGFA, the fixed rate bills were listed in order of their maturity dates. The ones maturing in 2028 would have been taken out most recently.

It was clarified that the interest rates on the Observatory Charitable Trust and OAL loans were correct. Both were using the BNZ CARL rate and one had an additional 3% margin and the second a 2.5% margin.

Regarding forecasted debt at year's end, it was now expected to be \$21m above the originally budgeted debt level of \$50m – ie at \$71m.

In response to questions, Ms Nicholls also briefed the meeting on the status of Project Reclaim.

RESOLVED PAR 2024/018

Moved: Cr Jim Hopkins

Seconded: Cr Rebecca Ryan

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.

CARRIED

4.2 ADOPTION OF REVISED PROCUREMENT POLICY 2024

The report, as circulated, detailed changes made to the Procurement Policy in order that the Performance, Audit, and Risk Committee will recommend the adoption of the revised policy to Council.

Risk and Procurement Advisor Amelia Lines introduced the report. Discussion topics are summarised below.

It was clarified that it had not yet been determined where the project management framework would be directed; it could be to the Executive Leadership Team.

Queries from Elected Members included how the delegation level of \$1.5m was set and whether it should be lower than that before the matter had to be referred to Council; whether Portfolio Members should be more involved as tender evaluation panel members; and whether a definition of 'procurement professional services' should be included. In response, Ms Lines advised that the delegation level was reviewed regularly, possibly every three years; that there was no precedent for Elected Member to be on evaluation panels for tenders, because their role was an observer one; and a definition of 'procurement professional services' was provided in the glossary at the end of the policy. Group Manager Paul Hope suggested that the time to consider Elected Member participation was when an agenda report about the contract and procurement plan is brought to Council, rather than trying to include it in the Procurement Policy. It could be added as a discussion item in future agenda reports.

ACTION: Risk and Procurement Advisor, with Group Manager

In answer to a question about the weighting applied to broader outcomes for secondary benefits, Ms Lines responded that it would probably be not more than 20%.

One Member had some requested changes to wording in the amended policy, and emphasised the need to have some wording around the fact that prices and costs do matter, and that they wanted to see that unreasonable cost was not incurred in pursuit of a value for money approach. They also felt that headings on the top of the chart needed to be tidied up and heading titles inserted.

The same Member requested that, in the IT software / hardware section, they asked for the reference to “you” being changed because the document does not make personalised statements anywhere else. The Chair agreed to this point.

Returning to the matter of broader benefits, the Chair advised the meeting that the broader benefits had been included on purpose because the outcomes can be different according to the circumstances. Ms Lines concurred, noting that the policy was trying to cover such things as engaging a solicitor, to moving a landfill and encountering hazards along the way. It was trying to get people to consider the outcomes of procurement but also outcomes generally – at the community level.

There was support for making sure that the Information Technology team was aware of decision relating to software purchase.

Regarding the local supply aspect, there was a need to consider sustainability and social values as well. Specifically, whilst being mindful of broader outcomes, there was a need to look wider to the fact that Council did receive dividends from one of its contractors and that needed to be taken into account where it was relevant to do so on any particular contract because it was just as important as that company being out in the community doing other things. It was a measure that Council should be very deliberately including and transparently including, they believed, because all such matters did add up in the broader value equation.

Ms Lines acknowledged the comments, but noted there was a difficulty with that, namely that the dividends would be based on annual profit as a whole, rather than the contract as a whole and officers would not be able to assess that would impact at contract level. It was suggested by the Chair that the fact that a dividend was received could be added into the mix, rather than the actual dividend value.

Another Member asked about the accountability and business plan / paper trail behind procurement spending. Ms Lines explained the audit trail elements, including the specific reporting related to non-standard expenditure over \$200k. She also discussed audit trail elements which showed who was appointed for what work by what method; the initial budget approval process, then the procurement approval process, and then the contract award. All of that was managed through financial delegations. The Chair added that reporting on non-standard approvals also came to this Committee on a quarterly basis, so the patterns were visible to Committee Members (he noted that there was some reporting of this nature in the agenda papers for this meeting).

