Notice is hereby given that a meeting of the Finance and Assurance Committee will be held on:

Date:	**Friday, 11 February 2022**
Time:	**9am**
Venue:	**Virtual meeting via Zoom**

Finance and Assurance Committee Agenda
OPEN

MEMBERSHIP

Chairperson	Bruce Robertson
	Mayor Gary Tong
Deputy chairperson	Ebel Kremer
Councillors	Don Byars
	John Douglas
	Paul Duffy
	Julie Keast

IN ATTENDANCE

Committee advisor	Fiona Dunlop
Chief financial officer	Anne Robson

Contact telephone: 0800 732 732
Postal address: PO Box 903, Invercargill 9840
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Website: www.southlanddc.govt.nz
Online: Southland District Council YouTube

Full agendas are available on Council's website
www.southlanddc.govt.nz

Note: The reports contained within this agenda are for consideration and should not be construed as Council policy unless and until adopted. Should Members require further information relating to any reports, please contact the relevant manager, Chairperson or Deputy Chairperson.

Health and safety – emergency procedures

Toilets – The toilets are located outside of the chamber, directly down the hall on the right.

Evacuation – Should there be an evacuation for any reason please exit down the stairwell to the assembly point, which is the entrance to the carpark on Spey Street. Please do not use the lift.

Earthquake – Drop, cover and hold applies in this situation and, if necessary, once the shaking has stopped we will evacuate down the stairwell without using the lift, meeting again in the carpark on Spey Street.

Phones – Please turn your mobile devices to silent mode.

Recording - These proceedings are being recorded for the purpose of live video, both live streaming and downloading. By remaining in this meeting, you are consenting to being filmed for viewing by the public.

Covid QR code – Please remember to scan the Covid Tracer QR code.

Terms of Reference – Finance and Assurance Committee

TYPE OF COMMITTEE	Council standing committee
RESPONSIBLE TO	Council
SUBCOMMITTEES	None
LEGISLATIVE BASIS	Committee constituted by Council as per schedule 7, clause 30 (1)(a), LGA 2002. Committee delegated powers by Council as per schedule 7, clause 32, LGA 2002.
MEMBERSHIP	Mayor, three councillors and one external appointee
FREQUENCY OF MEETINGS	Quarterly or as required
QUORUM	Three members
SCOPE OF ACTIVITIES	The Finance and Assurance Committee is responsible for: • ensuring that Council has appropriate financial, risk management and internal control systems in place that provide: - an overview of the financial and non-financial performance of the organisation - effective management of potential opportunities and adverse effects - reasonable assurance as to the integrity and reliability of Council's financial and non-financial reporting. • exercising active oversight of information technology systems • exercising active oversight of Council's health and safety policies, processes, compliance, results and frameworks • relationships with external, internal auditors, banking institutions and insurance brokers. The Finance and Assurance Committee will monitor and assess the following: • the financial and non-financial performance of Council against budgeted and forecasted outcomes • consideration of forecasted changes to financial outcomes • Council's compliance with legislative requirements • Council's risk management framework • Council's control framework • Council's compliance with its treasury responsibilities • Council's compliance with its Fraud Policy.

DELEGATIONS	The Finance and Assurance Committee shall have the following delegated powers and be accountable to Council for the exercising of these powers. In exercising the delegated powers, the Finance and Assurance Committee will operate within: • policies, plans, standards or guidelines that have been established and approved by Council • the overall priorities of Council • the needs of the local communities • the approved budgets for the activity. The Finance and Assurance Committee will have responsibility and delegated authority in the following areas: **Financial and Performance Monitoring** a) monitoring financial performance to budgets b) monitoring service level performance to key performance indicators. **Internal Control Framework** a) reviewing whether Council's approach to maintaining an effective internal control framework is sound and effective b) reviewing whether Council has taken steps to embed a culture that is committed to probity and ethical behaviour c) reviewing whether there are appropriate systems, processes and controls in place to prevent, detect and effectively investigate fraud. **Internal Reporting** a) to consider the processes for ensuring the completeness and quality of financial and operational information being provided to Council b) to seek advice periodically from internal and external auditors regarding the completeness and quality of financial and operational information that is provided to the Council. **External Reporting and Accountability** a) agreeing the appropriateness of Council's existing accounting policies and principles and any proposed change b) enquiring of internal and external auditors for any information that affects the quality and clarity of Council's financial statements and statements of service performance, and assess whether appropriate action has been taken by management in response to the above

	c) satisfying itself that the financial statements and statements of service performance are supported by appropriate management signoff on the statements and on the adequacy of the systems of internal control (ie letters of representation), and recommend signing of the financial statements by the chief executive/mayor and adoption of the Annual Report, Annual Plans, Long Term Plans **Risk Management** a) reviewing whether Council has in place a current, comprehensive and effective risk management framework and associated procedures for effective identification and management of the Council's significant risks b) considering whether appropriate action is being taken to mitigate Council's significant risks. **Health and Safety** a) review, monitor and make recommendations to Council on the organisations health and safety risk management framework and policies to ensure that the organisation has clearly set out its commitments to manage health and safety matters effectively. b) review and make recommendations for Council approval on strategies for achieving health and safety objectives c) review and recommend for Council approval targets for health and safety performance and assess performance against those targets d) monitor the organisation's compliance with health and safety policies and relevant applicable law e) ensure that the systems used to identify and manage health and safety risks are fit for purpose, being effectively implemented, regularly reviewed and continuously improved. This includes ensuring that Council is properly and regularly informed and updated on matters relating to health and safety risks f) seek assurance that the organisation is effectively structured to manage health and safety risks, including having competent workers, adequate communication procedures and proper documentation g) review health and safety related incidents and consider appropriate actions to minimise the risk of recurrence h) make recommendations to Council regarding the appropriateness of resources available for operating the health and safety management systems and programmes i) any other duties and responsibilities which have been assigned to it from time to time by Council.

Internal Audit

a) approve appointment of the internal auditor, internal audit engagement letter and letter of understanding

b) reviewing and approving the internal audit coverage and annual work plans, ensuring these plans are based on Council's risk profile

c) reviewing the adequacy of management's implementation of internal audit recommendations

d) reviewing the internal audit charter to ensure appropriate organisational structures, authority, access, independence, resourcing and reporting arrangements are in place.

External Audit

a) confirming the terms of the engagement, including the nature and scope of the audit, timetable and fees, with the external auditor at the start of each audit

b) receiving the external audit report(s) and review action(s) to be taken by management on significant issues and audit recommendations raised within

c) enquiring of management and the independent auditor about significant business, political, financial and control risks or exposure to such risks.

Compliance with Legislation, Standards and Best Practice Guidelines

a) reviewing the effectiveness of the system for monitoring Council's compliance with laws (including governance legislation, regulations and associated government policies), with Council's own standards, and best practice guidelines as applicable

b) conducting and monitoring special investigations, in accordance with Council policy, and reporting the findings to Council

c) monitoring the performance of Council organisations, in accordance with the Local Government Act.

Business Case Review

a) review of the business case of work, services, supplies, where the value of these or the project exceeds $2 million or the value over the term of the contract exceeds $2 million.

Insurance

a) consider Council's insurance requirements, considering its risk profile

	b) approving the annual insurance renewal requirements **Treasury** a) oversee the treasury function of Council ensuring compliance with the relevant Council policies and plans b) ensuring compliance with the requirements of Council's trust deeds are met c) recommend to Council treasury policies at least every three years. d) approve debt, interest rate and external investment management strategy. **Fraud Policy** a) receive and consider reports relating to the investigation of suspected fraud b) monitor the implementation of the Fraud Policy. **Power to Recommend** The Finance and Assurance Committee is responsible for considering and making recommendations to Council regarding: a) policies relating to risk management, rating, loans, funding and purchasing b) accounting treatments, changes in generally accepted accounting practice, and new accounting and reporting requirements c) the approval of financial and non-financial performance statements including adoption of the Annual Report, Annual Plans and Long Term Plans. The Finance and Assurance Committee is responsible for considering and making recommendations to the Services and Assets Committee on business cases completed under the 'Power to Act' section above.
FINANCIAL DELEGATIONS	Council authorises the following delegated authority of financial powers to Council committees in regard to matters within each committee's jurisdiction. **Contract Acceptance:** • accept or decline any contract for the purchase of goods, services, capital works or other assets where the total value of the lump sum contract does not exceed the sum allocated in the Long Term Plan/Annual Plan and the contract relates to an activity that is within the scope of activities relating to the work of the Finance and Assurance Committee • accept or decline any contract for the disposal of goods, plant or other assets other than property or land that is provided for in the Long Term Plan

	Budget Reallocation. The committee is authorised to reallocate funds from one existing budget item to another. Reallocation of this kind must not impact on current or future levels of service and must be: • funded by way of savings on existing budget items • within the jurisdiction of the committee • consistent with the Revenue and Financing Policy.
LIMITS TO DELEGATIONS	Matters that must be processed by way of recommendation to Council include: • amendment to fees and charges relating to all activities • powers that cannot be delegated to committees as per the Local Government Act 2002 and sections 2.4 and 2.5 of this manual. Delegated authority is within the financial limits in section 9 of this manual.
RELATIONSHIPS WITH OTHER PARTIES	The committee shall maintain relationships with each of the nine community boards. Professional advisors to the committee shall be invited to attend all meetings of the committee including: • external auditor • internal auditor/risk advisor (if appointed) • chief financial officer. At each meeting, the chairperson will provide the external auditor and the internal auditor/risk advisor (if appointed) with an opportunity to discuss any matters with the committee without management being present. The chairperson shall request the chief executive and staff in attendance to leave the meeting for the duration of the discussion. The chairperson will provide minutes for that part of the meeting. The chief executive and the chief financial officer shall be responsible for drawing to the committee's immediate attention any material matter that relates to the financial condition of Council, material breakdown in internal controls and any material event of fraud. The committee shall provide guidance and feedback to Council on financial performance, risk and compliance issues. The committee will report to Council as it deems appropriate but no less than twice a year.

CONTACT WITH MEDIA	The committee chairperson is the authorised spokesperson for the committee in all matters where the committee has authority or a particular interest. Committee members, including the chairperson, do not have delegated authority to speak to the media and/or outside agencies on behalf of Council on matters outside of the committee's delegations. The chief financial officer will manage the formal communications between the committee and its constituents and for the committee in the exercise of its business. Correspondence with central government, other local government agencies or other official agencies will only take place through Council staff and will be undertaken under the name of Southland District Council.

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1 Apologies

At the close of the agenda no apologies had been received.

2 Leave of absence

At the close of the agenda no requests for leave of absence had been received.

3 Conflict of interest

Committee members are reminded of the need to be vigilant to stand aside from decision-making when a conflict arises between their role as a member and any private or other external interest they might have.

4 Public forum

Notification to speak is required by 12noon at least one clear day before the meeting. Further information is available at www.southlanddc.govt.nz or by phoning 0800 732 732.

5 Extraordinary/urgent items

To consider, and if thought fit, to pass a resolution to permit the committee to consider any further items which do not appear on the agenda of this meeting and/or the meeting to be held with the public excluded.

Such resolution is required to be made pursuant to Section 46A(7) of the Local Government Official Information and Meetings Act 1987, and the chairperson must advise:

(i) the reason why the item was not on the agenda, and

(ii) the reason why the discussion of this item cannot be delayed until a subsequent meeting.

Section 46A(7A) of the Local Government Official Information and Meetings Act 1987 (as amended) states:

"Where an item is not on the agenda for a meeting,-

(a) that item may be discussed at that meeting if-

   (i) that item is a minor matter relating to the general business of the local authority; and

   (ii) the presiding member explains at the beginning of the meeting, at a time when it is open to the public, that the item will be discussed at the meeting; but

(b) no resolution, decision or recommendation may be made in respect of that item except to refer that item to a subsequent meeting of the local authority for further discussion."

6 Confirmation of minutes

6.1 Meeting minutes of Finance and Assurance Committee held on 17 December 2021

Finance and Assurance Committee

OPEN MINUTES

Minutes of a meeting of Finance and Assurance Committee held in the Council Chamber, Level 2, 20 Don Street, Invercargill on Friday, 17 December 2021 at 9.01am (9.01am – 9.55am).

PRESENT

Chairperson	Bruce Robertson (external member)
	Mayor Gary Tong
Deputy Chairperson	Ebel Kremer
Councillors	Don Byars (9.02am – 9.55am)
	John Douglas
	Paul Duffy
	Julie Keast

APOLOGIES

Councillor Byars (for lateness)

IN ATTENDANCE

Councillor Ford
Councillor Frazer
Councillor Harpur
Councillor Menzies
Councillor Owen (via video call)
Councillor Scott
Chief financial officer - Anne Robson
Committee advisor - Fiona Dunlop

1 Apologies

There were apologies for lateness from Councillor Byars.

Moved Chairperson Robertson, seconded Cr Douglas and resolved:

That the Finance and Assurance Committee accept the apology.

(Councillor Byars joined the meeting at 9.02am.)

2 Leave of absence

There were no requests for leave of absence.

3 Conflict of interest

There were no conflicts of interest declared.

4 Public forum

There was no public forum.

5 Extraordinary/urgent items

There were no extraordinary/urgent items.

6 Confirmation of minutes

Resolution

Moved Chairperson Robertson, seconded Cr Keast **and resolved:**

That the Finance and Assurance Committee confirms the minutes of the meeting held on 3 December 2021 as a true and correct record of that meeting.

Reports

7.1 Draft 2020/2021 Annual Report

Record No: R/21/11/61381

Corporate performance lead – Jason Domigan, Publications specialist – Chris Chilton and Financial accountant – Sheree Marrah were in attendance for this item.

Mr Domigan and Mrs Marrah advised that the purpose of the report is to present the draft 2020/2021 Annual Report to the committee for their recommendation prior to Council for adoption.

Resolution

Moved Deputy Chairperson Kremer, seconded Cr Douglas **recommendations a to f and a new g (<u>as indicated</u>) and resolved:**

That the Finance and Assurance Committee:

a) **Receives the report titled "Draft 2020/2021 Annual Report" dated 14 December 2021.**

b) **Determines that this matter or decision be recognised as significant in terms of Section 76 of the Local Government Act 2002.**

c) **Determines that it has complied with the decision-making provisions of the Local Government Act 2002 to the extent necessary in relation to this decision; and in accordance with Section 79 of the Act determines that it does not require further information, further assessment of options or further analysis of costs and benefits or advantages and disadvantages prior to making a decision on this matter.**

d) **Recommends to Council the adoption of the 2020/2021 Annual Report as per Attachment A of the officers report, subject to any final amendments required.**

e) **Endorses the summary 2020/2021 Annual Report as per Attachment B, subject to any final amendments required.**

f) **Delegates authority to the Chief Executive to approve any final amendments to the summary and full 2020/2021 Annual Report.**

New g) **<u>Agrees to recommend to Council that delegated authority be granted to the chief executive and mayor to sign the Summary Annual Report letter of representation to Audit New Zealand on behalf of Council.</u>**

The meeting concluded at 9.55am.

CONFIRMED AS A TRUE AND CORRECT RECORD AT A MEETING OF THE FINANCE AND ASSURANCE COMMITTEE HELD ON FRIDAY 17 DECEMBER 2021.

<u>DATE</u>:...

<u>CHAIRPERSON</u>:..

Finance and Assurance Committee Work plan for the year ended 30 June 2022

Record No: R/21/12/66291
Author: Emma Strong, Project accountant
Approved by: Anne Robson, Chief financial officer

☐ Decision ☐ Recommendation ☒ Information

Purpose

1. To update the Committee on the status of the work programme discussed and agreed at the 24 March 2021 meeting for the financial year ending 30 June 2022.

2. As noted at the meeting the adoption of the work plan does not preclude the Committee or staff from including additional reports as and when required.

3. As the year proceeds the work plan will be updated to incorporate the actual dates reports are being presented where that differs to the work plan adopted. For the committees information the "X" in red shows the date the report was presented, where this differs from what was approved in the work plan or if it is a new report that will be presented on an annual basis. If there is a black "X" on the same line as a red "X", the black "X" indicates the date agreed by the committee. The "X" in green reflects changes identified to the ongoing work plan since it was adopted. The "X" in blue reflects a report that has been removed permanently.

4. The following reports have been added to this meeting:
   - Progress Report on the Annual Plan 2022/23.
   - An update on the judicial review – Forest & Bird v SDC and New Brighton Colleries Ltd.
   - A report on the approach to borrowing further to the workshop in December.
   - The Health & Safety Update report and Health & Safety Events report have both been brought forward from the 28 March 2022 meeting.
   - Significant Forecasting Assumptions report has replaced the Financial Assumptions report to provide the Committee with the opportunity to endorse all of the assumptions used in the Annual Plan.

5. The following reports have been moved from this meeting to future meetings:
   - Waka Kotahi Technical Audit has been completed but the report has not yet been received.
   - The Debt Recovery Policy, due to staff changes in the finance transactional team and the resulting training required in the first instance.
   - Internal Audit Final Report Project Management, the draft report has been received with staff currently reviewing.
   - The internal audit terms of reference (Asset Management or Information Integrity).
   - Final Audit Report for the Annual Report 2020-21 as it has not been received yet due to resourcing constraints in Audit NZ.

Recommendation

That the Finance and Assurance Committee:

a) **receives the report titled "Finance and Assurance Committee Work plan for the year ended 30 June 2022" dated 4 February 2022.**

b) **notes the changes made to the Finance and Assurance Committee Work plan for the year ended 30 June 2022 since the last meeting.**

Attachments

A Finance and Assurance Committee Workplan ⇩

Finance and Assurance Committee Workplan to 30 June 2022

Content	25 Aug 2021 (removed)	27 Sept 2021	22 Oct 2021	3 Dec 2021	17 Dec 2021 (Annual Report)	11 Feb 2022 (Annual Plan)	28 Mar 2022	8 Jun 2022
2022/23 Annual Plan – Timetable		~~X~~	X					
2022/23 Annual Plan – Accounting policies		~~X~~	~~X~~	X				
2022/23 Annual Plan – Significant Forecasting Assumptions		~~X~~	~~X~~	~~X~~		X		
2022/23 Annual Plan – Workshop (if required)				~~X~~		X		
2022/23 Annual Plan – Progress Report Annual Plan						X		
2022/23 Annual Plan – Recommend adoption by Council								X
Quarterly Risk Report		X		X			X	X
Health & Safety Update		X		X		X	~~X~~	X
Health & Safety Events Report		X		X		X	~~X~~	X
Financial Monthly Report		X		X			X	X
Update on Audit Action Points				X			X	X
2020/21 Annual Report – Interim Audit Management Report	~~X~~							
2020/21 Annual Report – Agree report ready for audit	~~X~~	~~X~~	X					
2020/21 Annual Report – Final audit management report		~~X~~	~~X~~		~~X~~	~~X~~	X	
2020/21 Annual Report – Recommend adoption by Council		~~X~~	~~X~~		X			
2020/21 Debenture Trust Engagement Letter		X						
2021/22 LGFA Participating Councils Compliance Overview							X	
2021/22 Annual Report – Audit Arrangements Letter							X	
2021/22 Annual Report – Audit Timetable							X	
2021/22 Annual Report – Accounting Policies								X
2021/22 Annual Report – Interim Audit Management Report								X
2021/22 Debenture Trust Engagement Letter								X
Comparison of actual to forecast for 20/21		X					X	
Work Programme for 2021/22 incl projects c/f from 20/21		X						
Forecast Financial Position				~~X~~			X	
Interim Performance Report		X		X			X	
Financial Transaction Update Report to 30 June 2021		X						
Determine Finance & Assurance Meeting Content 22/23							X	
Financial and Risk Policies – Debt Recovery Policy						~~X~~		X
Internal Audit Terms of Reference (Asset Management or Information Integrity)	~~X~~					~~X~~	X	

Content	**25 Aug 2021 (removed)**	**27 Sept 2021**	**22 Oct 2021**	**3 Dec 2021**	**17 Dec 2021 (Annual Report)**	**11 Feb 2022 (consulting on AP)**	**28 Mar 2022**	**8 Jun 2022**
Internal Audit Final Report (Contract Management, Project Management, Asset Management or Information Integrity)	~~X~~	~~X~~	X (contract mgmt.)	~~X~~ (project mgmt.)		~~X~~ (project mgmt.)	X (project mgmt.)	X
Insurance - Insurance policy renewal approval								X
External NZTA Technical Audit	~~X~~	~~X~~	~~X~~	~~X~~		~~X~~	X	
External Waimea Area Road Alliance Audit		~~X~~	~~X~~					
External Foveaux Area Road Alliance Audit							X	
QV Southland District 2021 Revaluation Summary Report				~~X~~				
Projects Over $2 Million – Core professional roading services								X
External Audit – 2020 Central Area Road Alliance	~~X~~	~~X~~	~~X~~	X				
LTP Management Audit NZ Report		X						
Judicial Review – Forest & Bird v SDC and New Brighton Colleries Ltd		X				X		
Territorial Authority Waste Levy Expenditure Audit Report for Levy Spend 2019/20			X					
Financial Information System (FMIS) Procurement Report				X				
IANZ Building Accreditation Interim Report							X	
Approach to Borrowing Report						X		

R/21/3/11371

Draft significant forecasting assumptions for the 2022/2023 Annual Plan

Record No: R/21/11/62194
Author: Jason Domigan, Corporate performance lead
Approved by: Fran Mikulicic, Group manager democracy and community

☐ Decision ☒ Recommendation ☐ Information

Purpose

1 To review and endorse the draft significant forecasting assumptions to be used to compile the 2022/2023 Annual Plan (AP), which will be adopted in June 2022.

Executive summary

2 To develop the 2022/2023 Annual Plan, a number of significant forecasting assumptions have to be made in regards to the future in order to develop the financial forecasts.

3 Council staff used the LTP assumptions adopted as part of the Long Term Plan (LTP) as the base and have since reviewed to consider any significant changes to those assumptions.

4 As a result of that review, Council staff are recommending the following change to the assumptions:

- increasing the interest rate on external and internal loans from 2% to 3% to reflect the actual cost of borrowing from the Local Government Funding Authority (LGFA), and the increase in market interest rates since the LTP was adopted.

5 The effect of increasing the interest rate on external and internal loans from 2% to 3% is a $746,811 increase in expenditure. This equates to a 1.38% increase in rates.

6 Council staff are recommending no change to the remaining forecasting assumptions adopted as part of the LTP. A list of these is attached in Attachment A.

7 The significant assumptions will be adopted by Council on 22 February 2022 as part of the 2022-2023 Annual Plan process but can still be amended up until the Annual Report is adopted in June 2022.

Recommendation

That the Finance and Assurance Committee:

a) Receives the report titled "Draft significant forecasting assumptions for the 2022/2023 Annual Plan" dated 4 February 2022.

b) Determines that this matter or decision be recognised as not significant in terms of Section 76 of the Local Government Act 2002.

c) Determines that it has complied with the decision-making provisions of the Local Government Act 2002 to the extent necessary in relation to this decision; and in accordance with Section 79 of the Act determines that it does not require further information, further assessment of options or further analysis of costs and benefits or advantages and disadvantages prior to making a decision on this matter.

d) Endorse the significant forecasting assumptions from the Long Term Plan 2021-2031 (attachment A) including the proposed change below:

i) Increase the interest rates on borrowing from 2% to 3%.

Background

8 All councils are required by legislation to adopt an Annual Plan. The plan sets out Council's activities, projects and budgets for the year from 1 July 2022 to 30 June 2023 and updates the information in year 2 of the LTP.

9 As such, it is appropriate that the significant forecasting assumptions for the Annual Plan are based on the assumptions adopted as part of the LTP, updated as necessary for any relevant changes deemed appropriate.

10 To assist the committee, Council staff prepare this report and outline for their consideration and review any recommendations for change and make comment on any areas they believe the committee needs to be aware of.

Issues

Significant forecasting assumptions

11 Significant forecasting assumptions are the building blocks of LTP strategies, policies and activity management plans and provide a baseline of 'assumptions' to develop plans for long term planning.

12 In preparing forecasts, both financial and non-financial, assumptions can address uncertainties of the future. This provides an understanding of the basis from which financial information has been prepared, a way to explain differences that will likely occur between actual results and what was forecast, and ensuring that risks and challenges faced by Council in the future have been appropriately identified and assessed.

13 The identified assumptions include the following strategic and financial issues:

- demographics
- tourism
- climate change
- significant, unplanned adverse events
- environmental standards, resource consents and land use
- general economic growth trends
- useful lives of significant assets
- cost estimates and price level changes
- asset revaluation
- Waka Kotahi subsidies for roading
- interest rates on borrowing
- level of service
- technology
- resource constraints.

14 After reviewing the LTP significant forecasting assumptions as part of the Annual Plan 2022/2023 process, Council staff found the following three financial assumptions require further guidance from the Finance and Assurance Committee:

- interest rates on borrowing
- interest rate on investments/reserves
- price level changes (inflation)

Interest rate on borrowing

15 As part of the LTP, Council decided to move from funding internal loans from reserves to borrowing from the Local Government Agency (LGFA) in order to achieve a lower cost of debt.

16 The LTP forecasted Council would need to borrow $79,862,628 in 2022/2023 as shown in the table below:

RECONCILIATION	AMOUNT
Forecast opening loan balance (1 July 2022)	66,926,989
Drawdowns 2022/2023	16,433,720
Principal repayments 2022/2023	(3,498,081)
Amount required to borrow 2022/2023	**79,862,628**
Add LGFA Bonds (1.6%)	1,333,772
Add repayments in LGFA reserve (year 1 and 2)	6,516,460
Total borrowings as per the LTP (30 June 2023)	**87,712,860**

17 The proposed interest rate on borrowing assumption included in the LTP 2031 of 2% was based on LGFA long term fixed rates for up to 17 years (current maximum term) for an unrated guarantor as at June 2021.

18 To meet Councils Revenue and Financing Policy, a mix of floating and fixed rate debt is required along with varied maturities. Council staff have been working with its advisors to through the approach utilising the LGFA funding. Based on the recent calculation, the average LGFA interest rate is now 3%, reflecting the increase in interest rates since the LTP was adopted.

19 The impact of changing the interest assumption from 2% to 3% on the $79,862,628 external and internal loans forecast to be borrowed by 30 June 2023 would be $746,811 more in interest. This equates to a 1.38% increase in rates.

20 The impact of keeping the interest rate at 2% would be a $746,811 shortfall in the collection of rates to fund the 3% rate increase in interest. This shortfall would need to be funded from either the District Ops Reserve or a loan. The forecast for the district ops reserve is $485,000 surplus in year ten of the LTP. This is insufficient to fund the $746,811 required in year two or any of the remaining eight years of the LTP. If Council decided to loan fund the $746,811 the interest cost would be $11,202 in year two with principal repayments starting from 2023/2024.

Recommendation

21 Staff recommend changing the external and internal interest rate assumption from 2% to 3% in the Annual Plan 2022/2023 to reflect the increase in market interest rates.

Interest rate on investments/reserves

22 Council staff also reviewed the interest rate on investments assumption. Council agreed as part of the review of the Investment and Liability Policy to separate its borrowings from its reserves, resulting in the decision to seek a balanced managed fund to invest in. During the LTP process Council staff approached its advisors to provide some guidance on what the potential five-year return investment in a balanced managed fund could generate. This indicated a total average return of 6.4% based on historic returns. However, a degree of conservatism was applied and recommended 5.5%. This was, in part, due to the strong returns over the past few years and the uncertainty whether this would continue in a post Covid-19 world, as well as the low interest rate environment that existed and was expected to remain for a significant period of time.

23 The 5.5% was made up of 1.7% income return and 3.8% capital return, based on a five-year term. Fund management fees of approximately 1.1% per annum are also required to be paid on the capital balance, resulting in a net return of 4.4%. Council were provided with options on how to distribute the net return income. This resulted in the Council agreeing to allocate $750,000 to offset rates, provide a 4.4% return on restricted reserves, 2% on local and roading reserves with any surplus/deficit flowing through to the district ops reserve. There would need to be an increase in the interest rate on investments and therefore an increase in the net return, in order to be able to increase the percentage return on reserves. This linkage is why there is a combined interest rate on investments/reserves assumption.

24 Since the LTP, strong capital returns have continued and interest rates have increased. As a result, Council staff have considered whether it would be financially prudent to remove the conservative approach taken in establishing the return on investment assumption in the LTP and whether the expected return on investments should increase from 5.5% to 6.4%. Then considering if the increase to the surplus should flow through to the district ops reserve, increase return on reserves, or offset rates even further.

25 In considering whether to make a change, Council staff considered the original guidance received from Council's investment advisers, it was emphasised that financial forecasts, by their nature, are uncertain. Inevitably, they will not materialise in exactly the same way and unanticipated events and circumstances are likely to occur. Therefore, actual results in the future will vary from the forecasts provided and these may be material. This makes keeping a degree of conservatism financially prudent. Council staff also looked at the five year average returns for investments on

48 balanced funds on sorted.org website and the average was 5.6%, very similar to our current assumption of 5.5%.

Recommendation

26 Council staff recommend that the interest on investment assumptions remain the same at 5.5%. This therefore means the interest paid on restricted reserves remain at 4.4%, and local and roading remain at 2%.

Prices level changes (Inflation)

27 As part of the LTP process, Council is required to include a level of price level changes (inflation). The inflation rates currently being used are those rates established by Business and Economic Research Limited (BERL) in October 2020 and adopted as part of Council's Long Term Plan 2021-2031.

28 BERL updates its forecasts on an annual basis and the inflation rates are reviewed during Annual Plans. In previous Annual Plans, the change has been minimal, therefore it was decided not to change the BERL assumption.

29 The forecast percentages produced by BERL in October 2021 for 2022/2023 are lower than those in the LTP as summarised below.

2022/2023	PLANNING & REGULATION	ROADING	TRANSPORT	COMMUNITY	WATER & ENVIRONMENT	SALARY AND WAGES LOCAL GOVT SECTOR
BERL used in LTP	2.5%	3.1%	2.6%	2.7%	3.5%	2.4%
Updated BERL	2.4%	2.3%	2.4%	2.1%	2.5%	2.2%
Variance	(0.1%)	(0.8%)	(0.2%)	(0.6%)	(1.0%)	(0.2%)

30 The actual results will always vary from those budgeted, however, the risk the budget is now slightly overstated is mitigated by the increased costs forecast as a result of difficulties with supply chains caused by Covid-19.

Recommendation

31 Staff propose keeping the BERL assumption rates the same for the Annual Plan.

Factors to consider

Legal and statutory requirements

32 Section 95 of the Local Government Act 2002 requires the Council to prepare and adopt an Annual Plan for each financial year. Each annual plan should also be prepared in accordance with the principles and procedures that apply to the preparation of the financial statements and funding impact statement included in the LTP.

33 Section 111 of the Local Government Act states that any information to be prepared must be in accordance with generally accounting practice where the information is of a form or nature for which generally accepted accounting practice has developed standards.

Community views

Costs and funding

34 The net effect of increasing the interest rate on external loans to 3% ($746,811) increase in expenditure).

Policy implications

35 Council has by way of Section 6.1 of the Finance and Assurance Committee's terms of reference delegated to the committee to consider and make recommendations to Council in regards to accounting treatments, changes in generally accepted accounting practice and new accounting and reporting requirements.

Analysis

Options considered

Analysis of options

Option 1 – Endorses the assumptions with any amendments from this meeting for use in preparation of the 2022/2023 Annual Plan.

Advantages	*Disadvantages*
• assumptions are consistent with 2021-2031 LTP • simplified more efficient approach • the Annual Plan can continue to be prepared in line with the planned timetable.	• risk of change in assumptions and flow on impact to financial forecasts and rates

Option 2 – Do not recommend the assumptions as presented

Advantages	*Disadvantages*
• changes can be made to the assumptions to incorporate the committee's views.	• more complex approach for potentially minimal benefit • different approach to 2021-2031 LTP • the Annual Plan process may be delayed depending on the time needed to provide the necessary information

Assessment of significance

36 In terms of Council's Significance and Engagement Policy, the assumptions which form part of the AP are not considered significant.

Recommended option

37 Option 1 – Endorses the assumptions with any amendments from this meeting for use in preparation of the 2022/2023 Annual Plan.

Next steps

38 The assumptions (incorporating any changes agreed at this meeting) will be used in preparation of the 2022/2023 Annual Plan.

Attachments

A Draft Annual Plan 2022/2023 Signficant Forecasting Assumptions ⇩

Significant Forecasting Assumptions

Key Strategic Assumptions

'what' **strategic issue**	*'so what'* **Assumption for the LTP**	*Level of Uncertainty*	*Risk if the assumption is incorrect*	*'now what'* **Application in the LTP Strategies and Policies**
Demographics: • **population -** population growth affects the demand for Council's services and infrastructure, as well as the ability to cover the cost of services and infrastructure. • **ageing -** a significantly ageing population has implications for the viability and wellbeing of communities within the District. • **immigration -** The District's population is growing at a slower rate than New Zealand population as a whole is growing, which is partly due to the Southland District having a lower rate of	The estimated resident population of the District in 2017 was 30,300. This is projected to grow to 36,700 by 2043 (source: BERL Detailed Southland population projections). Te Anau and Winton will see the largest growth in total population between 2013 and 2043, with each township growing by between 400 and 500 people. Monowai, Nightcaps, Riversdale, Tokanui, and Otautau are projected to either maintain their 2013 population through to 2043 or see a small decline. The population projections show that between 2013 and 2043 all townships will see an increase in people aged over 65. In addition, a number of townships will see a decline in those aged under 15 and people aged 15 to 64 years of age. There is projected to be a significant tightening of the labour market between 2018 and 2033, to a point where demand for labour demand exceeds the entire population aged from 15 to 64 years old (BERL Stage 3	Very low	**LOW** The population growth rate may be significantly different than that assumed. Proportion of the population over 65 of age may vary from the prediction. Economic growth in the District may be held back due to labour shortages.	

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'what' strategic issue	'so what' Assumption for the LTP	Level of Uncertainty	Risk if the assumption is incorrect	'now what' Application in the LTP Strategies and Policies
international immigration.	report). The rate of volunteering is also expected to decrease.			
Tourism Provision of appropriate visitor infrastructure and increase range of tourism related opportunities.	There will increased impacts on services such as libraries and public toilets which can be met within the scope of the planned infrastructure upgrades within this LTP. Alternatively, environmental quality and the visitor experience in parts of the District declines due to lack of appropriate infrastructure. Whilst Milford Sound is one of NZ's most important attractions, currently the local economy does not harness the full potential from the flow of visitors to this location. Visitor numbers to Milford Sound have almost doubled in the past 5 years from 556,000 in 2014 to 932,000 in 2018. The assumption is that these numbers will continue to increase. The increase in visitors to Stewart Island/Rakiura will put corresponding pressure on jetties and infrastructure on the Island. The ongoing impact of Covid-19 on tourism has created significant uncertainty in the sector and the wider business sector as whole. The biggest impact will be as a result of the border closure effectively ceasing international tourism overnight. Given the	High	**MEDIUM** There may be a need to accelerate infrastructure upgrades.	*Continuing support for regional development initiatives.*

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'what' strategic issue	'so what' Assumption for the LTP	Level of Uncertainty	Risk if the assumption is incorrect	'now what' Application in the LTP Strategies and Policies
	global impact of Covid-19 this may be in place for some time to come.			
Climate change Planning may not adequately account for climate change impacts.	Sea level rise progressively impacts low lying coastal areas affecting ecology and settlements. Water availability in some areas becomes scarce, extreme weather events are larger and more frequent, communities become more resilient to climate change. Transition to a low carbon future Changes and associated impacts such as risk based insurance will influence investment in built development (ie. coastal and flood plain development) and types of farming. Climate change will have a significant impact on the coastal settlements within Southland District. It is known that areas of Colac Bay, Orepuki, Fortrose and Stewart Island/Rakiura are subject to coastal processes that are causing erosion resulting in loss of land and council roading infrastructure. Sea level rise is expected to be between 0.2-0.3 m above present levels by 2040 and increasing to 0.4-0.9 m by 2090. The projected Southland temperature changes increase with time and emission scenario. Future annual average warming spans a wide range: 0.5-1°C by 2040, and 0.7-3°C by 2090.	Moderate	**MEDIUM** A 2018 NIWA report projects increases for all of Southland in sea level, temperature, overall precipitation and the frequency of dry days. There is an increasing likelihood of sea surge, coastal inundation, drought and large severe weather events.	*LIDAR flights are currently being undertaken and is expected to be completed within 12 months depending on weather. Once the data outlined above has been captured, LIDAR modelling will be undertaken to enable the flood modelling to be run.* *There is proposed funding outlined in the LTP for a specific role within the Policy Planning team to lead the next stage of our climate change analysis.*

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'what' **strategic issue**	*'so what'* **Assumption for the LTP**	*Level of Uncertainty*	*Risk if the assumption is incorrect*	*'now what'* **Application in the LTP Strategies and Policies**
	Floods are expected to become larger across the District. The central-northern part of the Southland Region is projected to experience the largest increases in drought. The occurrence of heat waves will double by 2040.			
Significant, unplanned adverse events Significant earthquakes, flooding, tsunami and other hazards outside of expected risk assessments. Assume that none of these events will occur but we need to be prepared.	Borrowing 'headroom' to fund Council's share of a rebuild in relation to a 'maximum probable loss' scenario is provided for within Council's Financial Strategy. There will be community disruption and displacement as well as localised infrastructure and facilities damage. The next severe earthquake on the Alpine Fault is likely to occur within the lifetime of most of us or our children. We are assuming that it will not occur within the ten years covered by this LTP. Under almost every climate change scenario, storms and therefore flooding will become more frequent and intense and communities will feel the effects more regularly and intensively. It is assumed that these events can be managed within current budgets.	Low	**HIGH** Work to date has shown that a major alpine fault movement would have significant consequences for Southland communities and district infrastructure. Other than planning around the initial response phase no other planning has been undertaken to assess the potential impact on council infrastructure	*All of these natural disasters highlight the importance of robust emergency management systems and Business Continuity Planning (BCP). These include:* *-Alpine Fault Magnitude 8; a South Island wide project to save lives by planning and preparing a coordinated response across the South Island after a severe earthquake on the Alpine Fault.* *-Environment Southland's flood warning system and Group Tsunami Plan* *- Emergency Management Southland*