Another Member also reminded meeting participants that there were situations where tender pricings were up even more, and there could also be price escalations during the project. The allowance was 20% variation before the proposed expenditure had to come back to Council for approval. It was noted that there could be concerns at times when projects costs went above that 20% level, eg a budgeted project for \$1m that then came in at \$1.2M involved a significant cost overrun. On that point, the Chair suggested that, as part of the next procurement update, cost overruns could be stated using a minimum dollar value instead. The Member said they were happy for officers to look into that and advise further at the next quarterly Committee Meeting focused on risk and procurement.

ACTION: Risk and Procurement Officer, with Group Manager

A request was made for more information about the meaning of “recommended materiality”.

ACTION: Risk and Procurement Officer

When asked if there was a page on Council’s website where tenders were available for viewing, to help getting more local people to participate in them, Ms Lines advised that there was nothing like that currently. There was a requirement to have the contracts listed as they were awarded. That option could be investigated.

ACTION: Risk and Procurement Officer

RESOLVED PAR 2024/019

Moved: Cr Jim Hopkins
Seconded: Cr Rebecca Ryan

That the Performance, Audit and Risk Committee recommends:

That Council adopts the revised Procurement Policy with amendments as agreed.

CARRIED

AGAINST: CR JOHN MCCONE

5 MEMORANDUM REPORTS

5.1 PROCUREMENT UPDATE

The report, as circulated, provided an update on procurement activity throughout the last quarter (December 2023, and January and February 2024).

Risk and Procurement Advisor Amelia Lines introduced the report. Summary discussion topics are provided below.

It was clarified that the last quarter had involved more roading contracts being awarded in a non-standard way than was usual. Mrs Lines believed it was an anomaly, relating to requirement for urgent work in some instances.

The Chair suggested that queries relating to drainage costs and to the Brackens office supplies contract could be addressed more efficiently via an email response. A further question relating to the cost of translocating skinks from the landfill was also deferred for an email response.

ACTION: Risk and Procurement Advisor

RESOLVED PAR 2024/020

Moved: Deputy Mayor Hana Halalele
Seconded: Cr Jim Hopkins

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

CARRIED

5.2 RISK MANAGEMENT UPDATE

The memorandum, as circulated, provided an update on the Key Risk Register and Operational Risks that have been accepted as out of appetite.

Risk and Procurement Advisor Amelia Lines introduced the report.

The addition of a risk relating to non-alignment with central government reforms/policies was supported by one Member.

The escalation of a serious harm incident was queried, given that health and safety incidents were decreasing, not increasing. Mrs Lines advised that that had not been classified as 'high' previously. However, Council did own pools, treatment plans, and unfenced bodies of water where fatalities could occur, so the risk had been reassessed to 'high' to reflect that. Clarification was sought and provided by Mrs Lines that the Alps2Ocean cycle trail was included in that category.

The risk associated with Codes of Compliance was queried. Mrs Lines advised that, if Council was the last man standing, then it would be liable to correct any incomplete Code of Compliance. That had happened to other Councils. Group Manager Paul Hope added that the Executive Leadership Team had reconsidered this risk because of a Court decision for another council that essentially reinforced liabilities for councils.

RESOLVED PAR 2024/021

Moved: Cr Jim Hopkins
Seconded: Deputy Mayor Hana Halalele

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

CARRIED

The Chair directed the meeting to Agenda Item 5.3 and noted that the final agenda report for this item had been included in the Agenda Addendum.
Mayor Gary Kircher left the meeting.

5.3 FINANCIAL SUMMARY (TO 29 FEBRUARY 2024)

The report, as circulated, presented a high-level financial summary for the period ending 29 February 2024.

Chief Financial Officer Amanda Nicholls highlighted that there has been general inflationary increases across the organisation, and that more detail would be provided in the next month's quarterly financial report. The Chair acknowledged the promise of a breakdown of expenses to follow, noting that he did not believe everyone was satisfied with 'general inflationary increases' as an explanation.

When asked for an explanation about why, when financial revenue is significantly over budget (because Council was borrowing significantly more than it had intended to), financial costs were close to budget. Ms Nicholls undertook to look into the details of that.

ACTION: Chief Financial Officer

One Member raised concerns about the variation for the Events Centre and asked when the budget for it was due to start. Group Manager Paul Hope advised that it was a timing matter, between securing the funding and making funding decisions. The programme was currently in line with the timetable that had been agreed when Council made the final decision to accept the budget. That was 12 months ago and estimates had climbed since then. Asked if the timeline would keep moving and – if it did – what would happen with the numbers in the financial report, Mr Hope added that the timing would be revised once funding decision had been made. An update on the project, including with projected timings and revenue streams, would be sourced as soon as possible.

Regarding depreciation, it was suggested that it was time for the Finance team to look at the valuation amounts, given that depreciation was over budget by \$759k, to see if some of it could be unfunded or modified in any way.

RESOLVED PAR 2024/022

Moved: Deputy Mayor Hana Halalele
Seconded: Cr Rebecca Ryan

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

CARRIED

The Chair noted that, because the Public Excluded Unconfirmed Minutes of the previous meeting had been confirmed in the Public session of this meeting, there was no requirement to go into and out of public excluded at this meeting. Therefore, Agenda Items 6, 7, 8, and 9 were not required.

ACTION: Governance Advisor to record in the minutes of this meeting

6 RESOLUTION TO EXCLUDE THE PUBLIC

7 PUBLIC EXCLUDED SECTION

8 RESOLUTION TO RETURN TO THE PUBLIC MEETING

9 RELEASE OF PUBLIC EXCLUDED INFORMATION

[Agenda Items 6, 7, 8, and 9 were not required at this meeting.]

10 MEETING CLOSE

The Chair declared the meeting closed at 4.32pm.

TO BE CONFIRMED at the Performance, Audit and Risk Committee Meeting to be held on Tuesday, 23 April 2024.

.....
CHAIRPERSON

4 MEMORANDUM REPORTS

4.1 FINANCIAL REPORT FOR Q3 FY2024

Author: Amanda Nicholls, Chief Financial Officer

Authoriser: Paul Hope, Finance and Corporate Development Group Manager

RECOMMENDATION

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

PURPOSE

This report presents financial results for the nine months ended 31 March 2024 and includes explanations for variances against budget.

SUMMARY

Overall, the Council's financial results for the first nine months of the 2024 financial year are behind budget.

Revenue at \$48,997k is \$3,153k, or 6.1%, lower than budget.

However, Expenditure at \$59,385k is \$2,092k or 3.4% under budget.

The operating deficit for the period is \$10,350k against a \$9,297k budgeted deficit, higher than budget by \$1,053k, or 11.3%.

Overall, the balance sheet position is as expected, with the most significant variances being the result of opening balances as at 30 June 2023 differing from what was expected in the 2024 Annual Plan budget, and the scheduled revaluation of Waters infrastructure still to be processed.

Borrowings are reported at a higher level than was allowed for in the Annual Plan due to the level of capital expenditure (that was intended to be debt funded), additional lending to external parties, and other factors. Allied with this, loans by Council to external parties are higher than was budgeted, as discussed in the Treasury Report presented to this meeting.

The capital expenditure spend for the period is below budget. As noted below, timing issues have affected a number of projects, including Project Reclaim, which have resulted in delays to planned work.

STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE (P&L)

The operating result of the Council for the first nine months of the 2024 financial year, along with the full 12 month forecast against budget and prior year, is below.