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'what' strategic issue	*'so what'* Assumption for the LTP	*Level of Uncertainty*	*Risk if the assumption is incorrect*	*'now what'* Application in the LTP Strategies and Policies
				Any new development should be undertaken with a view to mitigating exposure to natural disasters.
Environmental standards, resource consents and land use Council may be required to undertake significant capital works in relation to drinking, stormwater and wastewater.	Changing delivery models and increasing standards impacts Council's regulatory, monitoring and infrastructure requirements. This poses uncertainty to service delivery in this area. There will be a change to the regulatory standards for drinking water and a new regulatory agency has been formed Allowance has been made for meeting the expected new standards. It is assumed that Council will continue to be responsible for the delivery of its existing range of water, wastewater and stormwater services. The Proposed Water and Land Plan for Southland and the Freshwater National Policy Statement will have a continuing impact on the regulatory environment for agricultural land use. This may alter the way that investment decisions are made and therefore the land use changes that will occur. Land use changes as a result of climate change (e.g. flood plain zone changes). The amendment to the Climate Change Response (Zero Carbon) Bill may alter the delivery of Council activities. This may	Low	**LOW** Highly likely to be large scale changes to national requirements and how drinking, storm and waste water are managed.	*New and revised consenting requirements set by Land and Water Plan are reflected in the proposed works programme. Council will continue to work closely with ES and other relevant agencies that may be formed in the future.* *Asset management plans are updated.*

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'what' strategic issue	'so what' Assumption for the LTP	Level of Uncertainty	Risk if the assumption is incorrect	'now what' Application in the LTP Strategies and Policies
	impact land use and transport across the District.			
General economic growth trends Long term economic growth may not continue to be consistent with trends. Potential for significant downturn in global dairy prices as well as other primary sector goods. Changes to the primary sector occurring at a faster rate than businesses in the District (automation, niche products, synthetic alternatives to meat and milk products, etc).	The economy maintains current prospects. The median personal income in the Southland District is growing at a faster rate than the median income across NZ. There is an enduring trend that local businesses in the District hire smaller numbers of people (compared the rest of New Zealand). Home ownership rates in the District are falling. Half of the businesses operating in Southland District are in the primary sector. 98% of these primary sector businesses operate in the industries of agriculture or forestry (BERL – Compendium Report 2018). BERL estimate that 18.3% of total employment (measured in Full-time Equivalents) in the District is in dairy farming.	Moderate	**LOW** If there is a persistent downturn in economic prospects may mean the District is not able to sustain continued growth in income. Ratepayers are unable or unwilling to support maintaining Council levels of service. Dependency on primary sector and dairy farming in particular makes some communities vulnerable to a decline in global dairy prices or a major livestock disease outbreak. It is unlikely that there will be major changes in current land use patterns and economic activity across the district as a whole which will lead to significant change in	

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'what' strategic issue	*'so what'* Assumption for the LTP	*Level of Uncertainty*	*Risk if the assumption is incorrect*	*'now what'* Application in the LTP Strategies and Policies
			demand for current Council services.	
Legislative Changes New/amended legislation or government policy comes into force that has a significant impact on Council to respond or impact on cost to administer by Council; or results in a change to the services delivered by the Council.	It is assumed there will be no major legislative changes or change in government policy that will significantly impact Council aside from the legislative changes identified under the Environmental Standards, Resource Consents and Land Use assumption. Given the recent three waters reform announcements, this plan assumes the delivery of the three waters activities will remain with Council at the same level of service as currently provided.	Moderate	**MEDIUM** Legislative or government policy changes are expected to have a medium effect on Council's finances and/or levels of service.	
Technology Changes in technology will impact the delivery of our key activities.	It is assumed there will be increased access to fibre connectivity will mean more use of online digital services. There may be less demand for face-to-face customer service as technology provide alternative methods for answering questions and resolving issues. It is assumed automated technology and artificial intelligence alters the way that council delivers its service. Chorus will have rolled out full internet connectivity throughout the district by the end of 2021.	Low	**LOW** There is a low consequence due to council being able to react to changes prior to them negatively impacting levels of service or customer expectations.	
Resource Constraints Ability to find procure contractors and resources will	It is assumed that due to increased work across the district (e.g. Invercargill city centre development, Dunedin Hospital build, etc)	Moderate	**MEDIUM** Resource constraints may disrupt delivery of	

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'what' strategic issue	'so what' Assumption for the LTP	Level of Uncertainty	Risk if the assumption is incorrect	'now what' Application in the LTP Strategies and Policies
be diminished due to other work underway across the district. 40% of the Southland District Council workforce are born between 1943 and 1966 and are likely to retire in the next 10 years. This may result in the loss of staff resource and knowledge to deliver projects.	there will be a shortage of workers and resources across the lower South Island. The retirement of the ageing workforce of Southland District Council will impact the delivery of the LTP work programme.		the Long Term Plan work programme and meeting the established levels of service.	
Three Waters Reforms In July 2020 the government released its three waters reform, a three-year programme to change the way drinking water, wastewater and stormwater are delivered to improve public health, environmental and economic outcomes.	An overarching regulator, Taumata Arowai, will oversee the sector, and is proposing a small number of larger regional entities providing these services rather than the 67 individual councils that currently do. At the same time, a multi-million-dollar stimulus funding package was announced to maintain and improve three waters infrastructure and support the introduction of the reform programme. Funding has been given to councils that agreed to participate in the programme's first stage, including Southland District Council. Our share is being used to carry out pipe replacement and improve treatment across the District as well as carry out condition assessments of sewerage and stormwater assets. There is still a lot of information to come about what the reforms mean for Southland	High	**Low** By assuming that Council will continue to manage the assets over the life of this plan, any changes for how these services are provided in the medium to long term are minimised by this assumption.	*The community will need three waters services whether the council delivers them or not. These activities are reflected in the financial, strategy and the infrastructure strategy and other information that is included in the CD and supporting information.* *The purpose of this is to present the community with as a complete and accurate a set of information on the medium-term and long-term for those activities.*

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'what' strategic issue	*'so what'* Assumption for the LTP	*Level of Uncertainty*	*Risk if the assumption is incorrect*	*'now what'* Application in the LTP Strategies and Policies
	before we have to decide whether to opt in or out of the process later this year. It is assumed that the council will deliver these services over the life of the LTP.			
Covid-19 The Covid-19 pandemic has created a lot of change and economic uncertainty nationwide in the past year. In Southland District, Fiordland has been impacted most by the closure of New Zealand's borders as international tourists are its main source of income. This affects more than just tourism businesses – it has brought financial hardship to the whole community. Domestic visitors have had a cushioning effect on other destinations such as Stewart Island/Rakiura and the Catlins.	The Southland economy has weathered the storm relatively well because of its base of food production. It is assumed that this should continue as long as international exports continue and we're able to receive imported components like pipes for our own capital works. Given that much of this plan is about investing in infrastructure to maintain our services over the long term, that work still needs to progress despite Covid-19.	High	**Moderate** Council may need to prioritise works should economic conditions worsen and affect the capacity of our communities to pay rates.	*Council is consulting over changes to its rates remission and postponement policy to have greater flexibility to provide relief from rates during unexpected events.*

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Key Financial Assumptions

Financial issue/risk	Assumption for the LTP	*Level of Uncertainty*	*Risk if the assumption is incorrect*
Price level changes Inflation may vary significantly than that allowed for in the Long Term Plan.	Inflation is included using projections prepared by Business and Economic Research Limited (BERL), which are based on October 2020 published values, as summarised in Appendix 1.	Low	**MEDIUM** Inflation is affected by external economic factors and therefore actual inflation increases will vary from those used in developing this plan. The result of any variation (up or down) will result in a higher or lower rates requirement, and may therefore also impact on the levels of service, particularly in relation to roading, water, wastewater and stormwater.
Cost estimates Cost of operating and maintenance contracts as well as major capital works costs may vary significantly from costs estimated in this plan	When contracts are renewed there are no significant variations allowed for and any annual cost adjustment is in line with the relevant BERL inflation percentage, except for the specific matters listed below: Water – based on inflation, except for a potential increase in the renewal of the operations and maintenance contract. Wastewater – based on inflation, except for a potential increase in the renewal of the operations and maintenance contract as well as additional allowance for any new/upgraded schemes (Te Anau and Winton).	Low	**MEDIUM** Greater than anticipated cost increases, especially in construction, capital works and contracting rates, increase the overall cost of the capital and maintenance programs, in turn having an impact on debt servicing costs and rates.

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Financial issue/risk	Assumption for the LTP	Level of Uncertainty	Risk if the assumption is incorrect
	Waste management - based on inflation, except for a potential increase in waste disposal costs to recover waste disposal levy increases, as well as a potential increase for the waste disposal contract. Community facilities – mowing and other contract increases are based on approved contracts. Where new contracts are not currently in place at September 2020, the prices received through the direct negotiation process have been used which include a level of increase in addition to inflation.		
Useful lives of significant assets The useful life of assets determines when an asset is expected to be renewed and the calculation of depreciation. This will impact on the timing of replacements and the amount of rates collected for funding depreciations.	That the useful life of significant assets will be the same as set out in the accounting policies of Council.	High	**MEDIUM** The timing of renewal projects is inaccurate and will need to be completed earlier/later as required. This will change the timing of funding requirement as shown in Council's revenue and financing policy (including rates). The amount of depreciation being inaccurate will impact on either over/under collecting rates in the relevant years due to the funding of depreciation. The financial impact of a 1% change in depreciation would result in a change in depreciation of $272,126 in 2021/2022 to $382,440 in 2030/2031.
Vested assets Vested assets are assets that are gifted/donated to Council and as a result	No significant vested assets are forecast across the 10 years of this plan.	Moderate	**MEDIUM** The level of vested assets fluctuates from year to year and is unpredictable. Historical levels have not

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Financial issue/risk	Assumption for the LTP	Level of Uncertainty	Risk if the assumption is incorrect
associated operating costs and future asset replacement costs become the responsibility of Council.			been material. The recognition of vested assets is non-cash in nature and therefore have no effect on rates. However receipt of any vested assets will increase depreciation and operating costs in future years and therefore may also result in additional rates.
Infrastructural asset revaluation Asset revaluation may be higher or lower than estimated.	In the LTP, Council has revalued its significant infrastructural assets on a yearly basis in line with the relevant BERL inflation rate taking into account planned additions.	Very high	**HIGH** If price level changes are greater or lesser, depreciation and the funding of depreciation, could be under or overstated.high (virtually certain to be wrong). The financial impact of a 1% change in the water depreciation would result in a change in depreciation of $18,719 in 2021/2022 to $27,380 in 2030/2031. The financial impact of a 1% change in the wastewater depreciation would result in a change in depreciation of $27,065 in 2021/2022 to $44,431 in 2030/2031. The financial impact of a 1% change in the roading depreciation would result in a change in depreciation of $194,134 in 2021/2022 to $263,356 in 2030/2031.
Forestry assets Fluctuations in the forestry asset revaluation and returns.	Council has forecast the revaluation of forestry assets and operating results on a yearly basis taking into account planned harvesting and replanting.	Moderate	**MEDIUM** The recognition of forestry assets is non-cash in nature and therefore has no effect on rates. However fluctuations in operating results may impact rates.
Emission Trading Scheme	Council will retain its investment in the Emission Trading Scheme (105,632	Moderate	**LOW**

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Financial issue/risk	Assumption for the LTP	Level of Uncertainty	Risk if the assumption is incorrect
Fluctuation in the value of Council's investment in emission trading units.	units) at a value of $32.10 per unit across the 10 years of the plan.		Emission trading unit holdings and value increases/decreases over the life of the plan. This movement is a non-cash impact and therefore no impact on rates.
Investments in other entities Fluctuation in the value of Council's investment in other entities, joint ventures and associates. This includes Milford Sound Tourism Ltd, Civic Assurance, WasteNet, Southland Regional Development Agency, Emergency Management Southland and Southland Regional Heritage Committee.	Council will retain its investment in these entities and associates at the current level and will assume an annual dividend across the 10 years of the plan where there is a history of dividends. No income from associates is forecast.	Moderate	**LOW** Investment value increases/decreases over the life of the plan. This movement is a non-cash impact and therefore no impact on rates. If dividends received differ from forecast this may either impact rates.
Funding of future replacement of significant assets Due to the large amount of ageing infrastructure, funding renewals through reserves or loans is inconsistent with good practice. In the 2015-2025 LTP Council commenced a phasing in depreciation funding to build up funds for replacement of assets whilst maintaining affordable rates increases.	We have assumed that Council will continue to incrementally increase funding depreciation of the following assets classes: roading, water, wastewater, council buildings, information technology, wheelie bins, public toilets and solid waste. Funding depreciation of these activities (except water and wastewater) will be phased over the next 10 years as follows: 2021/2022 70% 2022/2023 80% 2023/2024 90% 2024/2025 onwards 100%	Low	**MEDIUM** The level of depreciation being funded is inaccurate and will result in either over/under collecting rates in the relevant years. Additionally any shortfalls will need to be funded by other sources (such as rates, reserves or loans) which may also result in additional rates.

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Financial issue/risk	Assumption for the LTP	*Level of Uncertainty*	*Risk if the assumption is incorrect*
	Funding depreciation of water and wastewater activities will be phased over the next 10 years as follows: 2021/2022 65% 2022/2023 70% 2023/2024 75% 2024/2025 80% 2025/2026 85% 2026/2027 90% 2027/2028 95% 2028/2029 onwards 100% Motor vehicles and SIESA assets are funded 100% for the 10 years of the plan.		
Subsidies for roading Waka Kotahi NZ Transport Agency (Waka Kotahi) has announced its indicative investment levels for years 1 - 3 of the Long Term Plan. The funding levels indicated are less than those requested by SDC. Sufficient funds may not be available to pay for the planned increase in capital projects and operational/maintenance costs in years 4 - 10 of the Long Term Plan.	Through this LTP we have identified a programme of work necessary to maintain the assets and levels of service for our roading network. Waka Kotahi has very recently outlined the proposed/indicative funding levels for the first three years allocated to SDC. The level proposed by Waka Kotahi is at 85% of the funding level requested. It is assumed Waka Kotahi will be able to meet the requested funding needs of proposed works from Years 4 to 10 of the LTP.	Very High	**High** There is also additional risk that over the uncertainty of a component of funding from Waka Kotahi being available due to an over-subscription nationally. The planned work programmes will need to be revisited and levels of service would need to reviewed depending on the ongoing funding available. The uncertainty of funding could impact on the ongoing availability of contractors and capacity to deliver the necessary work programmes. If funding by Waka Kotahi is not to increase as proposed in years 4-10 this may result in the

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Financial issue/risk	Assumption for the LTP	Level of Uncertainty	Risk if the assumption is incorrect
	It is assumed that the level of financial assistance received from Waka Kotahi will be 52% for the period of the LTP. It was assumed Waka Kotahi funding will be awarded for three-year periods and that the following seven years will be funded in a similar manner. Funding assistance for large capital transport works would be achieved on a case by case basis with Waka Kotahi.		programme of works needing to be amended by approximately $25 million over those remaining seven years. It is premature to anticipate the level of funding that might be available in years 4 through 10. The impact of any funding change by Waka Kotahi will be assessed as part of the next LTP process.
Sources of funds That sources of funds are not achievable.	Sources of funds (being user fees/charges, grants, subsidies and borrowings) for both operating and capital expenditure are obtained in accordance with the Revenue and Financing Policy.	Low	**MEDIUM** If revenue sources are not achievable, the levels of service may be reduced or an alternate funding source required to maintain those levels. This may include setting additional rates.
Return on investment/reserves Return on investments may vary from the amount included in the ten year plan.	Return on financial investments has been calculated at 5.5% per annum, for funds invested externally for the life of the plan. This is on the basis of a balanced managed fund with approximately 50/50 investment in income and growth assets. Fund administration costs associated with these investments are calculated at 1.10% per annum and are deducted from the fund capital. The first $750,000 of return on investments is used to offset rates requirements.	Moderate	**MEDIUM** A decrease in investment interest rates may require Council to collect more rates to cover the shortfall of interest used to offset rates.

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Financial issue/risk	Assumption for the LTP	*Level of Uncertainty*	*Risk if the assumption is incorrect*
	Interest on reserves is allocated as follows: Restricted reserves 4.4% per annum Local reserves 2.0% per annum Strategic asset reserve 2.0%		
Interest rates on borrowing The interest rates paid on borrowing will vary over the 10 year period.	Interest on new and existing internal and external borrowings is allowed for at ~~2.0%~~ 3.0% per annum over the term of the borrowing.	Moderate	**MEDIUM** An increase in interest rates may require Council to collect more rates to cover the additional interest payments.
Local Government Funding Agency (LGFA) Guarantee Each of the shareholders of the LGFA is a party to a Deed of Guarantee, whereby the parties to the deed guarantee the obligations of the LGFA and the guarantee obligations of the other participating local authorities to the LGFA, in the event of default.	Council believe that the risk of the guarantee being called on and any financial loss arising from the guarantee is low and therefore nothing has been included in the forecasts for the term of the plan.	Low	**LOW** In the event of a default, Council will be required to pay a proportion of the amount owing. The proportion to be paid by each respective guarantor is set in relation to each guarantors' relative rates income.
External borrowing All external borrowing will be sourced from LGFA.	The borrowings are interest only. Repayments collected from rates will be held in a restricted reserve until the end of the loan term. The term of all borrowings are planned to exceed the term of the LTP.	Low	**Medium** In the event that Council are unable to borrow from LGFA, Council may be required to borrow from other external lenders with the risk of higher interest rates and different repayment terms.
Capital expenditure delivery Programmes and projects are assumed to be delivered on time.	The Long Term Plan assumes that the timing and cost of capital projects and associated operating costs are as determined through the Council's activity management planning process.	High	**Medium** There is a risk that capital projects may not be delivered as planned. This could be due to a variety of factors as outlined below:

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Financial issue/risk	Assumption for the LTP	*Level of Uncertainty*	*Risk if the assumption is incorrect*
			1. Further Covid-19 lockdowns 2. Capacity of local market to deliver due to a. Lack for resources b. Lack of skilled resources for specialist works c. Demand on other local projects in Southland d. Local and International supply chain constraints 3. High demand on contractors resulting in higher project costs and need to rescope causing delays to spending 4. High demand on consultancy services 5. Demand on councils to complete resource and building consents affecting project delivery. Delays/deferrals on the level of capital works completed on time will impact future depreciation (which is, in most instances, funded by rates). Funding of capital works is typically by reserves and loans, therefore will impact future interest and principle repayments, which are funded by rates. There may also be an increase in maintenance costs as a result of any delay of delivering capital works, which will also have an impact on rates. A 1% change in the capital programme ranges from $452,000 in 2021/2022 to $458,000 in 2030/2031. If $1 million of capital works is delayed, there would be a $50,000 saving per annum in future loan

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Financial issue/risk	Assumption for the LTP	*Level of Uncertainty*	*Risk if the assumption is incorrect*
			repayments (assuming 30 year term), and accordingly rates, however this saving may potentially be consumed with additional maintenance costs from extending the asset past its useful life.