	2024 9 Months Actual \$000	2024 9 Months Budget \$000	Variance from YTD Budget		2024 12 Months Forecast \$000	2024 Annual Plan Budget \$000	2023 12 Months Actual \$000
			\$000	%			
Revenue							
Rates Revenue	30,981	30,844	137	0.4%	41,379	41,196	38,157
User Charges	2,547	2,520	27	1.1%	3,287	3,252	3,299
Property Rental	1,975	2,199	(224)	-10.2%	2,633	2,932	2,376
Regulatory Charges	1,738	1,828	(90)	-4.9%	2,287	2,405	2,030
Development and RMA Contributions	929	995	(66)	-6.6%	1,239	1,327	1,474
Government Grants and Subsidies	8,150	10,244	(2,094)	-20.4%	9,842	16,141	13,438
Other Grants and Donations	632	1,728	(1,096)	-63.4%	1,400	5,034	1,360
Finance Revenue	1,662	1,211	451	37.2%	2,216	1,615	1,662
Petrol Tax	131	153	(22)	-14.4%	175	204	198
Infringements and Fines	52	78	(26)	-33.3%	61	91	74
Dividends received	200	350	(150)	-42.9%	200	350	226
Assets vested in Council	-	-	-	0.0%	-	-	659
Total Revenue	48,997	52,150	(3,153)	-6.1%	64,718	74,547	64,953
Expenses							
Personnel costs	13,082	13,453	(371)	-2.8%	17,241	17,730	15,676
Depreciation and amortisation	15,173	14,196	977	6.9%	20,230	18,928	18,802
Finance Costs	2,041	1,545	496	32.1%	3,048	2,156	1,330
Other expenses	29,110	32,283	(3,173)	-9.8%	32,252	34,105	39,139
Non-Trading Losses / (Gains)	(21)	-	(21)	0.0%	1,500	-	1,221
Total Expenses	59,385	61,477	(2,092)	-3.4%	74,271	72,919	76,168
Share of joint venture's surplus / (deficit)	-	-	-	0.0%	-	-	(36)
Interest on LGFA Borrower Notes	38	30	8	100.0%	56	38	23
Surplus / (Deficit) before Tax	(10,350)	(9,297)	(1,053)	11.3%	(9,497)	1,666	(11,228)
Other Comprehensive Revenue and Expense							
Gain/(Loss) on revaluation							
- of Infrastructural Assets	-	-	-	0.0%	46,000	31,000	97,409
- on revaluation of Properties	-	-	-	0.0%	-	-	-
Total Other Comprehensive Revenue and Expense	-	-	-	0.0%	46,000	31,000	97,409
Total Comprehensive Revenue and Expense	(\$10,350)	(\$9,297)	(1,053)	11.3%	\$36,503	\$32,666	\$86,181

Key variances to 2024 Annual Plan budget for the year to date are:

- Property rental is lower than budget due to timing differences. Increased community housing and other rentals occurred later than was allowed in the budget.
- Revenue from Government Grants and Subsidies and from Other Grants and Donations are lower than budget largely due to: slower than expected progress on the Kakanui bridge and other projects, and no significant revenue received, or now expected this financial year, in relation to the Sports and Events Centre and various roading projects. However, this does include an unbudgeted \$342k from the Ministry of Health for fluoridation works.
- Both Finance revenue and costs are higher than budget because of increased interest rates and increased levels of borrowing and lending than originally anticipated in the budget.
- The Whitestone Contracting dividend of \$200k is under budget by \$150k. No further income can be expected from this source in this financial year.
- Personnel costs are running under budget due to improved recoveries from projects, and to staff vacancies.
- Depreciation costs are higher than anticipated due to the roading revaluation recognised at June 2023 and the level of capital work undertaken to date. This trend will continue through the year.

- Other expenses are under budget despite higher electricity charges and insurance premiums. Although Project Reclaim was brought forward with the intention of completing it by June, a significant portion of the work cannot be completed by year end with the result that budgeted work will now not be undertaken until 2025 – in the vicinity of \$4 million by year end related to this project.

It is likely that inflationary pressures will continue to affect Council's operations until year end. The forecast indicates that both revenue and expenditure will finish the year under budget, but the overall operating result, including estimated asset write-offs, will be worse than budget by over \$10 million before the recognition of revaluation movements. This forecast result includes the on-going costs of Project Reclaim and Transformation.

The largest contributing factors to increased costs are outlined below, presenting the current position and the projected variance by year end.

	Actual Mar 2024 \$000	Budget Mar 2024 \$000	Projected variance at June 2024 \$000
Personnel costs	13,082	13,453	-\$489
Depreciation	15,173	14,196	+\$1,302
Finance costs	2,041	1,545	+\$892
Other Expenditure:			
• Contractors	16,124	19,146	-\$3,100
○ <i>Roading</i>	3,796	3,818	
○ <i>Waters</i>	4,300	3,039	
○ <i>Property</i>	988	736	
○ <i>Parks</i>	2,656	2,404	
○ <i>Alps2Ocean</i>	517	105	
○ <i>Solid Waste</i>	2,998	7,418	
○ <i>Transformation</i>	320	1,009	
○ <i>Other</i>	549	617	
• Consultants – District Plan	501	150	+\$600
• Electricity	2,060	1,760	+\$450
• Insurance premiums	1,319	1,067	+\$240
• Carbon credits (Project Reclaim)	-	800	-\$800
• Other operating costs			+\$757
Non-Trading Losses / (Gains)	-21	-	+1,500
Total forecast change in expenditure			+1,352

STATEMENT OF FINANCIAL POSITION (BALANCE SHEET)

The financial position of the Council as at 31 March 2024 is as set out below.

Statement of Financial Position

As at 31 March 2024

	Note	2024 Actual \$000	2024 Budget \$000	2023 Actual \$000
Public Equity				
Ratepayers' Equity	9	310,208	310,208	310,208
Revaluation Reserves	9	810,316	820,165	810,315
Operating Reserves	9	247	39,318	10,784
Other Reserves	9	18,314	16,575	18,128
Total Public Equity		\$1,139,085	\$1,186,266	\$1,149,435
Non-Current Assets				
Property, Plant and Equipment	10	1,151,782	1,197,024	1,144,691
Intangible Assets	12	1,586	2,538	1,829
Forestry	13	762	338	762
Assets held for Sale	17	-	-	1,150
Financial Assets				
- Investments in CCOs	14	4,703	4,703	4,703
- Investment in Joint Venture	14	1,729	1,765	1,729
- Investments in other entities	14	1,366	1,077	853
- Loans to other entities	14	35,493	31,415	34,840
		1,197,421	1,238,860	1,190,557
Current Assets				
Cash and Cash Equivalents	15	2,901	3,384	3,811
Receivables	16	5,651	5,355	5,151
Prepayments		1,247	1,135	1,110
Inventory	17	91	115	136
Financial Assets				
- Term deposits	14	-	-	1,004
- Investments in other entities	14	142	157	142
- Loans to other entities	14	1,850	1,842	347
Assets held for Sale	19	1,150	1,150	-
		13,032	13,138	11,701
Total Assets		1,210,453	1,251,998	1,202,258
Non-Current Liabilities				
Borrowings	20	46,500	36,000	27,500
Provisions	21	140	295	140
Employee Entitlements	22	90	117	90
		46,730	36,412	27,730
Current Liabilities				
Trade and Other Payables	24	7,343	13,175	8,356
Employee Entitlements	22	1,926	1,815	1,837
Borrowings	20	15,248	14,265	14,757
Provisions	21	121	65	143
		24,638	29,320	25,093
Total Liabilities		71,368	65,732	52,823
Net Assets		\$1,139,085	\$1,186,266	\$1,149,435

As always, it must be appreciated that budget figures reported are for the position at 30 June 2024 and so comparing the current position with that budgeted at year end may not always be helpful or meaningful.

Key variances to budget are:

- Equity has a \$45m variance due to actual opening balances at 1 July 2023 differing from those anticipated when setting the budget. This is due to the level of change arising from the revaluation of Roading infrastructure and to a larger operating deficit for 2023 than was expected.
- Property, plant, and equipment is currently markedly lower than budget as the budgeted revaluation of 3 Waters assets will not be processed until year end. This is budgeted to generate an increase in value of \$31m but is likely to be much more due to the effects of inflation and the level of capital expenditure in the current year.
- External Borrowings amount to \$61m and exceed budget by \$11m. As noted, this increase has arisen due to levels of capital expenditure (note: only includes capital expenditure that is debt funded), increased external lending, and the bringing forward of Operation Reclaim. For those reasons, and as discussed in the Treasury Report, further borrowings have been arranged in light of projected expenditure and lending commitments and the likelihood that no external revenue will be received for the Events centre project in the current financial year.
- Trade and other payables is currently under budget, which anticipates, by year end, many more capital projects, including the Events Centre and Gallery extensions, will be underway.