	Uncertainty Description	Description	Likelihood of the risk occurring if the assumption is incorrect
Assumption	Very high uncertainty	A very low level of information/confidence in the assumption	Highly likely
	High uncertainty	A poor level of information/confidence in the assumption	Likely
	Moderate uncertainty	A moderate level of information/confidence in the assumption	Possible
	Low uncertainty	A good level of information/confidence in the assumption	Unlikely
	Very low uncertainty	A very good level of information/confidence in the assumption	Rare

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Likelihood	**Consequence**				
	Insignificant	**Minor**	**Moderate**	**Major**	**Catastrophic**
Highly likely	Low	Medium	High	Very High	Very High
Likely	Low	Medium	High	Very High	Very High
Possible	Low	Medium	Medium	High	Very High
Unlikely	Low	Low	Medium	Medium	High
Rare	Low	Low	Low	Medium	Medium

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Risk thresholds

	Insignificant	Minor	Moderate	Major	Catastrophic
Strategic	No significant adverse public comment No impact on achievement of LTP objectives Key stakeholder relationships unaffected	Adverse comment in local or social media Letters to CEO, complaints to Crs May slow achievement of LTP objectives Minor impact on key stakeholder relationships	National media coverage Will impact achievement of one or more LTP objectives Negative impact on key stakeholder relationships	National media coverage 2-3 days Will significantly impact the achievement of multiple LTP objectives Significant impact on multiple key stakeholder relationships	Coverage in national media 3+ days Commission of Inquiry/ Parliamentary questions Stakeholder relations irreparably damaged Cannot deliver on most LTP objectives
Operational	No loss of operational capability Minimal change to service levels Minimal loss of internal capacity	Loss of operational capability in some areas Some disruption to service levels Internal capacity lost for up to 1 week	Serious loss of operational capability for over 6 weeks and/or Disruption to service levels for 4-6 weeks Loss of internal capacity 1-3 weeks	Serious loss of operational capability for over 8 weeks and major disruption to service levels and/or Loss of internal capacity 4-6 weeks	Serious loss of operational capability for 3-4 mths and serious disruption to service levels and Loss of internal capacity for more than 6 weeks
Financial	No impact on financial targets	Up to 1% impact on financial targets	Up to 5% impact on financial targets	Up to 10% impact on financial targets	More than 10% impact on financial targets

R/21/2/5200

Appendix 1: BERL inflation rates for Long Term Plan 2031

Year	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31
Property maintenance	2.90%	2.50%	2.50%	2.50%	2.50%	2.60%	2.70%	2.70%	2.60%
Roading	3.10%	3.00%	2.90%	2.90%	2.90%	2.90%	2.90%	2.90%	2.90%
Property capital	3.00%	2.60%	2.60%	2.70%	2.60%	2.80%	2.80%	2.90%	2.70%
Energy	2.90%	2.50%	2.50%	2.50%	2.50%	2.60%	2.70%	2.70%	2.60%
Water	3.50%	2.60%	2.70%	2.90%	2.80%	3.20%	3.30%	3.40%	3.10%
Other	2.90%	2.50%	2.50%	2.60%	2.50%	2.60%	2.70%	2.70%	2.60%
Staff costs	2.40%	1.50%	1.70%	2.00%	2.20%	2.30%	2.40%	2.60%	2.70%

R/21/2/5200

Progress report on Annual Plan 2022/2023

Record No: R/22/1/1924
Author: Jason Domigan, Corporate performance lead
Approved by: Fran Mikulicic, Group manager democracy and community

☐ Decision ☒ Recommendation ☐ Information

Purpose

1 The purpose of this report is to provide an update to the Finance and Assurance Committee on the progress of the Annual Plan 2022/2023.

2 The report also seeks a recommendation to Council from the Finance and Assurance Committee to proceed with the Annual Plan without undertaking formal consultation based on information provided within the report.

Executive summary

3 The Annual Plan process ensures that planned community initiatives, projects, revenue and financing for the upcoming financial year align with the LTP overall strategic vision. Where extraordinary projects or changes to the level of service are needed outside of the Long Term Plan (LTP) process, the Annual Plan provides an opportunity to consider these to ensure the on-going needs of the community are met.

4 The Annual Plan 2022/2023 is for year two of the LTP 2021-2031, and the project plan provides a clear timetable of key tasks and milestones to ensure that the Annual Plan is ready for approval by 30 June 2022.

5 Staff have discussed with councillors the potential Annual Plan changes and whether formal consultation should be undertaken. As a result, councillors suggested that it was important to share information with the community regarding the Annual Plan 2022/2023 in early 2022, but the general view is that it would not be necessary for formal consultation to be undertaken.

6 This report outlines two options for consideration by the committee; to accept the updated project plan and note the provision of a community information approach for the Annual Plan, or to make amendments to the proposed project plan.

7 Staff recommend that the committee endorses the project plan and provide the community with the information as detailed and recommends this approach to Council. On this basis, formal consultation for the Annual Plan 2022/2023 would not be undertaken.

Recommendation

That the Finance and Assurance Committee:

a) Receives the report titled "Progress report on Annual Plan 2022/2023" dated 4 February 2022.

b) Determines that this matter or decision be recognised as not significant in terms of Section 76 of the Local Government Act 2002.

c) Determines that it has complied with the decision-making provisions of the Local Government Act 2002 to the extent necessary in relation to this decision; and in accordance with Section 79 of the act determines that it does not require further information, further assessment of options or further analysis of costs and benefits or advantages and disadvantages prior to making a decision on this matter.

d) Endorse the updated Annual Plan 2022/2023 project plan.

e) Recommends to Council that formal consultation on the Annual Plan not be undertaken due to no significant or material differences from year two of the 2021/2031 Long Term Plan.

f) Recommends to Council that Annual Plan information be communicated to the community through First Edition.

Background

8 The purpose of the Annual Plan is to:

a) contain the proposed annual budget and funding impact statement for the year to which the annual plan relates; and

b) identify any variation from the financial statements and funding impact statement included in the local authority's long-term plan in respect of the year; and

c) provide integrated decision making and co-ordination of the resources of the local authority; and

d) contribute to the accountability of the local authority to the community.

9 There are occasions where extraordinary projects or changes to the level of service may be needed outside of the LTP process. The Annual Plan is an opportunity to raise these variances to ensure that the on-going needs of the community are being met.

Annual Plan consultation issues

10 Staff have identified the following key variations to the LTP in this annual plan to be considered in terms of significant or material differences.

Waka Kotahi Funding

11 During the LTP, Council consulted on an increased roading and bridging programme in order to continue to provide existing levels of service across our roading network over the next 10 years. The first three years of this works programme proposed approximately $100 million in work to be completed with 52% funded by Waka Kotahi and 48% funded from rates. Support for and against the increases was reasonably even across the submissions however very few submitters wanted to see decreases in levels of service. Council deliberated to undertake the proposed programme of work outlined given the vital nature of the network to our communities.

12 Following Council's deliberations on the LTP, Council was subsequently informed by Waka Kotahi that the full programme of works is unable to be funded in the first three years of the plan. As a result, some of the programmed works for the first 3 years was moved to begin in 2024.

13 In August 2021, Waka Kotahi advised Council of its three year funding in the National Land Transport Plan. The result was an overall increase to the roading programme of approximately $5 million compared to budgets adopted in June for the first three years of the LTP.

14 Following this, staff have redeveloped the roading programme for the first three years of the LTP. What this effectively means for year two of the Long Term Plan is an additional $965,614 needs to be funded from rates.

15 To offset this, staff are proposing to bring forward from year four of the Long Term Plan, the $1 million from the strategic asset reserve to use in the 2022/2023 year. Due to the changes in the roading programme outlined above, $1 million of the strategic asset reserve was moved from year one of the LTP into year four of the LTP to offset the increase in the roading programme.

16 However, with the announcement in August of the additional $5 million for years one to three particularly for the road rehabilitation and bridge programmes, staff are proposing to move the Strategic Asset Reserve from year four of the LTP back to year two to help offset any rate increase associated with the increased availability of funding from Waka Kotahi.

17 As stated above, both road rehabilitations and bridges were key issues highlighted through the formal consultation process on the LTP. Council has a good understanding of the community views through that feedback and has been able to utilise the use of $1 million of the strategic asset reserve to offset the impact on rates for this year. As a result, staff believe the additional Waka Kotahi funding is not considered to be a significant or material difference from the content of year two of the LTP.

New rates and changes to existing rates

18 As part of the development of the Annual Plan 2022/23, staff have noted the potential for two new rates as well as changes to existing rating boundaries as detailed below.

Ardlussa swimming pool rate (proposed new rate)

19 The Ardlussa Community Board is currently carrying out a separate consultation process regarding a proposal to provide funding assistance to two swimming pools in the area (Balfour and Riversdale). The board is proposing that the grant would be funded by a new rate across all

properties in the community board area. The board is carrying out separate consultation to get feedback from their community on this issue before making any recommendations to Council about the rate. This ensures the people who are likely to pay the new rate have an opportunity to provide their feedback, irrespective of Council's decision about annual plan consultation.

Northern swimming pool rate (proposed new rate)

20 The Northern Community Board is also considering a proposal to provide funding assistance to two pools in their area (Mossburn and Northern Southland in Lumsden). The board is considering two different options for how the funding could be collected (via a new rate across the whole board area or a part of the board area) and are also planning to seek feedback from their community on the proposal. As above with Ardlussa, this separate consultation would help to ensure that the community has an opportunity to provide feedback.

Mossburn Hall and Five Rivers Hall (proposed change to rating boundaries)

21 The Northern Community Board are also considering expanding the Mossburn hall and Five Rivers hall rating boundaries to include properties which are not currently contributing towards a hall rate. Staff are currently working through this process with the board. At this stage, given the small number of properties involved and likely minor impact on rates overall, separate consultation is unlikely to be required. However, given that the board are likely to be consulting on the proposed pool rate, there is also an opportunity to highlight the proposed hall boundary changes for feedback.

Tuturau Hall (proposed change to rating boundaries)

22 The Waihopai Toetoe Community Board are also working with the Tuturau Hall Committee to investigate an option to extend the Tuturau hall rating boundary. While staff are currently working through this process with the community board, at this stage, given the small number of properties likely to be affected and the level of the rate (currently $47.37 in 2021/22), staff do not believe that separate consultation will be required. However, the board may still opt to let the affected properties know about the proposal and provide feedback.

Stewart Island/Rakiura Visitor Levy

23 Council is currently in the process of reviewing the Stewart Island/Rakiura Visitor Levy (SIVL) amount. Changing the quantum of the levy requires that both the current policy and bylaw be formally reviewed.

24 This issue is additional to our Annual Plan process but requires community consultation to seek community views as part of that review process. Our Council SIVL Policy stated that consultation on this be included as part of an LTP or Annual Plan process in order to achieve efficiency.

25 As a result, it is proposed to undertake an individual consultation on the SIVL using the special consultative procedure (SCP) as outlined by section 83 of the LGA. The outcomes of this consultation will be incorporated into the Annual Plan for adoption in June 2022.

Significance and Engagement Policy

26 Council's Significance and Engagement Policy provides guidance on when an issue is significant and if consultation should occur. The purpose of the policy is:

- to enable the local authority and its communities to identify the degree of significance attached to particular issues, proposals, decisions or matters; and
- to provide clarity about how and when communities can expect to be engaged in decisions about different issues, proposals, decisions or matters; and
- to inform Council, from the beginning of a decision-making process about
  - the extent of any public engagement that is expected before a particular decision is made; and
  - the form or type of engagement required.

27 The policy states the general approach of following a three-step process to inform decision making

Step 1 - Determine significance - Council will use particular factors to decide if a matter is of higher or lower significance. This part of the policy also gives guidance on what to do if a matter is of high significance.

Step 2 - Identify community views - Council will determine what it knows about community views and identify if there is a need for more information.

Step 3 - Deciding on an approach to community engagement - the level of significance and what Council wants to know about community views will guide Council on an appropriate level of engagement, and how and when to engage. This part of the policy provides clarity on how and when communities can expect to be engaged in different issues. It also identifies how Council will respond to community preferences about engagement.

28 The Annual Plan 2022/2023 variations were assessed against the measurements for consultation within the significance and engagement policy and there are no significant variations that would result in the need for formal consultation being undertaken.

Annual Plan consultation

29 Local authorities must consult with the public during the Annual Plan process if the Annual Plan includes significant or material differences from the content of the LTP for the financial year to which the proposed Annual Plan relates as outlined in the Local Government Act (LGA).

30 If Council considers it has significant or material differences then the LGA provides guidance on what the consultation document needs to include to explain any differences such as:

- significant or material variations or departures from the financial statements or funding impact statement,
- significant new spending proposals; and
- a decision to delay or not proceed with a significant project.

31 To understand if there are any significant or material differences, Council staff have considered any proposed variances for the Annual Plan against year two of the LTP in terms of guidance provided in the LGA. Staff do not consider there to be significant or material variations or departures from the financial statements or funding impact statement, significant new spending proposals or decisions to delay or not proceed with significant projects.

32 In addition, Staff have also considered the Annual Plan 2022/2023 variations were assessed against the measurements for consultation within the significance and engagement policy and it was agreed that there are no significant variations that would result in the need for formal consultation being undertaken

33 Council has proposed to undertake targeted consultation on two new pool rates for the Ardlussa and Northern Community Boards and on the Stewart Island Visitor Levy (SIVL) as outlined in the issues section above.

34 As a result, staff are recommending that considering the key issues above result in no significant or material changes from year two of the proposed LTP, Council continue on with the Annual Plan process without undertaking formal consultation.

Community information approach

35 At this stage Council staff have identified no significant or material changes in year two of the plan that would trigger the need to consult from the issues outlined above. Therefore, staff recommend not undertaking formal consultation on the Annual Plan.

36 It is important that Council still keeps our communities updated and informed on the what is proposed through our Annual Plan process and this can be achieved outside of a formal consultation process.

37 Council can still consider providing information through other non-legislative channels to provide an appropriate level of information to our communities on the key information in our Annual Plan. As Council is aware, we currently deliver the SDC magazine - First Edition to all households in the District and these are likely to run in April and August 2022. These dates would align nicely with interim and final Annual Plan updates to our communities and provide an example of how we could connect with people in a non-legislative way to provide an appropriate level of information

Annual Plan project plan

38 Staff are seeking confirmation of the updated project plan for the Annual Plan 2022/2023 to ensure it is adopted within the legislative timeframe prior to 1 July 2022. The key dates are outlined in the table below:

KEY MILESTONE	DATE
FEBRUARY	
Finance and Assurance Committee meeting - progress report on the Annual Plan - draft financial assumptions	11 Feb 2022

KEY MILESTONE	DATE
Finance and Assurance Committee workshop - draft Annual Plan, financial overview, QV impact	11 Feb 2022
Council meeting to consider draft information, timetable and approach - supporting information for the draft Annual Plan (including proposed consultation approach and updated timetable) - draft financial assumptions	22 Feb 2022
Press release regarding Annual Plan process	22 Feb 2022
MARCH	
Finance and Assurance Committee meeting - forecasting approvals	28 March 2022
APRIL	
Communication plan - Annual Plan updates information via First Edition - any other platforms (eg website, Facebook etc)	April 2022
Community board update on Annual Plan - draft proposed rate, sample properties examples, QV impact and financial assumptions	April 2022
Council meeting - forecasting approvals	27 April 2022
JUNE	
Finance and Assurance meeting to recommend adoption of Annual Plan - includes final draft annual plan	8 June 2022
Council meeting - adoption Annual Plan	21 June 2022
Website version available	22 June 2022
JULY -AUGUST	
Rates notices go out	July 2022
Annual Plan information via First Edition	August 2022

Factors to consider

Legal and statutory requirements

39 The Annual Plan 2022/2023 is a requirement of the Local Government Act 2002 and is also closely aligned with the Local Government (2002) Rating Act.

40 The requirements for undertaking an Annual Plan are outlined in Section 95 of the Local Government Act 2002 including that a local authority must consult consistent with Section 82 before adopting an Annual Plan. However, Section 2A states that this does not apply if the proposed Annual Plan does not include significant or material differences from the content of the Long Term Plan for the financial year to which the proposed annual plan relates. As outlined in the report above, staff have assessed the variances for the Annual Plan against

year two of the LTP as not being significant or material and therefore recommend that no formal consultation on the Annual Plan 2022/2023 is required.

41 Staff have also reviewed the significance and material thresholds of the Annual Plan variances in relation to the Council's Significance and Engagement Policy and there are no significant variations that would result in the need for formal consultation being undertaken.

Community views

42 The issues identified in the above variations/issues table have either been consulted on or will be part of future engagement and consultation through this year. Community and Council's stakeholders will be informed about the plan variances and the reasons for them through an update document which will be incorporated into the Council magazine – First Edition, and available online and in the area offices.

Costs and funding

43 All costs associated with the Annual Plan 2022/2023 are factored into existing budgets. It is not anticipated that any unbudgeted expenditure will be required.

Policy implications

44 Given there are no significant or material differences for the Annual Plan 2022/2023 from year two of the LTP, it is considered to be consistent with Councils current Financial and Infrastructure Strategies and other supporting policies. At this stage it is not anticipated that any policies will be amended as part of the Annual Plan process.

Analysis

Options considered

45 There are two options considered in this report:

46 Option 1 - to approve the project plan and recommend the community information approach for the Annual Plan 2022/2023 to Council.

33 Option 2 - to make amendments to the project plan and proposed community information approach for the Annual Plan 2022/2023 prior to the 22 February 2022 Council Meeting.

Analysis of options

Option 1 – To approve the project plan and recommend the community information approach for the Annual Plan 2022/2023 to Council.

Advantages	*Disadvantages*
• staff can proceed with the work required for the document as planned and begin producing the Annual Plan update document. • provides a streamlined Annual Plan process. • complies with statutory requirements for Council to complete an Annual Plan	• once Council has accepted the project plan there will be no time to make further changes to the project plan and undertake formal consultation at a later date, without compromising Council's ability to meet legislative timeframes.

34 Option 2 - to make amendments to the project plan and proposed community information approach for the Annual Plan 2022/2023 prior to the 22 February 2022 Council Meeting.

Advantages	*Disadvantages*
• staff could incorporate the changes into the project plan and community information approach	• any changes could result in greater administrative complexity and a potential delay with the approval of the Annual Plan

Assessment of significance

35 This report is not considered significant under Council's Significance and Engagement Policy.

Recommended option

36 The recommended option is Option 1 - to approve the project plan and recommend the community information approach for the Annual Plan 2022/2023 to Council.

Next Steps

37 Staff will prepare a draft Annual Plan updates document for information purposes and follow the proposed project plan timeframes.

Attachments

There are no attachments for this report.

Approach to borrowing

Record no: R/21/6/25966
Author: Anne Robson, Chief financial officer
Approved by: Cameron McIntosh, Chief executive

☒ Decision ☒ Recommendation ☐ Information

Purpose

1 To discuss and agree the borrowing approach for Council, considering Council's Liability Management Policy.

Executive summary

2 Council is entering into long term borrowing for the first time. Up until now, Council has used its cash reserves to fund its borrowings, with only occasional use of external short-term borrowings to fund daily cashflows. However, with numerous capital projects currently underway and Council's Long Term Plan 2021-2031 (LTP) requiring an increase in projects to maintain levels of service, long term borrowings are required going forward.