CAPITAL EXPENDITURE

The capital expenditure summarised by department for the first nine months of the 2024 financial year is set out below:

	2024 9 Months Actual \$000	2024 9 Months Budget \$000		Variance from YTD Budget \$000	%
Roading	6,038	10,024	-	3,986	-39.8%
Water	11,272	10,121		1,151	11.4%
Sewer	821	815		6	0.7%
Stormwater	-	44	-	44	-100.0%
Solid waste	688	1,214	-	526	-43.3%
Property	901	1,937	-	1,036	-53.5%
Parks	929	4,507	-	3,578	-79.4%
IT	1,119	1,715	-	596	-34.8%
Vehicles	119	370	-	251	-67.8%
Other	407	368		39	10.6%
	<u>22,294</u>	<u>31,115</u>		<u>(8,821)</u>	<u>-28.3%</u>

- A number of waters projects were deferred or encountered delays in the tendering process that affected the delivery of the project / services in the prior year. These projects are now underway.
- The roading works programme is set for a three-year period. It was initially delayed at the start of the previous financial year due to operational requirements and prioritising emergency works, which has meant that the total projects delivered was behind budget for the full 2023 financial year.
- There are also timing variances in the budgeted property work. At 30 June 2023, several projects were yet to get fully underway, but these have been carried over and works have now commenced. The most notable delay concerns the Events Centre, which is still at the design stage, whereas the budget anticipated construction would have been well underway by this stage of the year.

4.2 TREASURY REPORT TO 31 MARCH 2024

Author: Amanda Nicholls, Chief Financial Officer

Authoriser: Paul Hope, Finance and Corporate Development Group Manager

RECOMMENDATION

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

PURPOSE

To provide members of the Committee with an overview of the Treasury function for the first three quarters ended 31 March 2024, and the latest dashboard report from Bancorp at March 2024 – refer Attachment 1.

BACKGROUND

Council is engaged in activities involving the holding, spending, borrowing, and lending of substantial sums of money. This quarterly report summarises Council's cash reserves, its lending to external parties, and its borrowings so that Committee members are fully informed and up to date.

SUMMARISED RESULTS

Overall, Council is in a stable financial position. Loans to external parties are now earning interest at rates exceeding those that Council pays, and interest rates paid on our borrowings are lower than could be obtained from the bank. However, borrowings are higher than was budgeted for the year.

The Council's net position (interest-earning investments against external borrowings) is -\$20.0m compared with budget -\$12.1m. The overall return on investments (finance revenue) at 6.03% is better than the budgeted 4.36%, and far exceeds the 4.47% effective interest rate on borrowings. This is the result of using LGFA rates as the base for on-lending to external parties.

Detailed analysis on the various balances below is discussed in more detail in the following pages.

	9 months Actual \$000	2024 Budget \$000	30/06/2023 Actual \$000	Variance from YTD Budget	
				\$000	%
Cash and Cash Equivalents	2,901	3,384	3,811	(483)	-14.3%
Financial Assets					
- Term deposits	-	-	1,004	-	100.0%
- Investments in other entities	1,508	1,234	995	274	22.2%
- Loans to other entities	37,343	33,257	35,187	4,086	12.3%
Total Cash and Investments	41,752	37,875	40,997	3,877	10.2%
Finance revenue	1,862	1,653	1,685	209	12.6%
<i>Effective interest rate</i>	6.03%	4.36%	4.11%		
Total Borrowings	61,748	50,000	42,000	11,748	23.5%
Finance costs	2,041	2,157	1,330	(116)	-5.4%
<i>Effective interest rate</i>	4.47%	4.31%	3.17%		
Net position	(19,996)	(12,125)	(1,003)	(7,871)	64.9%

1 – Cash and term deposits – position at March 2024

Type of account	Maturity	Interest rate	Balance \$000	Budget \$000
BNZ current accounts	N/A	-	124	384
BNZ retentions account	N/A	2.75%	257	-
BNZ Call account	N/A	2.75%	2,520	3,000
BNZ deposit	N/A		-	-
Accrued interest			-	-
Reported as				
Cash and Cash Equivalents			2,901	3,384
Term Deposits			-	-
Total Cash Resources			\$2,901	\$3,384

Deposits with original terms of 90 days or less are considered part of Cash and Cash Equivalents while those with longer maturity dates are categorised as Term Deposits. Interest accrued on bank accounts is added to those balances for financial reporting purposes.

The BNZ retentions account ensures Council is compliant with legislation requiring funds held as retentions under construction contracts on behalf of contractors to be held separately from normal operational accounts.