3 As part of developing the LTP, Council budgeted to separate the two functions of investing and borrowing which results in greater levels of investment and borrowings. Council took this approach in order to pursue higher investment returns (through an externally managed balanced fund) whilst lowering borrowing rates and being able to access loans for up to 17 years at a fixed rate.

4 In March 2021, Council agreed to apply for membership of the Local Government Funding Agency (LGFA), in order to access loan funding at more favourable rates and terms than other options of external funding.

5 In May 2021, as part of LTP process, Council approved an Investment and Liability Management Policy (the policy) which reflects good practice approaches. The liability management aspects of the policy detail Council's borrowing limits and how borrowing risks will be managed.

6 This report deals with the next stage of policy implementation, being the development of a borrowing approach, which outlines the "what and how" for borrowings. This is the practical component of borrowing and considers the risk mitigation approaches of the policy and the potential approach to borrowing for three waters activities given the future move from Council to a new entity.

7 In December, Council staff borrowed $16.8 million of long term debt in line with the longer term approach detailed in this report, following the workshop with the Committee in December.

8 Currently, Council staff are working with its advisors to provide a shortlist of investment fund managers for the next stage of Council consideration. Councils investment policy, will guide the initial shortlist process.

Recommendation

That the Finance and Assurance Committee:

a) receives the report titled "Approach to borrowing" dated 4 February 2022.

b) determines that this matter or decision be recognised as not significant in terms of Section 76 of the Local Government Act 2002.

c) determines that it has complied with the decision-making provisions of the Local Government Act 2002 to the extent necessary in relation to this decision; and in accordance with Section 79 of the act determines that it does not require further information, further assessment of options or further analysis of costs and benefits or advantages and disadvantages prior to making a decision on this matter.

d) agrees the following borrowing approach in line with Council's Liability policy plus 1.6% of borrowers notes where required

Instrument	Amount ($millions)	Maturity
Fixed rate bond	$13.5	2024
Floating rate note	$1.5	2024
Fixed rate bond	$5.9	2027
Floating rate note	$5.9	2028
Fixed rate bond	$6.7	2028
Fixed rate bond	$8.4	2031
Fixed rate bond	$8.4	2035
Floating rate note	$8.4	2036
Fixed rate bond	$8.4	2036
Total	$67.1	

e) agrees that the Chief Financial Officer can make changes to this approach based on funding needs but that any change will be in line with Councils Liability policy

f) requests that the committee be advised of any changes made to the borrowing approach noted in resolution (d)

g) Acknowledges that further borrowing may be undertaken, when necessary, with the Local Government Funding Agency for short term cashflow needs, in line with Councils Liability Policy

h) recommends to Council that it approve the maximum daily transaction amounts that may occur on enacting the above borrowing strategy.

i) acknowledges the use of short term debt to fund the liabilities of the three waters activities until the date of transfer to the new three waters entity.

j) borrow the assessed annual funding requirement in two instalments per year in advance, if required, investing the funds until required.

k) request staff investigate further the option of Council obtaining a credit rating.

Background

9 Borrowing is generally undertaken to fund capital expenditure requirements and manage cashflow timing differences to ensure Council can finance its planned activities.

10 When borrowing, Council seeks terms and conditions that are most favourable whilst ensuring that risks associated with borrowing are managed appropriately. Council's Liability Management Policy sets out the framework that Council borrowings will observe. The policy discusses the risks associated to borrowing and how these will be addressed. It also notes the control and reporting features that Council deems appropriate to manage the ongoing debt portfolio.

11 Council's LTP indicated an increasing loan portfolio to help finance the growing programme of work for its activities. Overall borrowings are projected to increase from $20 million to $197 million at the end of the 10 year period. This is based on the LTP assumption that:

- all borrowings will be taken out for the maximum 17 years at an interest rate of 2%
- principal repayments on loans would be collected annually and invested before being used at the end of the 17 years to repay the debt. Based on this approach, over the ten years of the LTP, $52 million was budgeted to be collected as principal repayments. As such, the net debt at the end of the ten years is $145 million ($197 million less $52 million).

12 Reserves within the ten year period are budgeted to increase from $38 million to $84 million. This is primarily due to the accumulating loan principal repayments ie: net reserves are $32 million ($84 million less $52 million)

13 As part of discussions on the policy, Council indicated that the key reason for borrowing was to fund, existing internal loans, future capital costs and meet operational funding needs. In these discussions Council also indicated it was not purposely borrowing for investment.

14 Currently Council has borrowed $16.4 million from the LGFA. This borrowing was taken out to meet the expected cashflow needs of Council for the coming six months and with the recent increase in interest rates to lock in longer term rates now.

15 For borrowings over $20 million, the Liability Management Policy requires an additional level of reporting and risk management. The reporting is currently being developed with Councils advisors and will form part of the Financial report going forward.

Issues

16 Councils Liability Policy sets out the framework that borrowing is based around to mitigate risk. Council now needs to consider what amount it is borrowing, when should it be borrowed, for how long and the interest rate impact of that decision. As part of the decision Council also needs to consider how it wishes to manage the debt associated with the three waters activities, given its impending transfer to a new entity. These items are discussed in full under the costs and funding section below.

17 Within Councils Liability Policy, the delegations section establishes limits on the maximum daily transaction amount that can occur. The Chief Financial Officer has a limit of up to $5 million, the Chief Executive has up to $10 million and Council is unlimited. In undertaking the debt

approach, the daily limit may exceed that delegated to the Chief Executive as such, Council approval is being sought to approve the maximum daily limit, whatever it may be that achieves the debt approach as noted.

18 The financials presented in this report reflect the actual results to 30 June 2021 and the budgets as presented in the LTP. The actual results and therefore the borrowing needs may differ from that indicated.

Factors to consider

Legal and statutory requirements

19 Council undertakes borrowings in order to contribute towards fulfilling its purpose under Section 10(1) of the Local Government Act 2002 (LGA)

20 Section 102(2) of the LGA, requires Council to have an Investment Policy and a Liability Management Policy.

21 Section 104 of the LGA requires that the Liability Management Policy must state Council's policies around interest rate exposure, liquidity, credit exposure and debt repayment in respect to managing both borrowing and other liabilities.

Community views

22 Council has already consulted on some aspects of the borrowing approach as part of the proposal to participate in the LGFA, including:

- a desire to externally borrow internal loans which were currently funded from cash reserves with the resulting cash reserves then able to be invested
- a desire to broaden the policy to allow for investments in managed funds as part of a review of its Investment and Liability Management policy.

No comments were received on this point.

23 Overall, the public would support prudent and effective management, a balanced investment/risk profile, and to maintain appropriate procedures, controls and reporting.

Costs and funding

24 As at 30 June 2021:

- internal loans totalled $52,455,120
- reserves (incl SIESA) totalled $40,963,080

25 The below table outlines the debt levels indicated in the LTP for 2021/2022 and 2022/2023 in total and by activity.

	LTP 2021/22	LTP 2022/23
Forecast opening loan balance (1 July) (actual was $52.5million)	51,788,695	66,926,989
Drawdowns 2022/2023	18,156,673	16,433,720
Principal repayments 2022/2023	(3,018,379)	(3,498,081)
Amount required to borrow	**$66,926,989**	**$79,862,628**
Add LGFA Bonds (1.6%)	1,119,126	1,333,772
Add repayments (year 1 & 2)	3,018,379	6,516,460
Total borrowings as per the LTP (30 June)	**$71,064,494**	**$87,712,860**

What should we borrow?

26 As noted above, Council consulted on and prepared its LTP on the basis of borrowing its internal loan portfolio plus any operational cashflow requirements. Based on this Council would borrow $52.5 million (30 June 2021) now.

27 The LTP indicates that for the year ended 30 June 2022, an additional $15.1million of net loans is required ($18.2 million less $3.1million).

28 Equally Council indicated that it would invest its reserves into a balanced fund. On agreeing a fund manager, staff will look to borrow the amount of the reserves at 30 June 2021 ($41 million) plus any additional funding required to meet operational needs. The approach being presented in this paper is based on the Annual Plan projections depending on when projects are undertaken will drive what further drawdowns are made.

29 Currently Council has borrowed $16.4 million to cover expected cashflow requirements to the end of the financial year.

When should we borrow in any year?

30 The committee needs to consider the approach to take in regards to when it draws down these funds. For additional funds required in any year, the committee is asked to give guidance as to the timing of when staff should borrow the funds. Options include monthly, at the start of the year in full, quarterly or six monthly. The advantages and disadvantages of both are listed in the table below.

Borrowing - Timing Option	Advantages	Disadvantages
At the start of the year	If interest rates continue to increase, obtaining funds sooner will minimise the interest cost. Less staff administration required.	The full funds may not be required (in part or full), resulting in additional interest costs being incurred. This may be offset by investing the surplus cash.
Monthly	Funds are drawn down as required. No large quantities of surplus funds are held.	If interest rates continue to rise, depending on the term and choice

Borrowing - Timing Option	Advantages	Disadvantages
		of interest method, additional interest cost will be incurred. A higher level of staff administration required to calculate funding needs and arrange funding.
Quarterly	Funds are drawn down in advance. A low level of surplus funds are held.	If interest rates continue to rise, depending on the term and the choice of interest method, additional interest will be incurred. A higher level of staff administration required to calculate funding needs and arrange funding.
Six monthly	Funds are drawn down in advance. A medium level of surplus funds are held. Less staff time required to administer the funds and undertake the arrangements	The full funds may not be required (in part or in full), resulting in additional interest costs being incurred. This may be offset by investing the surplus cash.

31 There are no additional financial costs to undertake any of these approaches apart from the potential increase in any interest rates.

32 Staff have suggested twice a year for efficiency.

At what rates will we be borrowing

33 There is a range of borrowing rates, depending on the term and whether it is fixed or floating. Councils recent borrowing was $8.4 million till 15 April 2036 fixed at 3.45% and $8.4 million till 15 May 2035 fixed at 3.49%.

34 Council will be able to get better borrowing rates if it has a credit rating (such as from Standard and Poors). Previous discussions have indicated that the savings made versus the cost of obtaining and maintaining a credit rating means that Council should have a minimum of $50 million of borrowings to break even.

Over what term do we borrow?

35 There are two key aspects to consider here:

(a) the potential change to Councils debt structure when the three waters entity takes over Council related debt

(b) compliance with Council's Liability Management Policy and LGFA covenants

Potential change to debt structure when the three waters entity takes over Council related debt

36 Central government has stated that a new entity will be formed for three waters activities and that the assets and liabilities relating to these assets held by Council will be transferred to this new

entity. Previously the government has indicated a three year timeline for the transfer, although the final dates and process have not yet been confirmed.

37 It is not known how the new entity will take over the debt or what arrangements will be made with local authorities that will still have debt relating to the three waters.

38 Council is in a fortunate position compared to other local authorities because the purpose of all internal loans has been tracked and these can be tied to external borrowings.

39 As such, Council should consider using debt terms that best match the point at which three water related debt would be transferred to a new entity. This is most likely to involve taking a number of short-term loans for that debt or operating a flexible debt portfolio that can absorb any three waters borrowings annually for other activities.

40 The tables below provide more details of the three waters debt in relation to total debt.

Makeup of internal loans at 30 June 2021

By Activity	30 June 2021	% Share
Three Waters	$34,272,886	65%
Other Activities	$18,182,233	35%
Total	$52,455,120	100%

Makeup of internal loans over the next five years to 30 June 2026

	30 June 2022	30 June 2023	30 June 2024	30 June 2025	30 June 2026
Other activities					
1-5 years	$1,345,488	$1,066,539	$1,006,013	$1,117,259	$2,662,503
6 to 10 years	$6,564,555	$7,349,127	$8,494,148	$8,558,049	$6,458,553
11 to 15 years	$8,657,175	$11,877,463	$11,713,538	$11,075,414	$10,977,494
16 to 20 years	$4,164,733	$2,495,775	$3,673,302	$5,002,265	$5,537,126
21 to 30 years	$10,172,284	$12,446,035	$18,974,264	$24,733,307	$25,309,514
	$30,904,236	$35,234,939	$43,861,265	$50,486,294	$50,945,189
Three waters borrowing	$36,022,741	$44,627,679	$51,214,629	$57,477,362	$66,572,331
Total internal loans	$66,926,977	$79,862,618	$95,075,894	$107,963,656	$117,517,520
% share of total loans					
% other activities	46%	44%	46%	47%	43%
% three waters	54%	56%	54%	53%	57%
	100%	100%	100%	100%	100%

41 Based on the above, the maximum debt Council needs at 30 June 2024 is $44 million (assuming the projects are undertaken as indicated in the LTP).

Compliance with Council's Liability Management Policy and LGFA covenants

42 To comply with the Liability Management Policy, Councils advisors have recommended the following borrowing structure to comply with the policy.

Borrowing Class	Maturity date	Drawdown (millions)	Projected overall interest rate
Fixed Rate Bond	2024	$13.5	
Floating Rate Note	2024	$1.5	
Fixed Rate Bond	2027	$5.9	
Floating Rate Bond	2028	$5.9	
Fixed Rate Bond	2028	$6.7	
Fixed Rate Bond	2031	$8.4	
Fixed Rate Bond	2035	$8.4	
Floating Rate Note	2036	$8.4	
Fixed Rate Bond	2036	$8.4	
Total		**$67.1**	**3.30%**

43 The committee can request a different borrowing options. If the preferred option was outside the current liability policy, it would need to be confirmed by Council, noting that it was an inconsistent decision with the current policy, the reason for the decision and if the policy will be changed in the future to reflect the change.

Implications for Council's Annual Plan

44 As part of developing the LTP, a number of assumptions were made. These assumptions and the associated risks are detailed in the table below.

Financial Issue/Risk	Level of Uncertainty	Risk if Assumption is Incorrect
Return on investment/reserves Return on financial investments has been calculated at 5.5% per annum, for funds invested externally for the life of the plan. This is on the basis of a balanced managed fund with approximately 50/50 investment in income and growth assets. Fund administration costs associated with these investments are calculated at 1.10% per annum and are deducted from the fund capital. The first $750,000 of return on investments is used to offset rates requirements. Interest on reserves is allocated as follows: restricted reserves 4.4% per annum local reserves 2.0% per annum strategic asset reserve 2.0%	Moderate	Medium A decrease in investment interest rates may require Council to collect more rates to cover the shortfall of interest used to offset rates.

Financial Issue/Risk	Level of Uncertainty	Risk if Assumption is Incorrect
Interest rate on borrowing Interest on new and existing internal and external borrowings is allowed for at 2.0% per annum over the term of the borrowings.	Moderate	Medium An increase in interest rates may require Council to collect more rates to cover the additional interest payments.
External borrowing All external borrowing will be sourced from LGFA.	Low	Medium In the event that Council are unable to borrow from the LGFA, Council may be required to borrow from other external lenders with the risk of higher interest rates and different repayment terms.

45 As noted above, Council's LTP has been prepared on a borrowing rate of 2%. The proposed borrowing approach described above results in an average borrowing rate of 3%. Also included on the agenda of the committee meeting is a report about the assumptions to be used to prepare the Annual Plan 2022/2023. This report is proposing an increase in the borrowing rate to 3%, noting that depending on the timing of any borrowing, this may be lower.

Policy implications

46 Attached is a copy of Councils Investment and Liability Management Policy for the committee's reference.

47 Under the policy the Finance & Assurance Committee have the responsibility to approve debt, interest rate and external investment management strategy.

48 Council's Investment Policy, sets out what and how funds will be invested, including:

- notes the use of banks for working capital, restricted reserves etc where the bank has a Standard and Poors rating of A- or above and the use of a balanced managed funds for general reserve funds repurposed to cash from internal loans.

- retaining Council's ability to invest internally through the use of internal loans and invest in the Local Government Funding Agency Limited (LGFA) which occurs when borrowing from the LGFA. All borrowers are required to contribute 1.6% of the total amount borrowed as borrower's notes.

49 Council's Liability Management Policy is designed to provide a framework for prudent debt management. It sets out the objectives of any borrowing undertaken, the limits to borrowing, the forms of borrowing, how Council will handle risk and the reporting/delegations to support the function to enable best practice.

50 Council also needs to meet the covenants agreed with LGFA as indicated below.

Borrowing ratio	Council borrowing limit proposed	LGFA maximum borrowing limit
Net debt as a percentage of total revenue	<175%	<175%
Net interest as a percentage of total revenue	<10%	<20%
Net interest as a percentage of rates revenue	<7%	<20%
Liquidity (external, borrowing + available committed loan facilities + available liquid investments* as a percentage of existing external debt)	>110%	>110%

*liquid investments are unencumbered assets defined as being, overnight bank cash deposits, bank deposits no greater than 31 days, bank registered certificates of deposit less than 181 days

51 The proposed borrowing matrix outlined by Councils advisors in Para 42 above meets the requirements of the policy and the covenants set by the LGFA.

Analysis

Options considered

52 The committee can choose one of the three options considered

(i) agree to the borrowing approach proposed below, including any amendments requested

(ii) request staff rework or develop a different borrowing approach to the one presented

(iii) choose not to adopt a borrowing approach

Analysis of Options

Option 1 – Agree to the borrowing approach noted above, including the drawdown of any debt required twice a year in advance, noting that borrowing for three waters liabilities should be short term to enable the transfer of this debt to the new entity when it is established.

Advantages	*Disadvantages*
• provides staff with greater direction as to the level, timing and type of borrowing • enables staff to proceed with longer term borrowing, enabling interest rates to be locked in. • provides certainty for Council on how it will borrow for the longer term • minimises the risk that Council will have three waters debt remaining after the three waters assets are transferred • should Council seek a credit rating, future borrowing rates could be up to 0.2% cheaper, this is offset by any cost of maintaining the rating • any amendments discussed at the meeting can be incorporated.	• if Council were to get a credit rating, a large percentage of debt will have been locked in • six monthly drawdowns will still result in interest costs, this may be offset by any interest earning on the money invested.

Option 2 – request staff rework or develop a different approach to the one presented

Advantages	*Disadvantages*
• The committee will ensure that it receives and recommends the best approach to Council.	• may result in higher interest rates.

Option 3 – choose not to adopt a borrowing strategy

Advantages	*Disadvantages*
• Council can adjust its borrowing approach as it occurs • to reduce administration, staff can utilise the policy to provide direction for Council's borrowings, if preferred.	• greater administration costs should Council want staff to regularly report to them on the level, timing and type of borrowing as it is undertaken.

Assessment of significance

53 In terms of Council's Significance and Engagement Policy, this issue is not considered significant.

Recommended option

54 Option One – Agree to the borrowing approach as presented, including any amendments requested.

Next steps

55 Prepare a report to Council.

56 Proceed to implement the borrowing approach.

57 Continue to work with Councils advisors to provide a shortlist of potential fund managers and get Councils approval of a fund manager(s).

58 Undertake further borrowing to enable the investment of the borrowed funds into the approved fund manager(s) balanced investment fund.