Interest earned on cash and term deposit balances for the year to date:

	Actual YTD \$000	Budget \$000
Interest on bank deposits	158	82

Interest rates available on the call account remain at 2.75% and for term deposits range up to 6.0% for 12 months. Funds are held in the call account to ensure their availability when needed to make payments to suppliers and contractors.

2 – Investments in other entities

Investments in other entities include shares in Lower Waitaki Irrigation Limited and Civic Financial Services Limited. Council's shareholdings in these entities are minor holdings only and Council has little effective involvement in the operations of either business.

The remainder of this category relates to LGFA Borrower Notes. As a condition of borrowing, Council currently holds \$1,300,000 in borrower notes and, as it borrows more from the LGFA, Council will be required to increase this holding. Interest is paid at varying rates linked directly to rates paid on the related borrowings, and is payable on maturity, which occurs when the associated borrowing matures. Interest earned for the period was \$37,952. Because of the nature of this particular investment, revenue from this source must be reported separately in Council's Annual Report.

3 – Loans and advances to other entities

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

Entity	31/03/24 Actual \$000	2024 Budget \$000	30/06/23 Actual \$000
Observatory Village Group	16,728	14,098	15,620
North Otago Irrigation Co Ltd	13,593	13,213	13,824
Kurow-Duntroon Irrigation Co Ltd	3,160	3,174	3,174
Waitaki District Health Services Ltd	1,950	975	1,950
Whalan Lodge Trust	1,060	733	122
Oamaru Whitestone Civic Trust	435	461	477
Omarama Airfield Ltd	399	-	-
Corriedale Water Management Co Ltd	18	18	18
Total loans and advances to other entities	37,343	32,672	33,454

Observatory Retirement Village Trust –

- New unbudgeted lending has been approved and paid out in the current financial year.
- 2024 budget assumed principal reductions of \$1,500k annually.
- Loan balance includes accrued interest \$28,446.
- Interest rates: \$1.5m 5.98%, \$1.5m 5.20%, \$12.4m 5.32%, new loans 10.39%
- Interest earned for the period on interest-bearing components is \$661,132.

North Otago Irrigation Company Limited –

- Interest rate from 1 January 2024 is 8.04%
- Interest earned for the period is \$500,105.
- Principal repayments of \$66,670 per quarter during the 2023-24 financial year.
- New loan agreement requires lower repayments than allowed in the budget.

Kurow-Duntroon Irrigation Company Limited –

- Interest rate 7.72%
- Interest earned for the period is \$183,529.
- Interest is charged and paid quarterly.
- Principal repayments have commenced – the budget assumed these would start in 2025.

Waitaki District Health Services Limited –

- Budget anticipated partial repayment in 2024, new loan facility approved instead.
- \$250,000 of the new stand-by facility was used for 8 days in December, and repaid.
- Interest rate 7.69% from July 2023, 7.89% from January 2024.
- Interest earned for the period is \$114,374.

Whalan Lodge Trust –

- Advances provided to date \$1,050,000 over two approved facilities, plus compounding interest
- A further \$100,000 drawdown has been made in April – total facility capped at \$1,350,000
- Interest rate 4.57% on the first loan, 5.33% on the second
- Interest compounded to the loan to date this year totals \$18,411.

Oamaru Whitestone Civic Trust –

- Balance includes interest-bearing and interest-free components.
- Interest rate on interest-bearing part matches Council’s internal loan rates set quarterly.
- Interest earned for the period is \$15,291.
- Approved loan facility with Council of up to \$500,000, plus further Heritage Fund facilities.

Omarama Airfield Limited –

- Advances provided to date \$396,635 plus compounding interest.
- Interest rate from 1 January 2024 10.89%
- Interest compounded to the loan to date this year totals \$11,521.
- Full repayment November 2025 two years after initial drawdown.

4 – Finance Revenue

Council reported finance revenue of \$1,662k for the nine months to March 2024, an improvement on budget of \$451k, or 37%. This is a consequence of better rates for bank deposits, new loan agreements and new lending, and improved lending rates generally.

Entity	31/03/24 Actual \$000	31/03/24 Budget \$000	2024 Budget \$000	30/06/23 Actual \$000
Bank interest	158	61	82	95
Observatory Village Group	661	609	812	810
North Otago Irrigation Co Ltd	500	335	446	459
Kurow-Duntroon Irrigation Co Ltd	184	133	177	176
Waitaki District Health Services Ltd	114	33	44	84
Whalan Lodge Trust	18	25	33	3
Oamaru Whitestone Civic Trust	15	15	21	26
Omarama Airfield Ltd	12	-	-	-
Other interest	-	-	-	9
Total loans and advances to other entities	1,662	1,211	1,615	1,662

5 – External Borrowings

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	748,383
		Total	\$61,748,383

Comparable rates – BNZ CARL facility = 7.89%, BNZ Overdraft = 12.15% plus margin

Council has utilised LGFA funding for these purposes:

Purpose and timing of LGFA borrowing	Amount borrowed \$
November 2020 – Hamnak pipeline & other waters projects (replaced BNZ CARL)	15,000,000
July 2021 – Oamaru water reservoir, de-sludge sewer ponds.	5,000,000
April 2022 – Refinance WDHSL/ Observatory Village loan \$4.6M.	5,000,000
August 2022 – 3 Waters & other capital projects	4,000,000
October 2022 – new loan to WDHSL, emergency roading works.	5,000,000
December 2022 – road sealing programme; 3 Waters projects	4,000,000
May 2023 – Capital expenditure in April/May	4,000,000
July 2023 – Capital expenditure June/July/August.	4,000,000
October 2023 – Capital requirements, lending commitments	5,000,000
November 2023 – Capital expenditure, Project Reclaim brought forward	10,000,000
Total	\$61,000,000

Borrowing Forecast to 30 June 2024

Borrowings maturing in April have been refinanced as was signaled in the Treasury Strategy last month.

Having regard to the level of cash on hand and projected expenditure requirements as summarised below, an additional \$10,000,000 has been borrowed in April. It is expected that no further borrowing will be required prior to 30 June 2024, meaning the year-end balance will be \$71,000,000.

Project	\$ Projected
Project Reclaim – projected to December 2024	8,550,000
Waters – various projects brought forward	4,000,000
Loan commitments – Observatory Village	1,400,000
Waitaki Events Centre – projected @ \$300,000 per month to June 2024	900,000
Kakanui Bridge – design works	575,000
Harbour marketplace	300,000
Gallery extension works – committed expenditure	245,000
Loan commitments – Whalan Lodge Trust	200,000
Oamaru Public Gardens ponds	200,000
Puketapu Track	200,000
TOTAL	\$16,570,000

The April 2024 refinancing took place as follows:

Type of security	Maturity	Interest rate	Principal \$
Total opening principal			\$61,000,000
Advances repaid			
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 FRB	15-Apr-24	0.65%	(1,500,000)
Total repaid			(14,500,000)
New Advances			
LGFA CP	15-Jul-24	5.83%	7,500,000
LGFA FRN	15-Apr-25	5.35%	5,600,000
LGFA FRB	20-Apr-29	5.45%	11,400,000
Total new loans			24,500,000
Total principal from 15 April 2024			\$71,000,000

6 – Borrowing Costs

	Mar 24 Actual \$000	Mar 24 Budget \$000	2024 Budget \$000
LGFA borrowing	2,039	1,545	2,157
BNZ CARL facility	2	-	-
Total Borrowing cost	2,041	1,545	2,157

- Borrowing costs are over budget at March by \$496k. The effective interest rate for borrowing at March was 4.47% against the budget rate of 4.31% which is not materially different and is reflective of changed market conditions over the period.
- New lending from the LGFA is at current, and now slightly reducing, market interest rates, as are floating loans when these are renewed, partially offset by increased investment income.
- 2023-24 Annual Plan assumed reliance on LGFA with no budget for casual use of the CARL.
- 2023-24 budget projected borrowings of \$50m; actual borrowings at March exceed budget and, as outlined, the year-end position will be \$71 million.
- The BNZ CARL facility is a stand-by facility of \$1m which is used instead of the overdraft as its rate is better. It has only had minimal use during this financial year to date.

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
<p>6.1 - Accounts Receivable Report at 31 March 2024 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)(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>6.2 - Accounts Payable Report at 31 March 2024 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>

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