59 Ensure the appropriate reporting is made to the Committee and Council

Attachments

A Investment and Liability Management Policy ⇩

Investment and Liability Management Policy

Group Responsible: Chief Financial Officer

Date Approved:14/4/21

Date Amended:

File No: 19/4/6521

1.0 Overview

The Local Government Act 2002 requires local authorities to adopt an Investment Policy and a Liability Management Policy.

The Investment Policy is designed to ensure that the financial resources of the Council are managed in an efficient and effective way. It sets out how Council can utilise funds from the sale of assets, what should be done with the investment income and so on.

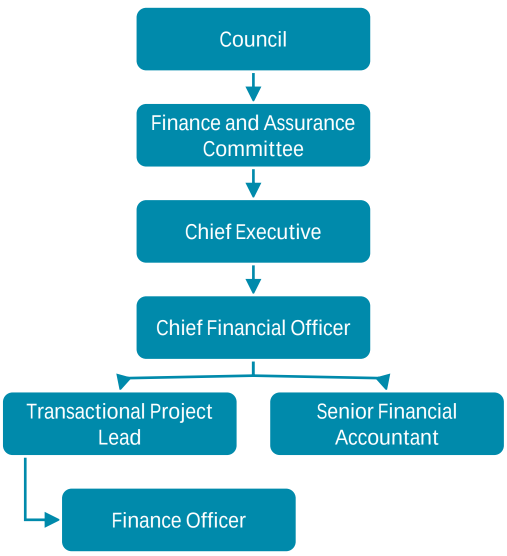
The Liability Management Policy is designed to provide a framework for prudent debt management and sets out how Council may wish to use debt as a funding mechanism.

Council has a structure of responsibilities and reporting lines to ensure the appropriate management and accountability of the liability and investing activities.

2.0 Structure

Organisational Structure

The organisational chart for the finance activity is as follows:



Responsibilities

The key responsibilities of the above positions are as follows:

Council

- approve, adopt and review the Policies including any revisions and amendments
- approve by resolution all external Council borrowing outside of that noted in the long term plan
- approve the external managed fund and the appointment of any fund managers
- approve amount of funds to be placed with external managed fund
- approve membership to Local Government Funding Agency (LGFA) including CCO/CCTOs.

Finance and Assurance Committee

- oversee the treasury function of Council ensuring compliance with the relevant Council policies and plans
- ensuring compliance with the requirements of Council's trust deeds
- recommend to Council treasury policies at least every three years
- approving debt, interest rate and external investment management strategy.

Chief Executive (CE)

- ultimately responsible for ensuring the Policies adopted by Council are implemented by officers of Council and administered in accordance with their terms.

Chief Financial Officer (CFO)

- responsible for recommending investment, borrowing and risk management strategy in conjunction with relevant staff
- ensure compliance with any relevant strategies
- responsible for determining the level of cash available for investment and that held for working capital purposes
- execute the external investment management and interest rate strategy
- approve amounts to be placed with an external fund manager for investment purposes within that set within the Annual Plan or Long Term plan or by way of separate Council resolution
- recommend to Finance and Assurance Committee and Council amendments to the Policies as required
- recommend to Finance and Assurance Committee the debt, interest rate and external investment management strategy for approval
- review internal audit reports and ensure any recommendations agreed by the Finance and Assurance Committee are made
- approve new treasury investments ensuring the proposed investment complies with these policy documents
- receive managed fund reports and annually monitor performance and present the necessary reports to the Finance and Assurance Committee.

Transactional Project Lead

- responsible for confirming adherence to the policies, through internal reviews, to be performed on a regular basis and present a summarised report of compliance to the CFO
- responsible for recommending to the CFO the level of cash available for investment and that held for working capital purposes
- negotiate and undertake treasury investment and borrowing/funding transactions
- assist in identifying amendments to the investment, borrowing and risk management strategy, which may require amendment of the Policies
- responsible for all activities relating to the daily implementation and maintenance of the Policies
- assist in determining the most appropriate sources and terms for borrowing and investing
- responsible for keeping the CFO informed of significant activity and market trends
- responsible for reviewing/approving the weekly cashflow and cash management transaction requirements completed by the Senior Accounts Payable Officer (or equivalent).

Senior Financial Accountant

- check all treasury deal confirmations against the treasury spreadsheet and report any irregularities immediately to the CFO
- responsible for settling treasury transactions.

Finance Officer

- prepare and manage Council's cashflow and cash requirements
- report to the Finance Manager on the weekly cashflow position and resulting cash management transactions required.

3.0 Investment

Introduction

This Investment Policy has been prepared pursuant to Section 102(1) of the Local Government Act 2002 (the "Act"), which requires the Council to adopt an Investment Policy and a Liability Management Policy. Section 105 of the Act sets out what must be included in an Investment Policy.

Council generally holds investments for strategic reasons where there is some community, social, physical or economic benefit accruing from the investment activity.

Council's rationale for retaining investments is:

- strategic assets are to be held by the Council, for public good
- to earn from strategic investments a cash flow for investment in community wellbeing
- to prudently manage cash flows within annual budget parameters.

Council is a risk conscious entity and does not wish to incur additional risk from its treasury activities. Accordingly, Council's primary objective when investing is the protection of its initial investment and generating a commercial return on strategic investments is considered a secondary objective.

Objectives

The key investment policy objectives are to:

- provide a framework for the prudent and effective management of investments
- ensure that investments are managed in accordance with current governing legislation and Council's strategic and commercial objectives
- manage investments in a sustainable and equitable way, having regard to current and future generations
- recognise the community ownership of these assets and the need for a balanced investment/risk profile.
- ensure Council assets are managed prudently and adequately safeguarded
- safeguard Council’s financial market investments by establishing and regularly reviewing investment parameters and ensuring all investment activities are carried out within these parameters
- maximise interest income on treasury investments, within a prudent level of investment risk. Council recognises that as a responsible public authority any treasury investments that it does hold should be of relatively low risk. It also recognises that lower risk generally means lower returns
- maintain and increase the real capital value of the eternal managed funds
- ensure funds are available to meet Council’s needs
- maintain professional relationships with the Council's bankers, financial market participants, fund managers, trustees and other stakeholders
- regularly review the performance and creditworthiness of all investments
- maintain procedures and controls and provide timely and accurate financial and management information.

These objectives will be achieved by having regard to:

- the mix of investments that Council will utilise
- the process for the acquisition and divestment of new investments
- the management and assessment of risk
- the need for appropriate management and reporting procedures.

Investment Mix

Council has a portfolio of investments; at any time, these could comprise:

- treasury investments
- direct equity investments
- property
- other property investments – Community Housing
- forestry
- loans, advances for community development purposes
- internal loans
- external managed funds that could include equities.

The decision on which mix of investments Council will hold at any time will be based on the purpose for which the funds were acquired and the market conditions at the time.

Acquisition of New Investments

With the exception of treasury investments, internal loans and equity investments, new investments are acquired if an opportunity arises and approved by Council resolution, based on advice and recommendations from management. Before approving any new investments, Council gives due consideration to the contribution the investment will make in fulfilling Council's strategic objectives and the financial risks of owning the investment.

The authority to acquire treasury investments is delegated to the Chief Financial Officer.

Application of Returns from Investments

Some returns are earmarked for specific purposes, but generally returns on Council investments are applied to give equal benefit to the District ratepayers by application in a pro-rata basis to offset the costs of District services.

Direct Equity Investments

Nature of Investment

Direct equity investments are held for strategic purposes only and include interests in:

- **Civic Assurance Corporation** (13,715 shares)

  Civic Assurance is a specialist Local Government insurance company
- **Milford Sound Tourism Limited** (2,000 shares)
  The role of Council is to facilitate and co-ordinate development and operations at Milford Sound/*Piopiotahi* and Council's intention is to retain its shareholding in the company.

Rationale for Holding Investment

The Council may hold equity for non-investment purposes, provided that the holding is in furtherance of its purpose under the Local Government Act 2002.

To have the ability to utilise equity investments where necessary to:

- achieve the desired level of returns; and/or
- to provide a diversified investment portfolio.

Disposition of Revenue

These investments are held for strategic reasons only and not for investment purposes.

As such these investments do not derive revenue to Council in the form of dividends. If they do, revenue or dividends will be used to offset general rates.

Risk Management

Investments in the Civic Assurance Corporation and the Milford Sound Tourism Limited are held for strategic purposes. For any other equity investments, Council reviews the performance of the trading enterprises at least annually to ensure that strategic and financial objectives are being achieved.

Dispositions and acquisitions require Council approval.

Property

Nature of Investment

The Council's first objective is to only own property that is strategically necessary for the economic, physical and social development of the Southland District and secondly, to achieve an acceptable rate of return. Property investments do not include properties for operational purposes.

Rationale for Holding Investment

Council holds investment properties in order to generate income to offset general rates.

The Council reviews the performance of its property investments on an annual basis and ensures that the benefits of continued ownership are consistent with its stated objectives. Any disposition of these investments requires the Council's approval.

Disposition of Revenue

Income generated is used to offset operational expenditure. Surplus funds will be used to fund future property projects.

Risk Management

The risk in respect of holding investment property is evaluated as low given the location of the properties and their current and long-term use.

Rental income is considered low risk, due to the fixed and long-term nature of the lease agreements. Lease rental is negotiated at the time the lease expires.

Other Property Investments - Community Housing

Nature of Investment

Council has 69 community housing units available for rental. These houses are located in various townships across Southland District.

Rationale for Holding Investment

Council retains community housing to allow people to continue to live in its local community. The elderly or people with disabilities are given preference.

Council's philosophies include ensuring that rental charges cover costs (excluding depreciation) and to continue to maintain the housing at its current high standard. There is no required rate of return on this investment.

Disposition of Revenue

Revenue earned from the investment in community housing is retained in the community housing investment.

Risk Management

The risk in respect of holding other property investments is evaluated as low given the location of the properties and their current and long term use.

Council's community housing activities are managed by staff in the Property department. They regularly review Council's involvement in community housing, including assessment of the need for this asset within the community.

Dispositions and acquisitions require Council approval.

Forestry

Nature of Investment

The Council and its predecessor organisations have been involved in forestry for many years. Council's current forestry policy is that it will operate and maintain up to 3,000 planted hectares. The Council currently maintains 1,800 hectares of land.

Rationale for Holding Investment

Forestry assets are held as a long-term investment. The overall investment policy of the Council with regard to forestry is to maximise profit, with harvesting on a sustainable yield basis and without any demand on rates.

Disposition of Revenue

Any surplus revenue is used to offset rates. Any surplus not used in the year it was earned is accumulated into a forestry reserve and used to offset future rates. The use of the reserve in future years, will often be based on an even spread over a number of years to minimise rates fluctuations. Approximately $100,000 is retained for operating working capital at any time.

Risk Management

Forests are currently managed by a specialist external party. Forestry activities are reviewed by the Services and Assets Committee.

Significant risk management strategies include diversity of forest age classes, insurance against fire and access to a rural fire fighting force, a mix of species, geographic spread of forests and controlled access. Retention of the forest is reviewed periodically.

Dispositions and acquisitions require Council approval.

Loans and Advances for community development purposes

Nature of Investment

The Council is not a lender and therefore is not generally involved in providing loans or advances.

Rationale for Holding Investment

Council provides loans for community development purposes. From time to time, Council has provided a loan or advance to a community organisation to facilitate the ongoing provision of community services or recreational opportunities. The loans/investments are not made for financial investment purposes.

Council sets the terms and conditions for any loans or advances as they are granted. Council will require security as deemed appropriate for each loan or advance. The security will be the assets or revenue of the organisation.

Disposition of Revenue

Generally, these loans are to the benefit of the local community and not for financial investment purposes. Interest will be charged at a rate that is consistent with Council's interest rate on internal loans. Any revenue would be applied to reserves, reduce external debt or offsetting general rates.

Risk Management

Council will review the performance of its loan advances on a regular basis to ensure the planned strategic and economic objectives are being achieved.

Council monitors the compliance of the borrower with the terms and conditions agreed upon.

All loans and advances documentation are subject to independent legal review prior to finalisation.

Internal Loans

Nature of Investment

Council may utilise its general reserves and surplus funds for internal borrowing/lending purposes to reduce external debt, thus effectively reducing borrowing costs.

Rationale for Holding Investment

To facilitate the development of Council activities within Council and the community to minimise the costs associated with borrowing externally.

Disposition of Revenue

Income derived from internal loans is generally used to generate a return to reserves. Any surplus income is used to reduce external debt and/or offset against general rates.

Risk Management

Internal loans shall be managed as a treasury investment. Interest rates will be set having regard for Council's opportunity cost forgone.

Council may not achieve the opportunity cost due to actual external interest rates being different to the interest rate set for any given year as part of the LTP/Annual Plan process. In this case the return to Council may be more or less and will impact on the return to reserves.

Treasury Investments

Nature of Investment

To provide the ability to utilise a range of financial investments not already specified in this policy.

Approved treasury investments include;

CATEGORY	INSTRUMENT
Treasury Investments	Call and term bank deposits Bank certificates of deposit (RCDs) Treasury Bills and Government Bonds LGFA bonds/Floating Rate Notes (FRN)/Commercial Paper (CP) LGFA borrower notes

With the exception of LGFA borrower notes, the term of the treasury instruments is no greater than one year.

Rationale for Holding Investment

Council's philosophy in the management of treasury investments is to optimise its capital protection and liquidity objectives while balancing risk and return considerations. Council recognises that as a responsible public authority any treasury investments that it does hold should be low risk. It also recognises that lower risk generally means lower returns.

The Council maintains treasury investments to:

- invest surplus cash and working capital funds
- achieve the desired level of returns within acceptable risk parameters
- invest amounts allocated to general reserves, trust funds and special funds.

Council's primary objective when investing is the protection and liquidity of its investment. Accordingly, only credit-worthy counterparties are acceptable. Credit-worthy counterparties are selected on the basis of their current Standard and Poor's (S&P) or equivalent rating, which must be strong or better.

To avoid undue concentration of exposures, treasury investments should be used with as wide a range of counterparties as practicable. Transaction principal amounts and maturities should be well spread where possible.

Within the above constraints, Council also seeks to:

- ensure investments are liquid
- maximise investment return
- manage potential capital losses due to interest rate movements.

Liquidity risk is minimised by ensuring that all negotiable treasury investments must be capable of being liquidated in a readily available secondary market.

Disposition of Revenue

Income derived from Council's treasury activities will be used to fund Council activities including the allocation of interest on reserves, offsetting rates and repaying external debt.

Externally Managed Funds

Nature of Investment

Council may invest its general reserves in externally managed funds. Council has a medium to long-term investment horizon as it seeks to manage investments in a sustainable and equitable way, having regard to both current and future generations of ratepayers.

Council would purchase units in a NZD managed fund or funds.

Rationale for Holding Investment

Council maintains externally managed funds to:

- maintain, protect and increase the real capital value of the principal amount invested. Real capital value is the value that has been adjusted for the effect of inflation
- diversify the investment of Council's general reserves
- maintain liquidity and access to cash if needed
- obtain annual cash income to subsidise rates revenue.

Where practical, investments will be made considering the ethical practices of the investment entity. Council's intention for the Funds is to avoid direct involvement with industries that have a negative impact on society and the environment. This includes:

- alcohol
- tobacco
- military/weapons
- labour practices.

Disposition of Revenue

The managed funds are expected to return (before fees and taxes) at least 5% per annum. Council will consider as part of its planning process what is appropriate to subsidise rates revenue and what should be accrued back to its reserves, having regard to its rationale noted above. The actual disposition may differ from that planned as a result of the actual returns being more or less than budgeted again having regard to the rationale above.

Income derived from managed funds in the form of interest and dividends, is generally used to offset general rates with any surplus income used to provide a return on reserves. Surplus income can be re-invested in the managed fund(s).

Annually, Council evaluates whether to realise any capital gains that have been accumulated by the managed funds over the period. Overall the objective is to hold the managed funds for the medium to long term.

Risk Management

Council has a preference to invest indirectly in externally managed funds that are managed by a suitably qualified fund manager(s) and be managed within the below criteria.

Council's risk profile is considered moderate for financial investment purposes and therefore seeks to invest in a 'balanced' managed fund where there is a mix of capital growth and income asset types. Council will buy units in an established externally managed fund but could appoint its own investment manager.

The strategic asset allocation and tactical ranges are provided in the following table:

ALLOCATION	BENCHMARK %	RANGES %
Total growth assets	50%	40-60%
Total income assets	50%	40-60%

Growth assets include approved asset types; listed domestic and international equities and listed property shares. Income assets include asset types such as; cash, term deposits, domestic and international floating and fixed rate debt securities. Any other asset types must be approved by Council before any investment is made.

Investments may be hedged back to NZD.

The counterparty risk policy set out in section 4 does not apply to externally managed funds. The investment guidelines are set out in Appendix 1.

At least quarterly reporting is provided on the performance of the managed fund(s). Annually the fund performance is benchmarked to other similar funds.

Local Government Funding Agency Limited (LGFA)

Despite anything earlier in this Investment Policy, Council may invest in shares and other financial instruments of the New Zealand LGFA and may borrow to fund that investment. The Council's objective in making any such investment will be to:

- obtain a return on the investment; and
- ensure that the LGFA has sufficient capital to remain viable, meaning that it continues as a source of debt funding for the Council.

Because of this dual objective, Council may invest in LGFA shares in circumstances in which the return on that investment is potentially lower than the return it could achieve with alternative investments.

If required in connection with the investment, Council may also subscribe for uncalled capital in the LGFA.

4.0 Liability Management

Introduction

This Liability Management Policy has been prepared pursuant to the Local Government Act 2002; section 102(1) which requires the Council to adopt a Liability Management Policy and section 104 which outlines the contents of the policy.

Generally, Council borrows to provide funding for the following activities:

- fund Council capital expenditure requirements
- manage timing differences between cash inflows and outflows
- cover special 'one-off' projects
- fund assets with intergenerational qualities
- manage timing differences in the rebalancing of its internal loan portfolio into externally managed funds.

Total debt levels are determined through Council's Long-Term Plan (LTP) and Annual Plans. Council approves this borrowing requirement for each financial year in the Annual Plan or LTP or by resolution during the year.

Objectives

- ensure Council has appropriate working capital funds available to carry out its plans as outlined in its LTP and Annual Plan

- ensure that Council has an on-going ability to meet its debts in an orderly manner as and when they fall due in both the short and long term, through appropriate liquidity and funding risk management
- arrange appropriate funding facilities for Council, ensuring they are at market related margins utilising bank debt facilities and/or capital markets as appropriate
- maintain lender and LGFA relationships and Council general borrowing profile in the local debt and, if applicable, capital markets, so that Council is able to fund its activities appropriately at all times
- control Council's cost of borrowing through the effective management of its interest rate risks, within the interest rate risk management limits established by this policy
- ensure compliance with any financing/borrowing covenants and ratios
- maintain adequate internal controls to mitigate operational risks
- produce accurate and timely reports that can be relied on by senior management and Council for control and exposure monitoring purposes in relation to the debt raising activities of Council.

Council will manage its borrowing activities prudently to ensure the best interests of the District are maintained. To undertake this, the following will be considered in conjunction with every transaction undertaken:

- cost minimisation
- cost stabilisation/risk management.

Specific Borrowing Limits

Total debt levels are maintained at a prudent level and will be managed within the following limits:

ITEM	BORROWING LIMIT
Net debt as a percentage of total revenue	<175%
Net interest as a percentage of total revenue	<10%
Net interest as a percentage of rates revenue	<7%
Liquidity (external, borrowing +available committed loan facilities + available liquid investments as a percentage of existing external debt)	>110%

- total revenue is defined as cash earnings from rates, government grants and subsidies, user charges, interest, dividends, financial and other revenue and excludes non-government capital contributions (e.g. developer contributions and vested assets)
- net debt is defined as total debt less treasury investments. External debt that is specifically borrowed for on-lending to a CCO/CCTO is netted with the corresponding loan asset for the LGFA covenant calculation
- liquid investments are unencumbered assets defined as being:
    - overnight bank cash deposits
    - wholesale/retail bank term deposits no greater than 31 days.
    - bank issued registered certificates of deposit less than 181 days
- external debt funding and associated investment activity relating to pre-funding is excluded from the liquidity ratio calculation

- net interest is defined as the amount equal to all interest and financing costs less interest income for the relevant period
- annual rates revenue is defined as the amount equal to the total revenue from any funding mechanism authorised by the Local Government (Rating) Act 2002 together with any revenue received from other local authorities for services provided (and for which the other local authorities rate)
- financial covenants are measured on Council only
- disaster recovery requirements are to be met through the liquidity ratio.

Debt Repayment

Total debt levels are indicated through Council's LTP or Annual Plans. Council's Annual Report will contain information to allow actual debt levels to be compared with those forecasted.

Loans raised for specific projects will generally be repaid through user charges or rates. Loans raised for local purposes will generally be repaid by the ratepayers in the relevant local area. Surplus Council funds and proceeds from the sale of investments and assets will be reviewed periodically by Council with a view to repaying debt, or for funding capital projects.

The Council may repay debt before maturity in special cases where the circumstances suggest that this would be in the best interests of the District.

Debt will be repaid as it falls due in accordance with the applicable borrowing arrangement. Subject to the appropriate approval and debt limits, a loan may be rolled over or re-negotiated as and when appropriate.

Guarantees/contingent liabilities and other financial arrangements

Council may act as guarantor to CCOs, financial institutions on loans when the purposes of the loan are in line with Council's strategic objectives.

For any outstanding guarantees, Council will ensure that sufficient financial capacity exists relative to LGFA lending covenants. Unless approved by Council, guarantees or financial arrangements given will not exceed NZ$1 million in aggregate.

Council is not permitted to provide any guarantee of indebtedness in favour of any loans to CCTOs under Section 62 of the Local Government Act.

For any guarantee for indebtedness provided by Council to a CCO that borrows directly from the LGFA or bank lender, Council will approve the specific borrowing and guarantee arrangement.

Borrowing mechanisms for council-controlled organisations and council-controlled trading organisations

To better achieve its strategic and commercial objectives, Council may provide financial support in the form of debt funding directly or indirectly to CCO/CCTOs.

Guarantees of financial indebtedness to CCTOs are prohibited, but financial support may be provided by subscribing for shares as called or uncalled capital.

Any lending arrangement to a CCO/CCTO must be approved by Council. In recommending an arrangement for approval the Chief Financial Officer considers the following:

- credit risk profile of the borrowing entity, and the ability to repay interest and principal amount outstanding on due date

- impact on Council's credit standing, debt cap amount (where applied), borrowing limits with the LGFA and other lenders and Council's future borrowing capacity
- the form and quality of security arrangements provided
- the lending rate given factors such as; CCO/CCTO credit profile, external Council borrowing rates, borrower note and liquidity buffer requirements, term etc
- lending arrangements must be documented on a commercial arm's length basis. A term sheet, including matters such as borrowing costs, interest payment dates, principal payment dates, security and expiry date is agreed between the parties
- accounting and taxation impact on-lending arrangement.

All lending arrangements must be executed under legal documentation (e.g. loan, guarantee) reviewed and approved by Council's independent legal counsel.

LGFA

Despite anything earlier in this Liability Management Policy, Council may borrow from LGFA and, in connection with that borrowing, may enter into the following related transactions to the extent it considers necessary or desirable:

- contribute a portion of its borrowing back to the LGFA as an equity contribution to the LGFA
- provide guarantees of the indebtedness of other local authorities to the LGFA and of the indebtedness of the LGFA itself
- commit to contributing additional equity (or subordinated debt) to the LGFA if required
- subscribe for shares and uncalled capital in the LGFA
- secure its borrowing from the LGFA and the performance of other obligations to the LGFA or its creditors with a charge over the Council's rates and rates revenue.

Internal Loans

All Council investments may be used as a source for internal loans in relation to expenditure of a capital (or one off) nature related to any activity that would otherwise be funded by external loan.

The term of any internal loan shall not be more than 30 years and will be set after taking into account the ability of ratepayers affected to pay, alternative uses of the funds and the life of the assets to be funded. The term set will be subject to review during the course of the loan.

The interest rate to be applied to internal loans for any given year will be developed as part of Council's Long-Term Plan or Annual Plan. To remove any doubt, the interest rate calculated will be the interest rate used for that year for budgeting and end of year actual results.

The method of calculation and the resulting interest rate will be resolved by Council as part of this annual process. In developing the method of calculation, Council will consider its investment policy objective, which is to obtain the net opportunity cost of not having the funds invested externally. Council will also consider its present and future financial position as well as market conditions.

After taking into account fairness and equity, Council can resolve to apply a lesser interest rate than the interest rate calculated where it agrees the circumstances are such that it is warranted.

Security

It is Council's general policy to offer security for its borrowing and risk management activities by way of negative pledge or a charge over its rates offered through a Debenture Trust Deed. Under a Debenture Trust Deed, Council's borrowing is secured by a floating charge over all Council rates levied under the Local Government Rating Act. The security offered by Council ranks equally or pari passu with other lenders.

In the normal course, the Council's policy is not to offer a guarantee or security over any of the other assets of the Council. However, the Council may decide to offer security over the asset:

- where borrowing is by way of finance lease, or some other form of trade credit under which it is normal practice to provide security over the asset concerned, or
- where the Council considers doing so would help further its community goals and objectives.

Any lending to a CCO or CCTO will be on a secured basis and be approved by Council.

Interest Rate Exposure

Interest rate risk management refers to managing the impact that movements in interest rates can have on Council's cash flows. This can have both a positive and/or negative impact. A 1% change in interest rate will have a 0.4% impact on rates (on rates of $50 million).

The primary objective of interest rate risk management is to reduce uncertainty relating to interest rate movements through fixing/hedging of wholesale interest costs. Certainty around interest costs is to be achieved through the proactive management of underlying interest rate exposures.

When actual debt amounts are at $20 million or above it is mandatory that the interest rate exposures of Council are managed according to the limits detailed in the following table. Council's gross external core debt forecasts (less any pre-funded debt amounts) must be within the following fixed/floating interest rate risk control limits:

FIXED RATE HEDGING PERCENTAGES		
Term	**Minimum Fixed Rate Amount**	**Maximum Fixed Rate Amount**
Current	40%	90%
Year 1	40%	90%
Year 2	35%	85%
Year 3	30%	80%
Year 4	25%	75%
Year 5	20%	70%
Year 6	0%	65%
Year 7	0%	60%
Year 8	0%	50%
Year 9	0%	50%
Year 10	0%	50%
Year 11	0%	25%
Year 12	0%	25%

FIXED RATE HEDGING PERCENTAGES		
Year 13	0%	25%
Year 14	0%	25%
Year 15	0%	25%

"Fixed rate" is defined as all known interest rate obligations on forecast external core debt, including where hedging instruments have converted floating rate obligations into firm commitments.

"Floating rate" is defined as any interest rate obligation subject to movements in the applicable reset rate.

Gross forecast external core debt is the amount of total external debt for a given period. This allows for pre-hedging in advance of projected physical drawdowns of new debt. When approved forecasts are changed, the amount of fixed rate cover in place may have to be adjusted to ensure compliance with the Policy minimums and maximums. Pre-funded debt amounts are excluded from the gross debt forecast.

Core debt is defined as debt that is expected to remain for a period of greater than one year.

A fixed rate maturity profile that is outside the above limits, but self corrects within 90-days is not in breach of this Policy. However, maintaining a maturity profile that is outside the above limits beyond 90-days requires specific approval by Council.

Any fixed rate hedge with a maturity beyond 15 years must be approved by Council. The exception to this will be if Council raises LGFA funding as fixed rate or as a swapped floating rate and this maturity is beyond 15 years.

Hedging outside the above risk parameters must be approved by Council.

Approved interest rate instruments are as follows:

CATEGORY	INSTRUMENT
Interest rate risk management	Forward rate agreements ("FRAs") on: • bank bills Interest rate swaps/collars including: • swap extensions, deferrals and shortenings Interest rate options on: • bank bills (purchased caps and one for one collars) • interest rate swaptions (purchased swaptions and one for one collars only)

- One for one collar option structures are allowable, whereby the sold option is matched precisely by amount and maturity to the simultaneously purchased option. During the term of the option, only the sold side of the collar can be closed out (i.e. repurchased) otherwise, both sides must be closed simultaneously. The sold option leg of the collar structure must not have a strike rate 'in-the-money';
- Selling interest rate options for the primary purpose of generating premium income is not permitted because of its speculative nature;
- Purchased borrower swaptions must mature within 12 months;
- Interest rate options with a maturity date beyond 12 months that have a strike rate (exercise rate) higher than 2.00% above the appropriate swap rate, cannot be counted as part of the fixed rate cover percentage calculation;

- Forward start period on swaps and collars to be no more than 36 months from deal date except where the forward start swap/collar starts on the expiry date of an existing swap/collar and has a notional amount which is no more than that of the existing swap/collar.

Any other interest rate instrument must be specifically approved by Council on a case-by-case basis and only be applied to the one singular transaction being approved. Credit exposure on these financial instruments is restricted by specified counterparty credit limits.

Prudent selection of interest rate instruments and mix will help the Council achieve its low debt servicing costs and risk minimisation objectives.

Liquidity and Funding Risk Management

Liquidity management refers to the timely availability of funds to Council when needed, without incurring penalty costs. This takes into account the ability to refinance or raise new debt at a future time at the same or more favourable pricing and terms of existing facilities.

Council's ability to readily attract cost effective borrowing is largely driven by its ability to rate, maintain a strong credit rating and manage its relationships with the LGFA and financial institutions. To this end it is the Council's intention to seek and maintain a strong balance sheet position.

Council may use a mixture of short-term facilities (which generally have lower credit margins) as well as longer term facilities to achieve an effective borrowing mix, balancing the requirements of liquidity and cost.

Council's objective for funding risk management is to minimise the risk of large concentrations of debt being reissued or raised at a time of adverse movements in borrowing margins beyond the Council's control.

The Council's policy for liquidity and funding risk management is:

- ensuring that Council's committed debt facilities and term loans mature over a wide time period
- external debt plus available committed debt facilities, plus liquid assets must be maintained at an amount of at least 110% over existing external debt
- through the LGFA and bank lenders, diversify borrowing over a range of wholesale investors and lenders
- ensuring that bank borrowings are only sought from approved strongly rated New Zealand registered banks
- matching expenditure closely to its revenue streams and managing cash flow timing differences
- maintaining its treasury investments in cash/cash equivalent liquid investments
- Council has the ability to pre-fund up to 18 months of the forecast debt requirements including re-financings.

When actual debt amounts are at $20 million or above it is mandatory that the following limits apply for managing funding risk. The maturity profile of the total committed funding in respect to all external debt and committed debt facilities is to be controlled by the following system:

PERIOD	MINIMUM %	MAXIMUM %
1 to 3 years	15	60
3 to 7 years	25	85
7 years plus	0	60

A funding maturity profile that is outside the above limits, but self corrects within 90-days is not in breach of this Policy. However, maintaining a maturity profile outside of policy limits beyond 90-days requires specific approval by Council.

To minimise concentration risk, the LGFA requires that no more than the greater of NZD 100 million or 33% of a Council's borrowings from the LGFA will mature in any 12-month period.

Approved debt and liquidity instruments include;

CATEGORY	INSTRUMENT
Cash management, liquidity and borrowing	Bank overdraft Committed cash advance and bank accepted bill facilities (short term and long-term loan facilities) Floating Rate Note (FRN) Fixed Rate Note (MTN) Commercial paper (CP)/Promissory notes

Credit Risk Management

Counterparty credit risk is the risk of losses, realised or unrealised, arising from a counterparty defaulting on a financial instrument where the Council is a party. Treasury investments, interest rate and foreign currency instruments are captured within the policy. The credit risk to the Council in a default event will be weighted differently depending on the type of instrument entered into.

Amounts should be spread amongst a number of counterparties to avoid concentrations of credit exposure.

Credit risk is minimised by placing maximum prescribed limits for each broad class of non-Government issuer and by limiting investments and risk management instruments to registered banks that have a credit rating from a recognised international credit rating agency. The limit system is as follows;

COUNTERPARTY/ISSUER	MINIMUM S&P LONG TERM/SHORT TERM CREDIT RATING	TOTAL MAXIMUM COMBINED LIMIT PER COUNTERPARTY ($MILLION)*
NZ Government	AA+/A-1+	Unlimited
NZ Local Government Funding Agency	AA/A-1	Unlimited
NZ Registered Bank (per bank)	AA /AA-/A-1	10.0
NZ Registered Bank (per bank)	A+/A/A-1	5.0
* This combined total maximum limit includes exposure to the counterparties including treasury investments and risk management instruments and excludes externally managed fund(s).		

In determining the usage of the above gross limits, the following weightings will be used:

- treasury investments (e.g. bank term deposits) – transaction principal amount
- interest rate risk management (e.g. swaps, FRAs) – transaction notional x maturity (years) x 3%
- foreign exchange risk (e.g. forward exchange contract) – transaction face value amount x ((square root of the maturity (years)) x 15%).

Each transaction should be entered into a treasury spreadsheet and a quarterly report prepared to show assessed counterparty actual exposure versus limits. Credit ratings are reviewed on an ongoing basis and in the event of material credit downgrades should be immediately reported to the Chief Financial Officer and assessed against exposure limits. If any counterparty's credit rating falls below the minimum specified in the above table, then all practical steps are taken to eliminate the credit exposure to that counterparty as soon as practicable.

Counterparties exceeding limits should be reported to Council.

Foreign currency

Council has foreign exchange exposure through the occasional foreign exchange transactions that Council may undertake such as plant and equipment.

Significant commitments for foreign exchange can be hedged using foreign exchange contracts, once expenditure is approved. Forward exchange contracts can be used by the Council. The majority of these transactions would be small and would carry no significant foreign exchange risk.

Council does not borrow or enter into incidental arrangements within or outside New Zealand in currency other than New Zealand currency.

5.0 Procedures for Management and Reporting

Cash Management

The finance function is responsible for managing the Council's cash surpluses and/or deficits.

The Council maintains rolling daily, monthly and annual cash flow projections which form the basis of its cash management activity. The Council maintains one main bank account for its operating cash flows as well as other bank accounts for specialist activities such as investment and borrowing requirements. Individual business units within the Council do not maintain separate bank accounts.

The Council manages its working capital balances by matching expenditure closely to its revenue streams and managing cash flow timing differences to its favour. Daily bank balances are extracted by the Finance Officer.

Generally, cash flow surpluses from timing differences are available for periods less than 90 days.

Cash management activities must be undertaken within the following parameters:

- an optimal daily range of $10,000 is targeted for in the Council's main bank account, with investments adjusted to balance the current account if required
- cash flow surpluses are placed in call deposits, term deposits, registered certificates of deposits and promissory notes
- amounts invested must be in approved instruments and within approved credit limits
- the Council has a committed bank facility with a limit of $5,000,000 for working capital purposes which is used on an operational basis
- the use of interest rate risk management on cash management balances is not permitted.

Internal Controls

The Council's systems of internal controls over cash management and treasury activity includes adequate segregation of duties among the core treasury functions of deal execution, confirmation, settling and accounting/reporting.

Key internal cash management controls are as follows:

- cheque/electronic banking signatories - dual signatures are required for all cheques and electronic transfers
- authorised personnel - all counterparties are provided with a list of personnel approved to undertake transactions, standard settlement instructions and details of personnel able to receive confirmations
- reconciliations - general bank reconciliation is performed daily and monthly by the Debtors Officer (or equivalent) and reviewed by a senior finance staff member.

There are a small number of people involved in treasury activity. Accordingly, strict segregation of duties is not always achievable. The risk from this is minimised by the following processes:

- a documented discretionary approval process for treasury activity
- regular management reporting
- operational risk control reviews will be undertaken periodically
- appropriate organisational, systems, procedural and reconciliation controls exist to ensure:
  (a) all treasury activity is bona fide and properly authorised;
  (b) checks are in place to ensure the Council's accounts and records are updated promptly, accurately and completely.

The details of any exceptions, including remedial action taken or intended to be taken.

Legal risk

Legal risks relate to the unenforceability of a transaction due to an organisation not having the legal capacity or power to enter into the transaction usually because of prohibitions contained in legislation. While legal risks are more relevant for banks, Council may be exposed to such risks.

Council will seek to minimise this risk by adopting policy regarding:

- the use of standing dealing and settlement instructions (including bank accounts, authorised persons, standard deal confirmations, contacts for disputed transactions) to be sent to counterparties
- the matching of third-party confirmations and the immediate follow-up of anomalies
- the use of expert advice.

Financial instruments can only be entered into with banks that have in place an executed International Swaps and Derivatives Association (ISDA) Master Agreement with Council.

Council's internal/appointed legal counsel must sign off on all documentation.

Council must not enter into any transactions where it would cause a breach of financial covenants under existing contractual arrangements.

Council must comply with all obligations and reporting requirements under existing funding facilities and legislative requirements.

Reports

The following reports are produced to monitor treasury activity:

REPORT NAME	FREQUENCY	PREPARED BY	RECIPIENT
Daily Cash Position	Daily	Finance Officer or equivalent	Senior Finance staff member
Treasury Spreadsheet	As required	Finance Officer or equivalent	Senior Finance staff member
Treasury Exceptions Report	As required	Finance Officer or equivalent	Senior Finance staff member/CFO
Treasury Report Policy limit compliance Borrowing limits Funding and Interest Risk Position Total debt funding facility utilisation New treasury transactions Cost of funds vs budget Cash flow forecast report Liquidity risk position Counterparty credit Debt maturity profile Renewal investment Operating investment Exceptions	Monthly	Finance Officer or equivalent	CFO
Treasury Report Include monthly report along with; External managed Funds Report A statement of policy compliance. Treasury and markets commentary Treasury performance CCO/CCTO loans and guarantees, financial arrangements Revaluation of financial instruments	Quarterly	Finance Officer or equivalent	CFO and Finance and Audit Committee

REPORT NAME	FREQUENCY	PREPARED BY	RECIPIENT
Trustee Report	As required by the Trustee	Finance Officer or equivalent	CFO/Trustee company
LGFA Report	Annual	Finance Officer or equivalent	CFO/LGFA

Benchmarking

In order to determine the success of Council's treasury management function, the following benchmarks and performance measures have been prescribed.

Those performance measures that provide a direct measure of the performance of treasury staff (operational performance and management of debt and interest rate risk) are to be reported to Council or an appropriate sub-committee of Council on a quarterly and YTD basis

- All treasury limits must be complied with including (but not limited to) counterparty credit limits, dealing limits and control limits
- All treasury deadlines are to be met, including reporting deadlines
- The actual borrowing cost for Council (taking into consideration costs of entering into interest rate risk management transactions) should be below the budgeted borrowing costs
- The actual investment return for Council on the external managed funds are above the budget investment return amounts
- Annually the actual total return on the externally managed funds is compared to average annual total return of peer 'balanced' managed funds.

Compliance with the benchmarking standard is not required if Council's nominal debt levels are less than $10M.

Delegations

Pursuant to Clause 32 (2), Schedule 7, of the Local Government Act 2002, the Council may make delegations to officers of the Council to allow for the efficient conduct of Council business. Clause 32 (3), Schedule 7 of this Act allows officers to delegate those powers to other officers.

Notwithstanding Clause 32 (1) (c), Schedule 7 the power to borrow money, or purchase or dispose of assets, other than in accordance with the Long Term Plan remains the sole responsibility of the Council. This responsibility cannot be delegated.

The Liability Management and Investment Policy related delegations are below.

ACTIVITY	DELEGATED TO	LIMITS
Approve and amend policy document	Council	Unlimited
Approve external borrowing as set out in the Annual Plan or Long Term Plan	Chief Executive or Chief Financial Officer	As Per Annual Plan or Long Term Plan
Approve LGFA membership	Council	Unlimited subject to legislative limitations
Approve LGFA membership for CCO/CCTO	Council	Unlimited subject to legislative limitations

ACTIVITY	DELEGATED TO	LIMITS
Approve giving of Council guarantee or uncalled capital	Council	Unlimited subject to legislative limitations
Approve selection of external managed Funds) and amount placed with Fund(s)	Council	Unlimited
Approve amount placed with approved managed fund	Chief Executive or Chief Financial Officer	As per Annual Plan or Long Term Plan
Acquisition and disposition of investments other than treasury investments	Council	Unlimited
Approval for charging assets as security over borrowing and risk management activity	Council	Unlimited
Negotiation and ongoing management of lending arrangements with CCO/CCTO	Chief Executive, Chief Financial Officer	
Approving new and re-financed debt amounts.	Chief Executive, Chief Financial Officer	Unlimited
Open/close bank accounts	Chief Financial Officer with advice given to Chief Executive	Unlimited
Approve signatories to Council's Bank Accounts	Chief Executive and Chief Financial Officer	Unlimited
Approve electronic banking amendment	Chief Financial Officer	
Liquidity, debt and investment management	Chief Executive, Chief Financial Officer	Subject to policy
Interest rate and foreign currency management	Chief Executive and Chief Financial Officer	Subject to policy
Cash management	Chief Executive, Chief Financial Officer, Finance Manager	Subject to policy
Approving transactions outside policy	Council	Unlimited
Approving allowable risk management instruments	Council	Unlimited subject to legislative limitations
Maximum daily transaction amount (approved investment, debt, cash management, interest rate risk and foreign currency management)	Council Chief Executive Chief Financial Officer	Unlimited $10m $5m
Approve debt, investment and interest rate strategies	Finance and Assurance Committee	
Ensuring compliance with policy	Chief Financial Officer	N/A
Triennial review of the Policy	Chief Financial Officer	N/A

Appendix 1 – External Managed Funds - Investment Guidelines

The guidelines and constraints required by Council to be observed by the managed funds or Investment Manager, as applicable are set out below. For the purposes of these constraints, "Funds" shall relate to the portion of the investment assets under the management of the Investment Managers.

Where the Funds are invested into an external managed fund(s) or collective investment vehicle ("units") or product Council recognises that the strict application of these guidelines and constraints may not be possible. The Manager(s) of the externally managed funds will inform Council of its pooled or collective investment guidelines. Council expect the Manager(s) to inform them of any investment or management practice that materially falls outside the guidelines and constraints so that Council can continually reassess the overall suitability of such an investment approach.

Cash and Term deposits

Council may invest cash in bank, call, term deposits or registered certificates of deposit. Where it does so it may invest in the following:

Bank, call, term deposits and registered certificates of deposit with New Zealand Registered Banks with a Standard and Poor's or equivalent credit agency, short term credit rating of 'A-1' or stronger. Bank term deposits have a maturity date of no greater than 3-years.

To be classified as a cash investment, deposits must have a maturity date of 31 days or less. Both bank term deposits and registered bank bills must have a maturity date of no more than 12 months.

New Zealand and International Fixed Interest

Investment in an unsecured, senior or secured debt security and should have a minimum long-term credit rating of no less than BBB or short term credit rating of A-2, as measured by Standard & Poor's, or equivalent credit agency.

Commercial Paper issued by a corporate borrower, with a Standard and Poor's or equivalent credit agency, short term credit rating of 'A-2' or stronger. The maturity date can be no more than 12 months.

No investments in direct mortgages, subordinated debt, structured debt, high yield/junk bonds and leveraged loans should be made.

Equities

Investments must be confined to publicly listed widely held securities trading in recognised markets.

New Zealand and International Property Investments

Investment in property entities that are listed on the New Zealand or internationally recognised Stock Exchange.

Health and Safety Update

Record No: R/22/1/683
Author: Teri Black, Health, safety and wellbeing advisor
Approved by: Nick Hamlin, Group manager programme delivery

☐ Decision ☐ Recommendation ☒ Information

Purpose

1 To provide an update on health and safety related events and activity over the last quarter.

Content

Health, safety and wellbeing dashboard update

2 Please find attached the health, safety and wellbeing dashboard update as at 31 December 2021. This report is on operational (employee) health and safety within Council.

3 This is a new document that has been drafted to give councillors information that relates to the Health, Safety and Wellbeing Operational Plan 2021-2023 and the Health, Safety and Wellbeing Road Map 2021-2023.

4 The left of the dashboard includes ratios. They are colour coded via a traffic light system. Green for within industry benchmark, orange for sitting on the benchmark and red for when we are over and above the industry benchmark.

5 The TRIFR is the number of injuries (excluding fatalities) requiring medical treatment per 200,000 hours worked within this organisation based on our FTE workforce. A lost-time injury is something that results in a fatality, permanent disability or time lost from work. It could be as little as one day. LTIFR refers to the number of lost-time injuries within a given period, relative to the total number of hours (200,000) worked in that period based on our FTE workforce.

6 Health and safety training continues with staff completing the health and safety e-learning modules based on the current health and safety procedures. All new employees are required to complete all of the modules as they form a part of Council's health and safety induction training programme. You will see on the dashboard that the e-learning completion levels are sitting at 90 – 100% completion which is at the expected level. A refresher module has been drafted for release early 2022 when everyone returns in the New Year.

7 Risk state is in the beginning stages of risk review in line with our risk management framework review. This will continually evolve over time as we progress through this improvement project.

8 Corrective action summaries on the dashboard are lead indicators that report on the completion and timeframe of corrective actions that are applied in response to a health and safety event report.

9 Contractor health and safety monitoring is not yet at levels of previous years. As part of the leadership and performance action in the Health Safety Wellbeing Strategic Roadmap 2021-2023, health safety and wellbeing KPI's will be set and link to performance management systems. This will include targets for contractor health and safety monitoring.

10 The KYND wellness dashboard has seen little change. Engagement with this wellbeing initiative tends to decrease in the month of December. Our wellbeing programme is now being supported by a calendar of wellbeing events to complement our KYND wellness. This is shared with all staff via the organisation's intranet 'The Loop'.

11 There were five events reported in December 2021. These events include one property damage event, three near misses and one event involving injury to a member of the public. The events have had corrective actions applied. There were also two contractor events reported, more details on these are available on the dashboard attached.

Other health and safety related initiatives

12 There are many ways to keep current on health and safety matters, subscribing to the Worksafe updates is an easy way to remain up to date. The link is: https://worksafe.govt.nz/home/subscriptions

13 Council continues to manage the risk and transmission of Covid-19. This has again become a key focus for the health, safety and wellbeing team during November and December. Council continues to invest in additional PPE gear to ensure we can continue to provide our essential services regardless of alert level changes. Risk management controls are being reviewed regularly and updated as required to remain in line with government and public health requirements.

14 Review of policies and information is ongoing to support our employee health, safety and wellbeing, updates include a new health, safety and wellbeing employee handbook. Alongside our policy reviews and updates, education opportunities are provided.

Recommendation

That the Finance and Assurance Committee:

a) Receives the report titled "Health and Safety Update" dated 4 February 2022.

b) Determines that this matter or decision be recognised as not significant in terms of section 76 of the Local Government Act 2002.

c) Determines that it has complied with the decision-making provisions of the Local Government Act 2002 to the extent necessary in relation to this decision; and in accordance with section 79 of the act determines that it does not require further information, further assessment of options or further analysis of costs and benefits or advantages and disadvantages prior to making a decision on this matter.

Attachments

A HSW Dashboard December 2021 ⇩

Monthly Health Safety & Wellbeing Dashboard - as at 31 December 2021

Event Reports	
Total reported	5
YTD	30

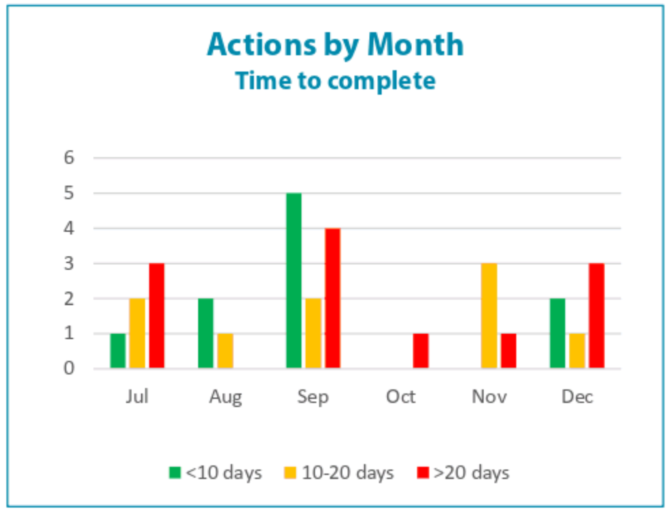
Near Miss	
Month	3
YTD	15

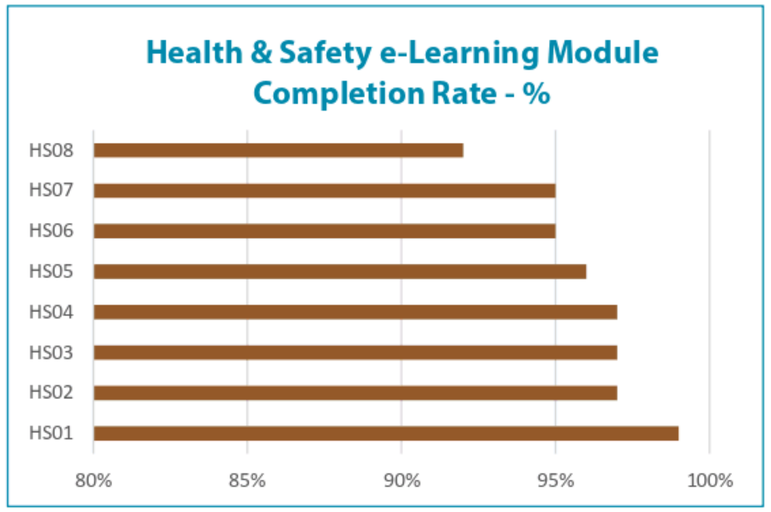
TRIFR	
YTD	0.57
Benchmark	3.68

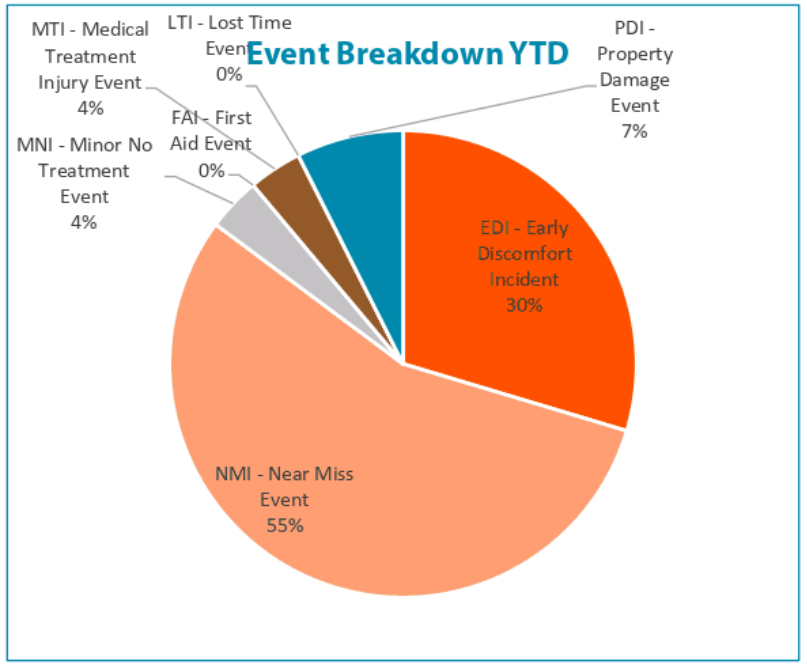
LTIFR	
YTD	0
Benchmark	1.5

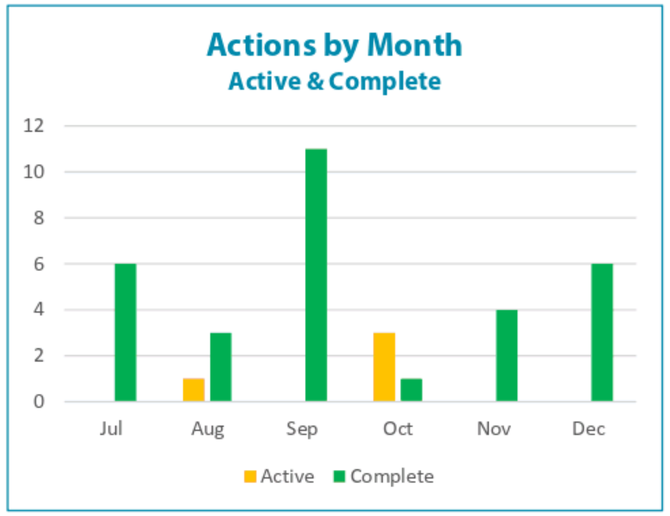
Risk State	
Logged	47
Investigation	1
Minimised	37
Review	1
Eliminated	8

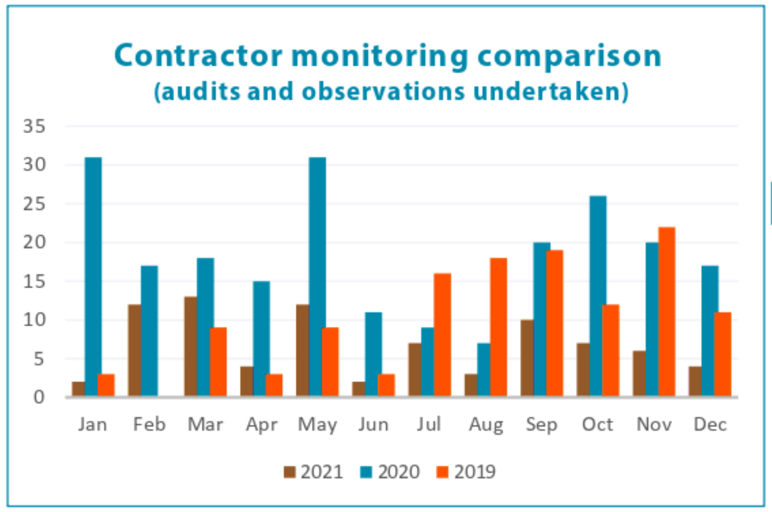
Safety Observations	
Total reported	72
YTD	76





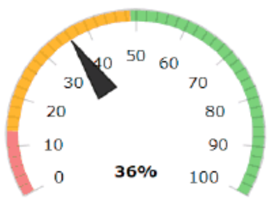






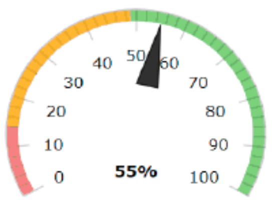
KYND Dashboard

BODY



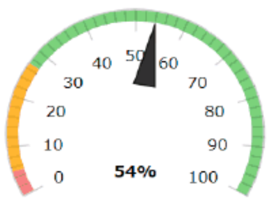
Total Combined Average Score = 36 (105)

MIND



Total Combined Average Score = 55 (162)

LIFE



Total Combined Average Score = 54 (169)

The TRIFR is the number of injuries (excluding fatalities) requiring medical treatment per 200,000 hours worked within this organisation based on our FTE workforce.

A lost-time injury is something that results in a fatality, permanent disability or time lost from work. It could be as little as one day. LTIFR refers to the number of lost-time injuries within a given period, relative to the total number of hours (200,000) worked in that period based on out FTE workforce.

The ratio is compared against the industry benchmark and the aim is to keep both ratios in the green

Summary

- We have had 5 health and safety events reported for the month of December and 2 contractor events.
- Three near miss events were reported this month. A tree failure in Te Anau with high winds and there were two notable interactions reported. Corrective actions have been applied to all three near miss events.
- One property damage event involving an SDC vehicle manoeuvring through 42 Don St car park. Minor damage to vehicle panel.
- One event where a member of the public was injured. The injured person required medical treatment. This injury occurred when the automatic doors at the Te Anau Library closed on them. Door sensors have been assessed by electrician and outcome is pending.
- Contractor events involved a small bin fire at a refuse site and a traffic light malfunction on a road construction site. Both were investigated by contractor responsible and had corrective actions applied.
- Although contractor monitoring has increased since lockdown, there is still work to do in this space to capture more contractor health and safety performance related information. Three contractor safety observations and one audit were logged in December.
- 72 internal safety observations were logged in December in direct relation to Covid-19 health and safety risk management. These are a combination of self-checks, pre-site visit checks and residential site visit checks. There were also 3 safety observations logged in regards to unsafe practice in the roading corridor.
- The KYND dashboard sees no change for the third month in a row. Statistically, there is low engagement with KYND in the month of December. December's wellbeing theme was **Give, tukua** – one of the Five Ways to Wellbeing developed by the Mental Health Foundation. Collections for non-perishables and toys were well contributed to by staff.
- As at 31st December SDC hit 381 days without a lost time accident

Exclusion of the public: Local Government Official Information and Meetings Act 1987

Recommendation

That the public be excluded from the following part(s) of the proceedings of this meeting.

C8.1 Health and Safety Events

C8.2 Update on judicial review proceedings brought against Council by Forest and Bird

The general subject 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(1) 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(1) for the passing of this resolution
Health and Safety Events	s7(2)(a) - the withholding of the information is necessary to protect the privacy of natural persons, including that of a deceased person. s7(2)(d) - the withholding of the information is necessary to avoid prejudice to measures protecting the health and safety of members of the public.	That the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists.
Update on judicial review proceedings brought against Council by Forest and Bird	s7(2)(g) - maintain legal professional privilege.	That the public conduct of the whole or the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists.