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

Date:	**Wednesday, 15 June 2022**
Time:	**10am**
Meeting room:	**Council Chamber**
Venue:	**Level 2 20 Don Street Invercargill**

Finance and Assurance Committee Agenda OPEN

MEMBERSHIP

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

IN ATTENDANCE

Chief financial officer	Anne Robson
Committee advisor	Fiona Dunlop

Contact telephone: 0800 732 732
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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

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.

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

<table>
<tr><td></td><td>
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.
</td></tr>
<tr><td>FINANCIAL DELEGATIONS</td><td>
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

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<tr><td></td><td> 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.
</td></tr>
<tr><td>LIMITS TO DELEGATIONS</td><td> 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. </td></tr>
<tr><td>RELATIONSHIPS WITH OTHER PARTIES</td><td> 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. </td></tr>
<tr><td>CONTACT WITH MEDIA</td><td> The committee chairperson is the authorised spokesperson for the committee in all matters where the committee has authority or a particular interest. </td></tr>
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	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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PUBLIC EXCLUDED

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, 28 March 2022

Finance and Assurance Committee

OPEN MINUTES

Minutes of a meeting of Finance and Assurance Committee held as a Virtual meeting via Zoom on Monday, 28 March 2022 at 9am. (9am – 10.27am, 10.42am – 12.33pm (PE 12.17pm – 12.33pm))

PRESENT

Chairperson	Mr Bruce Robertson (external member)
	Mayor Gary Tong (9am – 10.27am, 10.42am – 11.02am, 11.13am – 12.33pm)
Deputy Chairperson	Ebel Kremer
Councillors	Don Byars
	John Douglas
	Paul Duffy (9am – 10.27am, 10.42am – 11.56am)
	Julie Keast

APOLOGIES

Councillor Duffy (early departure)

IN ATTENDANCE

Councillor Scott
Councillor Ruddenklau
Chief financial officer - Anne Robson
Committee advisor - Fiona Dunlop

1 Apologies

Apologies for an early departure were received from Councillor Duffy.

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

That the Finance and Assurance Committee accept the apology.

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 Deputy Chairperson Kremer **and resolved:**

That the Finance and Assurance Committee confirms the minutes of the meeting held on 11 February 2022 as a true and accurate record of the meeting.

Reports

7.1 Finance & Assurance Committee work plan to 30 June 2022

Record No: R/22/3/11051

Project accountant – Emma Strong was in attendance for this item.

Resolution

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

That the Finance and Assurance Committee:

a) receives the report titled "Finance & Assurance Committee work plan to 30 June 2022" dated 22 March 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.

7.2 Annual Report - Management Report from Audit NZ for the year ended 30 June 2021

Record No: R/22/2/5457

Graduate accountant – Brie Lepper and Audit New Zealand Audit Director – Dereck Ollsson were in attendance for this item.

Miss Lepper advised that the purpose of the report was to present the management report from Audit New Zealand which relates to the audit of the 2020/2021 Annual Report and to confirm the approach to the listed recommendations.

Resolution

Moved Chairperson Robertson, seconded Mayor Tong **and resolved:**

That the Finance and Assurance Committee:

a) Receives the report titled "Annual Report - Management Report from Audit NZ for the year ended 30 June 2021" dated 22 March 2022.

7.3 Limited independent assurance report of the debenture trust deed for the year ended 30 June 2021

Record No: R/22/3/9712

Graduate accountant – Brie Lepper was in attendance for this item.

Miss Lepper advised that the purpose of the report was to provide an overview of Audit New Zealand's limited independent assurance report of Council's debenture trust deed for the year ended 30 June 2021.

Resolution

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

That the Finance and Assurance Committee:

a) receives the report titled "Limited independent assurance report of the debenture trust deed for the year ended 30 June 2021" dated 22 March 2022.

7.4 Building re-accreditation interim audit February 2022 - outcome

Record No: R/22/2/5940

Manager building solutions – Julie Conradi was in attendance for this item.

Mrs Conradi advised that the purpose of this report is to inform the committee of the outcome from the recent audit of Council's building solutions team by International Accreditation New Zealand.

Resolution

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

That the Finance and Assurance Committee:

a) **receives the report titled "Building re-accreditation interim audit February 2022 - outcome" dated 22 March 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) **notes the report and associated clearance action plan as information.**

7.5 Risk management - March 2022 quarterly update

Record No: R/21/12/64465

Policy analyst – Jane Edwards was in attendance for this item.

Mrs Edwards advised that the purpose of the report was to submit the March 2022 quarterly risk management report for consideration by the Committee.

Resolution

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

That the Finance and Assurance Committee:

a) **receives the report titled "Risk management - March 2022 quarterly update " dated 22 March 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) **endorses those risks considered of significant issue being reported to Council at its 27 April 2022 meeting**

7.6 Interim Performance Report - period two - 1 July 2021 to 28 February 2022

Record No: R/22/3/6988

Corporate performance lead – Jason Domigan was in attendance for this item.

Mr Domigan advised that the purpose of the report was to provide the Finance and Assurance committee with the Interim Performance Report for the period 1 July 2021 to 28 February 2022.

Resolution

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

That the Finance and Assurance Committee:

a) **Receives the report titled "Interim Performance Report - period two - 1 July 2021 to 28 February 2022" dated 22 March 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.**

7.7 Financial Report for the period ended 31 January 2022

Record No: R/22/3/6743

Graduate accountant – Brie Lepper was in attendance for this item.

Miss Lepper advised that the purpose of the report was to provide the Finance and Assurance Committee an overview of the financial results for the seven months to 31 January 2022 by the seven activity groups of Council, as well as the financial position, and the statement of cash flows as at 31 January 2022.

Resolution

Moved Chairperson Robertson, seconded Mayor Tong **and resolved:**

That the Finance and Assurance Committee:

a) **receives the report titled "Financial Report for the period ended 31 January 2022" dated 22 March 2022.**

7.8 Impact on rates of approved unbudgeted expenditure

Record No: R/22/3/7769

Management accountant – Lesley Smith was in attendance for this item.

Mrs Smith advised that the purpose of the report was to provide the Committee with an overview of the impact on rates of unbudgeted expenditure reports approved up to but not including the current meeting.

Resolution

Moved Chairperson Robertson, seconded Deputy Chairperson Kremer **and resolved:**

That the Finance and Assurance Committee:

a) Receives the report titled "Impact on rates of approved unbudgeted expenditure " dated 22 March 2022.

(The meeting adjourned for morning tea at 10.27am and reconvened at 10.42am.)

(Mayor Tong, Chair Mr Bruce Robertson and Councillors Byars, Douglas, Duffy, Keast, Kremer, Ruddenklau and Scott were present then the meeting reconvened.)

7.9 Forecasted Financial Position for the year ending 30 June 2022

Record No: R/22/2/3951

Financial accountant – Sheree Marrah was in attendance for this item.

Mrs Marrah advised that the purpose of the report was to update the committee of the expected year-end financial result compared to year one of the published 2021-2031 Long Term Plan and seek the committee's recommendation to Council to approve the resulting forecasted position.

(During discussion Mayor Tong left the meeting at 11.02am and returned at 11.13am.)

Mrs Marrah identified some small changes required for recommendations e, f and j.

Resolution

Moved Chairperson Robertson, seconded Deputy Chairperson Kremer **recommendations a to d, e (<u>with an addition</u>), f (with changes as indicated with ~~strikethrough~~ and <u>underline</u>), g to I and j (with a change as indicated with ~~strikethrough~~ and <u>underline</u>) and resolved:**

That the Finance and Assurance Committee:

a) Receives the report titled "Forecasted Financial Position for the year ending 30 June 2022" dated 22 March 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) Recommends to Council that it approve the changes as detailed in attachment H.

e) Notes the forecasted changes to Council's year-end financial performance and position as detailed in attachment A and B (as amended) of the officers report and appended to the minutes as an attachment.

f) Recommends Council approve the following unbudgeted expenditure and associated funding source (as amended):

Business Unit	Expense	Amount	Funding Source
People and Capability	Operational costs	$80,640	Reserves
Chief Executive	Legal Costs	$25,000	Reserves
Around the Mountains Cycle Trail	Maintenance - General	$10,000	Offset by changes in projects being funded
Property Administration	Software Licence Fees	$28,000	Reserves
Community Housing Winton	Furniture & Fittings - Renewal	$16,738	Reserves
Roading - Administration	Consultants	$40,000	Reserves
Dipton Forest	Consultants, Silviculture - Pruning	($147,747)	Reserves
Gowan Hills Forest	Consultants, Silviculture - Pruning	$31,032	Reserves
Ohai Forest	Silviculture – Pruning, Harvesting Costs etc	($3,443)	Reserves
Waikaia Forest	Harvesting Costs, Land Preparation etc	~~$162,719~~ $311,139	Reserves
Hall - Dipton	Electricity, Maintenance - Electrical	$163	Reserves
Recreation Reserve - EdenWyn	Electricity, Maintenance - Electrical	$215	Reserves

Beautification - Lumsden	Mowing	$11,255	Reserves
Information - Centre	Electricity, Maintenance - Electrical	$994	Reserves
Village Green	Electricity, Maintenance - Electrical	$454	Reserves
Cathedral Drive	Electricity, Maintenance - Electrical	$977	Reserves
Hall - Manapouri	Electricity, Maintenance - Electrical	$417	Reserves
Rec Reserve - Oreti	Mowing	$3,889	Reserves
Rec Reserve - Ardlussa	Mowing	$4,800	Reserves
Beautification - Mossburn	Mowing	$1,380	Reserves
War Memorial Park	Electricity, Maintenance – Electrical & Mowing	$1,418	Reserves
Rec Reserve - Waihopai-Toetoe	Mowing	$2,201	Reserves
Refuse Collection - Ohai	Street Litter Bins	$3,000	Reserves
Refuse Collection - Orepuki	Street Litter Bins	$7,268	Reserves
Toilets - Orepuki Hall	Maintenance - General	$15,000	Reserves
Beautification - Riversdale	Electricity, Maintenance - Electrical	$41	Reserves
Beautification - Riverton	Electricity, Maintenance – Electrical & Gardening	$7,408	Reserves
Recreation Reserve - Riverton	Electricity, Maintenance - Electrical	$1,044	Reserves
Beautification - Stewart Island	Electricity, Maintenance - Electrical	$1,640	Reserves
Beautification - Te Anau	Electricity, Maintenance - Electrical	$9,678	Reserves
Information Kiosk	Electricity, Maintenance - Electrical	$872	Reserves

Water Supply Ramparts	Water - Renewal	$25,000	Loan
Manapouri Airport	Other Equip - Acq LOS	$1,500	Reserves
Edendale Scenic Reserve	Maintenance - General	$10,000	Budget transferred from internal work scheme code
Refuse Collection - Thornbury	Street Litter Bins	$2,286	Reserves
Curio Bay Reserve	Maintenance - Project	$10,000	Loan
Tuatapere Parks & Reserves	Maintenance - General	$4,000	Reserves
Water Supply Tuatapere	Water - Acquisition LOS	$27,047	Loan
Toilets - Clifden	Maintenance - General	$15,000	Reserves and Loan
Beautification - Waikaia	Mowing	$6,660	Reserves
Rec Reserve - Tuatapere Te Waewae	Mowing	$4,378	Reserves
Beautification - Otautau	Electricity, Maintenance – Electrical & Gardening	$7,387	Reserves
Cemetery - Wairio	Mowing	$10,243	Reserves
Beautification- Drummond	Mowing	$1,980	Reserves
Recreation Reserve - Wairio	Mowing	$5,379	Reserves
Beautification - Wallacetown	Electricity, Maintenance - Electrical	$233	Reserves
Toilets - Winton main Street	Maintenance - General	$30,000	~~Reserves~~ Loan
Beautification - Winton	Electricity, Maintenance – Electrical & Mowing	$23,618	Reserves
SIESA - Waste Recovery	Road Freight	$23,000	Reserves
Hall - Oreti	Maintenance- General	$18,879	Reserves

g) Recommends Council approve the following unbudgeted expenditure above $50,000 and associated funding source:

Business Unit	Expense	Amount	Funding Source
District Water	Maint - Unplanned	$200,000	Loan
District Sewerage	Maint - Unplanned	$50,000	Loan

District Sewerage	Other Plant - Renewal	$61,000	Loan
Resource Consent Processing	Consultants	$101,000	Reserve
Sewerage Scheme Ohai	Sewerage - Acquisition LOS	$150,000	Loan
Water Supply Riverton	Water - Acquisition LOS	$120,000	Loan

h) Recommends to Council to approve the deferral of the following projects to the 2022/2023 financial year:

Business Unit	**Project**	**Amount**	**Funding Source**
Information Management	Core System replacement	($846,541)	Loan
Around the Mountains Cycle Trail	Continuous improvement programme & cattlestop	($159,353)	Loan
Buildings - Invercargill Office	Invercargill office refurbishment	($120,000)	Loan
Community Housing Collective	Community housing business case	($25,000)	Reserves
District Reserves - Management	Open spaces strategy capital development	($125,000)	Loan
Water Supply Manapouri	Water treatment plant upgrade	($800,000)	Loan
*Rec Reserve - Waihopai-Toetoe^*	*Curio Bay reserve management plan*	*($50,000)*	*Loan*
Sewerage Scheme Riversdale	Wastewater treatment plant upgrade	($300,000)	Loan
Toilets - Riverton Princess St	Taramea Bay toilet replacement	($252,770)	Loan
Street Works - Stewart Island	Dundee St footpath extension	($70,000)	Grant and Loan
*Stewart Island Jetties^*	*Golden Bay wharf renewal investigation*	*($468,215)*	*Grant and Loan*
Manapouri Airport	Runway Surface rehabilitation	($743,000)	Loan and Reserves
Water Supply - Eastern Bush	Water supply upgrade	($1,500,000)	Loan
Winton Parks & Reserves	Centennial Park tree and hedge removal	($9,999)	Reserves

*Beautification - Stewart Is**	*New walking track Horseshoe Bay Road part 2*	*($53,740)*	Grants
** Project already deferred as part of the 2022/2023 Annual Plan development* *^ Project already partially deferred as part of the 2022/2023 Annual Plan development*			

i) **Recommends to Council that it approves the deletion of the following 2021/2022 projects:**

Business Unit	**Project**	**Amount**
Around the Mountains Cycle Trail	Continuous improvement programme	($17,325)
Street Works - Balfour	Balfour footpaths	($12,500)
Sewerage Scheme Te Anau	Wastewater upgrade Te Anau	($122,981)
Sewerage Scheme Te Anau	Wastewater upgrade Te Anau - Demand Portion	($77,019)
Hall - Fortrose	Fortrose Hall External and roof repaint	($33,835)
SIESA - Operations	Wind Power Pre-development	($80,000)

j) **Recommends to Council to approve the bringing forward of the following project budgets from future financial years (as amended):**

Business Unit	**Project**	**Amount**	**Funding Source**
Toilets - Athol	Athol Toilet Renewal	$50,000	Loan
Transfer Stations - Te Anau	Te Anau Transfer Station Weighbridge	$154,500	Grant and loan
Toilets - Cosy Nook, Monkey Island	Cosy Nook Toilet Replacement	$108,426	~~Reserves~~ Loan
Toilets - Cosy Nook, Monkey Island	Monkey Island - shelter area development	$51,500	Loan
Boat Ramps - Te Anau	Te Anau Downs Boat Ramp Refurbishment	$61,800	Loan

7.10 Finance and Assurance Committee work plan for the year ended 30 June 2023

Record No: R/22/3/10280

Project accountant – Emma Strong was in attendance for this item.

Resolution

Moved Chairperson Robertson, seconded Mayor Tong **and resolved:**

That the Finance and Assurance Committee:

a) receives **the report titled "Finance and Assurance Committee work plan for the year ended 30 June 2023" dated 22 March 2022.**

b) **agrees the Finance and Assurance Committee Work plan for the year ended 30 June 2023.**

7.11 Proposed change to the Internal Audit programme

Record No: R/22/3/10797

Chief financial officer – Anne Robson was in attendance for this item.

Miss Robson advised that the purpose of the report was to consider a change to the internal audit programme being a proposal focussed on the prevention of bribery, corruption and fraud and associated training to support this.

Resolution

Moved Cr Keast, seconded Cr Douglas **and resolved:**

That the Finance and Assurance Committee:

a) **Receives the report titled "Proposed change to the Internal Audit programme" dated 22 March 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) **Agree to change the planned internal audit programme to include a review and associated training programme on the prevention of Bribery, Corruption and Fraud.**

e) **Delegate to the Chairman, Finance and Assurance and the Chief Financial Officer the authority to consider and agree the Terms of Reference in regards to**

the review and associated training programme on the prevention of Bribery, Corruption and Fraud within the existing $15,000 (excl gst) budget.

7.12 Fund Manager Appointment Process

Record No: R/22/3/10085

Chief financial officer – Anne Robson was in attendance for this item.

Miss Robson advised that the purpose of the report was to consider and recommend to council the six shortlisted managed balanced funds to be sent requests for proposal.

(During discussion Councillor Duffy left the meeting at 11.56am.)

Resolution

Moved Cr Keast, seconded Cr Douglas **and resolved:**

That the Finance and Assurance Committee:

a) **receives the report titled "Fund Manager Appointment Process" dated 22 March 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) **Recommend to Council that PwC send request for proposal letters to the following fund managers**

- **Milford Balanced**
- **ANZ Investment Funds – Balanced Growth**
- **AMP Capital Ethical Leaders Balanced**
- **ASB Investment Funds – Balanced**
- **Westpac Active Balanced Trust**
- **QuayStreet Unit Trusts - Balanced**

e) **Agrees and recommends to Council that PwC evaluate the request for proposals received in order to recommend to Council the top four fund managers, in doing so it requests PwC to use best practice weighted evaluation criteria in order to complete this analysis**

f) **Recommends to Council that the top four fund managers from the evaluation process be asked to present to the Finance and Assurance committee at its next**

meeting, leading to a recommendation by the Finance and Assurance committee to Council of its recommended fund manager(s).

Councillor Byars requested that his dissenting vote be recorded.

7.13 Waka Kotahi technical investment audit report

Record No: R/22/3/10424

Strategic manager transport – Hartley Hare was in attendance for this item.

Mr Hare advised that the purpose of the report was to advised the outcome of the Waka Kotahi NZ Transport Agency audit undertaken on one of the aspects of Council's transport operations to gain assurance that the Council's land transport programme is well managed and delivering value for money.

Resolution

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

That the Finance and Assurance Committee:

a) receives the report titled "Waka Kotahi technical investment audit report" dated 22 March 2022.

Public excluded

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

Resolution

Moved Chairperson Robertson, seconded Deputy Chairperson Kremer **and resolved:**

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

C8.1 Foveaux road alliance contract review for 2021/2022

C8.2 Follow up audit action points

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
Foveaux road alliance contract review for 2021/2022	s7(2)(b)(ii) - the withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information.	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.

Follow up audit action points	s7(2)(j) - the withholding of the information is necessary to prevent the disclosure or use of official information for improper gain or improper advantage.	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.

The public were excluded at 12.17pm.

Resolutions in relation to the confidential items are recorded in the confidential section of these minutes and are not publicly available unless released here.

The meeting concluded at 12.33pm.

CONFIRMED AS A TRUE AND CORRECT RECORD AT A MEETING OF THE FINANCE AND ASSURANCE COMMITTEE HELD ON MONDAY 28 MARCH 2022.

DATE:...

CHAIRPERSON:..

Appendix A

SOUTHLAND DISTRICT COUNCIL
FORECAST STATEMENT OF FINANCIAL POSITION
30 JUNE 2022

	February 2021/2022 Forecast adjustments ($000)	Forecast Result for 2021/2022 ($000)	Long Term Plan 2021/2022 ($000)
Equity			
Retained Earnings	1,143	730,708	720,986
Asset Revaluation Reserves		909,521	922,181
Fair Value Reserves		4,771	3,577
Other Reserves	(784)	38,229	34,844
TOTAL EQUITY	**359**	**1,683,229**	**1,681,588**
Current Assets			
Cash and Cash Equivalents		(199)	221
Trade and Other Receivables		14,336	10,378
Inventories		115	105
Other Financial Assets		941	448
	0	**15,193**	**11,152**
Non Current Assets			
Property, Plant and Equipment	(5,181)	1,691,790	1,704,340
Intangible Assets	(847)	5,019	3,900
Forestry Assets		13,790	13,320
Investments in Associates		1,418	945
Other Financial Assets		39,003	37,533
	(6,027)	**1,751,020**	**1,760,038**
TOTAL ASSETS	**(6,027)**	**1,766,212**	**1,771,190**
Current Liabilities			
Trade and Other Payables		14,882	7,957
Contract Retentions and Deposits		912	719
Employee Benefit Liabilities		2,172	2,122
Development and Financial Contributions		1,623	1,730
Provision for Decommissioning		(0)	10
Borrowings		6,000	6,000
	0	**25,588**	**18,538**
Non-Current Liabilities			
Employee Benefit Liabilities		23	-
Provision for Decommissioning		10	-
Borrowings	(6,386)	57,361	71,064
	(6,386)	**57,395**	**71,064**
TOTAL LIABILITIES	**(6,386)**	**82,983**	**89,602**
NET ASSETS	**359**	**1,683,229**	**1,681,588**

Finance and Assurance Committee work plan to 30 June 2022

Record no: R/22/6/28649
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 or removed from the work programme:

- The fund manager appointment report has been added to consider and recommend to Council the appointment of a fund manager(s) for the purpose of investing Council's general reserves.
- The impact on rates of approved unbudgeted expenditure report has been added to provide the Council with an overview of the impact on rates of unbudgeted expenditure reports approved up to but not including the current meeting.
- The Information Services activity summary has been added to update the committee on activity status.
- An update to policy on remission and postponement of rates on Maori freehold land report has been added for committee to endorse updates to the policy following the enactment of the Local Government (Rating of Whenua Maori) Amendment Act 2021.
- An external credit rating discussion report has been added to consider if Council should proceed to obtain a credit rating in order to access better borrowing rates from the Local Government Funding Agency (LGFA).
- An extension of internal auditor appointment report has been added to seek the committee's approval to extend the internal audit service contract held with Deloitte for a further two years.
- The Milford Opportunities Project – Stage 2 has been added to update the Council on progress.
- The Audit NZ engagement report for Councils Debenture Trust deed, has been added.

- The Annual Report audit arrangements letter has been added, which outlines the priorities of Audit NZ when auditing Councils 2021/22 annual report.
- The 2021/22 annual report interim audit management report has been removed because the interim audit will be undertaken as part of the final audit.

5. The following reports have been moved to the 28 September 2022 meeting:
   - Financial and risk policies – debt recovery policy
   - Projects over $2 million – core professional roading services
   - Health & Safety update report
   - Health & Safety events report

Recommendation

That the Finance and Assurance Committee:

a) receives the report titled "Finance and Assurance Committee work plan to 30 June 2022" dated 10 June 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 to 30 June 2022 ⇩

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						
2020/21 Debenture Trust Limited Independent Assurance Report							X	
2021/22 LGFA Participating Councils Compliance Overview							~~X~~	
2021/22 Annual Report – Audit Arrangements Letter							~~X~~	X
2021/22 Annual Report – Audit Timetable							~~X~~	~~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~~

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 Terms of Reference (Asset Management and Information Integrity, Bribery, Corruption and Fraud)					~~X~~	X	X Bribery, Corruption & Fraud	~~X~~
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 (project mgmt.)
Insurance - Insurance policy renewal approval								X
External Waka Kotahi 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 Collieries 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		
Fund Manager Appointment Process							X	
Impact on rates of approved unbudgeted expenditure							X	X
Fund Manager Appointment								X
Information Services activity summary								X
Update to policy on remission and postponement of rates on Maori freehold land								X
External credit rating discussion								X
Extension of internal auditor appointment								X
Milford Opportunities Project – Stage 2								X

R/21/3/11371

Project management internal audit report

Record No: R/22/3/6731
Author: Nick Hamlin, Group manager programme delivery
Approved by: Cameron McIntosh, Chief executive

☐ Decision ☐ Recommendation ☒ Information

Purpose of report

1 To present to the committee for review the Deloitte Project Management Internal Audit Report.

Background

2 The Finance and Audit Committee agreed at its meeting on 23 September 2019 the three-year internal audit programme. This is the third of six reviews programmed to be completed.

3 The findings report has been reviewed by management, with commentary provided by them against the recommendations.

Findings

4 Overall, Deloitte assessed the control environment as informal/ inadequate to adequate controls. This means the control environment exists but is being used at times informally and has important improvement gaps.

5 Overall, Southland District Council (SDC) has developed a well-defined project management process for high-value projects for example the Te Anau wastewater project, Winton library and TIF projects where risks are identified and reported on more consistently with Council. However, as the majority of projects carried out are not high value projects, our main observation relates to the rigour that needs to be applied to the low to medium value projects within the capital works programme.

6 Deloitte outlined eight findings in their report attached. These findings are classified according to the risk rating scale identified in appendix B of Deloitte's report, overall there was one high rating, six moderate and one low.

a) Consistent practice in undertaking the project delivery process (high).

b) No Scaled process to meet requirements of project delivery process (moderate).

c) Project delivery lifecycle templates not consistently used or completed (moderate).

d) Enhancements required to the project delivery lifecycle framework (moderate).

e) CAMMS and the finance system are not integrated (moderate).

f) Enhancements required to procurement process (moderate).

g) Process of identifying project risks not practiced (moderate).

h) Enhancements required to the project management and reporting process. (low)

7 Section three, describes these findings in more detail, noting the audit observations, risks and recommendations along with management's response.

8 The following examples of good practice were identified across the in-scope areas

a) Developed the project delivery handbook, framework and gateways process templates to support Council's project delivery function.

b) Council has invested in developing an in-house project management team to manage the delivery of all its projects.

c) The governance and reporting to the Services and Assets Committee, Services and Assets leadership team and Executive Committee along with individual project steering groups to keep track of the progress of all ongoing projects.

Risks

9 The report identified the following key risks

- the project delivery framework is well defined but it is not being followed consistently across the entire works programme and sign off process is being missed in some areas
- emergency type works including the additional Stimulus funding project missed planning areas due to timeframes and didn't go through a full project process including the business case phase
- Gateway process needs flexibility to cater for project risk and scale
- the process on all projects of how risk is identified and managed requires improvement
- one process/ one approach doesn't work for all projects across a works programme of $46m and 200+ projects ranging from $1,000 to $25m
- lack of integration between the finance system and the project management process means cost control and reporting is a very manual process.

Management plan to address the recommendations

10 Staff note that the findings are not at odds with those anticipated and a large amount of work is already well underway on core improvement areas noted within the reports and at the time of writing this report a revised project scoping document is already being tested, the finance system project is underway and a cost and contract management workbook is in development.

11 Overall, Council staff have reviewed the findings and consider these to be accurate. Staff are also supportive of the recommendations suggested to mitigate the risks identified.

12 Gateway process is to be reviewed and updated to include for different scales/ complexity and risk quantum's for projects allowing flexibility to the project processes.

13 New finance system is currently being developed and plans are in place to ensure some form of integration with project and programme management.

14 CAMMS programme management system reaches it contract expiry in July 2022 and currently staff are doing an investigation into an integrated programme and project management system.

15 Risk management framework to be developed from the organisation risk management framework and implemented across the works programme.

Next steps

16 Preparation of an improvement roadmap plan for the next meeting.

17 Project delivery handbook finalised and rolled out to the organisation.

18 Project Management training to be delivered to the wider project groups

19 Updates on the agreed actions will be reported back to the committee on a six-monthly basis.

Recommendation

That the Finance and Assurance Committee:

a) Receives the report titled "Project management internal audit report" dated 10 June 20221.

b) Agrees to accept the commentary, including follow-up actions, provided against each of the report's recommendations.

Attachments

A Southland District Council project management report ⇩

Southland District Council

Project Management Review – Final Report

December 2021

Deloitte.

Contents

1. Executive Summary

1.1 Introduction

Southland District Council (SDC or the Council) requested Deloitte to undertake a review of its processes and controls in place for its project management function. Management requested this review as part of the Three-Year Internal Audit Plan for SDC, as approved by the Finance and Assurance Committee (FAC).

This report captures the results of the review carried out in September and October 2021, in accordance with our terms of reference dated 23 August 2021.

1.2 Background

SDC's 2021/31 Long Term Plan (LTP) highlights a material change in the level of capital expenditure that is planned over the next ten years. SDC has increased expenditure on its capital programme from $29m in 2018/2019 to $44m in 2020/21. The $44m is made up of approximately 200 projects:

- Community Facilities (worth $8m across 93 projects). This includes $3m which relates to two major projects; Winton Library and toilet renewals.
- Three waters (worth $16m across 47 projects). $5.6m of this relates to the Government Stimulus Funding being delivered through the three waters panel, $2m will be delivered through the existing 2 waters operational contract $2.5m is the balance of the Te Anau Waste water project
- Roading ($20m across approximately 10 projects). This includes $8m being "true" projects. The balance of $12m is delivered through SDC's long-term alliance contracts and maintenance contracts.

This is proposed to increase to $46m in 2022, with further increases over the life of its current LTP. It is therefore important to understand the risks around the increased and sustained investment programme and if the proposed project management approach is designed to manage these risks appropriately.

This engagement is broader and more detailed in scope than those previously completed and has been done at the request of the Chair of FAC.

SDC recognises it is important to have a consistent methodology to manage its increased capital programme and ultimately deliver benefits to the Council and the district. The Council has developed various documents as part of its efforts to continuously improve its project management function. These include:

- **Project delivery handbook (currently in draft)**: Outlines the project delivery lifecycle (PDL) and provides an understanding of the project delivery process and reference material to support its processes;
- **PDL framework**: Sets out various project phases (initiation, business case, pre-delivery, delivery and evaluation and close-out) along with an overview and reporting and approval requirements for each phase; and
- **Gateways process templates**: Forms developed by SDC for each project phase that teams need to complete to progress to the next phase.
- **Project Delivery Team**: Dedicated project management team of eight full time employees made up of senior and junior Project Managers across IT, three waters, community facilities and roading.

Prior to the creation of the PDL, there was no structure in place to govern the Council's project management processes. As such, there were no requirements to perform activities such as business cases, full scoping and lessons learnt for projects. With the new processes developed and an in-house programme delivery function, SDC has made material improvements to its project management function and its management of the delivery of projects in the last two years.

As the level of planned capital expenditure is increasing, it is important that the PDL supports the consistent delivery of projects within the wider Council context and that processes are sufficiently scalable (to accommodate both large and small projects) to efficiently and effectively deliver the additional capital expenditure that is planned. We understand from management that the majority of projects undertaken are valued at less than $1.5 million each.

Overall, SDC has developed a well-defined project management process for high-valued projects (e.g. Te Anau Wastewater Project) where risks are identified and reported on more consistently with the Council. However, as the majority of projects carried out are not high value projects, our main observation relates to the rigour that needs to be applied to the low to medium value projects within the capital works programme.

1.3 Overall conclusion

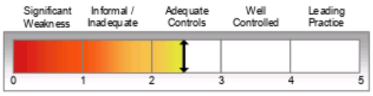
The following examples of good practice were identified across the in-scope areas:

- As set out above, management have developed the project delivery handbook, framework and gateways process templates to support the Council's project delivery function.
- The Council has invested in developing an in-house project delivery team to manage the delivery of all its projects.
- SDC has established the Services and Assets Committee, Services and Assets Leadership Team and Executive Committee to keep track of the progress of all ongoing projects (including actual costs incurred, project risks and progress of works done).

Our work has identified that whilst the project management processes and templates have been developed and designed effectively, there is still further work required to implement and embed the processes and way of working throughout the organisation. It is important to note that the process developed is still in its infancy. To ensure that the framework operates consistently across the organisation and can support the increased level of capital expenditure planned, it is important the project teams have access to additional support (in the form of guidance, regular training and check-ins with the project delivery team) and that routine reviews are undertaken to ensure that the processes are being followed as designed.

As such, our overall conclusion based on the fieldwork performed is that the control environment is **between informal/ inadequate and adequate controls** (Based on the Control Effectiveness Rating Scale as per Appendix A).

Between Informal/ Inadequate to Adequate Controls*

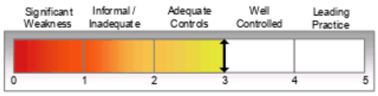


**Based on the Control Effectiveness Rating Scale as per Appendix A.*

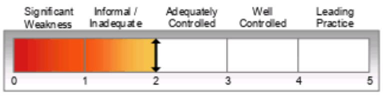
1.4 Control objectives

The below table outlines the individual ratings for each control objective as outlined in Appendix A of this report.

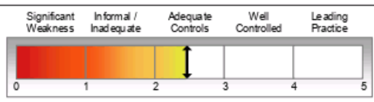
Assess the Project Delivery Lifecycle, its alignment to leading project management practices and its ability to deliver the increased level of capital expenditure that is planned



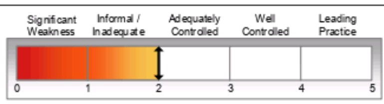
Assess the extent to which the Project Delivery Lifecycle is being followed by testing a sample of projects (size to be agreed) at various stages of project initiation/delivery/close out



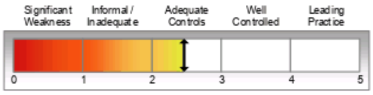
Review the procurement strategy methodology, its alignment to best practice and assess its contribution to the delivery of an increased capital programme.



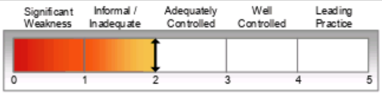
Assess and recommend risk strategies applicable to the successful implementation of the capital works programme



Review and assess the overall programme governance and management of the 2021/31 programme and its adequacy to ensure that in any one year the programme will be achieved



Review and assess the adequacy of programme reporting (actual and forecast performance) to management, the Executive Leadership team and elected members (particularly the Finance and Assurance Committee) to enable adequate management and governance of the programme.



1.5 Summary of findings

The number and rating of findings identified in this review is presented in the table below:

Findings and Priority Rating	Very High	High	Moderate	Low	Process Improvements
Number of Findings	-	1	6	1	-

**The Rating Scale is outlined in Appendix B*

Detailed findings and recommendations are set out in Section 3 of this report. A summary of our findings is below.

We identified **one high** priority finding:

Lack of consistent practice in undertaking the project delivery process

We identified that while the project delivery process is well defined it is not being followed consistently. Some examples include:

i. The PDL framework outlines the approvals required for each phase of the project management process. However, we understand that these decisions and approvals are not always formally obtained.

ii. Budgets for four out of 10 samples selected did not include a breakdown of the total planned expenditure.

iii. All project related documentation (e.g. budget, business case) is stored in the RM8 system. We identified that there is no consistency in how the documents are named nor how they are numbered. We understand from various project managers that due to this, they have difficulty locating existing documents. This is particularly difficult if a project manager is taking over an ongoing project.

If critical PDL tasks (e.g. reviews and approvals) do not get completed, there is a risk that projects progressing through the PDL phases unchecked could lead to project delays, budget overruns and/or ultimately project failure.

Furthermore, not following the documented PDL process affects the integrity of the overall project management framework. As a result, projects may not be performed to the standard expected by SDC.

No scaled processes to meet requirements of project delivery process

The PDL framework outlines the five phases (initiation, business case, pre-delivery, delivery and evaluation and close out) that all projects need to undergo in the capital programme. We identified an instance where the standard process could not be followed as it was categorised as emergency works. Accordingly, we were informed that a decision was made that following this process would be too time consuming.

There was another instance where this process was not followed because the project is part of the stimulus funding from the government. The government allocated $13.53 million to SDC and due to the short timeframe to prepare a business case, only one was created to cover all the multiple projects the Council would carry out using these funds.

As the PDL in its current form may not be suitable for non-standard types of works (e.g. emergency works) and there is no simplified process documented to address these types of works, it could lead to project teams taking short-cuts or avoiding the process altogether. A consequence of this could be that poor documentation (e.g. business case) is produced with incomplete information which is used for decision making.

We identified **six moderate** priority findings:

PDL templates are not consistently used/completed

Our sample testing identified the following inconsistencies in the use of templates.

i. There were four out of 10 instances where the SDC gateway process templates were not used. We identified that the following information required per the PDL was not supplied across the four samples:
   - Key project team members;
   - Key stakeholders;
   - Breakdown of initial budget developed (only lump sums outlined);
   - Risk assessment performed; and
   - Agreement of how project should be delivered.

ii. We identified one out of 10 instances where the SDC gateway process templates were used but the following information was not completed as required in the PDL:
   - Initial timelines;
   - Key stakeholders; and
   - Breakdown of initial budget

If standardised PDL templates are not completed as designed there is a risk that critical information is not recorded. This could cause issues further in the project lifecycle such as decisions being made based on incomplete information or unnecessary financial leakage due to costs that could have been avoided. Furthermore, the organisational standards that have been agreed and put in place are not being met.

Enhancements required to PDL framework

While requirements and PDL templates have been established there is a lack of guidance available for project teams to draw upon when completing these.

i. Lack of guidance to the phases in the PDL framework

   Requirements that need to be met to satisfy each phase have been outlined but do not have any supporting guidance to help the project team determine what key information to include and to what level of detail.

ii. Gateway process templates require further detail

   SDC have developed gateway templates which need to be completed and approved in order to progress to the next phase. These templates are used to record key information about the project as well as capture signed approvals from required personnel.

   From our review of the form used to progress from initiation to the business case phase (Form G1.0), we identified examples where the questions in the template do not address what a user should do if they do not answer "yes" – in other words what to do if an alternate option is selected.

There is a risk that lower quality documentation is produced due to project teams not being fully aware of what information needs to be included and to what level of detail. In the event documentation is approved but incomplete this could lead to a variety of implications on the project lifecycle such as inaccurately scoped projects, budget overruns and stakeholder expectations not being met.

CAMMS and the Finance system are not integrated

CAMMS is the software used by SDC to record project status and the budgets. From discussions with various project managers, we understand that CAMMS does not integrate with SDC's finance system. As such, project managers monitor project costs incurred during the month through spreadsheets they maintain. The spreadsheets are used to monitor payments including those made to contractors and consultants and any contract variations.

These spreadsheets are then reconciled with data provided by the Finance team regarding the actual costs incurred during month end to ensure costs captured in the spreadsheets are accurate. Project managers stated this process is time consuming.

We understand that the Council are currently looking to purchase a new Financial Management Information System (FMIS) which is likely to come with (or at least have the option to add on) project management and contract management functionality. Once the core FMIS is implemented the Council will determine the next steps for the roll out of additional functionality to support the project delivery function.

Due to the manual nature of monitoring costs incurred, there is an increased likelihood of error in the spreadsheets developed by project managers. As a result, there may be a delay in identifying costs incurred which could lead to exceeding the budgets in place.

Enhancement required to procurement process in relation to project management

SDC have developed a procurement policy and manual outlining practices the Council need to align to. However, although the purpose of the manual has been outlined, it does not include a procurement strategy. This is where we would expect to see a clear vision of how SDC plan to achieve their procurement goals (e.g. procuring resources, maintaining relationships with suppliers) so that the objectives outlined in the manual can be achieved. Accordingly, the procurement methods currently used may not be sufficient to support the project management function. We identified that the procurement methods included in the manual are to either obtain quotations from suppliers or carry out tenders.

Through our sample testing, we identified instances that did not follow the standard procurement method (whereby suppliers are sourced during the business case phase) because the projects needed to progress quickly. For example, the government approved $13.53 million of stimulus funding to SDC. As part of this, management had a short timeframe to put together one brief business case outlining all the projects that would be carried out using this fund. We identified that the procurement method available (obtaining quotations or tendering) was not suitable as it would have been too time consuming to complete. The lack of options for procurement strategies give rise to the risk that the procurement methods developed may not be suitable to achieve SDC's goals. This could result in project teams not using the methods outlined in the manual as it may be too time consuming and thus carrying out purchases that are not cost effective.

Process of identifying risks for a project not practiced

The Council have a Risk Management Framework in place that outlines how risk management should be approached for the organisation as a whole. From our high-level review of the framework, we note that management has developed a risk management cycle and identified various categories of risk (including strategic, operational, financial, social, cultural and environmental). However, we identified that these categories are not considered when outlining the risks that could potentially impact on projects.

Furthermore, from our review of the procurement manual SDC have developed, we identified that the risk of a purchase needs to be assessed depending on the following:

i. Value of purchase; and

ii. Risk categories (e.g. strategic, operational, financial) outlined in the Risk Management Framework.

We understand from management that this process has not been implemented and as such was not completed for our samples. If project teams are not using the framework in place to identify project risks, it could result in risks materialising and management not having the adequate controls in place to mitigate them.

1.6 Use of Report

We have prepared this report solely for the use of Southland District Council. The report contains constructive suggestions to improve some practices which we identified in the course of our review procedures. These audit procedures are designed to identify control weaknesses but cannot be relied upon to identify all weaknesses. We would be pleased to discuss any items mentioned in this report and to review the corrective action implemented by management.

Our assessments are based on observations from our review and sample testing undertaken in the time allocated. Assessments made by our team are matched against our expectations and best practice guidelines. This includes comparison with other similar processes we have assessed. This report offers recommendations for improvements and has taken into account the views of management, with whom these matters have been discussed.

1.7 Acknowledgement

We take this opportunity to thank the Southland District Council team for their assistance during the course of the review.

2. Approach and Work Performed

2.1 Scope

The objective of this review was to:

- Assess the Project Delivery Lifecycle, its alignment to leading project management practices and its ability to deliver the increased level of capital expenditure that is planned.
- Assess the extent to which the Project Delivery Lifecycle is being followed by testing a sample of projects at various stages of project initiation/delivery/close out.
- Review the procurement strategy methodology, its alignment to best practice and assess its contribution to the delivery of an increased capital programme.
- Assess and recommend risk strategies applicable to the successful implementation of the capital works programme.
- Review and assess the overall programme governance and management of the 2021/31 programme and its adequacy to ensure that in any one year the programme will be achieved.
- Review and assess the adequacy of programme reporting (actual and forecast performance) to management, the Executive Leadership team and elected members (particularly the Finance and Assurance Committee) to enable adequate management and governance of the programme.

2.2 Out of Scope

The following areas were outside the scope of this review:

- Assessment of Project Managers including resourcing and scheduling, capability.
- Work undertaken by Planners prior to Project Delivery e.g. prioritisation and project conception.
- Benefits analysis and review.
- Review of the success of projects delivered.

2.3 Approach

Our review was performed by completing the following:

- Review and understand relevant policies, systems and processes. This will be conducted through discussions with key personnel, documentation review, and observation (as required);
- Develop a high-level understanding of the current delivery frameworks that are in place;
- Review and walkthrough the Project Delivery Lifecycle framework and templates;
- Gain a detailed understanding of the project phases through discussion with relevant process owners and review of relevant documents;
- Assess the framework against the scope identified above;
- Develop and implement a sampling/test plan of up to 5 current projects from across the portfolio and phases. We will validate that the proposed framework supports the wider portfolio and project ways of working;
- Validate our findings through a workshop with management so that we can jointly develop appropriate and practical solutions with key personnel;
- Provide other insights and commentary relative to findings from similar reviews and previous benchmarking work done; and
- Complete and distribute a draft and final report.

3. Detailed Findings

3.1 Lack of consistent practice in undertaking the project delivery process

Priority Rating	High
Ease of Fix	Complex

Observations

From our sample testing and interviews, we identified that while the project delivery process is well defined it is not being followed consistently. Some examples include:

i. Inconsistency with regards to formal approvals

The PDL framework outlines the approvals required for each phase of the project management process. However, we could not consistently sight that approvals were obtained for our samples. We understand that these decisions and approvals are not always formally obtained.

ii. Approved budgets inadequately developed

Budgets for four out of 10 samples selected did not include a breakdown regarding how the total was achieved.

Project Name	Project no. in CAMMs	Approved Budget	Current phase of project	Costs incurred as at 31 Oct 2021
Project 17 District wide AC pipe replacements	P-10517	$3,930,000	Work underway	$4,224,303
Footpath programme 2020/21	P-10418	$1,000,000	Work completed	$576,197
Boat ramp projects	Programme number 17, Project codes P-10666, P-10882, P-10879, P-10878, P-10669	$595,000	Initiation Phase completed	$0
Install new streetlights on the waterfront in Oban, Stewart Island	P-10336	$1,686	Work completed	$8,315

Furthermore, we understand from project managers that they are not always involved in the development of the budget during the initiation phase and may need to rework the scope and thus the budget.

iii. Inconsistent naming conventions for documents retained in RM8

All project related documentation (e.g. budget, business case) is stored in the RM8 system. During our review, we identified that there is no consistency in how the documents are named nor how they are numbered. We understand from various project managers that due to this, they have difficulty locating existing documents. This is especially difficult if a project manager is taking over an ongoing project.

Cause

- The PDL process and in-house programme delivery function at SDC has only been in place for approximately two years. During this time there has been a significant amount of change in the way that projects are managed at SDC.

	• Because of the new process and way of working there is a level of education, training and upskilling required to ensure that project teams are familiar with the new process.
Risks	• If critical PDL tasks (e.g. reviews and approvals) do not get completed, there is a risk that projects progressing through the PDL phases unchecked could lead to project delays, budget overruns and/or ultimately project failure. • Not following the documented PDL process affects the integrity of the overall project management framework. As a result, projects may not be performed at the expected standard SDC require.
Recommendations	• To support the implementation of the PDL process and help drive consistency in project management practices throughout the organisation we recommend that the Project Delivery Team provide further hands-on support to the project teams and move to operating a more 'supportive, enabling and compliance/directive' PMO function. Further hands-on support would: o ensure that PDL processes are being followed as designed by regularly checking in with project teams and providing guidance where required. (For example, a regular fortnightly catch-up with a member of the Project Delivery Team and a Project Manager would cover this off). o check project documentation is complete and of the required quality before progressing to the next phase of the PDL. This takes the form of a review of stage gate documentation before it is sent for approval. o be the source for project guidance, standards and templates. This could look like continually reviewing and improving project templates and communicating these changes throughout the organisation. o train and upskill staff in project management practices. This takes the form of assisting in the development of key project documentation (e.g. scope definition, business case development and budget identification). • To drive consistency in project management practices throughout the organisation, SDC could also look to establish a PM Community of Practice that meets on a regular basis to discuss lessons learned and potential refinements and enhancements to the PDL process • To assist with the development of project budgets we recommend that SDC identify the cost areas that should be included as part of the initial budget. Furthermore, ensure that the budgets presented include a breakdown of the cost areas along with supporting evidence (e.g. quotations from suppliers) and budget notes/ justifications for each line. • While a process can be developed in the interim to ensure that document approvals are sought and obtained in a timely manner, we would recommend that SDC examine the options for an automated process/approval workflow as part of the project management functionality of a new FMIS. • Create a standardised naming function (e.g. 1.1: Business case) for all documents retained in RM8. As part of the project delivery team's periodic review (as

	mentioned in recommendation above), ensure that documents are filed in accordance with this process. • If not already widespread practice, consider implementing a form of hard stage gates for each phase of the PDL which prevents the project team from progressing to a subsequent phase unless certain conditions have been met (e.g. completing and gaining the required approvals for a stage gate document).
Management's response	Management team agrees with the recommendations and is already reviewing processes but is aware the process is not quite designed for smaller / lower risk projects and is better suited to the larger scale higher risk projects. A lower risk lower value project framework will be developed and put into place but will follow the same gateway and PDL principals. The cost control on projects is a function of the finance systems review and new core systems, the PDT is already working within this project to ensure core improvements to the way project costs are captured and reported on. A cost and contract control module is already in development by the proposed FMIS supplier. Within the LTP, projects are now split across multiple years to allow the business case and final scoping to be achieved before the start of the main project commencing. The project team is currently engaging with the market for a new project and programme management system to replace the current CAMMS project system which has had major operating constraints. CAMMS will remain in place for another six months while this is investigated and we look at how any new system will integrate into the new finance system. This will include a more robust gateway and sign off system that is captured electronically. The PDT has had 19 suppliers provide expressions of interest. Currently the knowledge management team is under resourced but following recruitments there will be a focus on reviewing the way project documents are named and stored and also to align with any new system mentioned above.
Due date	April 2023

3.2 No scaled processes to meet requirements of project delivery process

Priority Rating	Moderate
Ease of Fix	Medium
Observations	The PDL framework outlines the five phases (initiation, business case, pre-delivery, delivery and evaluation and close out) that all projects need to undergo in the capital programme. We identified an instance (P-10336: Install new streetlights on the waterfront in Oban, Stewart Island) where the standard process could not be followed as it was categorised as emergency works. Accordingly, we were informed that a decision was made that following this process would be too time consuming. There was another instance (P-10517: Project 17 District wide AC pipe replacements) where this process was not followed because the project is part of the stimulus funding from the government. The government allocated $13.53 million to SDC and due to the short timeframe to prepare a business case, only one was created to cover all the projects the Council would carry out using these funds. What this suggests to us is that the framework in its current form does not have a simplified process for non-standard projects and as a result the decision is being made to bypass the process altogether. Furthermore, we also observed that the requirements for the process are the same across all projects (irrespective of size or value).
Cause	• There is a lack of flexibility in the current PDL to accommodate non-standard projects (e.g. emergency works) and low value/risk projects. • There is a lack of understanding of the minimum requirements that are needed to satisfy the PDL.
Risks	• As the PDL in its current form may not be suitable for non-standard types of works (e.g. emergency works) and there is no simplified process documented to address these types of works, it could lead to project teams taking short-cuts or avoiding the process altogether. A consequence of this could be that poor documentation (e.g. business case) is produced with incomplete information which is used for decision making. Furthermore, there is also the risk of not meeting stakeholder expectations if the scope is not fully understood and delivered. This could also lead to cost overruns where rework is required to meet these expectations. This may in turn have reputational or financial impacts on the Council.
Recommendations	• Define and publish a clear definition of all types of non-standard works that could occur and identify the minimum requirements the Council need performed in order to satisfy the PDL. This should include: - Develop budget; - Outline scope of work; - Key project team members; and - Initial risk assessment. • When identifying the minimum requirements for non-standard projects, consider the minimum requirements that need to be satisfied for all projects and the controls that need to be in place as the projects get larger, more complex and higher risk. Using this information, investigate whether SDC could

	run a 'fast track' for non-standard (e.g. emergency works) or smaller, less complex and lower risk projects and standard track for larger more complex and higher risk projects. This would mean that the PDL could be scaled up or down depending on the size, complexity and risk of the project. For example, the requirements that need to be met and project rigour that needs to be applied will not necessarily be the same for the construction of a new library at Winton versus the installation of new streetlights on the waterfront. • Should SDC choose to implement the recommendation above, project compliance and control could be checked by way of periodic reviews. This could be done internally or by using a third party to assess how well the process is being followed and standards being applied.
Management's Response	It is clear that a number of fast track projects, or projects outside of the LTP appear each year and that the current process doesn't align with the ability to deliver these within the current framework. The SDC project team will develop a process for projects that sit outside of BAU / LTP and implement within the new LTP year.
Due date	April 2023

3.3 PDL templates are not consistently used/completed

Priority Rating	Moderate
Ease of Fix	Medium

Observations

From our sample testing, we identified instances where there were inconsistencies in the use of templates.

i. Gateway process templates not consistently utilised

There were four out of 10 instances where the SDC gateway process templates were not used.

Project Name	Project no. in CAMMs	Approved Budget	Current phase of project	Costs incurred as at 31 Oct 2021
Repair flood damage on cycle trail.	P-10419	$583,544	Work completed	$426,279
Install new streetlights on the waterfront in Oban, Stewart Island	P-10336	$1,686	Work completed	$8,315
Project 17 District wide AC pipe replacements	P-10517	$3,930,000	Work underway	$4,224,303
Boat ramp projects	Programme number 17, Project codes P-10666, P-10882, P-10879, P-10878, P-10669	$595,000	Initiation Phase completed	$0

In the absence of the template, we mapped the documents prepared for each phase to identify if all the requirements outlined in the PDL framework were provided. The following information required per the PDL was not supplied across the four samples:

- Key project team members;
- Key stakeholders;
- Breakdown of initial budget developed (only lump sums outlined);
- Risk assessment performed; and
- Agreement of how project should be delivered.

From our discussions, it was evident that some of the core project tasks required (e.g. budget management) do not have a SDC wide standardised template that a user or project team can use to perform the task effectively. As a result, new documents are created by individuals or templates which have been used previously (for other projects) are used.

ii. Gateway process form not completed

We identified one out of 10 instances (P-10418: Footpath programme 2020/21) where the SDC gateway process templates were utilised, but the following information was not completed as required in the PDL:

- Initial timelines;
- Key stakeholders; and

	• Breakdown of initial budget.
Cause	• There is currently no process in place which acts as an 'checking' function to ensure templates are being utilised and completed correctly.
Risks	• If standardised PDL templates are not completed as designed there is a risk that critical information is not recorded. This could cause issues further in the project lifecycle such as decisions being made based on incomplete information or unnecessary financial leakage due to costs that could have been avoided. Furthermore, the organisational standards that have been agreed and put in place are not being met.
Recommendations	• Develop and implement a process requiring all project teams to complete the gateway forms SDC has developed. As referenced in Finding 3.2 the project delivery team could regularly check in with project teams to ensure that this process is being followed and accompanying documentation is complete and of the required quality. • Include the required stage gate document as a deliverable for each phase as per the PDL framework. • Ensure one of the key tasks of the project delivery team is to work with project teams to educate on project management standards and processes (refer recommendation for Finding 3.2). • All stakeholders involved in the approval process should ensure required information in the gateway forms presented is sufficient and complete. • While it is our understanding that a project risk register template has been developed but not yet rolled out, it would be prudent to confirm and ensure that each core project management task (e.g. risk and issue management, budget management, logging of decisions made) has an SDC standardised template that can be utilised and populated by the project team moving forward. This could include: ○ Project charter ○ Decisions log ○ Issues register • Ensure that version control of these templates is retained by the project delivery team when updated.
Management's response	A project register already exists within the CAMMS programme but has been poorly used, as noted elsewhere the project team are currently reviewing other programme options that will better provide sign offs, programme management and project management. Renewal of the PDL programme has been scoped around the gaps identified within this report A project management handbook has also been developed and will be rolled out along with general PM training for wider project teams outside the PDT
Due date	July 2022 for PM handbook and training July 2023 for new Project and Programme management program

3.4 Enhancements required to the PDL framework

Priority Rating	Moderate
Ease of Fix	Moderate

Observations	i. <u>Lack of guidance to the phases in the PDL framework</u>
	
	Requirements that need to be met to satisfy each phase have been outlined but do not have any supporting guidance to help the project team determine what key information to include and to what level of detail. For example, one of the requirements of the business case phase is to outline the scope of the project, however there is no guidance which explains to the user what the scope should include in order to address the requirement.
	
	ii. <u>Gateway process templates require further detail</u>
	
	Alongside the five phases developed within the PDL framework, SDC have developed gateway templates which need to be completed and approved in order to progress to the next phase. These templates are used to record key information about the project as well as capture signed approvals from required personnel.
	
	From our review of the form used to progress from initiation to the business case phase (Form G1.0), we identified examples where the questions in the template do not address what a user should do if they do not answer "yes" – in other words what to do if an alternate option is selected. Examples include:
	
	• Where the form outlines questions where only 'yes' or 'no' answers are required, such as:
	  o Do we have approvals for land use?
	  o Is a procurement process is required for the design phase?
	  o Has a draft risk register been prepared?
	We identified that there are no next steps outlined in the event the user indicates 'no'.
	
	• We also identified that some questions in the gateways process template require a reference to a separate attachment (e.g. communication plan, procurement plan). The template how it is currently designed requires a 'yes' or 'no' answer but does not prompt the user to enter a reference number for the attachment.

Cause	• The gateway process templates have been created to support the PDL and record the required information in order to progress to the next phase. The templates do not appear to have been reviewed (at this stage) through the lens of what may aid the user to complete the form and provide the correct level of detail.
Risks	• Poor project decisions are made as they are based on inaccurate or incomplete information included in gateway documentation.

	• Lower quality documentation is produced due users not being fully aware of what information needs to be included and to what level of detail. In the event documentation is not approved, project teams will need to undertake rework to get it to the required standard. In the event documentation is approved but incomplete this could lead to a variety of implications further on the project lifecycle such as inaccurately scoped projects, budget overruns and stakeholder expectations not being met. • Stakeholders reviewing documentation become frustrated because they are not presented with the information they require to make a decision. • Increase in rework activities due to project teams having to regather information in order to resubmit documentation to meet requirements.
Recommendations	• Review the PDL framework requirements for each phase and include points of guidance to ensure the Council's expectations are appropriately communicated. This should include: - <u>Initiation phase:</u> i. Explain what type of links should be made to the SDC strategic framework; and ii. Define what corporate performance requirements are. - <u>Business case phase:</u> i. Define the requirements of what a full scope business case entail; ii. Minimum review steps required when reviewing budgets in detail; iii. Define stakeholder groups (e.g. project team, suppliers) that should be identified; and iv. Outline the steps required when reviewing budgets. • Review the existing gateway forms developed throughout the PDL and provide further guidance to the user where appropriate. This could be a simple and brief description of what information needs to be included or what steps need to be followed next (especially in the instance where an alternate path is selected as illustrated in the examples above). The objective of including guidance is to ensure that the gateway form is easy to complete, the process is easy to follow and that users are confident that they are providing the right information first time. • Identify a completed project with associated gateway documents which can be used as an exemplar of the process and show project teams 'what good looks like'. • Ensure gateway documents are quality checked and/or peer reviewed for completeness and quality. Refer to recommendations for finding 3.2. • Ensure that document reviewers and approvers understand the importance of the document i.e. 'what good looks like' prior to sign-off.
Management's Response	Work is underway to review the PDL framework and community board scoping documents have already been updated to better reflect the scoping and business case for each community board project, this includes property searches, budget review and

	confirmation of engagement, combining projects where possible to gain efficiencies and better progress reporting. Gateway 1 has already been reviewed and updated to be more robust as a minimum business case for smaller scale projects and larger projects will have an independent business case prepared as required. Training is being developed on better use of the Gateways and a sample project will be developed as an exemplar.
Due date	Underway

3.5 CAMMS and finance system are not integrated

Priority Rating	Moderate
Ease of Fix	Complex
Observations	CAMMS is the software used by SDC to record project status and budgets. From discussions with various project managers, we understand that CAMMS does not integrate with the SDC's finance system. As such, project managers monitor project costs incurred during the month through spreadsheets they maintain. The spreadsheets are used to monitor payments including those made to contractors and consultants and any contract variations. These spreadsheets are then reconciled with data provided by the Finance team regarding the actual costs incurred during month end to ensure costs captured in the spreadsheets are accurate. Project managers stated this process is time consuming. We understand that the Council are currently looking to purchase a new Financial Management Information System (FMIS) which is likely to come with (or at least have the option to add on) project management and contract management functionality. Once the core FMIS is implemented the Council will determine the next steps for the roll out of additional functionality to support the project delivery function.
Cause	• When implementing CAMMS at SDC, the decision was taken not to integrate with the existing finance system.
Risks	• Due to the manual nature of monitoring costs incurred, there is an increased likelihood of error in the spreadsheets developed by project managers. As a result, there may be a delay in identifying costs incurred which could lead to exceeding the budgets in place.
Recommendations	• We recommend that when procuring a new FMIS that project management and contract management functionality is part of the solution proposed or at least can be selected as an 'add-on'. This will help to ensure that the system meets SDC's project management requirements.
Management's Response	This process is already underway and scoped as part of the FMIS project, the new FMIS partner is developing modules to capture these gaps, as reported elsewhere a review of CAMMS is already underway.
Due date	April 2022

3.6 Enhancement required to the procurement process in relation to project management

Priority Rating	Moderate
Ease of Fix	Complex
Observations	SDC have developed a procurement policy and manual outlining practices the Council need to align to. However, although the purpose of the manual has been outlined, it does not include a procurement strategy. This is where we would expect to see a clear vision of how SDC plan to achieve their procurement goals (e.g. procuring resources, maintaining relationships with suppliers) so that the objectives outlined in the manual can be achieved. The strategy should encompass projects such as emergency works and government allotted funding. Accordingly, the procurement methods currently used may not be sufficient to support the project management function. We identified that the procurement methods included in the manual are to either obtain quotations from suppliers or carry out tenders. Through our sample testing, we identified instances that did not undergo the standard procurement method (whereby suppliers are sourced during the business case phase) because the projects needed to progress quickly. For example, the government approved $13.53 million of stimulus funding to SDC. As part of this, management had a short timeframe to put together one brief business case outlining all the projects that would be carried out using this fund. One of the projects included was P-10517: Project 17 District wide AC pipe replacements. We identified that the procurement method available (obtaining quotations or tendering) was not suitable as it would have been too time consuming to complete during the business case phase, as there was a tight deadline to meet. Additionally, the Government Procurement Rules: Rule 14 explains circumstances under which an agency may be exempt from the requirement to openly advertise for a supplier. However, from our review of the procurement policy and manual, we identified that reference to this rule has not been included.
Cause	• As no other process outside the standard process is applied to the project delivery process, management have not developed other types procurement methods fitting for these projects (e.g. do not follow the standard process). The assumption has been made that the default procurement methods already identified will suffice for these types of projects.
Risks	• The lack of options for procurement strategies give rise to the risk that the procurement methods developed may not be suitable to achieve SDC's goals. This could result in project teams not using the methods outlined in the manual as it may be too time consuming and thus making purchases that are not cost effective.
Recommendations	• Formally outline the procurement strategy SDC will adopt in order to meet the objectives set out in the procurement manual. This strategy needs to take into account the various types of projects the Council performs (e.g. standard works, emergency works). The strategy should include the following information: - An overall strategy statement including the basis and rationale; - Desired results through detailing deliverables; and

	- A tactical plan or roadmap detailing how the strategy will be implemented. • SDC should enhance the procurement methods in place that are suitable depending on the type of work being carried out. For example, due to the short time frames in place when emergency works occur, management need to procure goods and services quickly. Below are some procurement methods management should consider implementing: - Use AOG suppliers and rates; - Develop a preferred supplier listing; and - Use panel arrangements for works under a certain dollar amount. This is where the supplier would undergo a tendering process. It would not need to be for a specific project but rather a scope of work where the supplier can be engaged as and when the work occurs. Additionally, management should review Rule 14 from Government Procurement Rules to accommodate for situations such as emergency works. There are further procurement methods (including those we have suggested above) that are available to management which should be considered.
Management's Response	SDC management team already use a number of the recommended procurement methods and before each LTP year starts an overall works programme procurement plan is developed and signed off by governance. A panel is already in place for some three waters projects and SDC run, via the health and safety team, an approved supplier database with a tiered system. Management believe that this area is already well managed but will look to further improve the procurement process by a review of procurement manual and develop and roll out training to key procurement staff involved with procurement. SDC have now also filled the vacant commercial infrastructure manager role that will lead this area of development.
Due date	December 2022

3.7 Process of identifying risks for a project not practiced

Priority Rating	Moderate
Ease of Fix	Simple
Observations	The Council have a Risk Management Framework in place that outlines how risk management should be approached for the organisation as a whole. From our high-level review of the framework, we note that management has developed a risk management cycle and identified various categories of risk (including strategic, operational, financial, social, cultural and environmental). However, from our sample testing, we identified that these categories are not considered when outlining the risks that could potentially impact on projects. Furthermore, from our review of the procurement manual SDC have developed, we identified that the risk of a purchase needs to be assessed depending on the following: i. Value of purchase; and ii. Risk categories (e.g. strategic, operational, financial) outlined in the Risk Management Framework. We understand from management, this process has not been implemented.
Cause	• Although the design has been developed in the risk management framework, this has not been rolled out on a project level.
Risks	• If project teams are not using the framework in place to identify project risks, it could result in risks materialising and management not having adequate controls in place to mitigate them.
Recommendations	• Ensure that project teams identify project related risks based on the categories outlined in the framework SDC have in place. • This should be clearly outlined and requested in all gateway forms (across all phases). It is important to note that the list of risks will change as the project progresses and should therefore be reviewed and monitored on a regular basis throughout the project. • Consider involving the project delivery team in the early identification of risks for a project (e.g. facilitating an initial risk workshop in the Initiation and Business Case phases of the project). • Consider implementing a process whereby the project delivery team review project risk registers to ensure project related risks are based on the SDC framework.
Management's Response	Management will take on the recommendations of the report and add a risk review process to the works programme and align that to the overall organisational risk framework, it's noted that the overall works programme contains a lot of low value low risk projects; so the risk process needs to be reflective of amount of risk involved in each project. While SDC has 150+ projects a year to deliver a large number of these are capital replacement works rather than an actual project. A process will be put in place to identify full projects.
Due date	December 2022

3.8 Enhancements required to the project management governance and reporting process

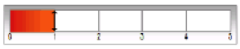
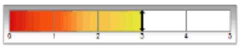
Priority Rating	Low
Ease of Fix	Medium
Observations	SDC has developed a governance process for all projects it undertakes. This process involves all projects that are currently in progress being discussed and monitored by the Services and Assets Leadership Team. The Services and Assets Leadership Team provide updates on project progress to either the Services and Assets Committee or the Executive Committee (depending on the value of the project). This governance process is not formally documented. We understand that management establishes a Project Control Group (PCG) for certain projects, but this is on an as required basis. A PCG meets weekly to monitor the project's progress in detail and ensure that any issues that occur are dealt with accordingly. From our review we could not find any documentation which clearly sets out the criteria for establishing a PCG, frequency of meetings, the membership or roles and responsibilities. We identified that a monthly services and assets programme report is prepared for the Services and Assets Committee and Executive Committee (where applicable). The report provides a brief explanation of the progress of each project (irrespective of size). In the event, management identify a specific need for more detailed reporting for a specific project, then a separate report is prepared. For example, a monthly progress report is prepared for the Te Anau Wastewater Scheme. The report outlines project related information regarding various areas including: • Health and safety • Environmental • Key milestones • Project financials • Project risks Therefore, project specific reports are developed as and when management identify it as a need.
Cause	• Lack of defined project management governance and reporting process.
Risks	• Without a formal governance process, there is a risk of inconsistent practice where there are instances of projects not being monitored by the right committee or committees not meeting regularly. This could result in SDC not having proper oversight on projects that are not progressing as planned and issues not being escalated in a timely manner.
Recommendations	• Clearly define the purpose of each governance group. • Develop a Terms of Reference (TOR) template which can be used when establishing a PCG. The TOR should include but not be limited to: - Purpose of the PCG - Membership

	- Frequency of meetings - Roles and responsibilities • Develop a TOR for the Executive Committee and Services and Assets Committee which includes the following information: - Purpose of committee - Membership - Frequency of meetings - Roles and responsibilities The TOR should be reviewed on a periodic basis to ensure it is current. • Require that all projects produce a project specific progress report. We understand that the level of detail required for each project may differ depending on the size of the project. As such, management should define the criteria required to be outlined in the report based on the project size.
Management's Response	The Management team will take on the recommendations and prepare a TOR which outlines the key roles and responsibilities of the PCG and provide a scale of oversight and reporting required dependent on the risk and value of the project.
Due date	1 July 2022

Appendix A

Control Effectiveness Rating Scale

The assessment of the entire control environment is based on our assessment of the processes as presented and the results of judgemental sample testing. The consolidated results of testing together with the appropriateness of control responses to priority form this assessment.

	Description	Rating Scale Indicator
1	<u>Significant Weakness</u> The control environment either does not exist or is inadequate to manage priority related to process under review and is significantly below good practice and does not compare favourably to other models. The business is exposed to control failure and potential financial, operational and strategic impacts.	
2	<u>Informal / Inadequate Controls</u> The control environment exists but is informal or has important gaps and certain elements are below good practice or do not compare favourably to other models. The business is exposed to control failure and potential financial, operational and strategic impacts.	
3	<u>Adequate Controls</u> The control environment exists and we have detected some gaps and / or areas for improvement. The environment compares favourably to other models with room for improvement. The business could be exposed to control failure and potential financial and operational impacts.	
4	<u>Well Controlled</u> The control environment exists and we have detected minimal gaps and / or areas for improvement. The environment compares favourably to other models. The business may be exposed to control failure and potential financial and operational impacts.	
5	<u>Leading Practice Controls</u> The control environment exists and we have not detected gaps. Control applications and processes in existence exceeded better practice and are better than other models. The business is unlikely to be exposed to control failure and potential financial and operational impacts.	

Appendix B

Priority Rating Scale

Each finding included in the report has been ranked on the basis of the risk we perceive the organisation to be exposed to.

Rating	Description
Very High	Issue represents a severe control weakness. This could cause or is causing severe disruption to process/service, or severe adverse effect on the ability to achieve objectives.
High	Issue represents a significant control weakness. This could cause or is causing significant disruption to process/service, or significant adverse effect on the ability to achieve objectives.
Moderate	Issue represents a moderate control weakness. This could cause or is causing some disruption to process/service. There may be a level of short-term tolerance due to compensating controls or remedial plans underway.
Low	Issue represents a minor control weakness. This could cause or is causing inefficiencies in process, or is a lack of formality in documentation or process.
Process Improvement	Observation represents an identified opportunity to improve process / service efficiency.

Ease of Fix Rating

Deloitte's estimation of the effort required to fix the finding raised is based on our previous experiences with resolving similar findings at similar organisations. This is intended as a guide only. You should undertake your own assessment to determine the actual level of effort required.

Rating	Description
Simple	There is a simple fix for this finding, which may involve minor system changes that require limited effort to implement or test, minor costs to resolve, or minor changes to system design or business processes. **Estimated timeframe for fix to be implemented is within one to three months.**
Medium	There is a moderately complex fix for this finding, which may involve some time to develop, implement and test, some cost to resolve, or some changes to system design or business processes. **Estimated timeframe for fix to be implemented is within three to six months.**
Complex	The solution is complex and may involve substantial time to develop, implement and test, substantial monetary cost to resolve, or substantial changes to system design or business processes. **Estimated timeframe for fix to be implemented is in less than 12 to 18 months.**

Statement of Responsibility

The procedures that we performed did not constitute an assurance engagement in accordance with New Zealand Standards for Assurance engagements, nor did it represent any form of audit under New Zealand Standards on Auditing, and consequently, no assurance conclusion or audit opinion is provided. The work was performed subject to the following limitations:

- Our assessments are based on observations from our review and sample testing undertaken in the time allocated. Assessments made by our team are matched against our expectations and best practice guidelines. This includes comparison with other similar processes we have assessed. This report offers recommendations for improvements and has taken into account the views of management, with whom these matters have been discussed.

- Because of the inherent limitations of any internal control structure, it is possible that errors or irregularities may occur and not be detected. The procedures were not designed to detect all weaknesses in control procedures as they were not performed continuously throughout the period and the tests performed are on a sample basis.

- Any projection of the evaluation of the control procedures to future periods is subject to the risk that the systems may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

- The matters raised in the deliverable are only those which came to our attention during the course of performing our procedures and are not necessarily a comprehensive statement of all the weaknesses that exist or improvements that might be made. We cannot, in practice, examine every activity and procedure, nor can we be a substitute for management's responsibility to maintain adequate controls over all levels of operations and their responsibility to prevent and detect irregularities, including fraud. Accordingly, management should not rely on our deliverable to identify all weaknesses that may exist in the systems and procedures under examination, or potential instances of non-compliance that may exist.

We have prepared this report solely for the use of Southland District Council. The report contains constructive suggestions to improve some practices which we identified in the course of our review procedures. These procedures are designed to identify control weaknesses but cannot be relied upon to identify all weaknesses. We would be pleased to discuss any items mentioned in this report and to review the corrective action implemented by management.

Extension of Internal Auditor Appointment

Record No: R/22/6/21649
Author: Anne Robson, Chief financial officer
Approved by: Cameron McIntosh, Chief executive

☒ Decision ☐ Recommendation ☐ Information

Purpose

1 The purpose of this report is to seek the committee's approval to extend the Internal Audit service contract held with Deloitte for a further two years.

Executive Summary

2 In 2019, the committee agreed to appoint an internal auditor for a period of three years ending on the 30 June 2022 with a further two year extension at the sole discretion of the Finance and Assurance Committee.

3 The successful provider of the first internal audit programme for Council was David Seath from Deloitte.

4 The value of the audit programme was set at $30,000 plus GST per annum, but subject to change if the committee needed to undertake a more extensive audit. Working with Deloitte the committee developed a programme of six audits. This was revised to five in June 2021 when it was decided to extend the scope of the project management audit and in doing so instead of finding additional funding, the committee agreed to reduce the audit programme by one to five.

5 To date Deloitte have completed four of the audits planned for the three year period. The prevention of bribery, corruption and fraud is currently being planned. Although technically the contract was for three years, other work priorities at Council and COVID has delayed the achieving of the final audit by 30 June 2022. In order for this work to still occur, staff have drafted a recommendation for the committee to request Council to carry forward $15,000 from this year's budgets so Deloitte can undertake the work in the new financial year.

6 To assist the committee to consider if an extension is appropriate, staff have assessed Deloitte against the key delivery services it wanted from the internal audit programme when it was created. Based on this assessment and the positive relationships that the committee and staff have formed with Deloitte, Council staff are recommending the two year extension for the delivery of internal audit services by Deloitte be approved.

Recommendation

That the Finance and Assurance Committee:

a) **Receives the report titled "Extension of Internal Auditor Appointment" dated 10 June 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 to extend the contract for internal audit services with Deloitte for a further two years to 30 June 2024 or until the audits programmed for this period are completed.**

e) **Requests that staff and Deloitte incorporate into any work programme developed for the two years the audits planned but not undertaken to date, being Information Integrity and Asset Management.**

f) **Agrees to recommend to Council to carry forward $15,000 from the internal audit budget to enable the prevention of bribery, corruption and fraud internal audit to be undertaken by Deloitte in the new financial year**

Background

7 Prior to the appointment of Deloitte, Council had never had a regular formal internal audit programme. Instead, it had completed specific pieces of work as part of a wider Council internal audit programme or had specific audits completed due to funding or statutory requirements such as NZTA audits or building accreditation audits.

8 To fulfil its responsibilities under the committee's terms of reference, delegated from Council, the committee recognised the need to seek independent and objective assurances of the Council's systems and processes to ensure they are efficient, effective, economical and ethical. The appointment of an internal auditor has enabled the committee to manage these responsibilities.

9 Overall, internal auditing can add value and improve Councils operations, helping organisations to accomplish objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of:

- Risk management
- Control
- Governance processes

10 Appointed in February 2019, the three year term with Deloitte will technically end on the 30 June 2022. To date Deloitte have completed four of the planned six audits agreed at the start of their contract. The six was reduced to five, when the committee wanted to extend the work

programme on the project management audit and in doing so they agreed to reduce the number of audits in order to stay within budget. Additionally, in May 2022, the committee agreed to change the last audit to prevention of bribery, corruption and fraud, in order to address points raised in Councils Audit NZ management letter. This therefore means that the Information Integrity audit and the Asset Management audit planned will not be completed in this three year contract. It is recommended that these be incorporated into Deloittes audit programme for the extended two years if approved by the committee.

11 Unfortunately, due to other work commitments and COVID, the last audit planned will not be completed by the 30 June 2022. In order for this work to still occur, staff have drafted a recommendation for the committee to request Council to carry forward $15,000 from this year's budgets so Deloitte can undertake the work in the new financial year.

Issues

12 As part of appointing Deloitte, the committee agreed to a three year contract with a two year extension at the discretion of the Committee. With the contract about to end on the 30 June 2022, the committee are being asked to consider the granting or not of the two year extension.

13 Mr Seath was approached to ensure that Deloitte wished to seek the extension and he indicated that they did.

14 In order for the committee to consider whether it wishes to grant the extension Council staff have gone back to the Internal Audit Request for Service sent to applicants when Council first sought an Internal Audit provider. In this document it outlined the key services to be delivered which were

- Establishing in conjunction with the Finance and Audit Committee a programme of works to be delivered over the term of the contract.
- Delivery of an internal audit programme tailored for Council.
- Reporting in writing and/or in person to the Finance & Audit Committee at least twice a year.
- Providing the Finance and Audit Committee with a report of findings, areas of improvement and suggested approaches for each completed piece of work.
- Delivery of added value through the leverage of their wide knowledge base and specialist skills that enables opportunities for improvement including the management of risk based on national and international best practice.
- The demonstration of value for money

15 Based on the above key services, Council staff have assessed Deloittes performance to date

Key services to be delivered	Finance and Assurance meeting presentation dates	Delivery of report in writing	Delivery of report in person
Establish programme of works to be delivered over the three years	23 September 2019	Yes	No (confirming workshop discussion)
Delivery of internal audit programme tailored for Council	To date four of the five confirmed works have been completed, with the fifth in progress		
Audit 1: Procure to Pay Audit 2: Cyber Health Security	TOR[(1)] 23-9-19 Report[(2)] 30-4-20 TOR[(1)] 30-4-20 Report[(2)] 15-12-20	Yes Yes Yes Yes	No Yes Yes Y es
Audit 3: Contract Management Audit 4: Project Management	TOR[(1)] 24-3-21 Report[(2)] 22-10-21 TOR[(1)] 15-6-21 Report[(2)] 15-6-22	Yes Yes Yes Yes	Yes Yes No Yes
Asset Management and Information Integrity	Delayed due to the expansion of Audit 4 and the inclusion of Audit 5	n/a	n/a
Audit 5: Prevention of Bribery, Corruption and Fraud	TOR[1] – to be confirmed by CFO & Chair – Finance and Assurance as per report 28-3-22		
Delivery of added value	It is felt that Deloitte have demonstrated this from the advice and recommendations included in the audit reports to date.		
Demonstration of value for money	The committee will need to consider if Deloitte have demonstrated this to their satisfaction. The committee to date has not noted to Deloitte any instance where they feel it has not been achieved.		
(1) TOR = Terms of Reference, which are agreed by the committee before the audit is undertaken (2) Report = is the final audit report outlining Deloitte's findings and recommendations			

16 Further to discussions with the leadership team and considering the above assessment, staff are recommending to the committee the extension to the internal audit contract with Deloitte for a further two years.

Factors to Consider

Legal and Statutory Requirements

17 Under section 14 of the Local Government Act 2002, a local authority must ensure that it conducts its business in an open, transparent and democratically accountable manner and give effect to its identified priorities and desired outcomes in an efficient and effective manner as well as ensure that commercial transactions are made in accordance with sound business practices.

Community Views

18 No community views have been sought on this issue. Having said that the community expects that Council runs efficiently and effectively.

Costs and Funding

19 Council's budget for Internal Audit services is $30,000 annually, this has remained consistent for the three years of the current audit plan.

Policy Implications

20 As part of the committee's terms of reference, Council has delegated to the Finance & Audit committee the responsibility of ensuring that it has appropriate financial, risk management and internal control systems in place. As part of the control measures to achieve this, Council has delegated to the committee the responsibility to oversee Internal Audit functions.

21 The original letting of the contract was done in terms of Councils procurement policy including ensuring purchases are made in an open, fair and transparent manner, that the service delivers best value for money and that there is open and effective competition.

22 As part of resolving to appoint an internal auditor the committee agreed to a term of three years commencing 1 July 2019 with a further two year extension at the discretion of the committee.

Analysis

Options Considered

23 The two options considered are to extend the contract with Deloitte for a further two years or to go back out to the market for internal audit services.

Analysis of Options

Option 1 – Agree to extend the contract for internal audit services with Deloitte for a further two years.

Advantages	*Disadvantages*
• Deloitte knows our business and how we operate which can ensure efficiencies in auditing as well as improve the quality of the audits. • Enables a further two years of audits to be completed efficiently, given a busy year ahead	• If the committee wants to have a change in auditor, re-appointing Deloitte will not achieve this.

Option 2 – Decides not to extend the contract for internal audit services with Deloitte and instead go back to the market.

Advantages	*Disadvantages*
• If the committee wants to ensure new views and approaches when looking at	• Requires more staff administration time to undertake an appointment process in a busy year.

Councils systems and processes, appointing a new auditor will potentially achieve this. • Establishes a new internal auditor for the new Council and committee.	

Assessment of Significance

24 This matter is not considered significant under Councils significance and engagement policy.

Recommended Option

25 Option One – Agree to extend the contract for internal audit services with Deloitte for a further two years.

Next Steps

26 If approved, staff would advise Deloitte of the re-appointment and complete the necessary engagement letters.

27 Staff would then work with Deloitte and the Chair of the Finance and Assurance Committee to propose the approach to the audit programme for the coming two years as well as work to complete the last two engagements.

Attachments

There are no attachments for this report.

Annual Report Audit Plan for year ending 30 June 2022

Record No: R/22/5/18452
Author: Sheree Marrah, Financial accountant
Approved by: Anne Robson, Chief financial officer

☒ Decision ☐ Recommendation ☐ Information

Purpose

1 The purpose of this report is for the Committee to approve the Annual Report audit plan as proposed by Audit New Zealand (Audit NZ) for the year ending 30 June 2022, noting that the timing of the audit is still to be finalised.

Executive Summary

2 Audit NZ has provided Council with an Audit Plan for the Annual Report for the year ending 30 June 2022.

3 Additionally, Audit NZ have advised that Council's audit director has changed this year. Dereck Ollsson is no longer responsible for Council's audit, and will be replaced by Chris Genet. The committee will have the opportunity to meet Mr Genet as he will be present at the meeting via video call. As well as introducing himself, he will answer any questions the committee may have on the audit plan.

4 The Audit Plan (Attachment A) outlines the audit risks and issues, group audit, audit process, reporting protocols, logistics and expectations relating to the upcoming audit.

5 Key changes from the prior year's audit plan are:

- Amendments to the audit risks and issues section as a result of changes in Audit NZ focus; and
- Dates in the audit timetable are still to be advised.

6 Audit NZ continue to be affected by resourcing constraints, although they are now getting some staff in from overseas. As a result, they are unable to advise of the audit timeline yet, however we expect it to be similar to last year. The Annual Reporting and Audit Time Frames Extensions Legislation Bill has provided a further two-month extension, allowing adoption of local authority annual reports to occur up till 31 December 2022. Audit NZ have assured Council staff they will contact us as soon as it is confirmed.

Recommendation

That the Finance and Assurance Committee:

a) **Receives the report titled "Annual Report Audit Plan for year ending 30 June 2022" dated 8 June 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 deciding on this matter.**

d) **Agrees the Annual Report Audit Plan for the year ending 30 June 2022, as set out in attachment A (of the officers report) noting that the audit timeline is still to be advised by Audit NZ.**

Background

7 The purpose of this report is to provide an overall summary of the Audit Plan, received from Audit New Zealand, for the year ending 30 June 2022.

8 The six key areas discussed in the plan are:

- audit risks and issues;
- group audit
- audit process;
- reporting protocols;
- audit logistics; and
- expectations

9 Audit NZ director, Chris Genet met with Council staff on 16 May 2022 and the Chair of the Finance and Assurance Committee and the chief executive officer at the end of May to discuss the risks and issues and various aspects of the upcoming audit in order to establish the audit plan.

10 As a result of the shortage of auditors in the public sector, and the resequencing of public sector audits in line with the Auditor-General's prioritisation framework, the timing of the audit is unable to be confirmed at present.

11 Historically interim audit fieldwork has been undertaken in March/April each year, however, due to Audit NZ's resource shortage as a result of Covid-19, all audit field work (interim and final) will be undertaken concurrently.

12 Given that it is an election year, Council staff are planning to have the Finance and Assurance Committee endorse to the new Council, the adoption of the 2021/2022 Annual Report at its meeting on 28 September 2022. This endorsement may be subject to changes that arise as a result of the audit, which may or may not have been completed by this date as noted above.

13 The annual report audit fee has not been included in this draft plan as it was considered and agreed by the Committee on 15 June 2021.

Audit risks and issues

Focus areas

14 Specific details of the risks/issues are included in the Audit Plan (Attachment A). These risks and issues are primarily the same as the prior year, however the ongoing completeness issue relating to complaints performance measures which rely on Palmerston North City Council (PNCC) after hours service section has been added to the focus areas.

15 The key areas noted in the Audit Plan (refer to pages 2-4 of attachment A) are:

- Revaluation of property, plant and equipment. Council re-values its infrastructure assets on an annual basis. These revaluations are considered a significant risk as they involve the use of complex valuation methods as well as significant judgements and assumptions.
- Forestry revaluation. Forestry valuations are conducted annually to ensure values included in the financial statements are reflective of the assets fair value. This revaluation is considered a significant risk due to the expert judgements required and assumptions used.
- Performance measures which rely on Palmerston North City Council (PNCC) after hours service. Council contracts PNCC to receive after hours calls, which is a source of data for supporting performance measures. In previous years it was identified that there were completeness issues with the complaints resulting in a qualification of the 2021 audit opinion.
- Ongoing impacts of the Covid-19 pandemic. The uncertainties in the economic environment as a result of the ongoing pandemic increase the risk of misstatement in the financial statements, especially in regards to revaluation, capital projects and government funding and therefore it continues to be a focus item.
- The risk of management override of internal controls. As there is an inherent risk in every organisation of fraud resulting from management override of internal controls, this is considered a risk on all audits.

16 In addition to the key specific issues discussed above, Audit NZ will also focus on sector wide issues, including the three waters reform, drinking water quality performance measures, central government funding, capital programme, rates and fraud risk. Refer to pages 5-9 of attachment A for more details on each of these risks.

Group audit

17 This section of the plan provides information on the entities included in the Council group and how they will be audited. The entities in Council's group are Council and Milford Community Trust, as well as its interests in Southland Regional Development Agency (SRDA), Southland Regional Heritage Committee, Emergency Management Southland and WasteNet.

18 Audit NZ have noted the audit risks associated with the SRDA group audit, including the establishment of a new subsidiary.

19 Audit NZ consider Milford Community Trust as a non-significant component of the group so will perform analytical procedures only.

The audit process

20 This section of the plan provides further detail in relation to the Annual Report audit process, and provides information on key concepts including materiality (for both financial statements and service performance information), professional judgement and professional scepticism, compliance with laws and regulations, as well as wider public sector considerations.

21 The materiality section of this report is relatively consistent with last year and includes the indicative financial statement and performance measure materiality levels for Council's audit.

22 Materiality is an auditing and accounting concept, which relates to the importance and significance of an amount, transaction or respective discrepancy that might occur in the financial statements. It is one of the most important objectives of the audit since it is the auditors' responsibility to base their opinion on the judgment regarding if financial statements are prepared accurately, in material aspects, and include all the relevant disclosures that should be included.

23 Materiality refers to information that if omitted, misstated, or obscured could reasonably be expected to:

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

24 Overall financial statement materiality is indicated to be $149.1 million, which will be applied to property plant and equipment only.

25 Specific financial statement materiality is indicated to be $2.75 million, which will be applied to all other financial information, unless it sensitive in nature (and thus a lower materiality will be applied).

26 Additionally, Audit NZ has set a third level of financial statement materiality referred to as the "clearly trivial threshold" which is indicated to be $137,000. Audit NZ will report to Council on any individual matters above this level which are not corrected.

27 Service performance materiality levels are set at an individual measure level basis. These are indicated to range from 5%-10% depending on the performance measure (refer to page 13-15 of attachment A). The materiality levels for the eight mandatory performance measures are consistent with 2021, other than customer satisfaction of wastewater which has increased from 5% to 8%, and stormwater system adequacy, which has also increased from 5% to 10%.

Reporting protocols

28 Audit NZ commits to communicating with management and Council and will maintain ongoing, proactive discussion of issues as and when they arise to ensure there are "no surprises".

29 Draft management reports will be provided to Council for discussion and clearance purposes. Management are requested to provide their comments on any draft within 10 working days to enable timely reporting.

Audit logistics

30 This year Council have a new audit director, Chris Genet. Due to Audit NZ's resource constraints, at this point in time they are unable to advise who will be the manager of Council's audit.

31 Due to changes in auditing standards and a consideration of Council's risk profile, an engagement quality review is no longer required.

32 As discussed earlier in this report, due to resourcing constraints and the Office of the Auditor General prioritisation framework, Audit NZ are currently not able to provide an audit timeline. This will be communicated separately in due course.

33 As a result of Covid-19 restrictions and changes to Audit NZ and client work locations, Audit NZ have been able to efficiently perform many aspects of their audit work offsite. Accordingly Audit NZ plan to perform some of their fieldwork remotely.

34 Audit NZ will also continue to use an online portal (AuditDashboard) for both Council and Audit NZ staff to upload documents during the audit process. This should allow for easier collaboration, file sharing and tracking between Council and Audit NZ.

Expectations

35 Audit NZ outline their expectations from Council staff and management in relation to the audit, which includes: access to all relevant records and supporting workpapers, timely supply of information, assistance from staff, complete draft financial statements available at the commencement of the audit, the draft annual report will be quality reviewed by Council prior to being provided to Audit NZ.

36 Council staff and management do not consider any of these expectations unreasonable and have incorporated these into our internal processes for developing the 2021/2022 Annual Report.

Issues

37 The purpose of an audit is to provide an objective independent examination of the financial statements for Council and the Committee. This increases the value and credibility of the financial statements produced by management thereby increasing user confidence in the financial statements. As such, it is in Council's interest for Audit NZ to define the audit programme of work.

38 As part of drafting the Audit Plan, Audit NZ sought feedback on the draft plan from Council staff. Council staff requested minor amendments, but overall were comfortable with the content of the draft Audit Plan, other than the inability to provide a timeline.

39 Staff recognise that Audit NZ are currently unable to provide a definite timeline due to their resourcing constraints and prioritisation framework. Fortunately, part 2 of the Annual Reporting and Audit Time Frames Extensions Legislation Bill amends section 98 of the Local Government Act and provides a two-month extension to the deadline for local authorities to adopt their annual report for the year ended 30 June 2022. This extension should allow Audit NZ sufficient time to complete their audit before the legislative deadline, however it may result in the audit being undertaken at a time where staff will be focussing on other projects (including the core systems review and the 2023/2024 Annual Plan etc). The adoption of the Annual Report will also potentially be done by a new Council, given the election process.

Factors to Consider

Legal and Statutory Requirements

40 Section 98(1) of the Local Government Act 2002 requires the Council to prepare and adopt an Annual Report each financial year. Section 99(1) requires the Annual Report to include an Auditor's Report and this is required to be adopted by 31 October 2022. However, part 2 of the Annual Reporting and Audit Time Frames Extensions Legislation Bill amends section 98 of the Local Government Act and provides a two-month extension to the deadline for local authorities to adopt their annual report for the year ended 30 June 2022 to 31 December 2022.

41 In accordance with Section 14(1) of the Public Audit Act 2001, the Council's Annual Report must be audited by the Office of the Auditor-General. Audit New Zealand is the authorised audit service provider on behalf of the Auditor-General.

Community Views

42 The community rely on the audit of the Annual Report to provide assurance that the financial and performance reporting is accurate.

43 No consultation is required as the Annual Report reflects the actual results of activities undertaken during the year compared to the LTP/Annual Plan budgets, which typically have been consulted on.

Costs and funding

44 The cost associated with the audit of 2021/2022 Annual Report approved on 15 June 2021 is $142,719 (excl GST) plus disbursements. The 2021-2031 Long Term Plan budget includes $117,300 for the annual report audit fee for 2021/2022. The shortfall in funding of $25,419 is expected to be met from operational surpluses and reserves (if required), and was also approved at the June 2021 meeting.

45 Audit disbursements are estimated to be $8,500 for the 2021/2022 audit. Council staff have spoken with Audit NZ and requested that disbursements be managed as efficiently as possible to mitigate overruns; particularly given that the 2020/2021 audit disbursements totalled $12,815 (excl GST) ($4,315 above the estimate).

Policy Implications

46 Council has by way of the Finance and Assurance Committee's terms of reference delegated to the committee to have responsibility and delegated authority to confirm 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.

Analysis of Options

Option 1 - Accept the Audit Plan as provided, noting the audit timeline is still to be advised by Audit NZ

Advantages	*Disadvantages*
• Allows the Annual Report process to continue as proposed.	• Should the Committee not agree or want further aspects incorporated into the plan, there would be a delay in finalising the plan.

Option 2 - Request clarification or inclusion of any issue that Committee wants included in the Audit Plan from Audit NZ.

Advantages	*Disadvantages*
• The Committee is able to seek the clarification it requires or discuss the inclusion of any matters it would like incorporated into the audit.	• May delay the audit process if the Committee and Audit New Zealand cannot agree to this plan.

Assessment of Significance

47 The audit of the Annual Report is not considered significant in terms of Council's Significance Policy.

Recommended Option

48 Option 1 - Accept the Audit Plan as provided, noting the audit timeline is still to be advised by Audit NZ.

Next Steps

49 Council staff will work with Audit NZ to ensure that the audit timetable once provided is achievable from Council's perspective, and ensure that all necessary work is completed within the required timeframes to enable the Annual Report to be adopted before 31 December 2022.

Attachments

A Audit NZ Draft Annual Report audit plan for the year ended 30 June 2022 ⇩

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Audit plan

Southland District Council

For the year ending 30 June 2022

Audit plan

I am pleased to present our audit plan for the audit of Southland District Council (the District Council) for the year ending 30 June 2022. The purpose of this audit plan is to discuss:

The contents of this plan should provide a good basis for discussion when we meet with you.

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

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

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

Yours sincerely

Chris Genet
Director
3 June 2022

Audit risks and issues

Specific focus areas

Based on the planning work and discussions that we have completed to date, we set out in the table below the main audit risks and issues. On page 4 below we also outline sector specific focus areas relevant to the local government sector.

Audit risk/issue	Our audit response
Revaluation of property, plant and equipment	
The District Council revalues its three waters and roading infrastructure asset classes annually. Revaluations are an area of audit risk, due to the significant carrying values of the assets involved, and the expert judgements and assumptions required to determine fair value. We expect revaluations to continue to be an area of heightened audit risk due to ongoing impacts of the Covid-19 pandemic. Specifically, for depreciated replacement cost valuations, uncertainty is expected to arise from current inflationary pressures and the impact this will have on estimating replacement costs.	Our audit response to this risk includes: • reviewing the valuations to assess whether they comply with the relevant valuation and accounting standards; • assessing that the controls in place and assumptions applied to valuations are reasonable and applied consistently; • obtaining an understanding of the underlying data, and test unit rate information to supporting information; • evaluating the qualifications, competence and expertise of the external valuers used; • confirming that fair value movements have been accounted for correctly in the financial statements; and • reviewing the presentation of relevant disclosures in the notes to the financial statements.
Forestry valuation	
PBE IPSAS 27 Agriculture requires the District Council's forestry assets to be recognised at fair value less estimated point-of-sale costs. Forestry valuations are an area of audit risk, due to the expert judgements required, and assumptions used to determine fair value. Significant judgments and assumptions include: • determining expected cash inflows, including estimating future yields, log grades, and log prices;	Our audit response to this risk includes: • reviewing the valuation performed to assess whether it complies with the relevant valuation and accounting standards; • obtaining an understanding of the methodology applied and source date used; • assessing that the controls in place and assumptions applied to the valuation are reasonable and applied consistently; • evaluating the qualifications, competence and expertise of the external valuer used;

Audit risk/issue	Our audit response
• establishing expected development, production and indirect costs; and • determining a relevant discount rate. We expect the District Council's valuers will consider these matters closely in determining their valuation.	• confirming that fair value movements have been accounted for correctly in the financial statements; and • reviewing the presentation of relevant disclosures in the notes to the financial statements.
Performance measures which rely on the Palmerston North City Council (PNCC) after hours service	
The District Council contracts PNCC to receive after hours calls. The afterhours service is the source of reporting performance against a number of the District Council's performance measures. Last year we identified complaints measures reported from the afterhours service were not complete and were not recorded in accordance with the Non-Financial Performance Measure Rules 2013. Accordingly, our audit opinion was qualified in respect of this matter. We expect the District Council in conjunction with its service provider will again need to assess whether the afterhours system has appropriately recorded source data.	Our audit response includes understanding the PNCC after hours system by obtaining a report on the controls from the auditor of PNCC. We also review the system and procedures performed over the data once it is received by the District Council and perform testing over the reported result. We will consider the outcome of this work and determine impacts to the audit opinion.
Ongoing impacts of the Covid-19 pandemic	
The long-term impact of Covid-19 in New Zealand, and how it might affect public entities, is unknown. However, it is possible that the uncertainties in the economic environment will increase the risk of material misstatement in the financial statements. We have separately outlined impacts regarding revaluation of property, plant and equipment, the accounting for capital projects, and central government funding. We expect the District Council will assess and reconfirm risks relevant to the control environment, internal control systems, and financial and non-financials reporting. If new or emerging risks identified, please share these with us.	As part of our audit response, we will: • gain an updated understanding of the impact of the Covid-19 pandemic on the District Council's operations, financial statements, and performance story; and • assess the completeness and reasonableness of disclosures relating to the impact of the Covid-19 pandemic. If we identify additional Covid-19 related audit risks or issues, we will advise you of these separately.
The risk of management override of internal controls	
There is an inherent risk in every organisation of fraud resulting from management override of	Our audit response to this risk includes:

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Audit risk/issue	Our audit response
internal controls. Management are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Auditing standards require us to treat this as a risk on every audit.	• testing the appropriateness of selected journal entries; • reviewing accounting estimates for indications of bias; and • evaluating any unusual or one-off transactions, including those with related parties.

Sector focus areas

We set out in the table below the main audit risks and issues relevant to the local government sector.

Audit risk/issue	Our audit response
Impact of three waters reform	
On 27 October 2021, the Local Government Minister announced the Government's intention to proceed with the three waters service delivery reforms using a legislated "all in" approach. The Three Waters Reform involves the creation of four statutory water services entities to be responsible for the service delivery and infrastructure currently owned by local authorities, with effect from 1 July 2024. The reform programme is expected to result in significant changes to how water supply, wastewater and stormwater assets are owned and managed in the local government sector. There are still a number of uncertainties associated with the new three waters delivery model including the mechanism for how assets will be transferred to the newly established entities, the control and governance of these entities and the accounting implications. Notwithstanding the current uncertainty the announcement once legislated will mean the District Council is no longer responsible for the infrastructure and delivery of three waters services from 1 July 2024. The District Council should ensure that sufficient disclosure about impact of the reform (to the extent that the impact is known) is included in the annual report.	Our audit response to this risk includes: • maintaining a watching brief on developments of the reform programme, and discussing any developing implications with you; and • reviewing the completeness and accuracy of relevant disclosures in the annual report. Because the impact could be significant, but remains uncertain, we are likely to include information in our audit report to draw a reader's attention to District Council's disclosure about the reform programme.
Drinking water quality performance measures	
The District Council is responsible for reporting performance against the safe drinking water standards. In particular this requires the District Council to report the extent to which it's drinking water supplies comply with: • part 4 of the drinking-water standards (bacteria compliance criteria), and	We will update our knowledge of the systems and controls in place to report against drinking water quality performance measures. This will include understanding how you self-monitor compliance with the drinking water standards. Our previous audit approach used the work of the DWA as a significant control in establishing whether reported results were accurate.

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Audit risk/issue	Our audit response
• part 5 of the drinking-water standards (protozoal compliance criteria). Up until November 2021 performance related data was captured in the Drinking Water Online (DWO) database and compliance was assessed by Drinking Water Assessors (DWA). As a result of changes to the regulatory framework for drinking water quality, the DWO is no longer accessible and the DWA role no longer exists. The removal of the DWA will put more emphasis on the District Council's own monitoring processes to demonstrate whether they have complied with the drinking water standards. The District Council will need to ensure appropriate systems are in place to ensure performance is able to be reported accurately.	Accordingly a revised audit approach will be required this year. We are currently piloting a revised approach. When this is completed, we will discuss our planned audit approach further with you.
Central Government Funding	
The Government has recently announced a number of funding initiatives to support housing and infrastructure development, stimulate economic recovery following the impact of Covid-19, and to support District Councils through the Three Waters Reform. This has resulted in increased grant funding volumes across the sector. The requirements of *PBE IPSAS 23 Revenue from Non-Exchange Transactions* and underlying grant agreements can be onerous and complex. The increased volume of funding and complexity of accounting create the risk that revenue may not be complete or recorded in the correct accounting year. We expect the District Council will perform an assessment for all grant contracts to determine whether these have been accounted for correctly. Where necessary, the District Council may need to seek formal accounting advice.	Our audit response to this risk includes: • reviewing the District Council's assessment of how significant grant contracts are accounted for; • reviewing any formal accounting advice obtained; • verifying a sample of grants to supporting contract and confirming payment (where necessary); • asssessing whether recognition of grant revenue complies with relevant accounting standards; and • reviewing the appropriateness of disclosures made in the notes to the financial statements.
Capital programme	
The District Council continues to manage a significant capital programme. Accounting for capital projects, whether completed during the year or in progress at balance date, require judgements which can have	We will review the accounting for costs incurred on major capital projects. Our review will focus on assessing: • the reasonableness of assumptions and judgements used by management in

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Audit risk/issue	Our audit response
a significant impact on the financial statements. The District Council is responsible for managing the financial statement risks associated with capital projects. These include: • the classification of project costs as capital or operating. This includes identifying and expensing any additional costs incurred as the result of Covid-19 lockdowns; • capitalising work in progress balances in a timely manner, to ensure depreciation is charged from the time a project is commissioned; • whether any impairment is needed to be recognised on work in progress balances for projects that span an extended period of time; • that asset components are identified at an appropriate level, and appropriate useful lives are assigned to each component; and • capital commitments from projects are identified and disclosed.	classifying costs as either capital or operational; • whether the capitalisation point for completed assets is appropriate, including transfers from work in progress; • the reasonableness of depreciation rates and useful lives applied to asset components; and • the appropriateness of disclosures included within the financial statements, including those relating to capital commitments. We also intend to review delivery against the approved capital programme in year one of the District Council's 21-31 long-term plan.
Rates	
Rates are the District Council's primary funding source. Compliance with the Local Government (Rating) Act 2002 (LGRA) with rates setting and collection is critical to ensure that rates are validly set and not at risk of challenge. The Council should have appropriate processes in place to ensure this happens. Where issues or concerns arise, it should seek legal advice, to ensure compliance with legislation for its rates and rating processes.	We will again consider the Council's compliance with aspects of the LGRA that materially impact on the financial statements. Principally, this means we focus on the rates setting process – the consistency and completeness of the resolution and the Funding Impact Statement (FIS), and review of a sample of differentially set and/or targeted rates to assess whether the matters and factors used, are consistent with the LGRA. Our review of compliance with legislation is completed to express our audit opinion. It is not, and should not be seen, as a comprehensive legal review. This is beyond the scope of the audit, and our expertise as auditors. The Council has the responsibility to ensure that it complies with applicable laws and regulations.

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

Fraud risk

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

The primary responsibility for the prevention and detection of fraud and error rests with the Council, with assistance from management.

In this regard, we will discuss the following questions with you:

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

Our responsibility

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

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

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

Group audit

Our auditor's report covers the group as a whole. The Southland District Council group comprises the District Council, it's subsdiary Milford Community Trust, and its interests in the following joint arrangements, associates and joint ventures:

- Southland Regional Development Agency (trading as Great South);
- Southland Regional Heritage Committee;
- Emergency Management Southland; and
- WasteNet.

Our audit approach is developed to ensure we have sufficient information to give an opinion on the group as a whole. In designing our group audit approach, we considered the structure of the group and identified the entities which are included in the group financial statements. We have assessed the risks of material misstatement and have identified our approach for each component.

The table below outlines the components we have identified as significant in addition to the District Council itself. It also outlines the main risks we have identified from our planning procedures to date:

Significant component	Main risks
SRDA Group	This will be audited by an Appointed Auditor within Audit New Zealand. The main audit risks relevant to this component relate to the carrying values of physical and intangible assets, and the establishment of a new subsidiary entity Space Operations New Zealand Limited.

For non-significant components, we will perform analytical procedures at the group level to identify unexpected movements.

Our audit process

Initial planning

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

Understand your business and environment

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

Assess audit risk

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

Evaluate internal controls

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

Finalise the audit approach

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

Gather audit evidence

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

Conclude and report

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

Materiality

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

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

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

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

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

Financial statements materiality

Overall materiality	$149,100,000
Specific materiality	$2,750,000
Clearly trivial threshold	$137,000

For planning purposes we have set **overall materiality** for the financial statements at $149,100,000 based on the forecast carrying value of property, plant and equipment. This is subject to change once the actual results for the current year are available. For this audit we are only applying this overall materiality to the fair value of property, plant and equipment.

For this audit we have set a lower, **specific materiality** of $2,750,000 for all items not related to the fair value of property, plant and equipment. A lower specific materiality is also determined separately for some items due to their sensitive nature. For example, a lower specific materiality is determined and applied for related party and key management personnel disclosures.

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

We will report all uncorrected misstatements to the Council other than those that are **clearly trivial**. We consider misstatements of less than $137,000 to be clearly trivial unless there are qualitative considerations that heighten its significance. We will ask for each misstatement to be corrected, other than those that are clearly trivial. Where management does not wish to correct a misstatement, we will seek written representations from management and the Council on the reasons why the corrections will not be made.

Misstatements

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

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

Materiality for service performance information

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

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

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

Material measure	Materiality
Safety of drinking water The extent to which the local authority's drinking water supply complies with: a. part 4 of the drinking-water standards (bacteria compliance criteria), and b. part 5 of the drinking-water standards (protozoal compliance criteria).	For the overall measure quantitative materiality is not applicable. The reported result is to be qualitatively consistent with supporting information. For testing of transgressions we will apply a 5% materiality.

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Material measure	Materiality
Customer satisfaction of drinking water Customer complaints received by service provider about the perception of: a. drinking water clarity; b. drinking water taste; c. drinking water odour; d. drinking water pressure or flow; e. continuity of supply, and f. issues in drinking water (re customer complaints above) expressed per 1000 connections to the network.	8%
Customer satisfaction of Wastewater The total number of complaints received by Council about any of the following: a. sewerage odour; b. sewerage system faults; c. sewerage system blockages; and d. Council's response to issues (per 1000 connections to the respective sewerage system).	8%
Discharge compliance/ management of environmental impacts Compliance with the territorial authority's resource consents for discharge from its sewerage system measured by the number of: a. abatement notices; b. infringement notices; c. enforcement orders, and d. convictions, received by the territorial authority in relation to those resource consents.	Quantitative materiality is not applicable. The reported result is to be qualitatively consistent with supporting information.
Dry weather sewerage overflows The number of dry weather sewerage overflows from the territorial authority's sewerage system, expressed per 1000 sewerage connections to that sewerage system.	8%
Stormwater system adequacy a. the number of flooding events that occur in a TA district; and b. for each flooding event, the number of habitable floors affected. (Expressed per 1000 properties connected to the TA's stormwater system.)	10%
Road condition The average quality of ride on a sealed local road network, measured by smooth travel exposure.	8%

Material measure	Materiality
Percentage of gravel road tests where the roughness of the road meets acceptable standards.	8%
Road Safety The change from the previous financial year in the number of fatalities and serious injury crashes on the local road network, expressed as a number.	8%

Professional judgement and professional scepticism

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

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

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

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

How we consider compliance with laws and regulations

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

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

Wider public sector considerations

A public sector audit also examines whether:

- the District Council carries out its activities effectively and efficiently;

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

Reporting protocols

Communication with management and the Council

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

Reports to the Council

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

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

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

Audit logistics

Our team

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

Our senior audit team members are:

Chris Genet	Appointed Auditor
TBC	Audit Manager

In our fee letter dated 16 June 2021 we included an Engagement Quality Review (EQR) Director on the audit team. Following a recent amendment to the auditing standards that apply and consideration of the risk profile for your audit and have determined that an EQR is no longer needed. We can assure you that this change will not diminish the quality of our audit.

Timetable

Our proposed timetable is:

Draft financial statements available for audit (including notes to the financial statements) with actual year-end figures	TBC
Final audit begins	TBC
Final financial statements available, incorporating all the amendments agreed to between us	TBC
Annual report available, including any Chair and Chief Executive's overview or reports	TBC
Audit opinion issued	TBC
Draft report to Council issued	TBC

There is the possibility that, due to the shortage of auditors in the public sector, and the resequencing of public sector audits in line with the Auditor-General's sequencing framework there may be changes to the timetable proposed above. Where this arises, we will discuss a revised timetable with you at the earliest point we can.

Working remotely

Covid-19 restrictions, such as lockdowns, and resultant changes to our own and our client's work locations, including increasing numbers working from home since the start of the pandemic have meant we changed how we worked with our clients over the last two years.

Lockdowns meant that our clients and our auditors did not always have access to their premises and information and had to work remotely. For clients able to work remotely, with access to systems and electronic documentation, as well as being prepared for the audit, audits continued to progress and progress well.

Performing our audit work during higher alert level restrictions confirmed that aspects of our audit work can be done efficiently off-site. We plan to continue to perform aspects of your audit remotely as there are some benefits to you and us of having our team off-site for parts of the audit. For you these benefits include:

- Staging and sending the information we request for audit over an agreed period of time as opposed to having all the information requested ready for our arrival at one agreed date.
- Less time spent on travel, so we will have more time focus on auditing what matters and raising issues earlier.
- Reduction in disbursements as we will incur less travel and overnight costs.
- Less auditor time on site which allows you to get on with your work and enables planned focused conversations when these take place.

During the previous audit, we performed some of our audit work remotely. Based on our experience we found that the District Council has good systems and processes in place to facilitate any future off-site work by us.

We recognise different organisations are positioned differently to enable off-site audit work. We will be discussing and agreeing off-site working expectations in conjunction with our information requests with you as part of your 2022 audit. This will include our continued use of AuditDashboard to manage our information requests.

Expectations

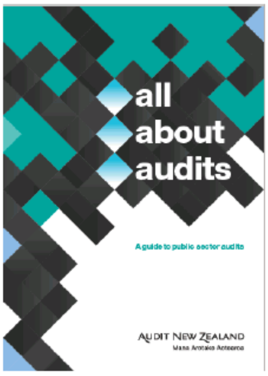
For the audit process to go smoothly for both you and us, there are expectations that each of us need to meet.

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

We expect that:

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

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



Health and safety

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

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

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

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

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PO Box 2
Christchurch 8140

www.auditnz.parliament.nz

Confirmation of engagement - Limited independent assurance report of Council's debenture trust deed for the year ended 30 June 2022

Record No: R/22/5/18459
Author: Sheree Marrah, Financial accountant
Approved by: Anne Robson, Chief financial officer

☒ Decision ☐ Recommendation ☐ Information

Purpose

1 To provide an overview of and seek authorisation of Audit New Zealand's (Audit NZ), confirmation of engagement letter for the limited independent assurance report of Council's debenture trust deed.

Executive summary

2 Audit NZ requires Council to confirm the terms of its engagement for the limited independent assurance report of Council's debenture trust deed, by way of a confirmation of engagement letter.

3 The confirmation letter outlines the scope, terms, responsibilities and logistics of the engagement for the year ended 30 June 2022.

4 This letter is required to be signed by the mayor and a representative of Covenant Trustee Services Limited (as trustee) and returned to Audit NZ to confirm Council's acceptance of the engagement terms.

5 A copy of Audit NZ's confirmation of engagement letter and associated documents are included as Attachment A.

Recommendation

That the Finance and Assurance Committee:

a) Receives the report titled "Confirmation of engagement - Limited independent assurance report of Council's debenture trust deed for the year ended 30 June 2022" dated 10 June 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 to delegate authority to the mayor to sign the Audit New Zealand confirmation of engagement letter for the limited independent assurance report of the debenture trust deed on Council's behalf.

Background

6 Audit NZ require a confirmation of engagement letter for the limited independent assurance report of Council's debenture trust deed. The cost of undertaking this work is in addition to the Annual Report audit fee.

7 The debenture trust was established in 2009 with assistance from Simpson Grierson in order to give Council a broader range of options for sourcing long term external funding. This is an established market security for lenders and similar trust deeds exist for various other Council's.

8 Under Section 12.2.6 of the debenture trust deed between Council and Covenant Trustee Services Limited (Councils trustee under the debenture trust deed, who act for the benefit of stockholders (those we owe money too)), Council is required to provide an independent auditors report on an annual basis.

9 A copy of the confirmation of engagement letter is included as Attachment A for your information.

10 The confirmation of engagement letter contains the following key sections:

- **scope of the engagement** – outlines the extent of the work to be undertaken by Audit NZ for this engagement
- **scope of the Council's, the trustee's and the auditor's responsibilities**
- **inherent limitation –** outlines the limitations that may occur
- **restricted use –** limits the use of the audit report to Council and the trustee only
- **independence and quality control** – outlines the independence, ethical standards and quality control requirements that Audit NZ will comply to

- **timetable** - the work will be completed concurrently with Council's statutory annual report audit, with sign off occurring soon after the adoption of Council's Annual Report
- **fees** – confirms fee for the engagement of $5,000
- **supporting documentation** – outlines the information Council needs to supply for the engagement
- **agreement** - Audit NZ require the mayor and a representative from Covenant Trustee Services Limited (as trustee) to sign this letter to confirm their acceptance of the terms in the confirmation of engagement letter.

11 Included as Appendix 1 of Audit NZ's confirmation of engagement letter is a draft unqualified limited independent assurance report which will be issued to Council at the conclusion of the engagement (subject to successful completion of the necessary fieldwork), as well as a copy of the original signed engagement letter for the period 30 June 2020 to 30 June 2022.

Issues

12 No issues have been identified, the terms of the engagement are consistent with prior years.

Factors to consider

Legal and Statutory requirements

13 Under Section 12.2.6 of the of the debenture trust deed between Southland District Council and Covenant Trustee Services Limited, Council are required to provide an auditor's report on the compliance with the debenture trust deed for the year ended 30 June 2022.

Community views

14 This matter has no impact on community views.

Costs and funding

15 The cost of the limited independent assurance report of the debenture trust deed is $5,000 (GST excl). Council has allowed for this cost within the annual audit fees budget.

Policy implications

16 There are no policy implications.

Analysis of options

Options considered

17 There are two options to be considered in this report as outlined below.

Option 1 – Accept the terms of Audit NZ's confirmation of engagement letter for the Limited Independent Assurance Report in respect of the debenture trust deed.

Advantages	*Disadvantages*
• timely receipt of the Limited Independent Assurance Report for Council's debenture trust deed • meet our obligation to provide an independent auditor's report under Section 12.2.6 of the debenture trust deed.	• no disadvantages.

Option 2 – Do not accept the terms of Audit NZ's confirmation of engagement letter for the Limited Independent Assurance Report in respect of the debenture trust deed.

Advantages	*Disadvantages*
• if the committee want to make changes to the proposed arrangements these can be discussed with Audit NZ prior to signing.	• Audit NZ may be unable to provide the Limited Independent Assurance Report for Council's debenture trust deed • Council may fail to meet its obligation to provide an independent auditor's report under Section 12.2.6 of the debenture trust deed.

Assessment of significance

18 This matter is not considered significant in terms of Council's significance and engagement policy.

Recommended option

19 Option 1 - Accept the terms of Audit NZ's confirmation of engagement letter for the limited independent assurance report in respect of the debenture trust deed.

Next Steps

20 Mayor Tong will sign the confirmation of engagement letter on behalf of Council and then it will be forwarded to Covenant Trustee Services Limited for signature. Once signed, the letter will be returned to Audit NZ.

21 Audit NZ will undertake their fieldwork for this engagement as soon as possible once Southland District Council has signed the financial statements and performance information and provided Audit NZ with the Reporting Certificate given on behalf of Southland District Council pursuant to clause 12.2.4 of the Trust Deed.

Attachments

A Debenture Trust deed - confirmation of engagement letter for the year ended 30 June 2022 ⇩

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

26 May 2022

Level 3, 335 Lincoln Road
Addington
PO Box 2, Christchurch 8140

The District Council
Southland District Council
PO Box 903
Invercargill 9840

The Board of Directors
Covenant Trustee Services Limited
PO Box 4243
Shortland Street
Auckland 1010

Dear Councillors and Directors

Confirmation of engagement – Limited Independent Assurance Report in respect of Southland District Council's Debenture Trust Deed

The purpose of this letter is to confirm our understanding of our mutual responsibilities arising from your request to provide a report (the Report) under clause 12.2.6 of the Debenture Trust Deed between Covenant Trustee Services Limited, (the Trustee) and Southland District Council dated 22 December 2009 (the Trust Deed).

The purpose of this letter is to confirm the terms of our Limited Independent Assurance Engagement and the nature of, and limitations to the services that we will provide. All services are provided subject to the terms and limitations set out in this letter (including any appendices).

Scope of the engagement

The Auditor-General is the auditor of Southland District Council pursuant to the Public Audit Act 2001. The Auditor-General has appointed me, Chris Genet, using the staff and resources of Audit New Zealand to carry out the audit of the financial statements and performance information of Southland District Council.

The objective of the audit of the financial statements and performance information, which is the subject of a separate letter of engagement with Southland District Council dated 18 May 2020 (attached as Appendix 2), is to report our opinion on those financial statements and performance information on behalf of the Auditor-General.

A business unit of the Controller and Auditor-General | www.auditnz.parliament.nz

As auditors appointed for the audit of the financial statements and performance information, we are not responsible for:

- the preparation of the financial statements and performance information of Southland District Council;
- any Reporting Certificate(s) issued to the Trustee by Southland District Council;
- Southland District Council's compliance with the Trust Deed; or
- the obligations of the Trustee, as defined in the Trust Deed and relevant legislation, or the Trustee's execution of those responsibilities in accordance with the Trust Deed and relevant legislation.

The procedures performed when carrying out the audit of the financial statements and performance information of Southland District Council are not designed to assess whether Southland District Council has complied with the Trust Deed or to make an evaluation of the Reporting Certificate(s) Southland District Council issued to the Trustee.

The scope of this Limited Independent Assurance Engagement is to report on certain matters stated in clause 12 of the Trust Deed based on information obtained as a by-product of the audit of the financial statements and performance information of Southland District Council for the year ending 30 June 2022.

For the purpose of providing our Limited Assurance report (report), (example attached as Appendix 1), other than as expressly stated in the section below titled "Scope of the Auditor's Responsibilities under the Trust Deed", we will not perform any further procedures beyond those required to complete the audit of the financial statements and performance information of Southland District Council.

In the performance of our duties as auditors, unless expressly stated, we do not perform any work at the time Southland District Council's Reporting Certificate for the year ended 30 June 2022 is prepared. Accordingly, our statements contained in the Report in relation to the matters addressed in clause 12.2.6 of the Trust Deed must be viewed in that context.

Scope of Southland District Council's responsibilities

Southland District Council is required to provide a copy of the annual report, which includes the audited financial statements and performance information of Southland District Council and our audit opinion, to the Trustee under clause 12.2.1 of the Trust Deed.

Southland District Council is responsible for preparing Reporting Certificates to the Trustee in accordance with clause 12.2.4 of the Trust Deed. Southland District Council is responsible for such internal control as is determined necessary to ensure compliance with the requirements of the Trust Deed and also to enable the preparation of Reporting Certificates that are free from material misstatement, whether due to fraud or error.

Southland District Council is responsible for keeping the Register and ensuring that it is separately audited in accordance with clause 4.2.8 of the Trust Deed.

Southland District Council is required to comply with the full requirements of the Trust Deed, including the continuing covenants and reporting requirements.

Southland District Council is responsible for interpreting the clauses and definitions in the Trust Deed. We make no representations as to whether these interpretations of the Trust Deed are appropriate.

Scope of the Trustee's responsibilities

The Trustee monitors Southland District Council's compliance under the terms of the Trust Deed. The terms of the Trust Deed were agreed by the Trustee and Southland District Council. We are not a signatory to the Trust Deed and we were not consulted about the terms of the Trust Deed. We therefore take no responsibility for the adequacy of the terms of the Trust Deed for monitoring Southland District Council.

The receipt of the Limited Independent Assurance Report and the audited financial statements and performance information of Southland District Council, and any reliance on the audit opinion contained in our auditor's report attached to those audited financial statements and performance information, does not relieve the Trustee of its responsibilities under the Trust Deed and relevant legislation.

The Financial Markets Authority (FMA) issued a guidance note titled "Monitoring by Securities Trustees and Statutory Supervisors"[1]. This guidance note sets out the FMA's expectations about how Trustees will carry out their monitoring functions effectively. Where applicable, it is the Trustee's responsibility to meet the FMA's expectations as set out in the guidance note.

Scope of the Auditor's responsibilities

Our responsibility is to express a limited assurance conclusion based on the procedures we will perform and the evidence we will obtain. We will conduct our limited assurance engagement in accordance with the International Standard on Assurance Engagements (New Zealand) 3000 (Revised): *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the New Zealand Auditing and Assurance Standards Board. A copy of this standard is available on the External Reporting Board's website.

A limited assurance engagement is not an audit and the procedures that will be performed are substantially less than for an audit where reasonable assurance is provided. As a result, the level of assurance that will be obtained is substantially lower than the assurance that would have been obtained had an audit been performed.

We will report to you on the following specific matters under clause 12 of the Trust Deed:

---

[1] Please refer to the FMA website for a copy of the guidance note titled "Monitoring by Securities Trustees and Statutory Supervisors" (2013).

- From our perusal of the Reporting Certificate dated 30 June 2022 given on behalf of Southland District Council pursuant to clause 12.2.4 and, as far as matters that we will observe in the performance of our duties as auditors are concerned, whether anything is brought to our attention to indicate that the statements made in such Reporting Certificate are not materially correct.

  In meeting this responsibility we will agree the total amount of all categories of stock in the Reporting Certificate dated 30 June 2022 with Link Market Services.

  With reference to the other assertions the Chief Executive will make in the Reporting Certificate our procedures will be limited to talking to management and considering any issues which might have come to our attention as a by-product of the Statutory Audit Engagement.

- Whether, in performing our duties as auditors, we have:

  - become aware of any matters which, in our opinion, are relevant to the exercise or performance of the powers or duties conferred or imposed on the Trustee; and

  - disclosed any matter that, in our opinion, calls for further investigation by the Trustee in the interests of the Stockholders.

  In meeting this responsibility, our procedures will be limited to talking to management and considering any issues which might come to our attention as a by-product of the audit of the financial statements and performance information.

- As at the end of the financial year, from the audit procedures performed as part of the audit of the financial statements and performance information, whether anything came to our attention to indicate that, in all material respects, principal money due and payable on the Stock and interest due and payable on the Stock, had not been paid.

  We will not test that each individual Stockholder has received all monies due and payable to them.

- Whether Southland District Council's agents have maintained the Register in accordance with the requirements of the Trust Deed.

- Southland District Council is responsible for maintaining the Register and ensuring it is separately audited in accordance with clause 4.2.8.

  We will not audit the Register for the year ended 30 June 2022. Our procedures will be limited to asking Southland District Council for a copy of the audit report about the audit of the Register.

- As at 30 June 2022:

  - the amount of Stock and how much is Security Stock and Bearer Stock; and

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  - the Principal Money owing or secured under the Stock distinguishing between Security Stock and other categories of Stock.

In meeting this responsibility, we will agree the total of all categories of Stock with Link Market Services. We will not test that each individual Stockholder has received all monies due and payable to them.

Our Limited Independent Assurance Engagement to provide the Report will be completed in accordance with the scope defined in this letter and any reliance on the Report can only be in the context of the scope as defined. The Report will therefore not be suitable for any other purpose.

Inherent limitations

We will report to you as accountants, not lawyers. Accordingly we are not aware of all the powers and duties of trustees which may exist in statute, regulation, case law, legal precedent or otherwise.

Because of the inherent limitations in evidence gathering procedures, it is possible that fraud, error or non-compliance may occur and not be detected. As the procedures performed for this engagement will not be performed continuously throughout the period and the procedures performed in respect of Southland District Council's compliance with the Trust Deed will be undertaken on a test basis (that is, we will not check every transaction), our Report cannot be relied on to detect all instances where Southland District Council may not have complied with the requirements of the Trust Deed. Our Conclusion will be formed on the above basis.

Restricted use

Our Report will be addressed to Southland District Council and the Trustee. This Report has been prepared solely for Southland District Council and the Trustee in accordance with the requirements of clauses 12.2.6 of the Trust Deed. We disclaim any assumption of responsibility for any reliance on this report to any persons other than Southland District Council and the Trustee or for any purpose other than that for which it was prepared.

Our Report is not to be copied or made available (in whole or in part), or recited or referred to in any document, made available to any other person, without our prior written consent except as may be required by law. In addition, we will take no responsibility for, nor do we report on, any part of the Trust Deed not specifically mentioned in the report.

Independence and quality control

We will comply with the Auditor-General's:

- Independence and other ethical requirements, which incorporate the independence and ethical requirements of Professional and Ethical Standard 1 issued by the New Zealand Auditing and Assurance Standards Board; and

- Quality control requirements, which incorporate the quality control requirements of Professional and Ethical Standard 3 (Amended) issued by the New Zealand Auditing and Assurance Standards Board.

Timetable

Our work will be completed concurrently with the audit of the financial statements and performance information. We will complete our Report as soon as possible once Southland District Council has signed the financial statements and performance information and provided us with the Reporting Certificate given on behalf of Southland District Council pursuant to clause 12.2.4 of the Trust Deed.

Fees

The fee will be payable by Southland District Council for this Limited Assurance Engagement. The total fee is estimated to be $5,000.

Supporting documentation required

In order to complete this engagement we will need access certain information and documentation that council should have in its files supporting its reporting certificate. Please refer to Appendix 3 for details of the information and documentation we will need.

Agreement

If you have any questions about this letter, please contact me. Please confirm your agreement to the terms and limitations of this engagement letter by signing below and returning a copy to us.

Yours faithfully

Chris Genet
Audit New Zealand
On behalf of the Auditor-General
Christchurch, New Zealand

Southland District Council acceptance

Southland District Council confirms and accepts the engagement of Audit New Zealand to provide the services on the terms and conditions set out in this engagement letter.

____
(Signature)

____
(Name)

____
(Position)

Trustee acceptance

Covenant Trustee Services Limited as Trustee for Southland District Council confirms and accepts the engagement of Audit New Zealand to provide the services on the terms and conditions set out in this engagement letter.

Covenant Trustee Services Limited has entered into this letter of engagement in its capacity as Trustee of Southland District Council and accordingly its liability shall not be personal and unlimited but shall be limited to the assets of Southland District Council available to it from time to time in that capacity.

____
(Signature)

____
(Name)

____
(Position)

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Appendix 1: Indicative Report

Limited Independent Assurance Report

To Southland District Council and to Covenant Trustee Services Limited in respect of Southland District Council's Debenture Trust Deed for the year ended 30 June 2022

The Auditor-General is the auditor of Southland District Council (the Council) pursuant to the Public Audit Act 2001. The Auditor-General has appointed me, Chris Genet, using the staff and resources of Audit New Zealand to undertake a limited assurance engagement, on his behalf as required by clauses 12.2.6 of the Debenture Trust Deed dated 22 December 2009 (the Trust Deed), for the year ended 30 June 2022.

Southland District Council's responsibilities

Southland District Council is required to provide a copy of the annual report, which includes the audited financial statements of Southland District Council and our audit opinion, to the Covenant Trustee Services Limited (Trustee) under clause 12.2.1 of the Trust Deed.

Southland District Council is responsible for preparing Reporting Certificates to the Trustee in accordance with clause 12.2.4 of the Trust Deed. Southland District Council is responsible for such internal control as is determined necessary to ensure compliance with the requirements of the Trust Deed and also to enable the preparation of Reporting Certificates that are free from material misstatement, whether due to fraud or error.

Southland District Council is responsible for keeping the Register and ensuring that it is separately audited in accordance with clause 4.2.8 of the Trust Deed.

Southland District Council is required to comply with the full requirements of the Trust Deed, including the continuing covenants and reporting requirements.

Southland District Council is responsible for interpreting the clauses and definitions in the Trust Deed. We make no representations as to whether these interpretations of the Trust Deed are appropriate.

Trustee's responsibilities

The Trustee monitors Southland District Council's compliance under the terms of the Trust Deed. The terms of the Trust Deed were agreed by the Trustee and Southland District Council. We are not a signatory to the Trust Deed and we were not consulted about the terms of the Trust Deed. We therefore take no responsibility for the adequacy of the terms of the Trust Deed for monitoring Southland District Council.

The receipt of this Limited Independent Assurance Report (Report) and the audited financial statements of the Southland District Council, and any reliance on the audit opinion contained in our auditor's report attached to those audited financial statements, does not relieve the Trustee of its responsibilities under the Trust Deed and relevant legislation.

The Financial Markets Authority (FMA) issued a guidance note titled "Monitoring by Securities Trustees and Statutory Supervisors"[2]. This guidance note sets out the FMA's expectations about how Trustees will carry out their monitoring functions effectively. Where applicable, it is the Trustee's responsibility to meet the FMA's expectations as set out in the guidance note.

Auditor's responsibilities

Our responsibility is to express a limited assurance conclusion based on the procedures we have performed and the evidence we have obtained. We conducted our limited assurance engagement in accordance with the International Standard on Assurance Engagements (New Zealand) 3000 (Revised): *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the New Zealand Auditing and Assurance Standards Board. A copy of this standard is available on the External Reporting Board's website.

A limited assurance engagement is not an audit and the procedures that have been performed are substantially less than for an audit where reasonable assurance is provided. As a result, the level of assurance that has been obtained is substantially lower than the assurance that would have been obtained had an audit been performed.

The procedures performed when carrying out the audit of the financial statements of Southland District Council are not designed to assess whether Southland District Council has complied with the Trust Deed or to make an evaluation of the Reporting Certificate(s) Southland District Council issued to the Trustee.

The scope of this Limited Independent Assurance Engagement is to report on certain matters stated in clause 12.2.6 of the Trust Deed based on information obtained as a by-product of our engagement to perform the audit of the financial statements of Southland District Council for the year ended 30 June 2022 (Statutory Audit Engagement).

For the purpose of providing our Report, unless expressly stated, we have not performed any further procedures beyond those required to complete the Statutory Audit Engagement of Southland District Council.

In the performance of our duties as auditors, unless expressly stated, we do not perform any work at the time the Reporting Certificate for the year ended 30 June 2022 is prepared by Southland District Council. Accordingly, our statements contained in the Report in relation to the matters addressed in clause 12.2.6 of the Trust Deed must be viewed in that context.

[2] Please refer to the FMA website for a copy of the guidance note titled "Monitoring by Securities Trustees and Statutory Supervisors" (2013).

Our responsibility under clause 12.2.6 of the Trust Deed is to:

- From our perusal of the Reporting Certificate dated 30 June 2022 given on behalf of Southland District Council pursuant to clause 12.2.4 and, as far as matters that we will observe in the performance of our duties as auditors are concerned, report whether anything is brought to our attention to indicate that the statements made in such Reporting Certificate are not materially correct.

  In meeting this responsibility we agreed the total amount of all categories of Stock in the Reporting Certificate dated 30 June 2022 with Link Marketing Services.

- Report whether, in performing our duties as auditors, we have:

  - become aware of any matters which, in our opinion, are relevant to the exercise or performance of the powers or duties conferred or imposed on the Trustee; and

  - disclosed any matter that, in our opinion, calls for further investigation by the Trustee in the interests of the Stockholders.

  In meeting this responsibility, our procedures have been limited to talking to management and considering any issues which might have come to our attention as a by-product of the Statutory Audit Engagement.

- Report, as at the end of the financial year, from the audit procedures performed as part of our Statutory Audit Engagement, whether anything came to our attention to indicate that, in all material respects, principal money due and payable on the Stock and interest due and payable on the Stock had not been paid.

  We have not tested that each individual Stockholder has received all monies due and payable to them.

- Report whether the Southland District Council's agents have maintained the Register in accordance with the requirements of the Trust Deed.

  Southland District Council is responsible for maintaining the Register and ensuring it is separately audited in accordance with clause 4.2.8.

  We are not the auditor of the Register. Our procedures were limited to asking Southland District Council for a copy of the audit report about the Register.

- Report as at 30 June 2022:

  - the amount of Stock and how much is Security Stock and Bearer Stock; and

  - the Principal Money owing or secured under the Stock distinguishing between Security Stock and other categories of Stock.

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In meeting this responsibility, we have agreed the total of all categories of Stock with Link Marketing Services. We have not tested that each individual Stockholder has received all monies due and payable to them.

Inherent limitations

We report to you as accountants, not lawyers. Accordingly we are not aware of all the powers and duties of trustees which may exist in statute, regulation, case law, legal precedent or otherwise.

Because of the inherent limitations in evidence gathering procedures, it is possible that fraud, error or non-compliance may occur and not be detected. As the procedures performed for this engagement are not performed continuously throughout the period and the procedures performed in respect of the Council's compliance with the Trust Deed are undertaken on a test basis (that is, we do not check every transaction), our Report cannot be relied on to detect all instances where the Council may not have complied with the requirements of the Trust Deed. Our Conclusion has been formed on the above basis.

Restricted use

This Report has been prepared solely for the Council and the Trustee in accordance with the requirements of clauses 12.2.6 of the Trust Deed. We disclaim any assumption of responsibility for any reliance on this report to any persons other than the Council and the Trustee or for any purpose other than that for which it was prepared.

Limited assurance conclusion

Based on our work described in this report, nothing has come to our attention that causes us to believe that:

- The statements made by Southland District Council in the Reporting Certificate dated 30 June 2022 pursuant to clause 12.2.4 are materially incorrect (Reporting Certificate dated 30 June 2022 is given in Appendix 1).
- There are any matters which, in our opinion, are relevant to the exercise or performance of the powers or duties conferred or imposed on the Trustee.
- There are any matters that, in our opinion, calls for further investigation by the Trustee in the interests of the Stockholders.
- In all material respects, that Southland District Council has not paid all principal money due and payable on the Stock and all interest due and payable on the Stock.

Our Limited Independent Assurance Engagement was completed on [date] and our conclusion is expressed as at that date.

The Register and Stock

The Council has provided us with a copy of the audit report about the Register(s). Please refer to Appendix 2 for a copy of the audit report about the Register(s).

Based on the work described in this report, as at 30 June 2022 the following balances are given:

○ Total stock of	xxxx
This is comprised of:	
○ Security stock of	xxxx
○ Bearer stock of	xxxx
○ Other stock of	xxxx
○ Security stock (Local Government Funding Agency stock) of	xxxx

Based on the work described in this report, as at 30 June 2022 the following balances are given:

Total Principal Money owing and secured under the stock of	xxxx
This is comprised of:	
○ Security stock of	xxxx
○ Bearer Stock of	xxxx
○ Other stock of	xxxx
○ Security stock (Local Government Funding Agency stock) of	xxxx

Independence and quality control

We complied with the Auditor-General's:

- independence and other ethical requirements, which incorporate the independence and ethical requirements of Professional and Ethical Standard 1 issued by the New Zealand Auditing and Assurance Standards Board; and
- quality control requirements, which incorporate the quality control requirements of Professional and Ethical Standard 3 (Amended) issued by the New Zealand Auditing and Assurance Standards Board.

In addition to this engagement, we performed the annual audit of the Council's financial statements and performance information, and consultation document and long-term plan. Other than these engagements, we have no relationship with or interests in the Council or any of its subsidiaries or the Trustee.

Chris Genet
Audit New Zealand
On behalf of the Auditor-General
Christchurch, New Zealand

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Appendix 2: Engagement letter – Audit of the financial statements and performance information

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Level 1, 399 Moray Place
PO Box 232, Dunedin 9054

18 May 2020

Gary Tong
Mayor
Southland District Council
PO Box 903
Invercargill 9840

Dear Gary

Audit engagement letter

This audit engagement letter is sent to you on behalf of the Auditor-General who is the auditor of all "public entities", including Southland District Council and Group (SDC), under section 14 of the Public Audit Act 2001 (the Act). The Auditor-General has appointed me, Dereck Ollsson, using the staff and resources of Audit New Zealand, under sections 32 and 33 of the Act, to carry out the annual audits of SDC's financial statements and performance information. We will be carrying out these annual audits on the Auditor-General's behalf, for the years ending 30 June 2020 to 30 June 2022.

This letter outlines:

- the terms of the audit engagement and the nature, and limitations, of the annual audit; and
- the respective responsibilities of the governing body (the council) and me, as the Appointed Auditor, for the financial statements and performance information.

The objectives of the annual audit are:

- to provide an independent opinion on the SDC's financial statements and performance information; and
- to report on other matters that come to our attention as part of the annual audit (typically those matters will relate to issues of financial management and accountability).

We will carry out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board (collectively the Auditing Standards). The Auditing Standards require that we comply with ethical requirements, and plan and perform the annual audit to obtain reasonable assurance about whether the SDC's financial statements and performance information are free from material misstatement. The Auditing Standards also require that we remain alert to issues of concern to the Auditor-General. Such issues tend to relate to matters of financial management and accountability.

The council's responsibilities

Our audit will be carried out on the basis that the council, as the governing body, acknowledges that it has responsibility for:

- preparing the financial statements and performance information in accordance with any applicable legal requirements and financial reporting standards;
- having such internal control as determined necessary to enable the preparation of financial statements and performance information that are free from material misstatement, whether due to fraud or error; and
- providing us with:
    - access to all information relevant to preparing the financial statements and performance information such as records, documentation, and other information;
    - all other information, in addition to the financial statements and performance information, to be included in the annual report;
    - additional information that we may request from the SDC for the purpose of the audit;
    - unrestricted access to council members and employees that we consider necessary; and
    - written confirmation concerning representations made to us in connection with the audit.

In addition, the council is responsible for:

- the preparation of the summary financial statements and summary performance information;
- making the audited summary financial statements and summary performance information readily available to the intended users of that information; and
- including our audit report on the summary financial statements and summary performance information in any document that contains that information and that indicates that we have reported on that information.

The council's responsibilities extend to all resources, activities, and entities under its control. We expect that the council will ensure:

- the resources, activities, and entities under its control have been operating effectively and efficiently;
- it has complied with its statutory obligations including laws, regulations, and contractual requirements;
- it has carried out its decisions and actions with due regard to minimising waste;

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- it has met Parliament's and the public's expectations of appropriate standards of behaviour in the public sector in that it has carried out its decisions and actions with due regard to probity; and
- its decisions and actions have been taken with due regard to financial prudence.

We expect the council and/or the individuals within the SDC with delegated authority, to immediately inform us of any suspected fraud, where there is a reasonable basis that suspected fraud has occurred – regardless of the amount involved. Suspected fraud also includes instances of bribery and/or corruption.

The council has certain responsibilities relating to the preparation of the financial statements and performance information and in respect of financial management and accountability matters. These specific responsibilities are set out in Appendix 1. Appendix 2 contains some additional responsibilities relating to the health and safety of audit staff. We expect members of the council to be familiar with those responsibilities and, where necessary, have obtained advice about them.

The council should have documented policies and procedures to support its responsibilities. It should also regularly monitor performance against its objectives.

Our responsibilities

Carrying out the audit

We are responsible for forming an independent opinion on whether the financial statements of the SDC:

- present fairly, in all material respects:
  - its financial position; and
  - its financial performance and cash flows for the financial year; and
- comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Standards.

We are also responsible for forming an independent opinion on whether the performance information of SDC:

- presents fairly, in all material respects, the performance for the financial year, including:
  - its performance achievements as compared with the intended levels of service for the financial year; and
  - its actual revenue and expenses as compared with the forecasts included in the long-term plan and annual plan for the financial year; and
- complies with generally accepted accounting practice in New Zealand.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements and performance information. How we obtain this information depends on our judgement, including

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our assessment of the risks of material misstatement of the financial statements and performance information, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements and performance information.

We do not examine every transaction, nor do we guarantee complete accuracy of the financial statements and performance information. Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with the Auditing Standards.

During the audit, we obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the SDC's internal controls. However, we will communicate to you in writing about any significant deficiencies in internal control relevant to the audit of the financial statements and performance information that we identify during the audit.

During the audit, the audit team will:

- be alert for issues of effectiveness and efficiency – in particular, how the council and the SDC have carried out their activities;
- consider laws and regulations relevant to the audit;
- be alert for issues of waste – in particular, whether the council obtained and applied the resources of the SDC in an economical manner, and whether any resources are being wasted;
- be alert for issues of a lack of probity – in particular, whether the council and the SDC have met Parliament's and the public's expectations of appropriate standards of behaviour in the public sector; and
- be alert for issues of a lack of financial prudence.

Our independence

It is essential that the audit team and Audit New Zealand remain both economically and attitudinally independent of SDC; including being independent of management personnel and members of the council). This involves being, and appearing to be, free of any interest that might be regarded, whatever its actual effect, as being incompatible with the objectivity of the audit team and the Audit New Zealand.

To protect our independence, specific limitations are placed on us in accepting engagements with the council other than the annual audit. We may accept certain types of other engagements, subject to the requirements of the Auditing Standards. Any other engagements must be the subject of a separate written arrangement between the council and me or Audit New Zealand.

Reporting

We will issue an independent audit report that will be attached to the financial statements and performance information. This report contains our opinion on the fair presentation of the financial statements and performance information and whether they comply with the applicable reporting requirements. The audit report may also include comment on other financial management and accountability matters that we consider may be of interest to the addressee of the audit report.

In addition, we will issue an audit report that will be attached to the summary financial statements and summary performance information. This audit report will contain an opinion that provides the same level of assurance as the audit report on the full financial statements and full performance information.

We will also issue a management letter that will be sent to the council. This letter communicates any matters that come to our attention during the audit that, in our opinion, are relevant to the council. Typically, those matters will relate to issues of financial management and accountability. We may also provide other management letters to SDC from time to time. We will inform the council of any other management letters we have issued.

Please note that the Auditor-General may publicly report matters that are identified in the annual audit, in keeping with section 21 of the Public Audit Act 2001.

Next steps

Please acknowledge receipt of this letter and the terms of the audit engagement by signing the letter in the space provided and returning a copy to me. The terms will remain effective until a new audit engagement letter is issued.

If you have any questions about the audit generally, or have any concerns about the quality of the audit, you should contact me as soon as possible. If, after contacting me, you still have concerns, you should contact the Director of Auditor Appointments at the Office of the Auditor-General on (04) 917 1500.

If you require any further information, or wish to discuss the terms of the audit engagement further before replying, please do not hesitate to contact me.

Yours sincerely

Dereck Ollsson
Associate Auditor
On behalf of the Auditor-General

I acknowledge the terms of this engagement and that I have the required authority on behalf of the council.

Signed ______________________ Date 23 JUNE 2020.

Gary Tong
Mayor
Southland District Council

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Appendix 1: Respective specific responsibilities of the council (the governing body) and the Appointed Auditor

<table>
<tr><th>Responsibilities of the council</th><th>Responsibility of the Appointed Auditor</th></tr>
<tr><td colspan="2">Responsibilities for the financial statements and performance information</td></tr>
<tr><td>You are required by legislation to prepare financial statements and performance information in accordance with legal requirements and financial reporting standards.

You must also ensure that any accompanying information in the annual report is consistent with that reported in the audited financial statements and performance information.

You are required by legislation to prepare the financial statements and performance information and provide that information to us before the statutory reporting deadline. It is normal practice for you to set your own timetable to comply with statutory reporting deadlines. To meet the reporting deadlines, we are dependent on receiving the financial statements and performance information ready for audit and in enough time to enable the audit to be completed. "Ready for audit" means that the financial statements and performance information have been prepared in accordance with legal requirements and financial reporting standards, and are supported by proper accounting records and complete evidential documentation.</td><td>We are responsible for carrying out an annual audit, on behalf of the Auditor-General. We are responsible for forming an independent opinion on whether the financial statements:
• present fairly, in all material respects:
  o the financial position; and
  o the financial performance and cash flows for the financial year; and
• comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Standards.

We are also responsible for forming an independent opinion on whether the performance information:
• presents fairly, in all material respects, the performance for the financial year, including:
  o the performance achievements as compared with the intended levels of service for the financial year; and
  o the actual revenue and expenses as compared with the forecasts included in the long-term plan and annual plan for the financial year; and
• complies with generally accepted accounting practice in New Zealand.

We will also read the other information accompanying the financial statements and performance information and consider whether there are material inconsistencies with the audited financial statements and performance information.</td></tr>
<tr><td></td><td>Materiality is one of the main factors affecting our judgement on the areas to be tested and on the timing, nature, and extent of the tests and procedures performed during the audit. In planning and performing the annual audit, we aim to obtain reasonable assurance that the financial statements and performance information do not have material misstatements caused by either fraud or error.</td></tr>
</table>

Responsibilities of the council	Responsibility of the Appointed Auditor
	Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence the audit report addressee's overall understanding of the financial statements and performance information. If we find material misstatements that are not corrected, they will be referred to in the audit opinion. The Auditor-General's preference is for you to correct any material misstatements and avoid the need for them to be referred to in the audit opinion. An audit also involves evaluating: • the appropriateness of accounting policies used and whether they have been consistently applied; • the reasonableness of the significant accounting estimates and judgements made by those charged with governance; • the appropriateness of the content and measures in any performance information; • the adequacy of the disclosures in the financial statements and performance information; and • the overall presentation of the financial statements and performance information. We will ask you for written confirmation of representations made about the financial statements and performance information. In particular, we will seek confirmation that: • the adoption of the going concern basis of accounting is appropriate; • all material transactions have been recorded and are reflected in the financial statements and performance information; • all instances of non-compliance or suspected non-compliance with laws and regulations have been disclosed to us; and • uncorrected misstatements noted during the audit are immaterial to the financial statements and performance information. Any representation made does not in any way reduce our responsibility to perform appropriate audit procedures and enquiries. We will ensure that the annual audit is completed by the reporting deadline or, if that is not practicable because of the non-receipt or condition of the

Responsibilities of the council	Responsibility of the Appointed Auditor
	financial statements and performance information, or for some other reason beyond our control, as soon as possible after that. The work papers that we produce in carrying out the audit are the property of the Auditor-General. Work papers are confidential to the Auditor-General and subject to the disclosure provisions in section 30 of the Public Audit Act 2001.
Responsibilities for the accounting records	
You are responsible for maintaining accounting and other records that: • correctly record and explain the transactions of SDC; • enable you to monitor the resources, activities, and entities under your control; • enable SDC's financial position to be determined with reasonable accuracy at any time; • enable you to prepare financial statements and performance information that comply with legislation (and that allow the financial statements and performance information to be readily and properly audited); and • are in keeping with the requirements of the Commissioner of Inland Revenue.	We will perform sufficient tests to obtain reasonable assurance as to whether the underlying records are reliable and adequate as a basis for preparing the financial statements and performance information. If, in our opinion, the records are not reliable or accurate enough to enable the preparation of the financial statements and performance information and the necessary evidence cannot be obtained by other means, we will need to consider the effect on the audit opinion.
Responsibilities for accounting and internal control systems	
You are responsible for establishing and maintaining accounting and internal control systems (appropriate to the size of SDC), supported by written policies and procedures, designed to provide reasonable assurance as to the integrity and reliability of financial and performance information reporting.	The annual audit is not designed to identify all significant weaknesses in your accounting and internal control systems. We will review the accounting and internal control systems only to the extent required to express an opinion on the financial statements and performance information. We will report to you separately, on any significant weaknesses in the accounting and internal control systems that come to our notice and that we consider may be relevant to you. Any such report will provide constructive recommendations to assist you to address those weaknesses.
Responsibilities for preventing and detecting fraud and error	
The responsibility for the prevention and detection of fraud and error rests with you,	We design our audit to obtain reasonable, but not absolute, assurance of detecting fraud or error that

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Responsibilities of the council	Responsibility of the Appointed Auditor
through the implementation and continued operation of adequate internal control systems (appropriate to the size of SDC) supported by written policies and procedures. We expect you to formally address the matter of fraud, and formulate an appropriate policy on how to minimise it and (if it occurs) how it will be dealt with. Fraud also includes bribery and corruption. We expect you to consider reporting all instances of actual, suspected, or alleged fraud to the appropriate law enforcement agency, which will decide whether proceedings for a criminal offence should be instituted. We expect you to immediately inform us of any suspected fraud where you, and/or any individuals within SDC with delegated authority have a reasonable basis that suspected fraud has occurred – regardless of the amount involved.	would have a material effect on the financial statements and performance information. We will review the accounting and internal control systems only to the extent required for them to express an opinion on the financial statements and performance information, but we will: • obtain an understanding of internal control and assess its ability for preventing and detecting material fraud and error; and • report to you any significant weaknesses in internal control that come to our notice. We are required to immediately advise the Office of the Auditor-General of all instances of actual, suspected, or alleged fraud. As part of the audit, you will be asked for written confirmation that you have disclosed all known instances of actual, suspected, or alleged fraud to us. If we become aware of the possible existence of fraud, whether through applying audit procedures, advice from you, or management, or by any other means, we will communicate this to you with the expectation that you will consider whether it is appropriate to report the fraud to the appropriate law enforcement agency. In the event that you do not report the fraud to the appropriate law enforcement agency, the Auditor-General will consider doing so, if it is appropriate for the purposes of protecting the interests of the public.
Responsibilities for compliance with laws and regulations	
You are responsible for ensuring that SDC has systems, policies, and procedures (appropriate to the size of SDC) to ensure that all applicable legislative, regulatory, and contractual requirements that apply to the activities and functions of SDC are complied with. Such systems, policies, and procedures should be documented.	We will obtain an understanding of the systems, policies, and procedures put in place for the purpose of ensuring compliance with those legislative and regulatory requirements that are relevant to the audit. Our consideration of specific laws and regulations will depend on a number of factors, including: • the relevance of the law or regulation to the audit; • our assessment of the risk of non-compliance; and • the impact of non-compliance for the addressee of the audit report. The way in which we will report instances of non-compliance that come to our attention will depend on considerations of materiality or

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Responsibilities of the council	Responsibility of the Appointed Auditor
	significance. We will report to you and to the Auditor-General all material and significant instances of non-compliance. We will also report to you any significant weaknesses that we observe in internal control systems, policies, and procedures for monitoring compliance with laws and regulations.
Responsibilities to establish and maintain appropriate standards of conduct and personal integrity	
You should at all times take all practicable steps to ensure that your members and employees maintain high standards of conduct and personal integrity. You should document your expected standards of conduct and personal integrity in a "Code of Conduct" and, where applicable, support the "Code of Conduct" with policies and procedures. The expected standards of conduct and personal integrity should be determined by reference to accepted "Codes of Conduct" that apply to the public sector.	We will have regard to whether you maintain high standards of conduct and personal integrity – particularly in matters relating to financial management and accountability. Specifically, we will be alert for significant instances where members and employees of SDC may not have acted in accordance with the standards of conduct and personal integrity expected of them. The way in which we will report instances that come to our attention will depend on significance. We will report to you and to the Auditor-General all significant departures from expected standards of conduct and personal integrity that come to our attention during the audit.
	The Auditor-General, on receiving a report from us, may, at his discretion and with consideration of its significance, decide to conduct a performance audit of, or an inquiry into, the matters raised. The performance audit or inquiry will be subject to specific terms of reference, in consultation with you. Alternatively, the Auditor-General may decide to publicly report the matter without carrying out a performance audit or inquiry.
Responsibilities for conflicts of interest and related parties	
You should have policies and procedures to ensure that your members and employees carry out their duties free from bias. You should maintain a full and complete record of related parties and their interests. It is your responsibility to record and disclose related-party transactions in the financial statements and performance information in accordance with generally accepted accounting practice.	To help determine whether your members and employees have carried out their duties free from bias, we will review information provided by you that identifies related parties, and will be alert for other material related-party transactions. Depending on the circumstances, we may enquire whether you have complied with any statutory requirements for conflicts of interest and whether these transactions have been properly recorded and disclosed in the financial statements and performance information.

Responsibilities of the council	Responsibility of the Appointed Auditor
Responsibilities for publishing the audited financial statements on a website	
You are responsible for the electronic presentation of the financial statements and performance information on SDC's website. This includes ensuring that there are enough security and controls over information on the website to maintain the integrity of the data presented. If the audit report is reproduced in any medium, you should present the complete financial statements, including notes, accounting policies, and any other accountability statements.	Examining the controls over the electronic presentation of audited financial statements and performance information, and the associated audit report, on your website is beyond the scope of the annual audit.

Appendix 2: Health and safety of audit staff

The Auditor-General and Audit New Zealand take seriously their responsibility to provide a safe working environment for audit staff. Under the Health and Safety at Work Act 2015 we need to make arrangements with you to keep our audit staff safe while they are working at your premises. We expect you to provide a safe work environment for our audit staff. This includes providing adequate lighting and ventilation, suitable desks and chairs, and safety equipment, where required. We also expect you to provide them with all information or training necessary to protect them from any risks they may be exposed to at your premises. This includes advising them of emergency evacuation procedures and how to report any health and safety issues.

Appendix 3: Supporting documentation required

We will need access to the following information and documentation from council's records supporting the reporting certificate:

- A copy of the Debenture Trust Deed.
- The signed reporting certificate for the Debenture Trust Deed for 30 June 2022.
- The LGFA floating nominal amount confirmation as at 30 June 2022.
- Copies of all security stock certificates, including all security stock recorded on the register as 1 cent/1 unit security stocks.
- A security stock listing, indicating who the holders of each security stock are.
- Debt terms sheets for all debenture stock outstanding.
- Written confirmation that all stock that was due to be repaid during the financial was in fact repaid.
- Written confirmation that any interest due for payment on the stock was in fact paid.

Please note that items requested above may not represent all of the information that we need, and additional requests for information and documentation may follow during the course of the engagement depending on the circumstances.

Financial Report for the period ended 30 April 2022

Record No: R/22/5/20857
Author: Brie Lepper, Accountant
Approved by: Anne Robson, Chief financial officer

☐ Decision ☐ Recommendation ☒ Information

Summary

1. The purpose of this report is to provide the Finance and Assurance Committee with an overview of the financial results for the ten months to 30 April 2022 by the seven activity groups of Council, as well as the financial position, and the statement of cash flows as at 30 April 2022.

2. This report summarises Council's financial results for the ten months to 30 April 2022.

Recommendation

That the Finance and Assurance Committee:

a) receives the report titled "Financial Report for the period ended 30 April 2022" dated 8 June 2022.

Attachments

A Monthly Financial Report April 2022 ⇩

SOUTHLAND
DISTRICT COUNCIL

Financial report

April 2022

Southland District Council
Te Rohe Pōtae o Murihiku

PO Box 903
15 Forth Street
Invercargill 9840

0800 732 732
sdc@southlanddc.govt.nz
southlanddc.govt.nz

Table of contents

Executive summary

This report summarises Council's financial results for the ten month period to 30 April 2022.

The report summary consolidates the business units within each of Council's groups of activities and includes:

- year to date (YTD) actuals, which are the actual costs incurred
- year to date (YTD) projection, which is based on the full year projection (currently year one of the Long Term Plan (LTP)) with adjustments for phasing of budgets, carry forwards, approved unbudgeted expenditure reports and approved forecasting changes
- year to date (YTD) budget, which is based on the full year LTP budget for year one with adjustments for phasing of budgets
- full year (FY) budget, which is the LTP year one budget figures
- full year (FY) projection, which is the LTP year one budget figures plus carry forwards, approved unbudgeted expenditure reports and forecasting changes.

The activities reported include the seven activities in the LTP, along with corporate services. Corporate services (previously part of District Leadership) includes all the customer and corporate support (like people and capability, communications, strategy and policy, finance, information management) and forestry. These costs are spread across all the activities but they have also been separated out for the purposes of this report.

Carry forwards and forecasting approved by Council in September 2021 and March 2022 respectively, have been included in the projection column.

Phasing of budgets occurred in August, and after forecasting and when one-off costs have actually been incurred. This should reduce the number of variance explanations due to timing.

Where phasing of budgets has not occurred, one twelfth of the annual budgeted cost is used to calculate the monthly budget.

Southland District Council summary reports use a materiality threshold to measure, monitor and report on the financial performance and position of Council. In determining materiality, variances more or less than 10% of the original budget and greater than $10,000 are considered material and explained in the report.

Report contents:

A. Council summary (income, expenditure, capital expenditure and associated commentary)

B. Council summary by Activity Group

C. Statement of comprehensive income

D. Statement of financial position and movement commentary

E. Statement of cash flows.

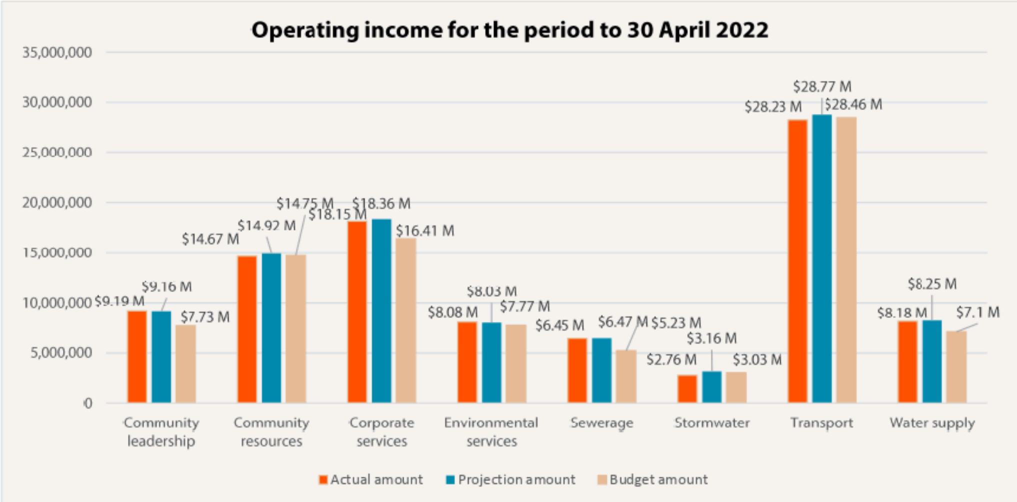
Abbreviation explanation

Abbreviation	Description
AP	Annual Plan
CAPEX	Capital expenditure
FYB	Full year budget
GDC	Gore District Council
GIS	Geographic information system
GMSE	GeoMedia smart client
GST	Goods and Services tax
ICC	Invercargill City Council
LED	Light emitting diode
LGFA	Local Government Funding Agency
LT	Leadership team
LTP	Long Term Plan
ME	Month end
NZTA	Waka Kotahi NZ Transport Agency
NZDWS	New Zealand Drinking Water Standards
SDC	Southland District Council
SIESA	Stewart Island Electrical Supply Authority
YE	Year end
YTD	Year to date
YTD Variance	Comparison of actual results compared to YTD budget
$M	Millions of dollars

Council summary

Income

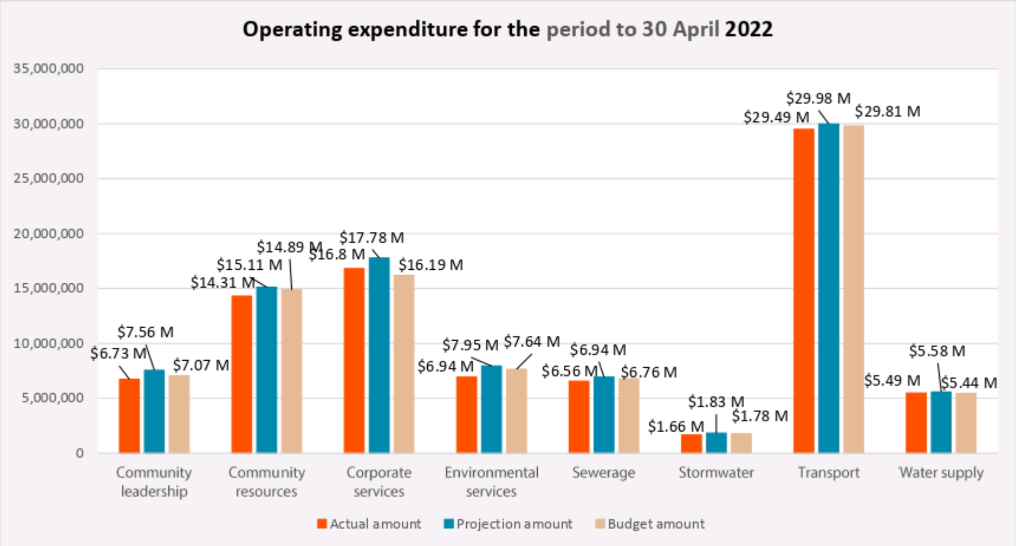
Operating income for the ten-month period to 30 April 2022 is $1.4 million (1%) below projection for the period to date ($95.7 million actual vs $97.1 million projection). The key reasons for the variances in each activity area are discussed below.



- **stormwater** income is $402,597 (13%) lower than projection. Although Council has received the stimulus grant funds, it is not being recognised as income until the costs are incurred, see the capital expenditure discussion below for further details. The recognition of this income was phased at the start of the financial year to match the expected timing of stimulus project costs. The projects are still on track to be completed by June 2022 and the income will continue to be released as the work is completed.
- **Transport** income is $541,850 (2%) lower than projection. This is predominately due to reduced income claimed from NZTA, as the physical work for bridge renewals and structures component replacements are behind the expected programme.

Expendıture

Operating expenditure for the ten-month period to 30 April 2022 is $4.76 million (5%) below projection for the period to date ($87.9 million actual vs $92.7 million projection). The key reasons for the variances in each activity area are discussed below.



- **community leadership** operating expenditure is $832,644 (11%) less than projected, predominantly due to changes in staff and structure in this area in the first part of the year. Additionally, Councillor's travel and mileage costs, conference costs and catering are lower than projected due to less travel and face to face meetings as a result of Covid-19 restrictions.
- **community resources** operating expenditure is $801,224 (5%) lower than projection. The main variances include:
  - streetscapes costs are $339,829 (26%) under projection. The majority of this for gardening, tree & hedge maintenance, mowing, general maintenance, projects and street litter bins. This is partially due to some of the mowing contractors invoicing a month in arrears. From May, these costs will be accrued which will remove a significant portion of the variance, and better reflect actual costs incurred. Additionally, the impact of Covid on contractors and tourist numbers, and new contracts is impacting the underspends. Tree and hedge maintenance is expected to be on budget at 30 June, however, a significant underspend in streetscapes is anticipated at year end.
  - parks and reserves costs are $179,497 (12%) less than projected. There are a number of maintenance projects that have yet to be completed, contributing to the under spend. The current buoyant market is impacting Council's ability to engage contractors to undertake smaller maintenance projects and some of these will need to be carried forward to next year.
  - hall costs are $151,276 (25%) lower than projection. Of the total underspend, $53,339 (34%) relates to council owned halls, with the remainder non-Council owned halls. The underspend is due to minimal reactive maintenance, electricity and operating costs and this should continue until year end. The fly and spider control, spouting cleaning and annual wash downs are scheduled in the last quarter of the financial year. The fourth quarter grants uplift is phased to be paid out to non-council owned hall in April in line with the rates notices being sent out, however the majority

of these were not paid in April, but are expected to be paid out by 30 June 2022. Staff are continually working with the non-council hall committees to ensure the grants are uplifted quarterly.

- office and building expenditure is $137,525 (4%) lower than projection. The majority of which, relates to an underspend of $80,446 for internal services. Of this amount, $36,017 relates to internal interest on loans that is yet to be allocated. The allocation of internal interest on loans is processed in June as part of the balancing up process. The remainder is the allocation of the internal services for the Project Delivery Team, Property Admin and Open Spaces/Property Management Services which are all underspent to date as a result of Covid-19 restrictions, lower training and vehicle costs.
- Library services expenditure is $106,392 (9%) lower than projection. Database subscriptions, library book renewals, and Department of Internal Affairs (DIA) fees are all expected to occur in May. Staff related costs are also below budget.

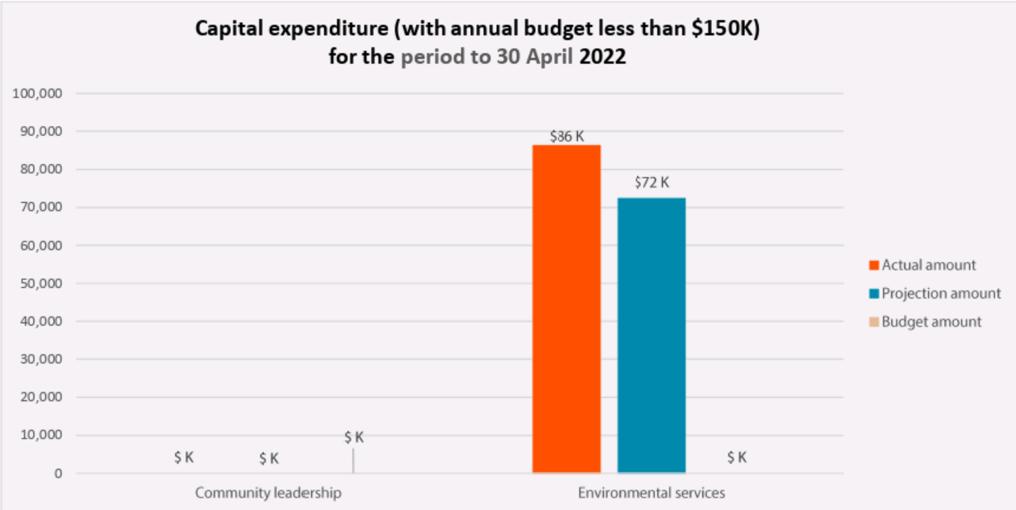
- **corporate services** operating expenditure is $975,730 (6%) below projection. The main variances include:
  - water services operating costs are $194,319 less than projection primarily due to vacancies within the team during the first part of the year. External consultants have been used to assist with workloads during the year whilst a new structure and onboarding of new staff has occurred.
  - information management operating costs are $193,341 under projection and primarily reflects the phasing of software license renewals and timing of consultancy services. Costs are expected to be under at year end.
  - customer service operating costs are $107,410 under projection due to a continued reduction in postage costs (this fluctuates through the year) and reduced expenditure for training and stationery which are due to the implications of Covid-19
  - people and capability operating costs are $102,317 less than projection due to vacancies within the team for the first half of the year and less uniform, recruitment and health and safety expenses to date.
  - strategy and policy operating costs are $101,043 less than projection largely due to two senior policy analyst vacancies in the team, and timing of costs relating to surveys, creation and printing of corporate documents such as the Annual Report and Annual Plan, and purchase of data software. Costs in relation to corporate documents are expected to be in line with budget at year end.
- **environmental services** operating expenditure is $1,014,765 (13%) below projection. The main variance relates to resource management costs which are $430,751 less than anticipated. Staff costs are also $401,169 lower due to vacancies. Recruitment processes have been delayed due to the legislative changes around ecology/biodiversity not being passed, as well as Covid-19 and immigration challenges. Additionally, costs in the consenting and compliance business unit are $79,075 under budget, however this is expected to be spent before the end of the financial year. Building regulation is $309,500 under projection predominantly due to staff vacancies.
- **sewerage** operating expenditure is $384,543 (6%) less than projected. Condition assessment work undertaken (part of the stimulus package) is $181,000 below projection, which is a timing difference. Planned maintenance is $168,000 underspent due to the timing of the sludge removal project in Te Anau, this project is not expected to be completed this financial year and the budget will be carried forward to next year. Routine maintenance is also $182,000 lower than budget as there has been cost

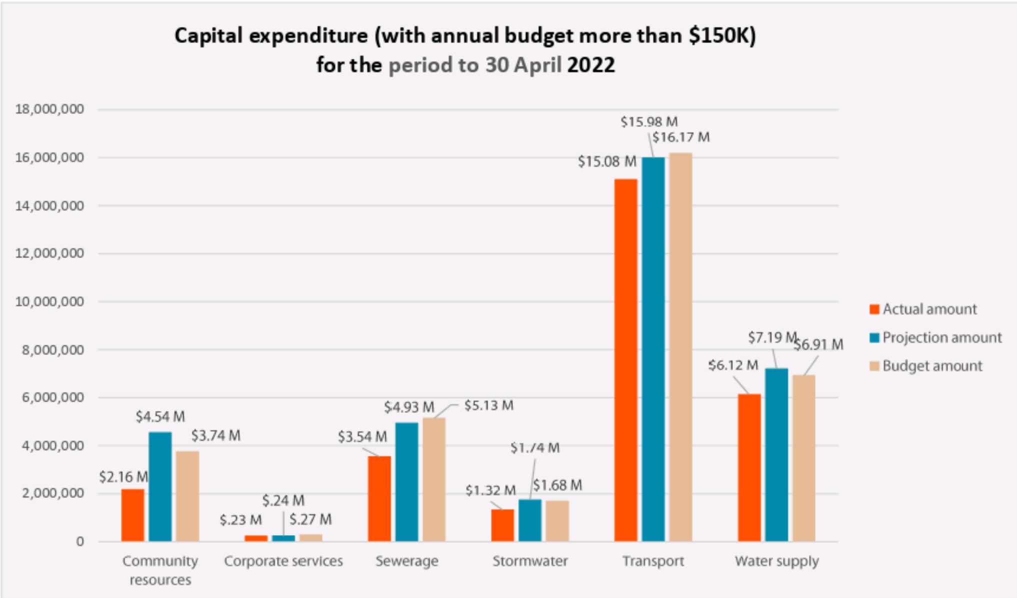
savings as a result of the timing of the Te Anau Wastewater (TAWW) project going live. Both these have been offset by an increase in unplanned maintenance work of $194,000 throughout the network.

- **transport** operating expenditure is $487,888 (2%) below projection. The main variances include:
    - Roading – district wide is $257,000 under budget. $97,000 relates to footpath maintenance with this work scheduled to commence in April. There are several other areas which are either slightly ahead or slightly behind projected budget, the main being emergency reinstatement ($150,000 behind) and unsealed pavement maintenance ($345,000 ahead) due to the timing of the work program.
    - roading administration costs are $162,000 under projection. Recovery of wage costs are higher than anticipated, resulting in a cost reduction of $110,000. This recovery is expected to continue and was adjusted through the forecasting process, however it was not adjusted enough and will continue to be under for the remainder of the year. Additionally, internal costs from other teams are lower for the year, with external resources being needed to deliver parts of the roading capital programme.

Capital expenditure (CAPEX)

Capital expenditure for the ten-month period to 30 April 2022 is $6.16 million (18%) lower than projection ($28.5 million actual vs $34.7 million projection). The key reasons for the variances in each activity area are discussed below.





- **community resources** capital costs are $2,375,342 (52%) lower than projection. The main variances include:
  - toilets are $1,630,246 (86%) lower than projection. The toilet capital projects are now starting to be delivered and have been scheduled to be completed by the end of June, however this may be further impacted by Covid-19. The refurbishment projects at the Waikawa, Edendale and Curio Bay and Otautau toilets have now been completed, with the final costs coming in over the next month. The new toilets in Winton, Edendale/Wyndham, Manapouri and Balfour are still in progress.
  - parks and reserves are $245,168 (35%) under projection. Tenders for the capital works have been received and contracts awarded. Staff have had on-site visits with the contractors and work has begun on these projects, however the market is dictating the contractor's ability to deliver. Staff are expecting to have this work completed by the end of June 2022.
  - Waste services is $213,701 (77%) under projection due to a delay in the projects at Winton and Te Anau. The work in Te Anau has commenced in May and the Winton work will be delayed until the next financial year.
  - SIESA is $120,000 (100%) under projection with the majority of work program this year now expected to be completed within the next financial year.
- **sewerage** capital costs are $1,394,608 (28%) below projection. The main variances are the timing of the delivery of the stimulus packages ($953,000). The delivery of the Caswell Road project in Te Anau is $545,000 behind the phased budget, this is a stimulus project and the deadline for delivery is June 2022, this project is on track to meet the deadline. The Stewart Island stimulus project is $257,000 behind the phased budget, this project is underway and is on track to be completed by 30th June.
- **water supply** capital costs are $1,070,817 (15%) under projection, largely as a result of the phasing of projects. The projects in Te Anau are behind budget by $432,000 with the Lakefront Drive project

final costs delayed while waiting on completed as-builts. Caswell Road watermain project has commenced so the variance to budget is timing. Other variances being, Ohai/Nightcaps consent renewal preparation ($149,000) and Winton turbidity and pH monitoring/correction ($91,000), will be carried forward to next financial year if any variance remains as 30 June; while the Riverton UV building project is $115,000 under budget, this is expected to be completed by the end of the financial year.

Council summary by Activity Group

Southland District Council financial summary
for the period to 30 April 2022

Operating income									
	YTD					FYB			
Activity	Actual amount	Projection amount	Budget amount	Variance	Var %	Projection amount	Budget amount	Variance	Var %
Community leadership	9,192,758	9,157,141	7,731,883	35,617	0%	10,982,979	9,557,721	(1,425,258)	(13%)
Community resources	14,669,475	14,924,372	14,754,996	(254,897)	(2%)	19,362,966	18,192,965	(1,170,001)	(6%)
Corporate services	18,154,280	18,357,991	16,414,517	(203,711)	(1%)	21,304,173	19,474,114	(1,830,059)	(9%)
Environmental services	8,081,959	8,032,627	7,770,012	49,331	1%	9,663,379	9,335,696	(327,683)	(3%)
Sewerage	6,448,232	6,471,975	5,228,270	(23,742)	(0%)	9,788,820	7,210,702	(2,578,118)	(26%)
Stormwater	2,759,879	3,162,466	3,028,579	(402,587)	(13%)	3,388,631	3,254,744	(133,887)	(4%)
Transport	28,229,793	28,771,644	28,458,897	(541,850)	(2%)	34,981,541	34,129,768	(851,773)	(2%)
Water supply	8,178,445	8,246,261	7,099,449	(67,816)	(1%)	9,192,741	8,045,929	(1,146,812)	(12%)
Total	**$95,714,821**	**$97,124,476**	**$90,486,603**	(1,409,655)	(1%)	**$118,665,230**	**$109,201,639**	(9,463,591)	(8%)

Operating expenditure									
	YTD					FYB			
Activity	Actual amount	Projection amount	Budget amount	Variance	Var %	Projection amount	Budget amount	Variance	Var %
Community leadership	6,725,137	7,557,781	7,071,849	(832,644)	11%	11,161,884	9,373,552	(1,788,332)	(16%)
Community resources	14,309,704	15,110,927	14,888,596	(801,224)	5%	20,031,639	19,551,548	(480,091)	(2%)
Corporate services	16,803,318	17,779,048	16,194,796	(975,730)	5%	20,620,030	19,234,329	(1,385,701)	(7%)
Environmental services	6,936,205	7,950,969	7,638,166	(1,014,765)	13%	10,411,710	10,087,029	(324,681)	(3%)
Sewerage	6,560,375	6,944,919	6,762,784	(384,543)	6%	8,117,918	7,927,450	(190,468)	(2%)
Stormwater	1,664,567	1,831,650	1,783,088	(167,083)	9%	2,176,366	2,119,684	(56,682)	(3%)
Transport	29,494,207	29,982,095	29,806,275	(487,888)	2%	35,924,766	35,533,789	(390,977)	(1%)
Water supply	5,488,337	5,579,887	5,444,091	(91,549)	2%	6,658,798	6,489,669	(169,129)	(3%)
Total	**$87,981,850**	**$92,737,275**	**$89,589,644**	(4,755,425)	5%	**$115,103,111**	**$110,317,050**	(4,786,061)	(4%)
Net surplus/deficit	**$7,732,971**	**$4,387,201**	**$896,959**	3,345,770	(7%)	**$3,562,119**	**($1,115,411)**	(4,677,530)	(4%)

Capital expenditure									
	YTD					FYB			
Activity	Actual amount	Projection amount	Budget amount	Variance	Var %	Projection amount	Budget amount	Variance	Var %
Community leadership	-	-	-	0	-	79,000	79,000	0	0%
Community resources	2,163,181	4,538,522	3,738,712	(2,375,342)	(52%)	7,543,840	6,335,714	(1,208,126)	(16%)
Corporate services	226,903	238,415	269,785	(11,511)	0%	611,204	1,079,210	468,006	0%
Environmental services	86,295	72,329	-	13,966	0%	248,046	108,500	(139,546)	(56%)
Sewerage	3,539,562	4,934,170	5,132,404	(1,394,608)	(28%)	6,281,091	6,140,314	(140,777)	(2%)
Stormwater	1,316,011	1,735,607	1,677,728	(419,596)	(24%)	2,285,607	2,208,402	(77,205)	(3%)
Transport	15,082,447	15,981,032	16,170,210	(898,585)	(6%)	20,045,361	20,711,721	666,360	3%
Water supply	6,124,098	7,194,914	6,911,640	(1,070,817)	(15%)	8,633,124	8,937,875	304,751	4%
Total	**$28,538,497**	**$34,694,989**	**$33,900,480**	(6,156,493)	(18%)	**$45,727,273**	**$45,600,736**	(126,537)	(0%)

ACTIVITY GROUPS AND ACTIVITIES

This table details what is included in the various LTP activities used for this report

Activity Group	Community leadership	Community resources	Environmental services	Transport
Activity	**Community assistance** (includes Community Partnership Fund which supports local initiatives and projects, along with grants and donations) **Community futures** (includes district development services which includes community leadership, regional development funding and Stewart Island Visitor Levy) **Representation and advocacy** (includes governance, elected members, elections and chief executive)	**Community facilities** (includes public toilets, community centres/halls, office/library/amenity buildings and dump stations) **Community services** (includes cemeteries, community housing and library services) **Open spaces** (including parks, reserves, playgrounds and streetscapes) **Waste services** **Stewart Island Electrical Supply Authority (SIESA)**	**Animal control** **Building solutions** **Emergency management** **Environmental health**	**Airport** **Cycle trails** **Footpaths** **Roading** **Water facilities** (includes boat ramps, Riverton Harbour and Stewart Island Jetties)
	Corporate services (shared across all activities) Includes customer and corporate support (such as people and capability, communications, strategy and policy, finance, information management) and forestry.			

Statement of comprehensive income

Statement of comprehensive revenue and expenses for the period to 30 April 2022					
	YTD			FYB	
	Actual amount	Projection amount	Budget amount	Projection amount	Budget amount
Revenue					
Rates revenue	44,929,977	45,050,737	45,050,737	54,179,025	54,179,024
Other revenue	11,808,839	11,006,782	7,863,706	12,437,829	9,214,042
Interest and dividends	67,359	78,333	1,666,333	114,000	2,019,599
NZ Transport Agency funding	13,056,932	13,659,420	13,515,613	15,489,551	15,327,781
Grants and subsidies	9,900,429	10,479,706	6,451,302	15,462,247	8,668,794
Other gains/losses	102,892	51,668	0	760,412	647,085
Vested assets	0				
Development and financial contributions	30,000	0	0	36,189	10,445
	79,896,428	**80,326,647**	**74,547,690**	**98,479,253**	**90,066,770**
Expenditure					
Employee benefit expense	13,246,923	14,589,325	14,417,932	17,119,441	16,907,216
Depreciation and amortisation	22,607,433	22,674,978	22,674,978	27,209,974	27,209,974
Finance costs	301,119	1,198,110	1,054,216	1,437,732	1,265,059
Other Council expenditure	36,007,982	37,477,032	35,503,605	49,149,986	45,799,932
	72,163,457	**75,939,446**	**73,650,731**	**94,917,134**	**91,182,181**
Total comprehensive income	**7,732,971**	**4,387,201**	**896,959**	**3,562,119**	**(1,115,411)**

Note:

The revenue and expenditure in the comprehensive income statement does not reconcile to the total income and total expenditure reported in the Council summary by Activity Group on page 10 due to the elimination of the internal transactions. However, the net surplus/deficit (as per the Council summary by Activity Group) matches the total comprehensive income (as per the statement of comprehensive income).

The presentation of the statement of comprehensive income aligns with Council's Annual Report. The Annual Report is based on approved accounting standards. These standards require us to eliminate internal transactions. Council is also required to report by activities. A number of Council functions relate to a number of activities, eg finance. To share these costs, an internal transaction is generated between the finance business unit and the activity business units. Within the Annual Report, Council also prepares activity funding impact statements. These statements are prepared under the Financial Reporting and Prudence Regulations 2014. This regulation requires that internal charges and overheads recovered be disclosed separately. The Council summary by Activity Group is a summary of what these activity funding impact statements will disclose for income and expenditure at year end.

Statement of financial position

Council's financial position as at 30 April 2022 is detailed below. The statement of financial position below only includes Southland District Council and SIESA financial results and therefore the comparative period (30 June 2021) differs from the Annual Report, which includes Council's share of Wastenet operations.

The statement of financial position as at 30 June 2021 was adopted on 17 December 2021 as part of the 2020/2021 Annual Report.

Southland District Council
Statement of financial position
as at 30 April 2022

	Actual 30-Apr-22	Actual 30-Jun-21
Equity		
Retained earnings	729,317,770	721,584,798
Asset revaluation reserves	856,312,665	856,312,665
Other reserves	40,963,080	40,963,080
Share revaluation	4,771,233	4,771,233
	1,631,364,750	**1,623,631,777**
Represented by:		
Current assets		
Cash and cash equivalents	7,623,261	1,674,768
Trade and other receivables	10,500,143	10,683,506
Inventories	126,353	126,353
Other financial assets	2,168,346	2,522,901
Property, plant and equipment	-	-
	20,418,102	**15,007,527**
Non-current assets		
Property, plant and equipment	1,619,870,864	1,613,474,356
Intangible assets	4,415,872	4,835,073
Forestry assets	13,270,000	13,270,000
Internal loans	49,891,384	52,455,124
Work in progress	406,721	452,965
Investment in associates	1,418,176	1,418,176
Other financial assets	420,933	1,579
	1,689,693,950	**1,685,907,272**
Total assets	**1,710,112,053**	**1,700,914,799**
Current liabilities		
Trade and other payables	8,089,056	15,534,466
Contract rententions and deposits	714,341	538,012
Employee benefit liabilities	1,584,953	2,098,531
Development and financial contributions	1,631,375	1,620,697
Borrowings	-	5,000,000
Provisions	3,023	3,023
	12,022,748	**24,794,728**
Non-current liabilities		
Employment benefit liabilities	23,163	23,163
Provisions	10,008	10,008
Internal loans - liability	49,891,385	52,455,124
Borrowings	16,800,000	-
	66,724,555	**52,488,294**
Total liabilities	**78,747,303**	**77,283,022**
Net assets	**1,631,364,750**	**1,623,631,777**

Statement of cash flows

Statement of cashflows for the period to 30 April 2022	2021/2022 YTD Actual
Cash flows from operating activities	
Receipts from rates revenue	40,940,715
Receipts from other revenue (including NZTA)	37,412,122
Cash receipts from interest and dividends	67,359
Payment to suppliers	(43,018,143)
Payment to employees	(13,760,501)
Interest paid	(301,119)
GST general ledger (net)	1,308,465
Net cash inflow (outflow) from operating activities	**22,648,897**
Cash flows from investing activities	
Receipts from sale of PPE	102,892
(Increase)/decrease other financial assets	(64,799)
Purchase of property, plant and equipment	(28,957,697)
Purchase of forestry assets	-
Purchase of intangible assets	419,201
Net cash inflow (outflow) from investing activities	**(28,500,404)**
Cash Flows from financing activities	
Increase in term loans	36,800,000
Repayment of term loans	(25,000,000)
Increase/(decrease) finance leases	-
Net cash inflow (outflow) from financing activities	**11,800,000**
Net increase/(decrease) in cash and cash equivalents	**5,948,493**
Cash and cash equivalents at the beginning of the year	**1,674,768**
Cash and cash equivalents at the end of April	**7,623,261**

Cash and cash equivalents

1. At 30 April 2022, Council had $2,140 cash on hand.

2. Funds on call at 30 April 2022:

Funds on call				
	Amount	**Bank**	**Account**	**Interest rate**
SDC	$ 5,978,560	BNZ	Funds on call	0.25%
	$ 10,000	BNZ	Operating bank acc	0.05%
	$ 1,326,894	BNZ	Restricted funds acc	0.05%
SIESA	$ 305,669	BNZ	Funds on call	0.05%
Total	$ 7,621,122			

Reconciliation to statement of financial position	Amount
Cash and cash equivalents	
Current assets	
SDC Cash on hand (Note 1)	$ 2,140
Funds on call (Note 2)	$ 7,621,122
Total cash and cash equivalents per the statement of financial	**$ 7,623,261**

Other financial assets

3. At 30 April 2022, Council had nothing invested in term deposits.

4. At 30 April 2022, SIESA had $1.72 million invested in six term deposits as follows:

SIESA investments - term deposits				
Bank	**Amount**	**Interest rate**	**Date invested**	**Maturity date**
BNZ	$ 350,000	1.35%	24-Aug-21	24-May-22
BNZ	$ 370,000	1.47%	7-Oct-21	1-Jun-22
BNZ	$ 250,000	1.62%	2-Nov-21	2-Aug-22
BNZ	$ 250,000	1.69%	3-Dec-21	5-Sep-22
BNZ	$ 200,000	1.72%	6-Dec-21	6-Oct-22
BNZ	$ 300,000	3.38%	7-Apr-21	11-Apr-23
Total	$ 1,720,000			

5. At 30 April 2022, Council had $420,000 of LGFA borrowers notes as follows:

LGFA Bonds					
	Amount		Interest Rate	Establishment date	Maturity Date
LGFA	$	210,000	3.14%	15-Dec-21	15-Apr-36
LGFA	$	210,000	3.10%	15-Dec-21	15-May-35
Total	$	420,000			

Reconciliation to statement of financial position	Amount	
Other financial assets		
Current assets		
SDC Investments (Note 3)	$	-
SIESA Investments (Note 4)	$	1,720,000
Loans - community	$	27,061
Civic Assurance shares	$	12,986
Milford Sound Tourism shares	$	408,299
Total current financial assets per the statement of financial position	**$**	**2,168,346**
Non - Current assets		
LGFA bonds (Note 5)	$	420,000
Loan advances - Development contributions	$	933
Total non-current financial assets per the statement of financial position	**$**	**420,933**

External Borrowings

SDC Borrowings					
Lender	Amount		Interest Rate	Date Drawndown	Maturity Date
LGFA	$	8,400,000	3.49%	15-Dec-21	15-Apr-36
LGFA	$	8,400,000	3.45%	15-Dec-21	15-May-35
Total	$	16,800,000			

Reconciliation to statement of financial position	Amount	
Borrowings		
Current liabilities		
Borrowings	$	-
Non-current liabilities		
Borrowings	$	16,800,000
Total borrowings per the statement of financial position	**$**	**16,800,000**

Compliance with Council policies

Council's Investment and Liability Management Policy states that Council can invest no more than $10 million with one bank. Investments and funds on call at 30 April 2022, comply with the SDC Investment and Liability Management Policy ($9,341,122 invested in BNZ).

Accounting policies for the year ended 30 June 2022

Record No: R/22/5/18454
Author: Brie Lepper, Accountant
Approved by: Anne Robson, Chief financial officer

☐ Decision ☒ Recommendation ☐ Information

Purpose

1 To consider and recommend to Council the adoption of the accounting policies to be used to compile Council's Annual Report for the year ended 30 June 2022.

Executive Summary

2 The draft accounting policies (attachment A) set the basis on which Council's Annual Report for the year ended 30 June 2022 will be prepared and the associated financial information compiled.

3 The accounting policies proposed for the 30 June 2022 Annual Report (attachment A) are based on those used for the 2021 Annual Report, with any proposed changes noted in yellow highlights.

4 The key changes proposed are the adoption of the accounting policies PBE IPSAS 2 Cash Flow Statements which is effective for periods beginning on or after 1 January 2021 and inclusion of the relevant policy wording for the Local Government Funding Agency (LGFA) borrowing. These are noted in attachment A with yellow highlights.

5 Policies/disclosures relating to these two new matters noted above and as well as standards available for early adoption; are subject to change during the compilation of the Annual Report as staff understand the impact of these matters at 30 June, clarify our position and further develop our understanding of the associated reporting and disclosure requirements. Additionally, staff are in the process of engaging an external expert to review the changes to Council's accounting policies and disclosures to ensure they are correct prior to the audit of the Annual Report.

6 Any amendments as a result of internal processes or the external review will be included in the draft Annual Report to be brought to this committee for consideration on 28 September 2022, prior to adoption.

Recommendation

That the Finance and Assurance Committee:

a) Receives the report titled "Accounting policies for the year ended 30 June 2022" dated 10 June 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 deciding on this matter.

d) Recommends to Council that the accounting policies as outlined in attachment A, including any amendments agreed at this meeting, be adopted for use in preparation of Council's Annual Report for the year ended 30 June 2022.

Background

7 Councils are required by legislation to adopt an Annual Report every year. The Annual Report informs the reader about how Council did against what Council said it was going to do in 2021/2022 in the 2021-2031 Long Term Plan.

8 In arriving at the accounting policies proposed, Council staff have used the 2020/2021 Annual Report policies as the base, considered these against the 2021-2031 Long Term Plan accounting policies and reviewed for any changes needed, including any new or amended financial reporting standards.

9 Additionally, staff are in the process of engaging an external expert to review the changes to Council's accounting policies and disclosures to ensure they are correct prior to the audit of the Annual Report.

10 Any amendments as a result of internal processes or the external review will be included in the draft Annual Report to be brought to this committee for consideration on 28 September 2022, prior to adoption.

Issues

11 The accounting policies proposed for the 30 June 2022 Annual Report are based on those used for the 2021 Annual Report. The changes are summarised below and noted in yellow highlight in attachment A.

<u>**Change in accounting policies**</u>

Local Government Funding Agency (LGFA)

12 As Council has joined the LGFA, new policies on external borrowings and borrowers' notes have been included in the accounting policies (refer policy (u) and (v) on page 13 of attachment A).

These may be subject to change as staff further develop their understanding of the associated reporting and disclosure requirements through the compilation of the Annual Report.

New accounting policies

13 There are two accounting policies for the year ended 30 June 2022 that Council needs to consider whether they are required to adopt which are effective for periods beginning on or after 1 January 2021.

PBE IPSAS 40 PBE Combinations

14 The combinations standard relates to amalgamation and combinations of entities into one entity. This standard is not currently relevant to Council and therefore Council does not need to include any separate disclosures in the accounting policies on this matter.

PBE IPSAS 2 Cash Flow Statements

15 An amendment to PBE IPSAS 2 Cash Flow Statements requires entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The information regarding the new disclosure has been included on page 3 of attachment A.

Early adoption of accounting standards

16 As part of considering the applicable accounting policies staff also need to consider any new standards that will apply in the future and consider if it is appropriate to adopt early. There have been no changes in the standards that are able to be early adopted from what Council included in its 2020/2021 Annual Report, being:

- PBE IPSAS 41 Financial Instruments.
- PBE FRS 48 Service Performance Reporting

17 The above standards and amendments have been issued by the External Reporting Board and are effective for reporting periods beginning on or after 1 January 2022. For Council they will be effective for the financial year ending 30 June 2023 and beyond.

18 Council staff are considering the impact of early adopting these standards, and will seek guidance on the implications from an external expert.

19 If it is considered appropriate to early adopt PBE IPSAS 41, there will be changes to a few accounting policies. The policies which we anticipate would be subject to change are noted in green text in attachment A. The anticipated changes in the policy wording for early adoption of PBE IPSAS 41 are included in attachment B.

20 If it is considered there is no benefit in adopting the standards early, the future application of these standards to Council's financial accounts will be noted under the heading "Standards issued and not yet effective that have not been early adopted" within the accounting policies (as shown in policy (dd) on page 16 of attachment A).

Factors to consider

Legal and statutory requirements

21 Section 98 of the Local Government Act 2002 requires Council to prepare and adopt an Annual Report within four months of the end of the financial year.

22 Section 111 of the Local Government Act states that any information to be prepared must be in accordance with general 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

23 There are no direct cost implications of Council adopting accounting policies.

24 There will be a cost associated with seeking external accounting support, this will be met from existing budgets.

Policy implications

25 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 of options

Option 1 – Recommends to Council the use of the accounting policies included in attachment A, including any amendments agreed at this meeting, for use in preparation of Council's 2021/2022 Annual Report

Advantages	*Disadvantages*
• the Annual Report can continue to be prepared in line with the timetable.	• there may not be sufficient time to provide the committee with any further information that is required, before the report is endorsed for release to Audit NZ.

Option 2 – Do not recommend accounting policies as presented

Advantages	*Disadvantages*
• changes can be made to the accounting policies to incorporate the committee's requests.	• the preparation of the Annual Report process may be held up depending on the time needed to provide the necessary information.

Assessment of significance

26 In terms of Council's Significance and Engagement Policy, the accounting policies which form part of the Annual Report are not considered significant.

Recommended option

27 Option one - Recommends to Council the use of the accounting policies included in attachment A, including any amendments agreed at this meeting, for use in preparation of Council's 2021/2022 Annual Report.

Next Steps

28 Staff will work with the external expert to ensure that the accounting policies and disclosures in the draft Annual Report for consideration by the committee on 28 September 2022.

29 The accounting policies (incorporating any changes agreed at this meeting and as a result of external review) will be reviewed by Audit New Zealand as part of their audit of the Annual Report.

30 The accounting policies will be presented to Council as a component of the full Annual Report document for adoption in due course.

Attachments

A Draft accounting policies for the year ended 30 June 2022 ⇩
B Potential changes to the draft accounting policies for the year ended 30 June 2022 ⇩

Accounting policies

Reporting entity

Southland District Council (referred to as "SDC" or "Council") is a territorial local authority established under the Local Government Act 2002 (LGA) and is domiciled and operated in New Zealand. The relevant legislation governing Council's operations includes the LGA and the Local Government (Rating) Act 2002. The primary objective of Council is to provide goods or services for the community or social benefit, rather than making a financial profit. Accordingly, SDC has designated itself as a public benefit entity (PBE) for financial reporting purposes.

Council provides local infrastructure, local public services and performs regulatory functions for the community. Council does not operate to make a financial return.

The financial statements of SDC are for the year ended 30 June 2022. The financial statements were authorised for issue by Council on XX October 2022.

Basis of preparation

The financial statements have been prepared on the going concern basis, and the accounting policies have been applied consistently to all periods presented in these financial statements.

Covid-19 had no material impact on the financial statements for the year ended 30 June 2022 and therefore, consistent with the prior year, the going concern basis for the preparation for the financial statements remains appropriate. Refer to note XX for further details of the impact of Covid-19 on Council.

The financial statements have been prepared in accordance with the requirements of the Local Government Act 2002 and the Local Government (Financial Reporting and Prudence) Regulations 2014 (LGFRP): Part 6, Section 98 and Part 3 of Schedule 10, which includes the requirement to comply with New Zealand Generally Accepted Accounting Practice (NZ GAAP).

These financial statements have been prepared in accordance with Tier 1 PBE accounting standards and comply with PBE standards.

Measurement base

The financial statements have been prepared on a historical cost basis, modified by the revaluation of heritage assets, certain infrastructural assets, and biological assets.

Functional and presentation currency

The financial statements are presented in New Zealand dollars (the functional currency of SDC) and all values are rounded to the nearest thousand dollars ($000). As a result of rounding there may be slight discrepancies in subtotals.

Basis of consolidation

Council financial statements represent the results of Council's nine significant activity groups (detailed on pages XX-XX), including the Stewart Island Electrical Supply Authority (SIESA), as well as Council's share of its joint ventures and associates (including Venture Southland, WasteNet, Southland Regional Heritage committee, Emergency Management Southland, and Great South). SIESA is a business unit of Council, which generates and reticulates electricity to most of Stewart Island residents and industry.

The group financial statements represent the results of the ultimate parent, Southland District Council, and it's controlled entity, Milford Community Trust.

Control is achieved when Council is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the other entity. Specifically, Council controls another entity if and only if Council has:

- Power over the other entity,
- Exposure, or rights, to variable benefits from its involvement with the other entity, or
- The ability to use its power over the other entity to affect the nature and amount of the benefits from its involvement with the other entity.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when Council has less than a majority of the voting or similar rights of another entity, Council considers all relevant facts and circumstances in assessing whether it has power over another entity.

Consolidation of a controlled entity begins when Council obtains control over the controlled entity and ceases when Council loses control of the entity. Assets, liabilities, revenue and expenses of a controlled entity acquired or disposed of during the year are included in the financial statements from the date Council gains control until the date Council ceases to control the controlled entity.

Surplus or deficit and each component of other comprehensive revenue and expense are attributed to the owners of the controlling entity and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of controlled entities to bring their accounting policies into line with Council's accounting policies. All intra-economic entity assets and liabilities, net assets/equity, revenue, expenses and cash flows relating to transactions between entities of the economic entity are eliminated in full on consolidation.

A change in the ownership interest of a controlled entity that does not result in a loss of control, is accounted for as an equity transaction.

If Council loses control over a controlled entity, it derecognises the assets (including goodwill) and liabilities, any non-controlling interests and other components of net assets/equity, while resulting gain or loss is recognised in surplus or deficit. Any investment retained in the former controlled entity is recognised at fair value.

New amendment applied

An amendment to PBE IPSAS 2 Cash Flow Statements requires entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The new information required by this amendment has been disclosed in Note XX.

Specific accounting policies

a) Revenue

Revenue is measured at fair value.

The specific accounting policies for significant revenue items are:

Rates:

- general rates, targeted rates (excluding water-by-meter) and uniform annual general charges are recognised at the start of the financial year to which the rates resolution relates. They are recognised at the amounts due. Council considers that the effect of payment of rates instalments is not sufficient to require discounting of rates receivables and subsequent recognition of interest revenue
- rates arising from late payment penalties are recognised as revenue when rates become due
- revenue from water-by-meter rates is recognised on an accrual basis based on usage. Unbilled usage, as a result of unread meters at year end, is accrued on an average usage basis
- rates remissions are recognised as a reduction in rates revenue when Council has received an application that satisfies its rates remission policy.

Revenue from the rendering of services is recognised by reference to the stage of completion of the transaction at balance date, based on the actual service provided as a percentage of the total services to be provided.

Revenue from electricity charges is recognised on an accrual basis based on usage. Unbilled usage as a result of unread meters at year end is accrued on an average usage basis.

Interest is recognised using the effective interest method.

Subsidies from Waka Kotahi NZ Transport Agency and grants from other government agencies are recognised as revenue upon entitlement, which is when conditions pertaining to eligible expenditure have been fulfilled.

Other monetary grants and bequests are recognised when they become receivable unless there is an obligation in substance to return the funds if conditions of the grant are not met. If there is such an obligation, the grants are initially recorded as grants received in advance and recognised as revenue when conditions of the grant are satisfied.

Fees for disposing of waste at Council's landfill are recognised as waste disposed by users.

Fees and charges for building and resource consent services are recognised on a percentage completion basis with reference to the recoverable costs incurred at balance date.

For assets received for no or nominal consideration, the asset is recognised at its fair value when Council obtains control of the asset. The fair value of the asset is recognised as revenue, unless there is a use or return condition attached to the asset.

The fair value of vested or donated assets is usually determined by reference to the cost of constructing the asset. For assets received from property developments, the fair value is based on construction price information provided by the property developer.

For long-lived assets that must be used for a specific use (eg land used as a recreation reserve), Council immediately recognises the fair value of the asset as revenue. A liability is recognised only if Council expects that it will need to return or pass the asset to another party.

Donated and bequeathed financial assets are recognised as revenue unless there are substantive use or return conditions. A liability is recorded if there are substantive use or return conditions and the liability released to revenue as the conditions are met (eg as the funds are spent for a nominate purpose).

Development and financial contributions are recognised at the later of the point when Council is ready to provide the service for which the contribution was levied, or the event that will give rise to a requirement for a development or financial contribution under the legislation. Otherwise, development and financial contributions are recognised as liabilities until such time as Council provides, or is able to provide, the service.

Dividends are recognised when the right to receive payment has been established.

b) Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

c) Grant expenditure

Non-discretionary grants are those grants that are awarded if the grant application meets the specified criteria and are recognised as expenditure when an application that meets the specified criteria for the grant has been received.
Discretionary grants are those grants where Council has no obligation to award on receipt of the grant application and are recognised as expenditure when a successful applicant has been notified of SDC's decision.

d) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

e) Leases

Operating leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset.
Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term. Lease incentives are recognised in the surplus or deficit as a reduction of rental expense over the lease term.

f) Equity

Equity is the community's interest in SDC as measured by total assets less total liabilities. Equity is disaggregated and classified into a number of reserves to enable clearer identification of the specified uses that Council makes of its accumulated surpluses. The components of equity are:

- accumulated funds
- Council-created reserves (general reserve, separate account balances and rates appropriation balance)
- special reserves (managed by allocation committees)
- asset revaluation reserves
- fair value through other comprehensive revenue and expense reserve.

Reserves represent a particular use to which various parts of equity have been assigned. Reserves may be legally restricted or created by Council.

Council created reserves may be altered without reference to any third party or the courts. Transfers to and from these reserves are at the discretion of Council.

Special reserves are subject to specific conditions accepted as binding by Council, which may not be revised by Council without reference to the courts or third party. Transfers from these reserves may be made only for specified purposes or when certain conditions are met.

g) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts.

Bank overdrafts are shown within borrowings in current liabilities in the Statement of Financial Position.

h) Inventories

Inventories (such as spare parts and other items) held for distribution or consumption in the provision of services that are not supplied on a commercial basis, are measured at the lower of cost or current replacement cost.
The write down from cost to current replacement cost is recognised in the Statement of Comprehensive Revenue and Expense.

i) Financial assets

SDC classifies its financial assets into the following four categories: financial assets at fair value through surplus or deficit, held-to-maturity investments, loans and receivables, and financial assets at fair value through other comprehensive revenue and expense. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Financial assets are initially measured at fair value plus transaction costs unless they are carried at fair value through surplus or deficit in which case the transaction costs are recognised in the surplus or deficit. Purchases and sales of investments are recognised on trade-date, the date on which Council commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cashflows from the financial assets have expired or have been transferred and Council has transferred substantially all the risks and rewards of ownership.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. Council uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cashflows, are used to determine fair value for the remaining financial instruments.

The four categories of financial assets are:

• *financial assets at fair value through surplus or deficit*

Financial assets at fair value through surplus or deficit include financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of short term profit-taking. Financial assets acquired principally for the purpose of selling in the short term or part of a portfolio classified as held for trading are classified as a current asset.

After initial recognition they are measured at their fair values. Gains or losses on re-measurement are recognised in the surplus or deficit.

• *loans and receivables*

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance date, which are included in non-current assets. After initial recognition they are measured at amortised cost using the effective interest method. Gains and losses when the asset is impaired or derecognised are recognised in the surplus or deficit. Loans and receivables are classified as "trade and other receivables" in the statement of financial position.

• *held to maturity investments*

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that SDC has the positive intention and ability to hold to maturity. They are included in current assets, except for maturities greater than 12 months after the balance date, which are included in non-current assets.

After initial recognition they are measured at amortised cost using the effective interest method less impairment. Gains and losses when the asset is impaired or derecognised are recognised in the surplus or deficit.

• *financial assets at fair value through other comprehensive revenue and expense*

Financial assets at fair value through other comprehensive revenue and expense are those that are designated into the category at initial recognition or are not classified in any of the other categories above. They are included in non-current assets unless management intends to dispose of, or realise, the investment within 12 months of balance date.

This category encompasses:

• investments that Council intends to hold long term but which may be realised before maturity; and

• shareholdings that Council holds for strategic purposes.

These investments are measured at their fair value, with gains and losses recognised in other comprehensive revenue and expense, except for impairment losses, which are recognised in the surplus or deficit.

On derecognition the cumulative gain or loss previously recognised in other comprehensive revenue and expense is reclassified from equity is to the surplus or deficit.

Council's investments in this category include: Civic Assurance (formerly the New Zealand Local Government Insurance Corporation Limited) and Milford Sound Tourism Limited.

j) Impairment of financial assets

At each balance sheet date SDC assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired. Any impairment losses are recognised through the surplus or deficit.

k) Goods and services tax (GST)

The financial statements have been prepared exclusive of GST with the exception of receivables and payables, which are stated inclusive of GST. When GST is not recoverable as an input tax then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cashflow in the statement of cashflows.

Commitments and contingencies are disclosed exclusive of GST.

l) Property, Plant and Equipment

Property, plant and equipment consist of:

- *infrastructure assets*

Infrastructure assets are the fixed utility systems owned by SDC. Each asset class includes all items that are required for the network to function. For example, sewer reticulation includes reticulation piping and sewer pump stations.

- *operational assets*

These include land, buildings, improvements, library books, plant and equipment and motor vehicles.

- *restricted assets*

Restricted assets are parks and reserves owned by the Council, which cannot be disposed of because of legal or other restrictions and provide a benefit or service to the community.

- *recognition*

Property, plant and equipment is shown at cost for all asset categories other than infrastructure and heritage assets, which are at valuation; less accumulated depreciation and impairment losses.

- *additions*

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to SDC and the cost of the item can be measured reliably.

In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired through a non-exchange transaction it is recognised at fair value as at the date of acquisition.

- *disposals*

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount of the asset. Gains and losses on disposals are reported net in the surplus or deficit. When revalued assets are sold, the amounts included in asset revaluation reserves in respect of those assets are transferred to retained earnings.

- *subsequent costs*

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to SDC and the cost of the item can be measured reliably.

The costs of day-to-day servicing of property, plant and equipment are recognised in the surplus or deficit as they are incurred.

- *depreciation*

Depreciation is provided on a straight-line (SL) or on a diminishing value (DV) basis. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

Estimated economic life		Depreciation	
Asset category	**(years)**	**Percent**	**Method**
Operational assets			
Improvements	4-25	4.00% - 21.00%	SL or DV
Buildings	10-100	1.00% - 10.00%	SL or DV
Light vehicles	4- 8	12.00% - 21.60%	SL or DV
Heavy vehicles	4-8	12.00% - 21.60%	DV
Other plant	2-25	4.00% - 60.00%	SL or DV
Furniture and fittings	3-13	8.00% - 30.00%	SL
Asset category	**(years)**	**Percent**	**Method**
Office equipment	7-8	13.50% - 14.00%	SL
Computer equipment	2-7	13.50% - 40.00%	SL
Other equipment	3-14	7.00% - 30.00%	SL or DV
Library books	10	10.00%	SL

Estimated economic life		Depreciation	
Asset category	**(years)**	**Percent**	**Method**
Infrastructural Assets			
Electrical generation plant	1-100	1.00% - 100.00%	SL or DV
Sealed roads	5-80	1.25% - 20.00%	SL
Unsealed roads	4-5	20.00% - 25.00%	SL
Bridges	70-100	1.00% - 1.43%	SL
Footpaths	30-60	1.67% - 3.33%	SL
Streetlighting	20-40	2.50% - 5.00%	SL
Cycle trail	10-99	1.01% - 10.00%	SL
Sewerage schemes	5-100	1.00% - 20.00%	SL
Stormwater schemes	80-100	1.00% - 1.25%	SL
Water supply schemes	5-100	1.00% - 20.00%	SL
Marine assets	5-50	2.00% - 20.00%	SL
Transfer stations	10	10.00%	SL
Landfill sites	10-40	2.50% - 10.00%	SL

The residual value and useful life of an asset is reviewed and adjusted, if applicable, at each financial year-end.

Revaluations

Roads, bridges, footpaths, cycle trails, streetlights, water treatment systems, sewerage treatment systems and stormwater systems are revalued on an annual basis. Council-owned heritage assets include artworks, war memorials, viaducts and railway memorabilia. Artworks are revalued every three - five years.

All other asset classes are carried at depreciated historical cost. The carrying values of revalued items are reviewed each balance date to ensure that those values are not materially different to fair value. The valuation basis for the different asset categories are described in more detail below.

Land and buildings

The deemed cost of land and buildings were established by registered valuers from Quotable Value in accordance with the requirements of the Institute of Chartered Accountants of New Zealand Standards, as at 30 June 1993. Purchases made since 30 June 1993 are recorded at cost.

Endowment lands are vested in Council for specific purposes for the benefit of various communities. These vestings have been made under various pieces of legislation which restrict both the use of any revenue and any possible dispositions.

Other infrastructural assets

All other infrastructural assets (electrical generation plant and marine assets) are valued at their deemed cost, based on a revaluation of assets undertaken by appropriately qualified personnel from Royds Garden Limited in 1993.

Library books

Books have been valued by SDC staff on a depreciated replacement cost basis, using New Zealand Library Association guidelines, as at 30 June 1993 representing deemed cost. Additions to library book stocks since 30 June 1993 are recorded at cost.

Heritage assets

The only assets to be included under this category are art works owned by the Council, which have been recorded at fair value in accordance with NZ IAS 16. Due to the nature of the item, art works are revalued on a three to five-yearly cycle and not depreciated.

Other assets, which would normally be classified under heritage assets, for example war memorials, have been included under "other assets".

Other assets

Other assets (ie plant and vehicles) are shown at historic cost or depreciated replacement cost, less a provision for depreciation.

Additions and deletions to other assets since 30 June 1993 are recorded at cost.

Accounting for revaluations

SDC accounts for revaluations of property, plant and equipment on a class of asset basis.

The results of revaluing are credited or debited to other comprehensive revenue and expense and are accumulated to an asset revaluation reserve in equity for that class of asset.

Where this results in a debit balance in the asset revaluation reserve, this balance is not recognised in other comprehensive revenue and expense but is recognised in the surplus or deficit.

Any subsequent increase on revaluation that off-sets a previous decrease in value recognised in the surplus or deficit will be recognised first in the surplus or deficit up to the amount previously expensed, and then recognised in other comprehensive revenue and expense.

m) Work in progress

Assets under construction are not depreciated. Work in progress is recognised at cost less impairment. The total cost of a project is transferred to the relevant asset class on its completion and then depreciated.

n) Intangible assets

- *software acquisition and development*

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs associated with maintaining computer software are recognised as an expense when incurred. Costs directly associated with the development of software for internal use by Council are recognised as an intangible asset. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Staff training costs are recognised in the surplus or deficit when incurred.

- *amortisation*

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in the surplus or deficit.

The useful lives and associated amortisation rates of major classes of intangible assets have been estimated as follows:

Estimated economic life		Depreciation	
Asset category	(years)	Percent	Method
Computer software	2-10	10.00% - 50.00%	SL

- *Emissions Trading Scheme*

Council has approximately 1,384 hectares of pre-1990 forest land. This land is subject to the provisions of the New Zealand Emissions Trading Scheme ('ETS"). The implication of this for the financial accounts is twofold:

Should the land be deforested (ie the land is changed from forestry to some other purpose), a deforestation penalty will arise.

Given the deforestation restriction, compensation units are being provided from the government.

The deforestation contingency is not recognised as a liability on the statement of financial position as there is no current intention of changing the land use subject to the ETS.

However, the estimated liability that would arise should deforestation occur has been estimated in the notes to the accounts.

Compensation units received are recognised based on the market value at balance date (30 June). They are recognised as income in the financial statements. They are not amortised, but are tested for impairment annually.

Emissions Trading Units are revalued annually at 30 June.

The difference between initial value or the previous revaluation, and disposal or revaluation value of the units, is recognised in other comprehensive revenue and expense.

o) Forestry assets

Forestry assets are revalued independently annually at fair value less estimated point of sale costs. Fair value is determined based on the present value of expected net cashflows discounted at a current market determined pre-tax rate.

Gains or losses arising on initial recognition of biological assets at fair value less estimated point of sale costs and from a change in fair value less estimated point of sale costs are recognised in the surplus or deficit.

The costs to maintain the forestry assets are recognised in the surplus or deficit when incurred.

p) Impairment of property, plant and equipment and intangible assets

Intangible assets subsequently measured at cost that have an indefinite useful life, or are not yet available for use, are not subject to amortisation and are tested annually for impairment.

Property, plant and equipment and intangible assets subsequently measured at cost that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

If an asset's carrying amount exceeds its recoverable amount, the asset is regarded as impaired and the carrying amount is written down to the recoverable amount.

The total impairment loss is recognised in the surplus or deficit.

The reversal of an impairment loss is recognised in the surplus or deficit.

- *value in use for non-cash generating assets*

Non-cash generating assets are those assets that are not held with the primary objective of generating a commercial return.

For non-cash generating assets, value in use is determined using an approach based on either a depreciated replacement cost approach, or a service unit approach. The most appropriate approach used to measure the value in use depends on the nature and impairment and availability of information.

- *value in use for cash generating assets*

Cash generating assets are those assets that are held with the primary objective of generating a commercial return.

The value in use for cash generating assets and cash generating units is the present value of expected future cashflows.

q) Employee benefits

Short term benefits

Employee benefits that SDC expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave earned to, but not yet taken at balance date, retiring and long service leave entitlements expected to be settled within 12 months.

Long term benefits

- *long service leave and retirement leave*

Entitlements that are payable beyond 12 months, such as long service leave and retiring leave, have been calculated by Council staff. The calculations are based on:

- likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements information; and
- the present value of the estimated future cashflows.

- *superannuation schemes*

Defined contribution schemes - Obligations for contributions to defined contribution superannuation schemes are recognised as an expense in the surplus or deficit when incurred.

- *presentation of employee entitlements*

Annual leave and vested long service leave are classified as a current liability. Non-vested long service leave and retirement gratuities expected to be settled within 12 months of balance date are classified as a current liability. All other employee entitlements are classified as a non-current liability.

r) Trade and other payables

Trade and other payables are initially measured at fair value and

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subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

s) Provisions

SDC recognises a provision for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that expenditures will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

The increase in the provision due to the passage of time is recognised as an interest expense and is included in 'finance costs'.

Financial guarantee contracts

A financial guarantee contract is a contract that requires SDC to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due.

Financial guarantee contracts are initially recognised at fair value. If a financial guarantee contract was issued in a stand-alone arm's length transaction to an unrelated party, its fair value at inception is equal to the consideration received.

When no consideration is received a provision is recognised based on the probability Council will be required to reimburse a holder for a loss incurred discounted to present value. The portion of the guarantee that remains unrecognised, prior to discounting to fair value, is disclosed as a contingent liability. If the fair value of a guarantee cannot be reliably determined, a liability is only recognised when it is probable there will be an outflow under the guarantee.

Financial guarantees are subsequently measured at the initial recognition amount less any amortisation, however, if SDC assesses that it is probable that expenditure will be required to settle a guarantee, then the provision for the guarantee is measured at the present value of the future expenditure.

Landfill post-closure costs

SDC, as an operator, has a legal obligation under its resource consent to provide ongoing maintenance and monitoring services at their landfill sites after closure. A provision for post-closure costs is recognised as a liability when the obligation for post-closure arises.

The provision is measured based on the present value of future cashflows expected to be incurred, taking into account future events including new legal requirements and known improvements in technology. The provision includes all costs associated with landfill post closure.

Amounts provided for landfill post-closure are capitalised to the landfill asset where they give rise to future economic benefits to be obtained. Components of the capitalised landfill asset are depreciated over their useful lives.

The discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to Council.

t) Internal borrowings

Internal borrowings are eliminated on consolidation of activities in the Council's financial statements.

u) External borrowings

Borrowings on normal commercial terms are initially recognised at the amount borrowed plus transaction costs. Interest due on the borrowings is subsequently accrued and added to the borrowing's balance.

Borrowings are classified as current liabilities unless the Council has an unconditional right to defer settlement of the liability for at least 12 months after balance date.

v) Borrower notes

Borrower notes are subordinated convertible debt instruments that the Council subscribes for an amount equal to 1.6% of the total borrowing from LGFA.

LGFA will redeem borrower notes plus interest, when the Council's related borrowings are repaid or no longer owed to LGFA.

The fair value of borrower notes is calculated using the discounted cash flow method. The significant input used in the fair value measurement of borrower notes is the forward interest rate yield.

w) Investments in joint arrangements

Under PBE IPSAS 37 Joint Arrangements, investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. Council has both joint operations and joint ventures.

Council determined that the investment in the following entity meets the definition of "joint operation" and should be accounted for using the proportionate consolidation method (refer note 25):

- WasteNet (31% share)

Joint operations

Council recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings. Details of the joint operation are set out in note 25.

Joint ventures

Interests in joint ventures are accounted for using the equity method (see (r) below), after initially being recognised at cost in the consolidated balance sheet.

x) Investments in associates and joint ventures

Council determined that the investments in the following entities meets the definition of "associate" and should be accounted for using the equity method (refer note XX):

- Venture Southland
- Southland Regional Heritage Committee
- Emergency Management Southland
- Southland Regional Development Agency (trading as Great South)

An associate is an entity over which SDC has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of another entity but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties have joint control of the arrangement and have rights to the net assets of the arrangement. Joint control is the agreed sharing of control of an arrangement by way of a binding arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

SDC's investment in its associates and joint ventures is accounted for using the equity method of accounting in the consolidated financial statements.
Under the equity method, an investment in an associate or joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise post-acquisition changes in Council's share of net assets of the associates or joint ventures since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

SDC's share of an associate's or joint venture's surplus or deficit is recognised in the statement of financial performance. Any change in the associate or joint venture's other comprehensive revenue and expense is presented as part of Council's other comprehensive revenue and expense. The cumulative movements are adjusted against the carrying amount of the investment. In addition, when there has been a change recognised directly in the net assets/equity of the associate or joint venture, Council recognises its share of any changes, when applicable, in the statement of changes in net assets/equity. Unrealised gains and losses resulting from transactions between Council and the associate or joint venture are eliminated to the extent of Council's interest in the associate or joint venture.

The aggregate of the SDC's share of surplus or deficit of associates or joint ventures is shown on the face of the statement of financial performance. This is the surplus attributable to equity holders of the associate or joint venture and therefore is surplus after tax and non-controlling interests in the controlled entities of the associates and joint ventures.

The financial statements of the associate or joint venture are prepared for the same reporting period as Council. When necessary, adjustments are made to bring the accounting policies in line with those of Council. After application of the equity method, Council determines whether it is necessary to recognise an impairment loss on Council's investment in its associate or joint venture.

Council determines at each reporting date whether there is any objective evidence that the investment in the associate or joint venture is impaired. If this is the case Council calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the "share of surplus of an associate and joint venture" in the statement of financial performance.

Goodwill included in the carrying amount of the investment in associate is not tested for impairment separately; rather the entire carrying amount of the investment is tested as a single asset. When Council's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, including any unsecured long-term receivables and loans, Council does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

Upon loss of significant influence over the associate or joint control over the joint venture, Council measures and recognises any remaining investment at its fair value, and accounts for the remaining investments in accordance with PBE IPSAS 29. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in surplus or deficit.

y) Critical accounting estimates and assumptions

In preparing these financial statements SDC has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Infrastructural assets

There are a number of assumptions and estimates used when performing depreciated replacement cost (DRC) valuations over infrastructural assets. These include:

- The physical deterioration and condition of an asset. For example, Council could be carrying an asset at an amount that does not reflect its actual condition. This is particularly so for those assets which are not visible, for example stormwater, wastewater and water supply pipes that are underground.
- estimating any obsolescence or surplus capacity of an asset;
- estimating the replacement cost of the asset. The replace cost is derived from recent construction contracts; and
- estimates are made when determining the remaining useful lives over which the asset will be depreciated. These estimates can be impacted by the local conditions, for example weather patterns and traffic growth. If useful lives do not reflect the actual consumption of the benefits of the asset, then SDC could be over or under estimating the annual depreciation charge recognised as an expense in the statement of comprehensive revenue and expense.

To minimise this risk SDC's infrastructural asset useful lives have been determined with reference to the NZ Infrastructural Asset Valuation and Depreciation Guidelines published by the National Asset Management Steering Group, and have been adjusted for local conditions based on past experience.

Asset inspections, deterioration and condition modelling are also carried out regularly as part of SDC's asset management planning activities, which gives Council further assurance over its useful life estimates.

Experienced independent valuers perform Council's infrastructural asset revaluations.

z) Critical judgements in applying SDC's accounting policies

Management has exercised the following critical judgements in applying SDC's accounting policies for the period ended 30 June 2021:

Classification of property

SDC owns a number of properties that are maintained primarily to provide housing to pensioners. The receipt of rental income from these properties is incidental to holding these properties. These properties are held for service delivery objectives as part of SDC's social housing policy and are accounted for as property, plant and equipment rather than as investment property.

aa) Statement of cashflows

Operating activities include cash and cash equivalents (as defined in (g)) received from all SDC's income sources and record the cash payments made for the supply of goods and services.

Investing activities are those activities relating to the acquisition and disposal of non-current assets.

Financing activities comprise the change in equity and debt capital structure of SDC.

bb) Rounding

Some rounding variances may occur in the financial statements due to the use of decimal places in the underlying financial data.

cc) Budget figures

The budget figures are those approved by Council in its 2021-2031 Long Term Plan. The budget figures have been prepared in accordance with New Zealand Generally Accepted Accounting Practice and are consistent with the accounting policies adopted by Council for the preparation of financial statements.

dd) Standards issued and not yet effective that have not been early adopted

Standards and amendments, issued but not yet effective that have not been early adopted are:

- *PBE IPSAS 41 Financial Instruments*

PBE IPSAS 41 Financial Instruments supersedes PBE IPSAS 29 Financial Instruments: Recognition and Measurement. It is effective for the year ending 30 June 2023, with early adoption permitted. The main changes between PBE IPSAS 29 and PBE IPSAS 41 are:

- new financial asset classification requirements for determining whether an asset is measured at fair value or amortised cost; and
- a new impairment model for financial assets based on expected credit losses, which may result in earlier recognition of impairment losses.

Council has performed a preliminary assessment on the impact of the standard and does not expect material changes to the carrying value of its financial instruments. Additional disclosures may be required about Council and the group's financial assets.

- *PBE FRS 48 Service Performance Reporting*

PBE FRS 48 replaces the service performance reporting requirements of PBE IPSAS 1 Presentation of Financial Statements and is effective for the year ending 30 June 2023, with early application permitted. Council has not yet assessed in detail the impact of PBE FRS 48 on its statement of service performance.

16

Glossary

Abbreviation	Description
ECL	expected credit losses
FVTOCRE	fair value through other comprehensive revenue and expense
FVTSD	fair value through surplus and deficit
LGFA	Local Government Funding Agency
SPPI	solely payments of principal and interest

Receivables

Short-term receivables are recorded at the amount due, less an allowance for expected credit losses (ECL).

The Council apply the simplified ECL model of recognising lifetime ECL for receivables.

In measuring ECLs, receivables have been grouped into rates receivables, and other receivables, and assessed on a collective basis as they possess shared credit risk characteristics. They have then been grouped based on the days past due. A provision matrix is then established based on historical credit loss experience, adjusted for forward looking factors specific to the debtors and the economic environment.

Rates are "written-off":

- when remitted in accordance with the Council's rates remission policy; and
- in accordance with the write-off criteria of sections 90A (where rates cannot be reasonably recovered) and 90B (in relation to Māori freehold land) of the Local Government (Rating) Act 2002.

Other receivables are written-off when there is no reasonable expectation of recovery.

Other financial assets

Other financial assets (other than shares in subsidiaries) are initially recognised at fair value. They are then classified as, and subsequently measured under, the following categories:

- amortised cost;
- fair value through other comprehensive revenue and expense (FVTOCRE); or
- fair value through surplus and deficit (FVTSD).

Transaction costs are included in the carrying value of the financial asset at initial recognition, unless it has been designated at FVTSD, in which case it is recognised in surplus or deficit. The classification of a financial asset depends on its cash flow characteristics and the Council's management model for managing them.

A financial asset is classified and subsequently measured at amortised cost if it gives rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal outstanding, and is held within a management model whose objective is to collect the contractual cash flows of the asset.

A financial asset is classified and subsequently measured at FVTOCRE if it gives rise to cash flows that are SPPI and held within a management model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Financial assets that do not meet the criteria to be measured at amortised cost or FVTOCRE are subsequently measured at FVTSD.

However, the Council may elect at initial recognition to designate an equity investment not held for trading as subsequently measured at FVTOCRE.

Initial recognition of concessionary loans
Loans made at nil or below-market interest rates are initially recognised at the present value of their expected future cash flows, discounted at the current market rate of return for a similar financial instrument. For loans to community organisations, the difference between the loan amount and present value of the expected future cash flows of the loan is recognised in surplus or deficit as a grant expense.

Subsequent measurement of financial assets at amortised cost
Financial assets classified at amortised cost are subsequently measured at amortised cost using the effective interest method, less any expected credit losses. Where applicable, interest accrued is added to the investment balance. Instruments in this category include term deposits, community loans, and loans to subsidiaries and associates.

Subsequent measurement of financial assets at FVTOCRE
Financial assets in this category that are debt instruments are subsequently measured at fair value with fair value gains and losses recognised in other comprehensive revenue and expense, except expected credit losses (ECL) and foreign exchange gains and losses are recognised in surplus or deficit. When sold, the cumulative gain or loss previously recognised in other comprehensive revenue and expense is reclassified to surplus and deficit. The Council do not hold any debt instruments in this category.

Financial assets in this category that are equity instruments designated as FVTOCRE are subsequently measured at fair value with fair value gains and losses recognised in other comprehensive revenue and expense. There is no assessment for impairment when fair value falls below the cost of the investment. When sold, the cumulative gain or loss previously recognised in other comprehensive revenue and expense is transferred to accumulated funds within equity. The Council designate into this category all equity investments that are not included in its investment fund portfolio, and if they are intended to be held for the medium to long-term.

Council's investments in this category include: Civic Assurance (formerly the New Zealand Local Government Insurance Corporation Limited) and Milford Sound Tourism Limited.

Subsequent measurement of financial assets at FVTSD
Financial assets in this category are subsequently measured at fair value with fair value gains and losses recognised in surplus or deficit. Interest revenue and dividends recognised from these financial assets are separately presented within revenue.

Instruments in this category include the Council's investment fund portfolio (comprising of listed shares, bonds, and units in investment funds) and LGFA borrower notes.

Expected credit loss allowance (ECL)
The Council recognise an allowance for ECLs for all debt instruments not classified as FVTSD. ECLs are the probability-weighted estimate of credit losses, measured at the present value of cash shortfalls, which is the difference between the cash flows due to Council in accordance with the contract and the cash flows it expects to receive. ECLs are discounted at the effective interest rate of the financial asset.

ECLs are recognised in two stages. ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). However, if there has been a significant increase in credit risk since initial recognition, the loss allowance is based on losses possible for the remaining life of the financial asset

(Lifetime ECL).

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Council considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Council's historical experience and informed credit assessment and including forward looking information.

The Council considers a financial asset to be in default when the financial asset is more than 180 days past due. The Council may determine a default occurs prior to this if internal or external information indicates the entity is unlikely to pay its credit obligations in full.

Payables and deferred revenue

Short term payables are recorded at the amount payable.

Draft Annual Plan 2022/2023

Record No: R/22/5/20872
Author: Jason Domigan, Corporate performance lead
Approved by: Fran Mikulicic, Group manager democracy and community

☐ Decision ☒ Recommendation ☐ Information

Purpose

1 The purpose of the report is for the Finance and Assurance committee to review the final draft of the Annual Plan 2022/2023 and recommend to Council its adoption.

Executive Summary

2 Every three years, council adopts a ten year plan which is referred to as the 'Long Term Plan (LTP)'.

3 In the intervening years, an Annual Plan is developed to address any variances from the LTP, to confirm service levels and budgets for the year, and to set rates. Year two of the Council's LTP 2021-2031 serves as the base for the Annual Plan 2022/2023.

4 All councils are required by legislation to prepare and adopt an Annual Plan for each financial year before the start of the new financial year. The Annual Plan is not audited.

5 The Annual Plan 2022/2023 did not have any significant or material variances between year two of the LTP 2021-2031. As a result, it was agreed by Council not to go out to the public for formal consultation with the community.

6 Council did produce an annual plan information document in Council's publication First Edition and used social media and the council website to update the community on the Annual Plan process.

7 The rate increase for 2022/2023 financial year is proposed to be 9.25%, compared to the 8.31% proposed in the LTP 2021-2031. This is an increase of $0.5 million from total rates collected of $58.7 million to $59.2 million proposed for 2022/2023. The main reason for the increase in the rates in the draft Annual Plan compared to year two of the LTP is due to an increase in the interest rate charged on loans associated with capital works projects.

8 It is important to note that the figure of 9.25% is an average only. In real terms, rates rises will vary across the district depending on a wide range of factors, including the location of the property, the services households receive and how their rating value has changed compared with other properties, from the recent revaluation.

9 In discussing the progress of the annual plan 2022/23 in March 2022, staff identified a rate increase of 9.22%. As noted above this has now increased to 9.25% as a result of the targeted rate for Northern pools.

10 It is intended that the committee recommends to Council the adoption of the Annual Plan 2022/2023, including the Funding Impact Statement (Rates section) for the 2022/2023 financial year and the amendments to the fees and charges.

11 As part of the recommendations, Council is also being asked to:

- bring forward the use of $1.0 million of the strategic asset reserve to fund the increases in the roading programme to match the increased Waka Kotahi funding available; and
- extend the targeted rate for swimming pools to include a Northern pool rate (and associated rating boundary) based on the recommendation made by the Northern Community Board.

12 A copy of the draft Annual Plan 2022/2023 is included separately. The contents page, page numbers and page references (highlighted in yellow) are still to be finalised in the final draft for Council adoption.

Recommendation

That the Finance and Assurance Committee:

a) Receives the report titled "Draft Annual Plan 2022/2023" dated 10 June 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) Confirms in accordance with Section 100 of the Local Government Act 2002 that the Annual Plan 2022/2023 has been prepared based on reasonable judgement and assumptions and that it considers the projected financial results, including the projected operating deficit for 2022/2023, to be financially prudent given its financial position.

e) Agrees to recommend to Council to extend the targeted rate for swimming pools by creating a targeted Northern pool rate set as a fixed amount per SUIP on the properties within the area indicated on Map 224 (Attachment B), to collect a total rate revenue of $17,822 (including GST) in 2022/2023.

f) Agrees to recommend to Council to bring forward from year four of the Long Term Plan, the $1.0 million from the strategic asset reserve to use in the 2022/2023 year.

g) Agrees to recommend to Council the adoption of the significant forecasting assumptions from the Long Term Plan 2021-2031 (Attachment C) including the proposed change below:

i) Increase the level of uncertainty of the return on investment/reserves assumption from moderate to high.

h) Agrees to recommend to Council the adoption of the Annual Plan 2022/2023 (Attachment A), including the Funding Impact Statement (Rates section) for the 2022/2023 financial year and the amendments to the fees and charges.

Background

13 Once every three years, Southland District Council is required to adopt a Long Term Plan (LTP), and in the intervening years an Annual Plan. These plans set out the service levels and budgets for the coming year, as well as being used to set rates.

14 Year two of the Council's LTP 2021-2031 serves as the base for the Annual Plan 2022/2023.

15 The Annual Plan 2022/2023 proposed rates increase is broadly consistent with what was projected for the 2022/2023 year in the LTP 2021-2031.

16 The main reason for the increase in the average rate in the draft Annual Plan from year two of the LTP is due to an increase in the interest rates on loans to complete our capital works projects. These capital works projects were already included in the LTP 2021-2031 and budget included within the work programme.

17 All councils are required by legislation to prepare and adopt an Annual Plan for each financial year before the start of the new financial year. The Annual Plan is not audited.

18 The purpose of an Annual Plan is to:

- detail the proposed annual budgets and funding impact statement;
- identify any variation from the financial statements and funding impact statement included in the Long Term Plan (LTP) in respect of the year;
- provide integrated decision-making and co-ordination of the resources of the local authority;
- contribute to the accountability of the local authority to the community.

19 As part of developing the Annual Plan, community boards and water supply subcommittees were provided with the opportunity at their direction-setting meetings to highlight any planned changes for the 2022/2023 financial year from what was budgeted for year two of the Long Term Plan 2021-2031. Hall committees and Council staff were also asked to advise of any changes to fees and charges for the 2022/2023 year.

20 On 17 December 2021, Council informally discussed a number of key matters associated with the 2022/2023 Annual Plan, including:

- Waka Kotahi funding including moving the strategic asset reserve from year four of the LTP to year two
- Stewart Island/Rakiura Visitor Levy
- possible extensions to existing rate
- key financial assumptions and change to interest on loans from 2% to 3%
- impact on the overall and specific rates for 2022/2023.

21 On 25 January 2022, Council informally discussed a number of further matters associated with the 2022/2023 Annual Plan, including:

- overall financial picture including benchmarks and forecast profit and loss information
- distribution of the strategic asset reserve
- proposed fees and charges
- transfer of the Curio Bay community scheme to the district wastewater rate
- Around the Mountains Cycle Trail.

22 On 22 February 2022, Council informally discussed the impact of new capital valuations on the distribution of rates across different sectors and areas as part of the Annual Plan 2022/2023

subject to the revaluations carried out by Quotable Value on Council's behalf. This resulted in an increased impact on properties that receive the bulk of the services provided such as residential and commercial properties in townships.

23 At its meeting on 29 March 2022, Council formally considered the need for consultation on the 2022/2023 Annual Plan. Council confirmed there was no community consultation required for the Annual Plan 2022/2023 as there were no significant variances to the LTP 2021-2031. This was in accordance with the Significance and Engagement Policy that was adopted in March 2021 through the LTP process.

Community consultation

24 There was no community consultation for the Annual Plan 2022/2022 as there were no significant variances to the LTP 2021-2031. This was in accordance with the Significance and Engagement Policy.

25 However, an Annual Plan information document was produced to update the public on the proposed direction and proposed rates increase. The document was put on the Council website and social media and was distributed to households as part of Council's quarterly publication First Edition in April 2022.

Changes from year two of the LTP 2021-2031

26 As indicated above, there have only been minor movements between what was forecasted in the 2022/2023 year in the LTP 2021-2031, overall an increase of $0.5 million in rates. Some of the changes include:

- interest rate increases from 2% to 3% ($0.4 million)
- an increase in staff wages, training and representation costs ($0.5 million).
- an increase in wastewater costs relating to electricity for the Te Anau plant, term loan costs, soil management at the Kepler block, unplanned and routine maintenance ($0.3 million)
- a decrease in water costs relating to routine maintenance and loan servicing, increases in insurance, electricity, resource consents and overheads, and water meter expenditure (-$0.1 million)
- a decrease in local costs due to deferred airport loan principal repayments, offset by term loan costs, street lighting and insurance (-$0.1 million)
- a decrease in stormwater relating to reduced condition assessments (stimulus achieved more), maintenance and investigation/audit and CCTV inspections, and maintenance costs (-$0.6 million)

Issues

27 The Annual Plan is based on a number of assumptions. In addition, there are a number of issues described below that were considered as part of this Annual Plan.

Waka Kotahi Funding

28 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.

29 Following Council's deliberations on the LTP, Council was subsequently informed by Waka Kotahi that the full programme of works was 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.

30 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. This was contrary to the initial advice received from Waka Kotahi, as noted above, but welcomed.

31 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.

32 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.

33 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 $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.

Extensions to existing targeted rates

34 As part of the development of the Annual Plan 2022/2023, staff have noted the extensions of targeted rates relating to pools and district wastewater as detailed below.

<u>Extension to pool rates and rating boundaries</u>

35 The Northern Community Board has agreed to provide funding assistance to two pools in its area (Mossburn and Northern Southland in Lumsden). This involves extending the targeted rate approach which is already used to fund swimming pool grants in other parts of the district to collect an additional $17,822 (including GST) in rates for the pool grants.

36 A separate consultation process was undertaken to get feedback on the proposal in March 2022 including the part of the community board area proposed to be rated. 134 responses were

received from the consultation process with 71% of respondents supporting the proposed rate. When asked which properties should pay the rate, 51% of respondents favoured all properties in the board area paying the rate and 49% supported only ratepayers within the Lumsden, Mossburn and Five Rivers hall rating boundaries paying the rate. This feedback was considered by the Northern Community Board and a recommendation made to Council to establish a new targeted Northern community pool rate with a fixed amount across the ratepayers who live within the Lumsden, Mossburn and Five Rivers hall rating boundaries (equating to $23.85 including GST in 2022/2023).

<u>District wastewater rating boundary adjusted to include selected properties in Curio Bay (targeted rate extension)</u>

37 It is proposed to extend the district wastewater rating boundary (used to define which properties pay the targeted wastewater rate in the Annual Plan) to include properties connected to the Curio Bay wastewater treatment plant (at the Recreation Reserve and Porpoise Bay subdivision). The costs for the treatment plant are currently funded as part of the Recreation Reserve budget (funded from the General rate). However, as the plant is now taking waste from properties outside of the reserve, the plant is now considered to be a district wastewater scheme with properties connected to be charged the district-wide targeted wastewater rate.

38 Council at its 29 March meeting agreed to staff amending the targeted wastewater rating boundary to include Curio Bay recreation reserve and properties in the Purpose Bay subdivision for inclusion in the Annual Plan 2022/2023 funding impact statement. It also agreed that the properties within this extended rating area would be charged the district wide targeted wastewater rate from 1 July 2022. This has been incorporated into the Annual Plan 2022/2023 attached.

Implications on rating

39 The year ahead is going to be another significant one for Council, as the programme to step up our delivery of capital projects, and to replace and maintain more of our infrastructure, continues as was forecast in our Long Term Plan 2021-2031 (LTP).

40 Council is budgeting on an average rate increase across the district of 9.25 % in 2022/2023. The main drivers for this were the increase in interest rate, biodiversity staff, toilets, waste management, election year costs for representation, staff wages and training, sewerage maintenance, loans and depreciation, additional Waka Kotahi funding for roading, water maintenance and loans, sewerage maintenance and inspections, wheelie bins recycling and waste disposal, and local loans, maintenance and mowing.

41 Council indicated in the LTP that the increase would be an average 8.31% in year two of the 10-year plan. Although there have been minor movements across activities, the key reason for the increase from what was projected in the LTP is the need to increase the interest rates payable on loans from 2% to 3% to complete our capital works projects, a reflection of market interest rate changes.

42 Council indicated in its assumptions for the LTP that there was a risk that interest rates would change and it noted the potential impact on rates, unfortunately this has now occurred and it is a cost that the public will understand needs to be recovered.

43 It is important to note that the figure of 9.25% is an average only. In real terms, rates rises will vary across the district depending on a wide range of factors, including the location of the property, the services households receive and how their rating value has changed compared with other properties.

Stewart Island/Rakiura Visitor Levy

44 Council has recently undertaken consultation and deliberated on the Stewart Island/Rakiura Visitor Levy (SIVL) amount. As part of changing the quantum of the levy, both the current policy and bylaw needed to be formally reviewed.

45 This issue is additional to the Annual Plan process and required community consultation to seek community views as part of that review process. The SIVL policy requires that consultation be included as part of an LTP or Annual Plan process in order to achieve efficiency.

46 Individual consultation on the SIVL using the special consultative procedure (SCP) has been carried out as outlined by section 83 of the LGA. The key outcomes from this process are detailed below:

- increasing the amount of the visitor levy to $10 on 1 October 2023, and then increasing the amount of the levy to $15 on 1 October 2025.
- allowing multi-year funding of up to 30 years for Council and community owned infrastructure, in exceptional circumstances
- removing the requirement to consult via the Annual Plan/LTP process, in the event a change in the levy amount is considered, noting that consultation procedures under the Local Government Act will always be applied
- continuing to undertake the communication measures agreed at the 22 February 2022 meeting to publicise the Stewart Island/Rakiura visitor levy
- retaining the levy eligibility requirements outlined in the draft policy
- not seeking a change to the Empowering Act as to who pays the visitor levy
- no change to the current Stewart Island/Rakiura Visitor Levy Allocation Subcommittee

47 The outcomes of this consultation have been incorporated into the Annual Plan for adoption later this month.

Risks

48 Throughout the Annual Plan process, staff have continued to refer to and monitor the assumptions on which the financial data is based. We believe that the assumptions are still appropriate however staff would like to highlight one assumption that may pose some increased risk over the next 12 months.

49 The current assumption for return on investment/reserves outlines that actual returns may vary from the amount included in the LTP. The return on financial investments has been calculated at 4.4% net per annum, based on reserves of approximately $34 million being invested in an externally managed balanced fund.

50 Two components are affecting the potential returns for Council. The first is that Council is currently in the process of appointing a fund manager, and work with them to decide when and how much it will invest, both of which may delay the annual returns budgeted. The second component, is the current investment markets. A balanced fund is generally one that invests in a mixture of cash, property, shares and bonds. Currently returns in some of these markets have been less than average due to world events such as Covid-19 and the Ukraine war. Fund managers typically move their investments to balance these changes however lower than average returns are highly possible.

51 From the investment returns, Council has budgeted on $750,000 being used to offset rates revenue requirements. Investment returns in excess of $750,000 are used to pay interest on various restricted and local reserves and accumulated in the district operations reserve. Any shortfall may restrict the funds applied to either rates or the reserve balances. A decrease in actual investment returns compared to budget will require Council to find other funds to fund the activities, borrow to cover the shortfall or re-prioritise. If after re-prioritisation, the activities or parts still needed to occur, funding could happen by way of utilising existing reserves or loans. If reserves were to be used, this may not affect future rating requirements however if Council chose to loan fund then future rates will need to increase to cover the repayments necessary.

52 At it's 11 May 2022 meeting, Council considered the impact of changes to its budgeted investment returns and borrowings. As noted above, Council in the current financial year budgeted to receive 4.4% net on its investments and pay LGFA 2% on its borrowings. Due to Council still progressing with its investment and borrowing strategy, the returns and costs are less than budgeted. Staff estimate that Council will be $286,087 short in funding, (it was estimated $293,633 of additional funds would be put to reserves). Council acknowledged the shortfall and approved the use of the District Operations reserve to fund any shortfall. It is now estimated the District Operations reserve will be $293,406 at 30 June 2022. The actual balance of the reserve may be higher or lower, at this stage it is expected to be higher due to expenditure in a number of corporate business units being less than budgeted as a result of a variety of factors, including the impact of Covid-19. Based on this, Council could again choose to use the district operations reserve as the funding mechanism for any shortfall in investment returns and borrowing costs, recognising that the actual balance will be unknown until 30 June 2023.

53 The current assumption has moderate level of uncertainty and a medium level of risk if the assumption is incorrect. Based on the discussion above, staff have reviewed the assumption against the criteria in the LTP assumptions for uncertainty and risk.

54 In terms of uncertainty, staff consider that the information/confidence in the assumption has increased from possible to likely based on the current investment markets. This means there needs to be an adjustment in the level of uncertainty from moderate to high.

55 In terms of risk, staff do not believe there is an increase in the consequence for the assumption being incorrect strategically, operationally or financially and consider the threshold to still be minor. When considered against the likelihood of the consequence occurring, the overall risk for the assumption remains unchanged.

56 As a result, staff recommend the assumption be amended to increase the uncertainty of the risk from moderate to high but the risk associated with the assumption remains unchanged. The assumptions have been updated to reflect this change and are attached as Attachment C.

Factors to Consider

Legal and Statutory Requirements

57 The Annual Plan is a statutory requirement under the Local Government Act 2002 (section 95).

58 All councils are required by legislation to prepare and adopt an Annual Plan before the commencement of the financial year to which it relates (1 July 2022 in this instance).

Community Views

59 The Community Boards were involved in the direction setting for the Annual Plan 2022/2023 and provided input into any new projects that were urgently required for their areas and the fees and charges for the local assets. This feedback was presented to Council for consideration and included in the Annual Plan 2022/2023 where appropriate.

60 As mentioned above, the annual plan information document was made available through Council's publication First Edition, on social media and on Council's website.

Costs and Funding

61 There are various costs incurred in compiling the Annual Plan including staff costs and budgets. These are included in Council's annual budgets and funded accordingly.

62 The specific financial implications of the changes made to the final Annual Plan are outlined in the financial considerations section below.

Policy Implications

63 The changes set out in the Annual Plan are consistent with Council's current Financial Strategy, Infrastructure Strategy and policies.

64 As noted above, the Stewart Island Visitor Levy Bylaw and Policy are being reviewed and will be amended outside of the Annual Plan process. Any outcomes from that process have been included in the Annual Plan.

65 No other policies have been amended as part of the Annual Plan 2022/2023 development process.

Financial considerations

66 The financial implications of the proposed Annual Plan 2022/2023 are noted below:

67 <u>Rating Impact/Rates Increase</u>

- the rate increase for 2022/2023 will be 9.25%, compared to 8.31% proposed for the equivalent year in the LTP 2021-2031.
- the proposed rate increase for 2022/2023 has been reduced by using $1.0 million of strategic asset reserves to fund the increases in the roading programme to match the increased Waka Kotahi funding available.
- the Funding Impact Statement (Rates Section) has been updated to show the current District and local area rates. Rates will be set as either a rate in the dollar on land value or capital value or a Uniform Targeted Rate (UTR).

68 30% Maximum Uniform Targeted Rate (UTR)

- Uniform Targeted Rate - The maximum amount Council can collect under the UTR is 30% of total rates. The UTR for the 2022/2023 financial year will be 22.99%, compared to 23.41% for 2021/2022.

69 Impact on Financial Reports

- the consolidated impacts of the changes are shown in the draft forecast statement of comprehensive income and statement of financial position included in Attachment A of this report.
- in comparing the draft Annual Plan 2022/2023 forecast deficit to year two of the LTP 2021-2031, the deficit has increased $380 thousand, from $4.8 million to $5.2 million.
  - Overall revenue has increased $1.2 million. Rates has increased $0.5 million, NZTA $1.2 million and grants and subsidies $0.6 million. This is offset by other revenue reducing $1.2 million due to early harvesting of Waikaia forest in 2021/2022 (rather than 2022/2023).
  - Costs have increased $1.5 million. Employee associated costs ($1.2 million), finance costs $0.6 million with a reduction in other Council expenditure of $0.2 million. Increased employee related costs are mainly as a result of the need to continue to meet ongoing service and legislative requirements. The increase in finance costs is due to the change in interest rates on loans increasing by 1% to 3%.
- the prospective statement of financial position in the draft Annual Plan 2022/2023 incorporates 30 June 2021 actual balances (as opening balances) as well as changes resulting from revised forecasts for 2021/2022.
  - the main variance from year two of the LTP 2021-2031, is the decrease in property, plant and equipment and external debt. This is due to changes in capital works projects, predominantly in water, wastewater and stormwater activities which are typically funded from borrowings.

70 Compliance with Financial Strategy

- the draft 2022/2023 Annual Plan is not in compliance with the key financial indicators outlined in the financial strategy, being specifically:
- rates increases to be no more than 8%. For 2022/2023 in the Long Term Plan 2021-2031, it was proposed that the increase would be higher than the 8% limit ($8.31%). The draft rates increase proposed is 9.25%.
- Council is not planning to have a balanced budget in 2022/2023. A balanced budget is where the planned revenues are equal or greater than the planned operating expenditure (ie 100%+). For 2022/2023 in the Long Term Plan 2021-2031, it was proposed that the balanced budget benchmark would be 94.8%, however the draft Annual Plan is 94.5%. Council do not meet the balanced budget benchmark primarily due to the phasing in of depreciation funding over a number of years and hence resolution d) in this report to ensure Council acknowledge the unbalanced budget.

Analysis

Options Considered

71 **Option 1:** recommend the draft Annual Plan 2022/2023 to Council for adoption, with any minor amendments as agreed at this meeting.

Option 2: do not recommend the Annual Plan 2022/2023 to Council for adoption.

Analysis of Options

72 **Option 1 – Recommend the draft Annual Plan 2022/2023 to Council for adoption, with any minor amendments as agreed at this meeting.**

Advantages	*Disadvantages*
• the Annual Plan will comply with statutory requirements and timeframes • is consistent with the overall direction set through the LTP 2021-2031 • adoption of the Annual Plan will enable rates to be set for the 2022/2023 financial year. • the committee has a delegated authority to recommend to Council the adoption of the Annual plan.	• no further changes can be made

73 **Option 2 – Do not recommend the Annual Plan 2020/2021 to Council for adoption.**

Advantages	*Disadvantages*
• if a significant omission has been made in the development of the Annual Plan, it can be rectified.	• the Annual Plan will not comply with the statutory requirements to adopt before 1 July 2022. • rates will not be able to set for the 2022/2023 financial year until the Annual Plan is adopted. • there would be a high level of uncertainty for ratepayers.

Assessment of Significance

74 The draft Annual Plan 2022/2023 does not contain significant or material variance from year two of the LTP 2021-2031. Therefore, it did not meet the significant threshold in the Significance and Engagement Policy and the formal consultation with the public was not undertaken.

Recommended Option

75 Option 1 – Recommend the draft Annual Plan 2022/2023 to Council for adoption, with amendments as agreed at this meeting.

Next Steps

76 Following Council adoption, the Annual Plan 2022/2023 will be made available on the Council's website www.southlanddc.govt.nz. Hard copies will be available upon request.

77 The fees and charges booklet will also be finalised and made available on Council's website and be distributed to relevant stakeholders, hall committees and community boards for their information.

Attachments

A Draft Annual Plan 2022-2023 ⇩
B Map 224 Northern Pool rating boundary ⇩
C Updated forecasting assumptions for Annual Plan 2022/2023 ⇩


ANNUAL
2022-2023
Plan

Contents

Welcome to Southland District Council's Annual Plan 2022/2023

The Local Government Act (2002) requires Council to prepare an Annual Plan every year to:

- clearly show its budget and how much it will cost ratepayers this year
- highlight any major differences from what had been planned for that year in Council's Long Term Plan 2021-2031 (LTP, or 10 Year Plan) and why these changes are necessary
- co-ordinate Council's resources and decision-making
- be accountable to the community, and
- give residents the opportunity to take part in Council's major decisions

Southland District Council's major planning document for the current period is the Long Term Plan 2021-2031, titled It's time, Southland/Murihiku. The plan sets out Council's planned priorities and spending for 10 years from 2021, with more detail for the first three years. This Annual Plan provides an update to the LTP, highlighting changes to Council's work programme for year two (2022/2023), the reasons for the changes and the impact on rates.

To fully understand this Annual Plan, you may find it helpful to read it alongside the Long Term Plan 2021-2031, which contains detailed explanation of Council's work programme. All other activities, policies and levels of service detailed in the LTP are proposed to be delivered as stated in that plan. Copies of the LTP can be viewed at Council's office at 15 Forth Street, Invercargill, at any of our public libraries, our area offices or on our website – southlanddc.govt.nz


Southland DISTRICT COUNCIL

Southland District Council's

vision is Southland – one community offering endless opportunities.

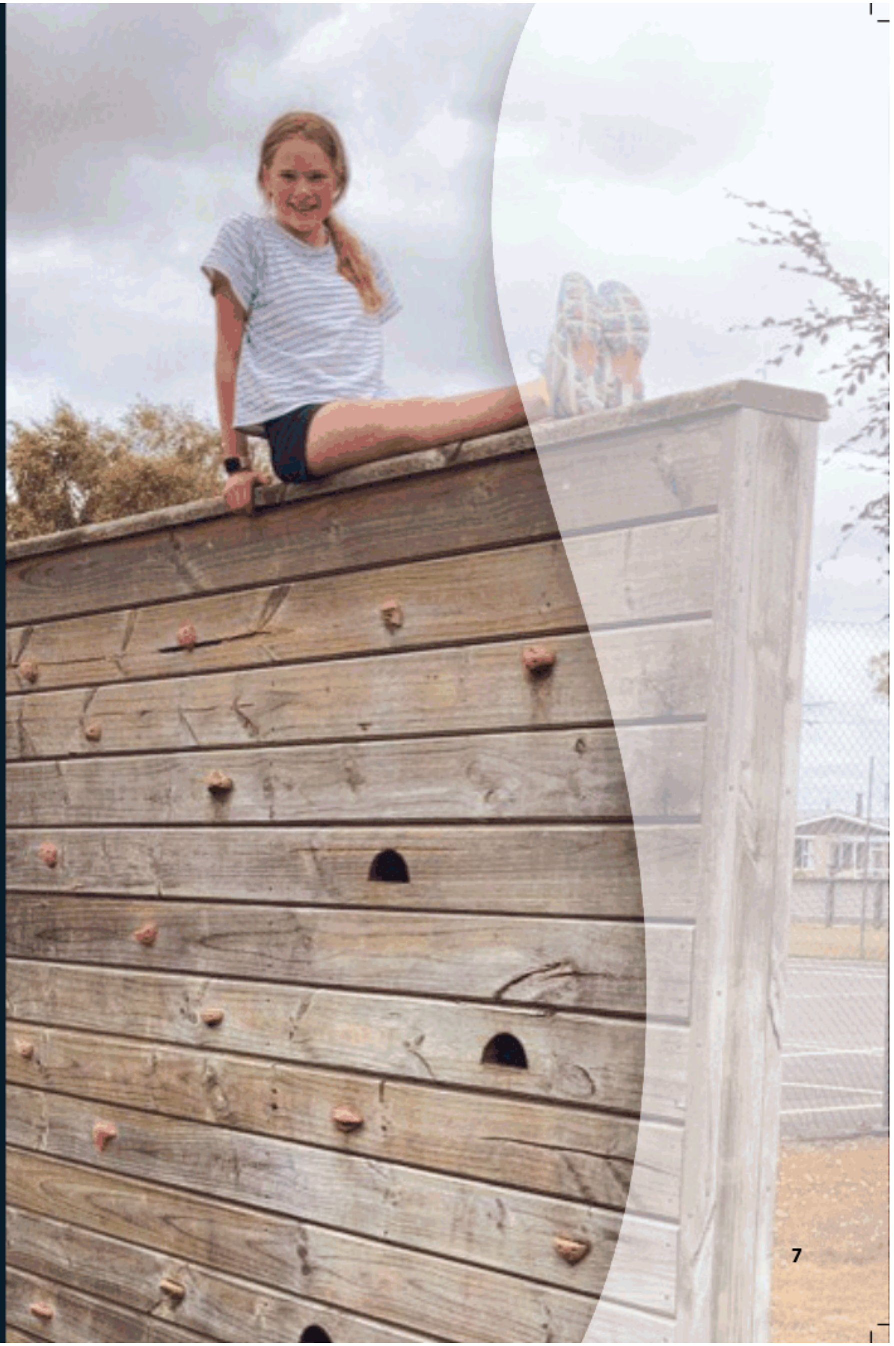
We work towards this vision through our plans, strategies and policies and through the activities outlined in our 10 Year Plan.

The purpose of Council is:

- to enable democratic local decision-making and action by and on behalf of communities
- to promote the social, economic, environmental, and cultural well-being of communities in the present and for the future

Council consists of a mayor and 12 councillors elected by Southland District residents/ratepayers every three years. As well, we have a Southland District Youth Council, which advises Council on youth engagement issues.

We believe our democratic election process ensures the organisation is able to operate in the best interests of the District.



democracy

The importance of local democracy should never be underestimated.

There is a place for all those with a passion for people to partake in the governance of their communities, irrespective of their experience and background.

All it takes is a willingness to be involved, a commitment to do the mahi, and the courage of your convictions.

In local government, diversity – of gender, race, age and opinions – is a virtue. Sound, well-considered decision-making is the best result of having a range of community views reflected around a governance table.

In October 2022, the public will get their three-yearly chance to vote for the people they want to represent them at local body level.

Election year is an opportunity to play a key role in helping to shape the future of Southland district, in a range of public positions, whether they be on community boards, Council or the mayoralty.

We encourage any of you with an interest in your community to consider putting yourself forward for election when nominations open in July.

These are certainly busy and exciting times to be involved in local government.

In recent years Southland District Council, through a range of improvements, has been able to significantly increase its annual capital works programme, This year we aim to deliver $45 million of projects, a major step up from the roughly $18 million we were delivering just four years ago.

This is year two of Council's 2021-2031 Long Term Plan and, obviously, we are not immune to the Covid-related challenges being faced by many businesses in Southland district. Contractors are extremely busy with the huge volume of work being carried out, and internationally there have been disruptions in the supply chain of products used in the construction and maintenance of infrastructure, including building materials, which have caused delays.

Despite this, Council continues to work hard to deliver the increased programme we outlined in our LTP.

We remain positive, and determined to deliver what we said we would. We ramped up our works programme because Southland needed us to, and we will continue pushing ahead with it, as well as delivering the wide range of services Southlanders need, albeit in a slightly different way in some cases.

The pandemic has necessitated new ways of doing things. Meetings have largely been held on a platform of video-conference software. Strict rules about wearing masks and maintaining physical distancing forced us to rethink how we go about our work. But we adapted and have taken these changes in our stride, just as many Southlanders have. It is very much a case of remaining positive and getting on with it. Our approach to dealing with the pandemic in its various iterations was about preserving our ability to serve, for as long as it was possible for us to do so.

We're proud of the way the organisation responded to the threat of Omicron and the other variants of coronavirus. These measures enabled us to continue to operate and deliver a bigger works programme than ever before. We acknowledge there is a degree of uncertainty ahead with a number of legislative changes and reviews in progress, particularly in the areas of resource management, three waters and the future for local government, all of which would have a profound effect on the way we do business, but until the outcomes are known we will push forward.

The ever-present spectre of reforms hasn't distracted the organisation from focusing on delivery. This was graphically illustrated when we were one of only six councils nationally to receive plaudits from Crown Infrastructure Partners, which oversaw the national three waters stimulus programme on behalf of the Department of Internal Affairs, for our successful delivery of $13 million of three waters projects. While this naturally placed extra demands on our staff we were able to carry out this large volume of work while continuing our usual day-to-day business.

We have begun a sweeping seven-year programme of open spaces work, which will occupy much of our energy in the coming year, and beyond. The objective is to activate the many reserves and open spaces, including walkways, recreational areas and playgrounds, that Council looks after, making them more attractive and inviting for residents and visitors to access.

Southland District Council will continue to play an advocacy and support role in a range of multi-agency initiatives. One such project is working alongside Great South on addressing the housing shortfall in Southland that is expected in coming years. With a growing population it is expected that 3,500 more houses will be required, right across the board, from transitional to executive housing.

With so much important work to do, we look forward to another massive year ahead.

Cameron McIntosh
CHIEF EXECUTIVE

Gary Tong
MAYOR

EXECUTIVE Summary

In the LTP we talked to you about the need to invest in our roads and bridges and to ensure our levels of service in providing that critical infrastructure remain at the standards of safety and performance that Southlanders expect and deserve.

As outlined, we are continuing on that trajectory and continuing to invest in our critical infrastructure.

Impact of Waka Kotahi FUNDING *Changes*

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 NZ Transport Agency 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.

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

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 with budgets adopted in June for the first three years of the LTP.

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.

To offset this, Council has brought forward the $1 million from the strategic asset reserve from year four of the Long Term Plan 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.

However, with the announcement in August of the additional $5 million for years one to three, particularly for the road rehabilitation and bridge programmes, moving the strategic asset reserve from year four of the LTP back to year two will help offset any rate increase associated with the increased availability of funding from Waka Kotahi.

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.

PROPOSED TARGETED RATE *Extensions*

As part of the development of the Annual Plan 2022/2023, Council is extending its targeted rating approach for swimming pools and district wastewater.

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NORTHERN
SWIMMING POOL RATE

(targeted rate extension)

The Northern Community Board has agreed to provide funding assistance to two pools in its area (Mossburn and Northern Southland in Lumsden).

This involves extending the targeted rate approach, which is already used to fund swimming pool grants in other parts of the district to collect an additional $17,825 (including GST) in rates for the pool grants.

Consultation

A separate consultation process was undertaken to get feedback on the proposal in March 2022.

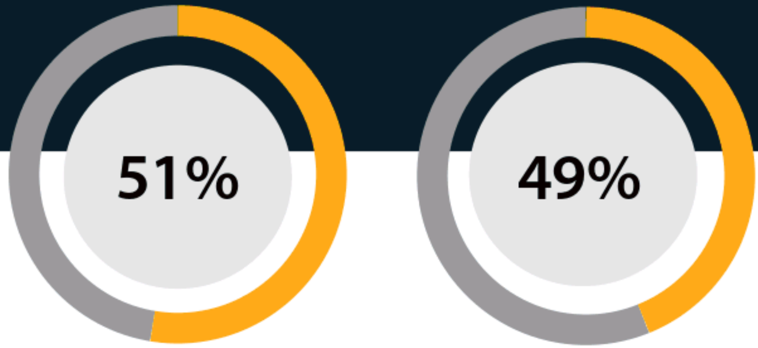
134

responses were received from the consultation process and

71%

of respondents supported a targeted pool rate in the Northern Community Board area.

The outcome was 51% supported option 1 and 49% supported option 2.



OPTION 1
should all properties pay this rate?

OPTION 2
only ratepayers within the Lumsden, Mossburn and Five Rivers hall rating boundaries pay this rate

This feedback was considered by the Northern Community Board and a recommendation made to Council to establish a new targeted Northern community pool rate with a fixed amount across the ratepayers who live within the Lumsden, Mossburn and Five Rivers hall rating boundaries (equating to $23.85 including GST in 2022/2023)..

CURIO BAY *Wastewater*

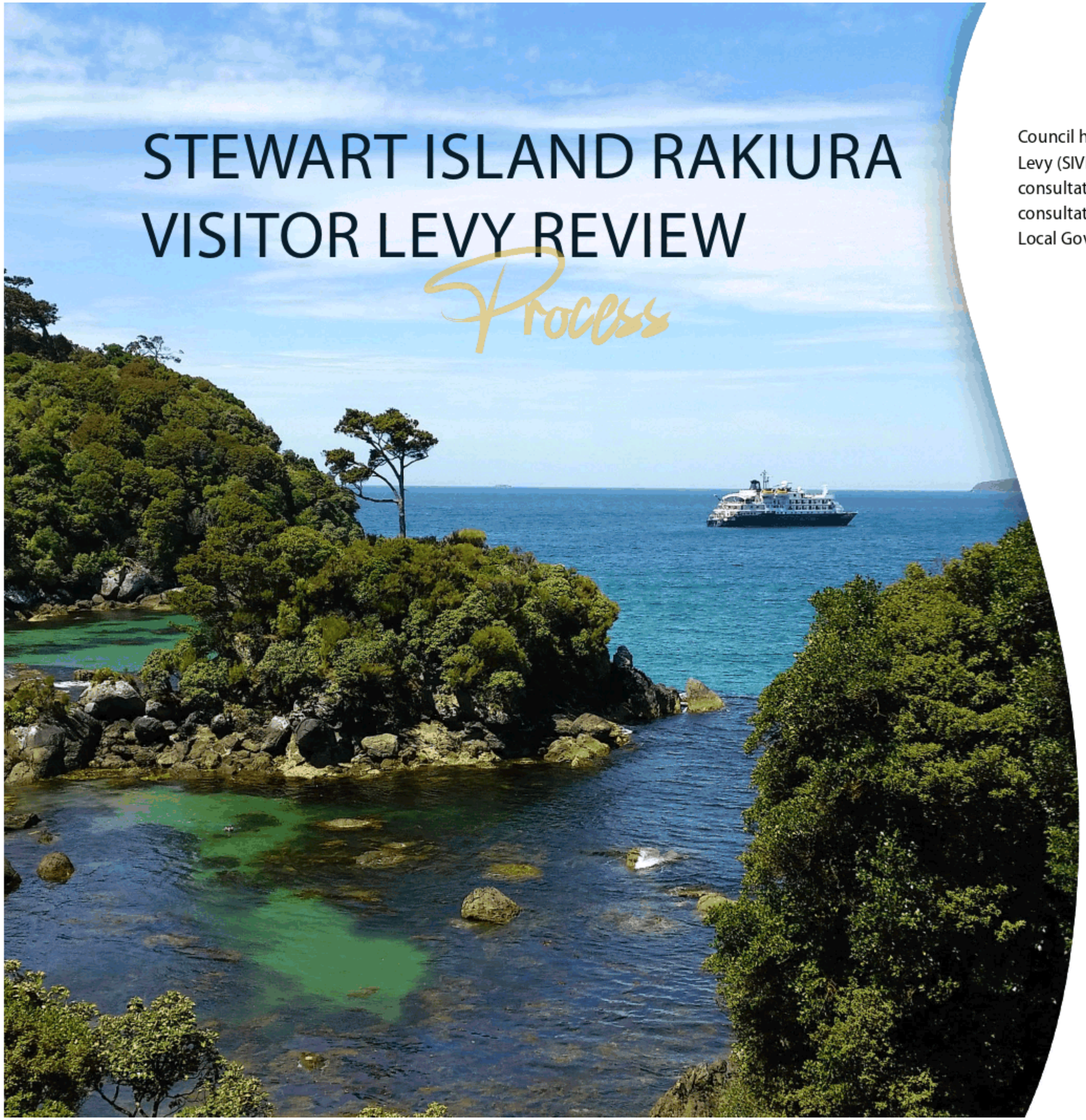
The Council is extending the district wastewater rating boundary (used to define which properties pay the targeted wastewater rate in the Annual Plan) to include properties connected to the Curio Bay wastewater treatment plant (at the Recreation Reserve and Porpoise Bay subdivision).

The costs for the treatment plant are currently funded as part of the Recreation Reserve budget (funded from the General rate).

However, as the plant is now taking waste from properties outside of the reserve, the plant is now considered to be a district wastewater scheme with properties connected to be charged the district-wide targeted wastewater rate.

STEWART ISLAND RAKIURA VISITOR LEVY REVIEW

Process



Council has reviewed the Stewart Island Rakiura Visitor Levy (SIVL) amount. Council undertook an individual consultation process on the SIVL using the special consultation procedure as outlined by section 83 of the Local Government Act 2002.

The key outcomes from this process are detailed below:

- increasing the amount of the visitor levy to $10 on 1 October 2023, and then increasing the amount of the levy to $15 on 1 October 2025.
- allowing multi-year funding of up to 30 years for Council and community owned infrastructure, in exceptional circumstances
- removing the requirement to consult via the Annual Plan/LTP process, in the event a change in the levy amount is considered, noting that consultation procedures under the Local Government Act will always be applied
- continuing to undertake the communication measures agreed at the 22 February 2022 meeting to publicise the Stewart Island Rakiura visitor levy
- retaining the levy eligibility requirements outlined in the draft policy
- not seeking a change to the Empowering Act as to who pays the visitor levy
- no change to the current Stewart Island Rakiura Visitor Levy Allocation Subcommittee

LEGISLATIVE Changes

THREE WATERS

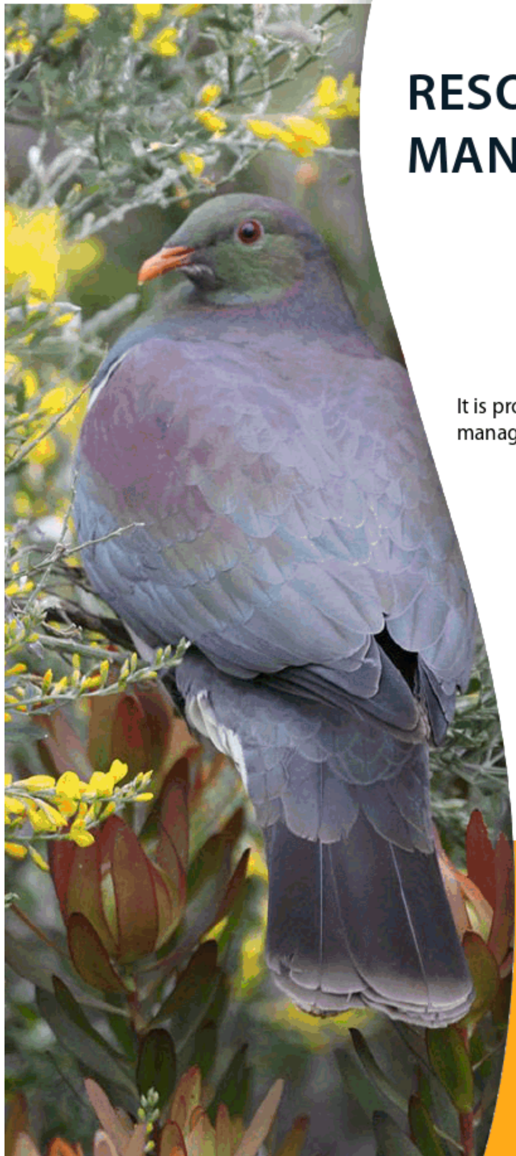
In March 2021, Taumata Arowai was established as a Crown entity, becoming New Zealand's dedicated regulator of drinking water, wastewater (sewerage) and stormwater when the Water Services Act came into effect on 15 November 2021. In 2024, it will become the three waters regulator for New Zealand.

In October 2021, Local Government Minister Nanaia Mahuta confirmed that the government will create four publicly owned water entities to ensure every New Zealander has access to affordable, long-lasting drinking water, wastewater and stormwater infrastructure without ballooning costs to households and families.

In November 2021, the establishment of a working group was announced, made up of local government and iwi representatives to recommend strengthened governance and accountability arrangements for the three waters reform programme. On 29 April 2022, the government announced that it had accepted 44 of the three waters working group's 47 recommendations for changes to its water infrastructure reform programme, with minor changes.

After months of deliberations, it confirmed councils would be given non-financial shareholding interests in the four water service entities, guaranteeing ownership – one of the key concerns raised over the government's initial model. This would be allocated based on population – with one share per 50,000 people, rounded up to ensure at least one share per council – and would be reassessed to account for population changes every five years.

On 2 June 2022, the Water Services Entities Bill was introduced to Parliament. The bill will shortly undergo its first reading debate in Parliament and will then be subject to a full select committee process where further public submissions will be welcomed. Further legislation will be introduced later this year and a National Transition Unit will oversee the establishment of the new entities over the next two years.



RESOURCE MANAGEMENT ACT *Reform*

It is proposed to replace the current resource management system with three new acts.

1. Natural and Built Environments Act (NBA)
2. Strategic Planning Act (SPA)
3. Managed Retreat and Climate Change Adaptation Act (CAA)

The Natural and Built Environments Act and the Strategic Planning Act will be formally introduced in 2022.

LOCAL GOVERNMENT *Review*

On 23 April 2021 the Minister of Local Government established a review into the Future for Local Government.

The overall purpose of the review is, as a result of the cumulative changes being progressed as part of the government's reform agenda, to identify how our system of local democracy and governance needs to evolve over the next 30 years, to improve the wellbeing of New Zealand communities and the environment, and actively embody the Treaty of Waitangi partnership.

In September 2021 an interim report was presented to the minister signalling the probable direction of the review and key next steps.

It is expected that by 30 September 2022 a draft report and recommendations will be issued for public consultation then in April 2023 the final report will be presented to the minister and Local Government New Zealand.

FINANCIAL *Overview*

The purpose of the financial overview is to provide a summary of Council finances.

It informs readers where Council receives its money from and how that money is spent and applied.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($000).


Every $1 of your rates goes towards:
30c
TRANSPORT
23c
COMMUNITY RESOURCES
14c
COMMUNITY LEADERSHIP
10c
SEWERAGE
10c
WATER SUPPLY
10c
ENVIRONMENTAL SERVICES
3c
STORMWATER
These figures are indicative only.
Individual properties will vary depending on the location, the local projects being funded and the services received.
19

WHAT'S HAPPENING WITH *Rates*

This plan includes an overall rate increase of 9.25% for 2022/2023, compared with 8.31% forecast for 2022/2023 in the Long Term Plan (LTP), an increase of approximately $506,895.

Although there have been minor movements across activities, the key reason for the increase from what was projected in the LTP is the need to increase the interest rates payable on loans from 2% to 3% to complete our capital works projects.

As a result, the financial assumption from the LTP relating to interest rates on borrowing has been amended to reflect this.

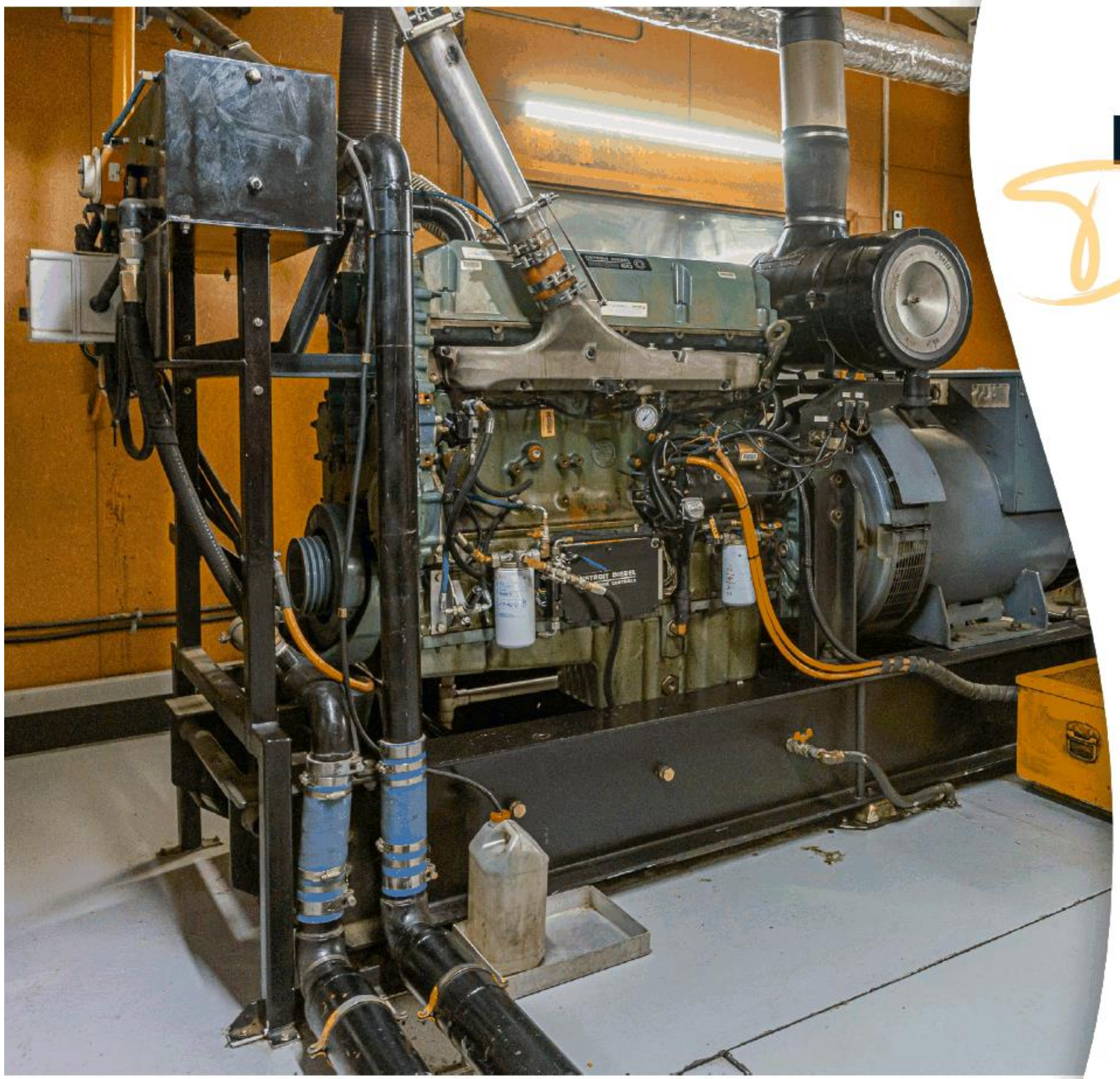
RATES COLLECTION BY ACTIVITY	Budget ($000)	%
Community Leadership	8,694	15%
Community Resources	13,617	23%
Environmental Services	5,532	9%
Sewerage	5,972	10%
Stormwater	1,359	2%
Transport	17,783	30%
Water supply	6,230	11%
	59,189	**100%**

The key contributors to the 9.25% increase in rates in the 2022/2023 year were the increase in interest rate, biodiversity staff, toilets, waste management, election year costs for representation, staff wages and training, sewerage maintenance, loans and depreciation, additional Waka Kotahi funding for roading, water maintenance and loans, sewerage maintenance and inspections, wheelie bins recycling and waste disposal, and local loans, maintenance and mowing.

These cost increases were offset by $2 million from roading reserves.

This is a short-term measure by Council to keep the rates increases at an acceptable level given the current economic environment without impacting on service delivery levels.

Rates on properties will vary depending on location, the local projects being funded and the services received. Further details on the specific rate types are included in the funding impact statement (rates section) on page xx



FUNDING OF Depreciation

Depreciation allocates the cost of an asset over its useful life and represents how much of an asset's value has been used.

By funding depreciation, Council is collecting money to fund future replacement of the assets.

The plan includes the phased implementation of funding depreciation of our core infrastructure assets.

Depreciation of our largest assets, roads and bridges, will be fully funded from 2024/2025, while the funding of depreciation on water and sewerage will be fully funded from 2028/2029.

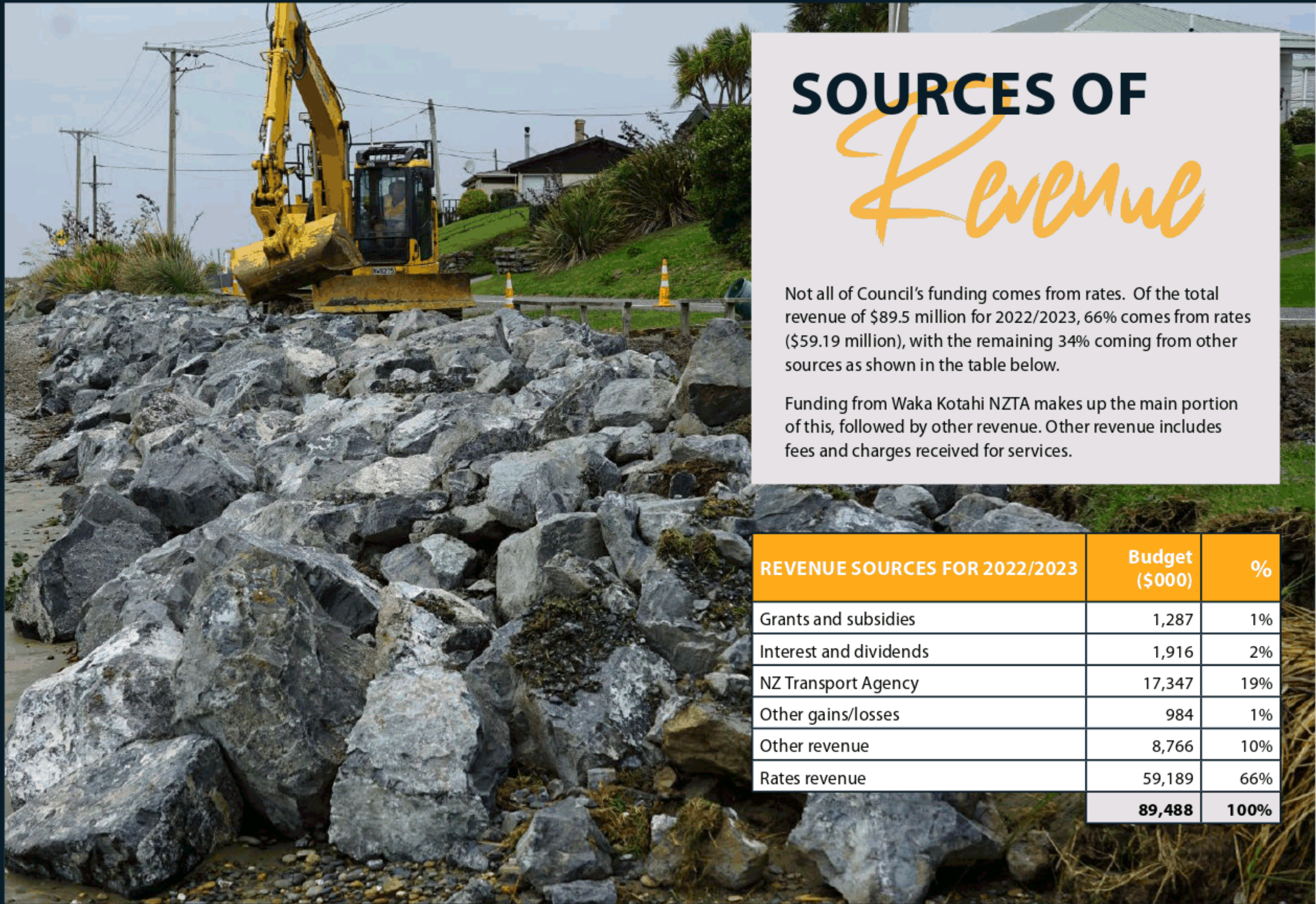
HOW MUCH COUNCIL NEEDS TO SPEND TO DELIVER *Services*

As outlined in the tables, the majority of Council's expenditure (87% of capital expenditure and 57% of operating expenditure) is to provide key infrastructure such as roads, footpaths, water supply, wastewater and stormwater.

OPERATING EXPENDITURE (incl depreciation by activity 2022/2023)	Budget ($000)	%
Community Leadership	9,154	10%
Community Resources	17,634	19%
Environmental Services	10,386	11%
Sewerage	7,997	9%
Stormwater	1,861	2%
Transport	37,410	41%
Water Supply	7,087	8%
	91,528	100%

CAPITAL EXPENDITURE (by activity 2022/2023)	Budget ($000)	%
Community Leadership	82	0%
Community Resources	4,175	10%
Environmental Services	229	1%
Sewerage	5,185	12%
Stormwater	898	2%
Transport	25,556	59%
Water Supply	7,200	17%
	43,325	100%

* Council also has various corporate services which have operating spend of $3.1 million (total $94.7 million) and capital spend of $1.1 million (total $44.4 million). These corporate services are funded through internal charges which are spread over the seven activities.



SOURCES OF *Revenue*

Not all of Council's funding comes from rates. Of the total revenue of $89.5 million for 2022/2023, 66% comes from rates ($59.19 million), with the remaining 34% coming from other sources as shown in the table below.

Funding from Waka Kotahi NZTA makes up the main portion of this, followed by other revenue. Other revenue includes fees and charges received for services.

REVENUE SOURCES FOR 2022/2023	Budget ($000)	%
Grants and subsidies	1,287	1%
Interest and dividends	1,916	2%
NZ Transport Agency	17,347	19%
Other gains/losses	984	1%
Other revenue	8,766	10%
Rates revenue	59,189	66%
	89,488	**100%**

CASH Management

Council is planning to fund its capital expenditure for 2022/2023 primarily from cash reserves and loans.

In 2022/2023 Council will be required to borrow from external lenders to fund infrastructure projects.

Council is required to generate sufficient revenue to meet its operational expenditure as part of being fiscally prudent and sustainable.

An analysis of Council's approach to this issue and why it believes it is adopting a prudent and sustainable financial strategy can be found in the section entitled Balancing the budget on page xx.

ANNUAL PLAN DISCLOSURE Statement

The purpose of this statement is to disclose Council's financial performance in relation to various benchmarks to enable the assessment of whether Council is prudently managing its revenues, expenses, assets, liabilities, and general financial dealings.

Council is required to include this statement in its Annual Plan in accordance with the Local Government (Financial Reporting and Prudence) Regulations 2014 (the regulations). Refer to the regulations for more information, including definitions of some of the terms used in this statement.

Council forecast in the LTP that it would not meet the rates (increases) affordability benchmark and the balanced budget benchmark in 2022/2023 and this has not changed. The Council does not meet the rates (increases) affordability benchmark principally as a result of the increase in interest rates.

Further key drivers for the entire 9.25% rates increase can be found in the Financial Overview on page xx.

The Council does not meet the balanced budget benchmark as a result of the phasing in of depreciation funding.

Benchmark	Quantified Limit	Planned as per LTP 2022/2023	Met for LTP 2022/2023	Planned as per LTP 2022/2023	Met for AP 2022/2023
Rates affordability benchmark					
- Income	70%	66.4%	Yes	66.1%	Yes
- Increases	8%	8.31%	No	9.25%	No
Debt affordability benchmark - net debt	175%	62.9%	Yes	119.3%	Yes
Balanced budget benchmark	100%	94.8%	No	94.5%	No
Essential services benchmark	100%	126.0%	Yes	137.9%	Yes
Debt servicing benchmark	10%	1.93%	Yes	2.52%	Yes

Depreciation of our largest assets, roads and bridges, will be fully funded from 2024/2025, while the funding of depreciation on water and sewerage will be fully funded from 2028/2029.

Further commentary on the balanced budget can be found on page xx

RATES AFFORDABILITY *Benchmark*

For this benchmark, the limit for Council's planned rates income is 70% of its total revenue.

Rates increases are limited to 8%.

Council meets the rates affordability benchmark if:

1. Its planned rates income equals or is less than each quantified limit on rates; and
2. Its planned rates increase for the year equals or is less than each quantified limit on rates increases.

DEBT AFFORDABILITY *Benchmark (net debt)*

For this benchmark, Council's planned borrowings are compared with 175% of total revenue on borrowing contained in the Financial Strategy included in Council's 10 Year Plan.

Council meets the debt affordability benchmark if its planned borrowings are within the quantified limit on borrowing.

BALANCED BUDGET *Benchmark*

For this benchmark, Council's planned revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments and revaluations of property, plant, or equipment) is presented as a proportion of operating expenses (excluding losses on derivative financial instruments and revaluations of property, plant or equipment).

Council meets this benchmark if its revenue equals or is greater than its operating expenses.

See further commentary in the balancing the budget statement on page ...

ESSENTIAL SERVICES *Benchmark*

For this benchmark, Council's capital expenditure on network services is presented as a proportion of depreciation on the network services.

Council meets this benchmark if its capital expenditure on network services equals or is greater than depreciation on network services.

DEBT SERVICING *Benchmark*

For this benchmark, Council's planned borrowing costs are presented as a proportion of revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property plant or equipment).

Council meets the debt servicing benchmark if its borrowing costs equal or are less than 10% of its revenue.

OUR Activities

Part two: Our activities

Council's work at a glance

We organise our work into seven activity groups. These are:

1. Community leadership (including representation and advocacy, community and futures, community assistance)
2. Community resources (including community facilities, community services, open spaces, waste services, Stewart Island Electrical Supply Authority)
3. Environmental services (including environmental health, animal services, resource management, building solutions, emergency management)
4. Stormwater
5. Transport (including roading and footpaths, cycle trails, airport, water facilities)
6. Wastewater (including sewerage and the treatment and disposal of sewerage)
7. Water supply

For more details about what each group does go to Southland District Council's website: **southlanddc.govt.nz**

For details on our key performance indicators in each activity and how they are measured, please refer to Southland District Council's Long Term Plan 2021-2031, It's Time, Southland/Murihiku.

Community leadership

Includes the following activities:

- representation and advocacy
- community and futures
- community assistance

What is planned for the year?

Work is under way in preparation for the local body elections in October 2022, including drafting induction material and developing campaigns to encourage potential candidates to stand for election and increase voter turnout. There is also a pre-election report, which is a legislatively required document.

The purpose of a pre-election report is to provide information to promote public discussion about the issues facing the local authority. We are also going to be providing information on what community boards do and what elected representatives do, roles and responsibilities including an insight into the time commitments required. It is important from a governance view that we encourage a high level of diversity and ensure that local voices are heard.

Following a recent report that made some key recommendations we are working with our boards to ensure that information is being relayed effectively and efficiently and are working to develop clear communication channels. We are surveying community boards around their roles and responsibilities to assist in this work.

We acknowledge the continuing social, economic and health impacts of the Covid-19 pandemic on our communities. Work continues to look at ways to assist our communities where possible.

There are number of key proposed legislative changes including the local government review, Resource Management Act reforms and the three waters reforms. We will be working with local communities and other agencies to provide feedback and advice on these changes.

We expect there may be some changes to existing the existing roading bylaw which is scheduled for review in late 2022.

The Stewart Island Visitor Levy went out for consultation from 1 March to 1 April 2022. The key outcomes from this process are detailed below:

- increasing the amount of the visitor levy to $10 on 1 October 2023, and then increasing the amount of the levy to $15 on 1 October 2025.
- allowing multi-year funding of up to 30 years for Council and community owned infrastructure, in exceptional circumstances
- removing the requirement to consult via the Annual Plan/LTP process, in the event a change in the levy amount is considered, noting that consultation procedures under the Local Government Act will always be applied
- continuing to undertake the communication measures agreed at the 22 February 2022 meeting to publicise the Stewart Island/Rakiura visitor levy
- retaining the levy eligibility requirements outlined in the draft policy
- not seeking a change to the Empowering Act as to who pays the visitor levy
- no change to the current Stewart Island/Rakiura Visitor Levy Allocation Subcommittee

Key projects

- Local body elections on 8 October 2022.
- Community board plans and their associated action plans (which include the priorities and preferences of each community and form the vision, outcomes and actions for each of the nine boards) are being graphically designed and will be published early this year

Funding impact statement

Community leadership	2021/2022 LTP ($000)	2022/2023 LTP ($000)	2022/2023 AP ($000)
Sources of operating funding			
General rates, uniform annual general charges, rates penalties	7,754	7,766	7,744
Targeted rates	903	923	950
Subsidies and grants for operating purposes	115	115	115
Fees and charges	-	-	-
Internal charges and overheads recovered	551	561	554
Local authorities fuel tax, fines, infringement fees, and other receipts[1]	235	298	298
Total operating funding	**9,558**	**9,663**	**9,662**
Applications of operating funding			
Payments to staff and suppliers	3,825	4,130	3,933
Finance costs	5	2	4
Internal charges and overheads applied	2,526	2,496	2,658
Other operating funding applications	2,990	3,053	3,086
Total applications of operating funding	**9,347**	**9,680**	**9,682**
Surplus (deficit) of operating funding	**212**	**(18)**	**(20)**
Sources of capital funding			
Subsidies and grants for capital purposes	-	-	-
Development and financial contributions	-	-	-
Increase (decrease) in debt	67	-	-
Gross proceeds from sale of assets	26	28	28
Lump sum contributions	-	-	-
Other dedicated capital funding	-	-	-
Total sources of capital funding	**93**	**28**	**28**
Applications of capital funding			
Capital expenditure:			
- to meet additional demand	-	-	-
- to improve the level of service	-	-	-
- to replace existing assets	79	82	82
Increase (decrease) in reserves	346	48	45
Increase (decrease) in investments	(120)	(120)	(120)
Total applications of capital funding	**305**	**10**	**7**
Surplus (deficit) of capital funding	**(212)**	**18**	**20**
Funding balance	-	-	-

1 *Includes all other operating funding from sources not identified above.*

Funding impact statement – variations from LTP to Annual Plan budgets for 2022/2023

Payments to staff and suppliers has decreased due to lower staff costs as a result of a reduction in staff numbers in this activity.

Internal charges and overheads applied have increased due to the corporate overheads allocated to this activity.

Community resources

Includes the following activities:

- community facilities (including toilets, hall and libraries)
- community services (including cemeteries, community housing, library services and heritage and culture)
- open spaces (includes parks and reserves and streetscapes)
- waste services
- Stewart Island Electrical Supply Authority (SIESA)

What is planned for the year?

Library services

The library book bus/mobile service is being reviewed. There are a number of issues with the current bus which include ongoing mechanical faults, shelving being not fit for purpose and outdated IT infrastructure.

The service will be reviewed by an external consultant who will also look into the locations the bus stops at as many of these have seen a large reduction in use, and more locations (especially schools) want to be added to the run. Any recommendations from the review would be consulted on.

RFID (radio frequency identification) is a modern library system that makes it much easier to find books, improves self-service and can scan 20 books at once, which leads to a better service. The RFID project should be installed as planned before the start of 2022/2023. The Winton library refurbishment is nearing completion. It is expected to be opened to the public in June 2022.

Open spaces

Council has recently approved a seven-year programme of work worth $5.4 million. There are three main streams of work – activation and management, strategic district projects and the community project fund – as well as a variety of projects. The open spaces lead who will manage this project has been appointed. Work is in progress to identify the programme of works that will be funded by this project.

Projects will be in three categories:

1. Community-led projects
2. Council projects
3. Identification and activation of spaces in partnership with Active Southland.

Encouraging the activation of our spaces is a key part of this work. We want to encourage our communities to use our 155 parks and reserves.

SIESA

The SIESA activity is continuing to improve resilience and efficiency of the electricity supply network on Stewart Island Rakiura. Projects include transmission and generation renewal programmes.

Solid waste

Government consultation ended on 10 December 2021 on a proposed new national solid waste strategy and issues and options for developing new more comprehensive solid waste legislation to regulate the management of waste, and products and materials circulating in our economy. Once developed, the new legislation will replace the Waste Minimisation Act 2008 and the Litter Act 1979. The government aims to present a final waste strategy to cabinet in the first half of 2022 and release it by mid-2022, then more specific actions will be set out in action and investment plans every three years. In regards to the legislation a bill is expected to be developed and introduced to parliament later in 2022.

Key projects

The activity group has more than 50 projects planned for this year. Project delivery will be dependent on the availability of contractors as we are seeing ongoing shortages in this area and we are trying to work within these restrictions. The project delivery team has been successful in creating packages of work for Council projects to make them more appealing to contractors. A recent open evening led to the creation of a pool of contractors who wish to work with Council but there is a high level of work currently going on within the region, making it sometimes difficult to source contractors.

Overall, for all of this activity group we are also seeing the impact of Covid-19 disruptions on supply networks and this is expected to continue for some time.

- Activating our open spaces projects include:
  - a signage project to make our open spaces more visible to visitors
  - investigating the opportunity to provide a portable pump BMX/bike track, a rubber track that can be moved from town to town. There would be lots of benefits such as getting kids active, using spaces that aren't being used, and getting communities together in conjunction with Active Southland.
- the Winton library is expected to open in June 2022.
- this is the second year of creating memorial walls at each of the cemeteries. There are also some new beams being constructed and ongoing maintenance of the cemeteries.
- Waste services transfer station projects include painting in Lumsden, Wyndale and Otautau.
- Transfer station green waste improvements for Te Anau and Winton.
- looking at forming more collaborative partnerships with community groups – eg, a memo of understanding with the Rotary group that looks after the track in Winton that it receives a grant to do the maintenance.

Funding impact statement

Community resources	2021/2022 LTP ($000)	2022/2023 LTP ($000)	2022/2023 AP ($000)
Sources of operating funding			
General rates, uniform annual general charges, rates penalties	6,856	7,380	7,542
Targeted rates	5,712	6,049	6,075
Subsidies and grants for operating purposes	304	93	93
Fees and charges	1,774	1,852	1,840
Internal charges and overheads recovered	2,682	2,825	2,851
Local authorities fuel tax, fines, infringement fees, and other receipts[1]	719	740	724
Total operating funding	**18,046**	**18,940**	**19,125**
Applications of operating funding			
Payments to staff and suppliers	13,240	12,743	13,075
Finance costs	169	267	335
Internal charges and overheads applied	4,604	4,831	5,123
Other operating funding applications	39	39	40
Total applications of operating funding	**18,053**	**17,880**	**18,572**
Surplus (deficit) of operating funding	**(7)**	**1,059**	**553**
Sources of capital funding			
Subsidies and grants for capital purposes	54	77	174
Development and financial contributions	10	-	-
Increase (decrease) in debt	5,781	3,168	3,700
Gross proceeds from sale of assets	83	86	86
Lump sum contributions	-	-	-
Other dedicated capital funding	-	-	-
Total sources of capital funding	**5,928**	**3,330**	**3,960**
Applications of capital funding			
Capital expenditure:			
- to meet additional demand	10	-	-
- to improve the level of service	1,515	1,355	1,404
- to replace existing assets	4,810	2,361	2,771
Increase (decrease) in reserves	(289)	794	458
Increase (decrease) in investments	(120)	(120)	(120)
Total applications of capital funding	**5,927**	**4,390**	**4,513**
Surplus (deficit) of capital funding	**7**	**(1,059)**	**(553)**
Funding balance	-	-	-

[1] *Includes all other operating funding from sources not identified above.*

Funding impact statement-variations from LTP to Annual Plan budgets for 2022/2023

Payments to staff and suppliers are higher than planned in the LTP due to increases in staff costs, office building leases, street lighting and community housing maintenance (to bring the units up to healthy homes standards).

Internal charges and overheads applied have increased due to the corporate overheads allocated to this activity.

Subsidies and grants for capital purposes have also increased as a result of the deferral of Stewart Island Visitor Levy grant income for the Golden Bay wharf renewal and the Horseshoe Bay walking track from 2021/2022 to 2022/2023.

Capital expenditure to replace existing assets is higher than expected due to the deferral of the Riverton and Athol toilet refurbishments, and a portion of the Invercargill office fit out from 2021/2022 to 2022/2023. The majority of these works are planned to be funded via external loans and reserves, hence the variances in these balances from the LTP.

Environmental services

Includes the following activities:

- environmental health
- animal services
- resource management
- building solutions
- emergency management

What is planned?

Resource management

A major focus for the group is the central government reforms. It is proposed to replace the current resource management system with three new acts.

1. Natural and Built Environments Act (NBEA)
2. Strategic Planning Act (SPA)
3. Managed Retreat and Climate Change Adaptation Act (CAA).

The Natural and Built Environments Act and the Strategic Planning Act will be formally introduced as a bill in 2022. The Managed Retreat and Climate Change Adaption Act is expected to be in 2023/2024. At this point details are still unknown so staff are trying to plan accordingly.

The central government reforms in these areas are predicted to have a significant impact on the Southland region. The Southland District Plan is currently a permissive document and indications are that the regulatory framework around our natural resources will become more restrictive. Additionally, climate change impacts will drive a focus towards creating more resilient infrastructure and communities throughout Southland.

Our main priorities will be understanding the impact of reform on the Southland region and ensuring that our communities are able to participate and understand how it will affect them.

Building

Earthquake-prone buildings work is ongoing and analysis of information gathered is due to occur in 2022/2023. Monitoring and enforcement is increasing and moving towards better compliance following Ministry of Business, Innovation and Employment (MBIE) audits. Swimming pool fencing will get additional attention this year. Further building code implementation is a priority for the team relating to energy efficiency changes and climate-friendly buildings, and MBIE engagement with the industry is continuing to occur. Building warrant of fitness (BWOF) audits will also continue to be a focus.

We are working actively on building industry relationships and looking for efficiencies to provide more capacity to service communities' needs. International delays in supply of construction materials and increases in demand nationally and locally are having a significant impact on the industry. This is resulting in consent amendments needing to be processed, creating further administration for both applicants and Council staff.

A fee increase of 5% is being implemented this year to ensure the team cover the cost of doing business and prevent additional rate increases.

Environmental health and animal control

Work will start on dogs' one tag for life in late 2022, with a view to implementation for dog registrations in June 2023. We are finding more office time is being utilised for dog welfare matters due to the SPCA having less capacity. In terms of environmental health, a quality assurance framework for food safety is proposed. Legislative changes regarding the Freedom Camping Act are coming and will likely be transitioned in stages over a period of time.

Civil defence and emergency management

The civil defence and emergency management (CDEM) team continues to look at ways to educate and engage with communities in the challenging Covid-19 environment. Some of the key workstreams include re-establishing community connections through developing community hubs with key stakeholders, increasing readiness of organisations and their preparedness for dealing with emergency, and establishing emergency business continuity plans with councils. Development of a hazardscape and emergency event consequence project has begun. Legislative changes are also in the pipeline this financial year for the CDEM Act and the National CDEM Plan, which are under review.

Key projects

- One of the key projects being carried out by the resource management team is a review of the landscapes section of the District Plan. The formal public consultation process for this is likely to occur around mid-2022.
- International Accreditation New Zealand (IANZ) audits building consent authorities against regulatory criteria set by MBIE. IANZ is due to carry out its next full assessment of the building team in February 2023.
- AF8 (Alpine Fault magnitude 8) is a collaborative effort to save lives by planning and preparing a co-ordinated response across the South Island in the event of a severe earthquake on the Alpine Fault. The AF8 programme is proposed to continue over three years. CDEM is looking at ways to respond to emergencies using new technologies. An example of this is trialling virtual responses to small-scale emergencies or events

Funding impact statement

Environmental services	2021/2022 LTP ($000)	2022/2023 LTP ($000)	2022/2023 AP ($000)
Sources of operating funding			
General rates, uniform annual general charges, rates penalties	4,792	5,395	5,532
Targeted rates	-	-	-
Subsidies and grants for operating purposes	10	10	10
Fees and charges	3,678	3,850	4,002
Internal charges and overheads recovered	657	590	634
Local authorities fuel tax, fines, infringement fees, and other receipts[1]	198	203	276
Total operating funding	**9,336**	**10,049**	**10,454**
Applications of operating funding			
Payments to staff and suppliers	6,099	6,285	6,783
Finance costs	2	4	12
Internal charges and overheads applied	3,448	3,557	3,650
Other operating funding applications	419	445	455
Total applications of operating funding	**9,968**	**10,290**	**10,900**
Surplus (deficit) of operating funding	**(632)**	**(241)**	**(446)**
Sources of capital funding			
Subsidies and grants for capital purposes	-	-	-
Development and financial contributions	-	-	-
Increase (decrease) in debt	105	-	
Gross proceeds from sale of assets	-	29	47
Lump sum contributions	-	-	-
Other dedicated capital funding	-	-	-
Total sources of capital funding	**105**	**29**	**47**
Applications of capital funding			
Capital expenditure:			
- to meet additional demand	-	-	-
- to improve the level of service	109	4	4
- to replace existing assets	-	114	225
Increase (decrease) in reserves	(516)	(210)	(134)
Increase (decrease) in investments	(120)	(120)	(494)
Total applications of capital funding	**(527)**	**(212)**	**(399)**
Surplus (deficit) of capital funding	**632**	**241**	**446**
Funding balance	-	-	-

[1] *Includes all other operating funding from sources not identified above.*

Funding impact statement – variations from LTP to Annual Plan budgets for 2022/2023

Fees and charges revenue is more than what was planned in the LTP due to an increase in the volume of work expected in both building and resource consent processing.

Local authorities other receipts have also increased as a result of anticipated recovery of costs associated with resource consents.

Payments to staff and suppliers are higher than what was planned in the LTP due to additional staff required for the building activity, as a result of an increase in building consent volumes, along with building code changes. Resource consent processing costs for consultants and legal fees has also increased due to the increasing volume and complexity of consent applications.

Internal charges and overheads applied have increased due to the corporate overheads allocated to this activity.

Transport

Includes the following activities:

- roads
- signs
- bridges
- footpaths
- road safety
- cycle trails
- Te Anau Airport Manapouri
- water facilities

What is planned for the year?

In the LTP 2021-2031 we talked about the need to invest in our roads and bridges and to ensure our levels of service in providing that critical infrastructure remained at the standards of safety and performance that Southlanders expect and deserve. We asked for your feedback on whether we should invest more in our roading network to maintain our existing sealed road network or to continue at existing levels of investment resulting in lower levels of service across the district. We decided to invest more but just before the adoption of the LTP we were advised of a shortfall from Waka Kotahi NZ Transport Agency and then the amount of the initial shortfall was reduced. However, this meant for year two of the LTP an additional $965,614 needed to be funded from rates. To offset this, staff are proposing to bring forward from year four of the LTP $1 million from the strategic asset reserve to use in the 2022/2023 year.

Before the late changes to the LTP as a result of the original funding announcement by Waka Kotahi in June 2021, the plan was to use this extra $1 million from the strategic asset reserve in year one of the LTP. Due to the changes in the roading programme and anticipated step change required in year four of the LTP, the use of the strategic asset reserve was moved to assist with offsetting rates in year four. However, now that the majority of the funding has been reinstated into the first three years, particularly for the road rehabilitation and bridge programmes, it is proposed to move the strategic asset reserve back to year two to help offset any rate increase associated with the increased funding from Waka Kotahi.

In the LTP, Council identified that 161 bridges required replacement as they reach the end of their life span. The primary risk of not replacing the bridges is to public safety due to continued deterioration over time, potentially resulting in a structural failure. Although well built at the time, these bridges were not designed for the larger vehicles, heavier freight loads and greater frequency of traffic that occurs today. It was agreed to increase the amount invested in the bridge replacement programme by an extra $1 million a year. The replacement work continues this year.

In July 2021 it was announced that funding would be provided from the government's Tourism Infrastructure Fund (TIF) for several Council projects including the replacement of the Ulva Island jetty. TIF funding was also given for the Pearl Harbour boat ramp, toilets and car park. Work will begin on these projects.

Project and maintenance delivery may be impacted by an increased risk of shortage of materials, increased shipping costs and increased costs for petrol and bitumen supply. This is likely to have an impact on levels of service. Contractor availability may be a challenge due to the high number other works in the region, including three water stimulus projects, Invercargill city development and high demand in the construction industry.

Key projects

This year, we plan to replace six bridges including the Waianiwa bridge, which currently is a weight-restricted bridge (light vehicles only) on Argyle Otahuti Road (the railway overbridge at Waianiwa). This bridge has a high level of public interest due to its usage. Planned bridge inspections are ongoing for the district's bridges.

A large number of submissions were received on dust suppression during the LTP consultation process. As a result, Council committed to providing funding towards dust suppression as a new level of service. This new level of service was implemented in late 2021 with physical works beginning in early 2022. This service will continue to be delivered in 2022/2023 but, as with any new service, a review will be carried out on how the process went and any learnings that can be applied going forward.

As part of our planned work programme, we are resurfacing around 140km of sealed road across the district and a total rebuild of around 11km of sealed road. There is also around $2 million of grading work on unsealed roads planned.

Work will also focus on speed limits around schools in line with the national Road to Zero strategy to reduce speeds around schools. Initially the focus will be on higher speed environments. The Waka Kotahi NZ Transport Agency nationwide strategy's vision is of a New Zealand where no-one is killed or seriously injured on our roads. The Road to Zero strategy is underpinned by the principles of a Safe System and is to be achieved through action in five key areas:

1. infrastructure improvements and speed management
2. vehicle safety
3. work-related road safety
4. road user choices
5. system management

Water facilities

In July 2021, it was announced that funding would be provided from the government's Tourism Infrastructure Fund for several Council projects. The Fiordland area will receive $1,100,000 to upgrade the boat ramp, toilets, and car park at Pearl Harbour, Manapouri, and to upgrade the access road and toilets at Fraser's Beach, Manapouri, $1,500,000 additional funding for the Te Anau wastewater project, $440,000 for the replacement of two boat ramps in Te Anau to meet the required standards and a new toilet for Bluegum Point. Stewart Island Rakiura will receive $99,125 to build a viewing platform at Observation Rock, and $600,000 for replacement of the Ulva Island wharf.

The Ulva Island jetty project will be a multi-year project over 2021/2022 and 2022/2023.

We have also planned for the design and consent of the Golden Bay jetty upgrade in 2022/2023, and there is a project for boat ramps maintenance work to be done on Waiau River.

Funding impact statement

Transport	2021/2022 LTP ($000)	2022/2023 LTP ($000)	2022/2023 AP ($000)
Sources of operating funding			
General rates, uniform annual general charges, rates penalties	969	1,017	1,160
Targeted rates	15,810	15,779	16,623
Subsidies and grants for operating purposes	6,316	6,346	6,654
Fees and charges	40	42	42
Internal charges and overheads recovered	374	353	343
Local authorities fuel tax, fines, infringement fees, and other receipts[1]	1,115	1,132	1,350
Total operating funding	**24,624**	**24,669**	**26,172**
Applications of operating funding			
Payments to staff and suppliers	13,435	13,607	14,318
Finance costs	237	271	369
Internal charges and overheads applied	2,296	2,389	2,573
Other operating funding applications	202	206	219
Total applications of operating funding	**16,170**	**16,474**	**17,478**
Surplus (deficit) of operating funding	**8,454**	**8,195**	**8,695**
Sources of capital funding			
Subsidies and grants for capital purposes	9,556	9,747	11,212
Development and financial contributions	-	-	-
Increase (decrease) in debt	2,258	3,354	4,470
Gross proceeds from sale of assets	-	47	47
Lump sum contributions	-	-	-
Other dedicated capital funding	-	-	-
Total sources of capital funding	**11,814**	**13,148**	**15,729**
Applications of capital funding			
Capital expenditure			
to meet additional demand	-	-	-
to improve the level of service	2,527	3,073	2,596
to replace existing assets	18,185	19,122	22,960
Increase (decrease) in reserves	(409)	(831)	(1,111)
Increase (decrease) in investments	(35)	(21)	(21)
Total applications of capital funding	**20,268**	**21,343**	**24,424**
Surplus (deficit) of capital funding	**(8,454)**	**(8,195)**	**(8,695)**
Funding balance	-	-	-

[1]. *Includes all other operating funding from sources not identified above.*

Funding impact statement - variations from LTP to Annual Plan budgets for 2022/2023

Subsidies and grants income for both operating and capital purposes has increased from the LTP due to the increased work programme approved by Waka Kotahi in September 2021 as well as Tourism Infrastructure Funding for boat ramps and jetty projects.

Local authorities other receipts have also increased due to the anticipated contribution from third parties for the otta seal projects across the district.

Payments to staff and suppliers are higher than the LTP due to the approved work programme from Waka Kotahi as well as costs for the otta seal project, which will be partially funded from third parties as noted above.

Finance costs have increased primarily due to the interest rate increasing from 2 - 3%.

Internal charges and overheads applied have increased due to the corporate overheads allocated to this activity.

Capital expenditure to improve the level of service has reduced from the LTP as a result of a lower level of minor improvements approved by of Waka Kotahi.

Capital expenditure to replace existing assets has increased as a result of the work programme approved by Waka Kotahi as noted above, the deferral of Golden Bay wharf and Manapouri airport runway reseal projects from 2021/2022, as well as the Manapouri boat ramp project being brought forward from 2023/2024.

This overall increase in the capital expenditure has increased the level on borrowing required for the year.

$1.0 million of strategic asset reserve funds have been used to assist in funding Council's share of the increased work programme, and therefore reducing the impact on the district roading rate increase for 2022/2023.

Three waters (drinking water, wastewater and stormwater)

In March 2021, Taumata Arowai was established as a Crown entity, becoming New Zealand's dedicated regulator of drinking water, wastewater (sewerage) and stormwater when the Water Services Act came into effect on 15 November 2021. In 2024, it will become the three waters regulator for New Zealand.

In October 2021, Local Government Minister Nanaia Mahuta confirmed that the government will create four publicly owned water entities to ensure every New Zealander has access to affordable, long-lasting drinking water, wastewater and stormwater infrastructure without ballooning costs to households and families.

In November 2021, the establishment of a working group was announced, made up of local government and iwi representatives to recommend strengthened governance and accountability arrangements for the three waters reform programme.

On 29 April 2022, the government announced that it had accepted 44 of the three waters working group's 47 recommendations for changes to its water infrastructure reform programme, with minor changes.

After months of deliberations, it confirmed councils would be given non-financial shareholding interests in the four water service entities, guaranteeing ownership – one of the key concerns raised over the government's initial model. This would be allocated based on population – with one share per 50,000 people, rounded up to ensure at least one share per council – and would be reassessed to account for population changes every five years.

On 2 June 2022, the Water Services Entities Bill was introduced to Parliament. The bill will shortly undergo its first reading debate in Parliament and will then be subject to a full select committee process where further public submissions will be welcomed. Further legislation will be introduced later this year and a National Transition Unit will oversee the establishment of the new entities over the next two years.

Stormwater

Includes the following activities:

- stormwater infrastructure systems to deal with rainfall and disposal of surface water.

What is planned for the year?

The stormwater activity is now district funded. There is a series of planned works over the 10 Year Plan period, including a number of projects in 2022/2023. As indicated in the LTP the water and waste team is planning a gradual upgrade to the district's stormwater network and continues to work to improve knowledge of its condition. The LTP includes a budget of $500,000 a year for Winton over the 10-year period 2021-2031.

Key projects

- Winton stormwater main upgrades
- Lumsden investigation work
- Stewart Island Rakiura stormwater improvements for Oban
- renew soakholes in Mossburn and Riversdale
- Taramea Bay, Riverton outfall improvement investigation

We are closely monitoring these arrangements and the implications and trying to plan accordingly. The activity has been impacted by the price increases for concrete, PE and PVC, while imported product lead times are increasing. Contractor availability and construction lead times are also increasing and are being factored into project planning where known.

Funding impact statement

Stormwater	2021/2022 LTP ($000)	2022/2023 LTP ($000)	2022/2023 AP ($000)
Sources of operating funding			
General rates, uniform annual general charges, rates penalties	361	376	422
Targeted rates	758	1,486	937
Subsidies and grants for operating purposes	400	-	-
Fees and charges	-	-	-
Internal charges and overheads recovered	77	77	77
Local authorities fuel tax, fines, infringement fees, and other receipts[1]	-	-	-
Total operating funding	**1,596**	**1,938**	**1,436**
Applications of operating funding			
Payments to staff and suppliers	977	1,237	663
Finance costs	19	27	41
Internal charges and overheads applied	613	620	676
Other operating funding applications	-	-	-
Total applications of operating funding	**1,610**	**1,885**	**1,382**
Surplus (deficit) of operating funding	**(13)**	**53**	**54**
Sources of capital funding			
Subsidies and grants for capital purposes	1,658	-	-
Development and financial contributions	-	-	-
Increase (decrease) in debt	443	851	898
Gross proceeds from sale of assets	-	-	-
Lump sum contributions	-	-	-
Other dedicated capital funding	-	-	-
Total sources of capital funding	**2,102**	**851**	**898**
Applications of capital funding			
Capital expenditure:			
- to meet additional demand	-	-	-
- to improve the level of service	728	383	383
- to replace existing assets	1,480	515	515
Increase (decrease) in reserves	(96)	31	78
Increase (decrease) in investments	(24)	(24)	(24)
Total applications of capital funding	**2,088**	**905**	**951**
Surplus (deficit) of capital funding	**13**	**(53)**	**(54)**
Funding balance	-	-	-

[1] *Includes all other operating funding from sources not identified above.*

Funding impact statement - variations from LTP to Annual Plan budgets for 2022/2023

The reduction in payments to staff and suppliers from the LTP is due to a significant amount of condition assessment work (including CCTV and investigations/audits) being achieved with stimulus funding in 2021/2022, and therefore removed from 2022/2023.

Accordingly, this has resulted in lower targeted rates revenue being required.

Wastewater (sewerage)

Includes the following activities:

- wastewater collection, treatment and disposal facilities

What is planned for the year?

Until the final outcomes of the government's three waters reforms are known, we remain committed to carrying out our programmed renewals, replacements and other capital works projects across our wastewater services.

Key projects

- Edendale/Wyndham (multi-year project) discharge upgrade to meet legislative requirements
- Riversdale wastewater treatment plant discharge upgrade (multi-year project)
- removal of sludge buildup for Nightcaps and Lumsden from oxidation ponds
- Winton, Balfour and Manapouri investigation into design and are multi year projects
- Stewart Island Rakiura consent renewal preparation

Funding impact statement

Wastewater	2021/2022 LTP ($000)	2022/2023 LTP ($000)	2022/2023 AP ($000)
Sources of operating funding			
General rates, uniform annual general charges, rates penalties	646	673	772
Targeted rates	4,094	5,720	5,200
Subsidies and grants for operating purposes	800	-	-
Fees and charges	-	-	-
Internal charges and overheads recovered	187	191	191
Local authorities fuel tax, fines, infringement fees, and other receipts[1]	33	34	34
Total operating funding	**5,760**	**6,618**	**6,197**
Applications of operating funding			
Payments to staff and suppliers	3,311	2,732	2,949
Finance costs	306	349	564
Internal charges and overheads applied	1,604	1,620	1,752
Other operating funding applications	-	-	-
Total applications of operating funding	**5,221**	**4,702**	**5,265**
Surplus (deficit) of operating funding	**539**	**1,916**	**932**
Sources of capital funding			
Subsidies and grants for capital purposes	1,450	-	-
Development and financial contributions	-	-	-
Increase (decrease) in debt	2,712	5,481	3,749
Gross proceeds from sale of assets	-	-	-
Lump sum contributions	-	-	-
Other dedicated capital funding	-	-	-
Total sources of capital funding	**4,163**	**5,481**	**3,749**
Applications of capital funding			
Capital expenditure			
to meet additional demand	905	937	-
to improve the level of service	5,235	5,222	4,840
to replace existing assets	-	759	345
Increase (decrease) in reserves	(1,390)	528	(456)
Increase (decrease) in investments	(48)	(48)	(48)
Total applications of capital funding	**4,702**	**7,397**	**4,681**
Surplus (deficit) of capital funding	**(539)**	**(1,916)**	**(932)**
Funding balance	-	-	-

[1] ***Includes all other operating funding from sources not identified above.***

Funding impact statement - variations from LTP to Annual Plan budgets for 2022/2023

Payments to staff and suppliers has increased from the LTP due to the inclusion of additional operating costs for the Te Anau wastewater treatment plant.

Finance costs have increased primarily due to the interest rate increasing from 2 - 3%.

Internal charges and overheads applied have increased due to the corporate overheads allocated to this activity.

Capital expenditure budgets have decreased from the LTP primarily due to the Te Anau wastewater treatment plant being completed in 2021/2022 (earlier than budgeted in the LTP). The SCADA replacement project was also brought forward to 2021/2022. These reductions in capital expenditure budgets were offset by the addition of Winton and Manapouri wastewater treatment plant level of service projects as well as the deferral of the Riversdale wastewater treatment plant upgrade from 2021/2022 to 2022/2023.

This overall decrease in the capital expenditure has reduced the level on borrowing and reserve funding required for the year. Additionally, $1.0 million of strategic asset reserve funds have been used to reduce the impact on the district sewerage rate increase for 2022/2023.

Water supply

Includes the following activities:

- managing water resources, treatment, storage and distribution

What is planned for the year?

We will continue with the implementation of strategic zoned metering across all community schemes to help manage demand and detect leaks to ensure that the most use is being made of the water currently being taken. We are continuing a programme of upgrades to our water treatment plants to meet new water standards, and undertaking resource consent renewals.

Drinking water standard consultation

The government is proposing three key areas of improvement to the national environmental standards - drinking water (NES-DW) to strengthen its ability to protect drinking water sources: standardising the way we define source water areas, strengthening regulation of activities around water sources, and including more water suppliers under the NES-DW. The feedback will be used to further refine the proposed changes to the NES-DW, before the regulations are redrafted and gazetted later in 2022

Key projects

- Nightcaps: approximately 1.8km of AC pipe replacement (Osborn Terrace and Sinclair Avenue)
- consent renewal preparation in Edendale, Otautau and Te Anau
- Eastern Bush Otahu Flat water treatment plant upgrade (multi-year project)
- Manapouri (multi-year project) water treatment plant upgrade continuing
- Te Anau reticulation renewals (Cleuddaul, Henry and Duncan Streets)
- Te Anau Basin rural water sanitising project and Kakapo rising main
- Winton pH correction facility (chemical room and dosing equipment)
- replacement of AC pipe – district wide

Funding impact statement

Water supply	2021/2022 LTP ($000)	2022/2023 LTP ($000)	2022/2023 AP ($000)
Sources of operating funding			
General rates, uniform annual general charges, rates penalties	638	665	757
Targeted rates	4,886	5,453	5,473
Subsidies and grants for operating purposes	90	-	-
Fees and charges	-	-	-
Internal charges and overheads recovered	113	115	115
Local authorities fuel tax, fines, infringement fees, and other receipts[1]	1	3	3
Total operating funding	**5,728**	**6,235**	**6,348**
Applications of operating funding			
Payments to staff and suppliers	2,684	2,922	2,884
Finance costs	236	344	449
Internal charges and overheads applied	1,697	1,682	1,820
Other operating funding applications	-	-	-
Total applications of operating funding	**4,618**	**4,948**	**5,153**
Surplus (deficit) of operating funding	**1,111**	**1,287**	**1,195**
Sources of capital funding			
Subsidies and grants for capital purposes	2,318	-	-
Development and financial contributions	-	-	-
Increase (decrease) in debt	5,867	3,580	6,450
Gross proceeds from sale of assets	-	-	-
Lump sum contributions	-	-	-
Other dedicated capital funding	-	-	-
Total sources of capital funding	**8,185**	**3,580**	**6,450**
Applications of capital funding			
Capital expenditure			
to meet additional demand	-	-	-
to improve the level of service	5,217	2,722	5,242
to replace existing assets	3,721	1,609	1,959
Increase (decrease) in reserves	406	585	492
Increase (decrease) in investments	(48)	(48)	(48)
Total applications of capital funding	**9,296**	**4,867**	**7,644**
Surplus (deficit) of capital funding	**(1,111)**	**(1,287)**	**(1,195)**
Funding balance	-	-	-

[1] *Includes all other operating funding from sources not identified above.*

Funding impact statement - variations from LTP to Annual Plan budgets for 2022/2023

Finance costs have increased primarily due to the interest rate increasing from 2 - 3%.

Internal charges and overheads applied have increased due to the corporate overheads allocated to this activity.

Capital expenditure has increased from what was in the LTP primarily as a result of the deferral of the Eastern Bush and Manpouri water supply projects from 2021/2022 to 2022/2023.

Accordingly, this increase in the capital expenditure has resulted in higher levels of debt required.

COUNCIL CONTROLLED Organisations (CCOs)

Council-controlled organisations (CCOs)

A council-controlled organisation is a company in which a local authority (or jointly with other local authorities) controls 50% or more of the voting rights, or the rights to appoint 50% or more of the directors/trustees. For the CCO's full statements of intent for the year please go to Southland District Council's website: **southlanddc.govt.nz**

Southland Regional Development Agency – Great South

The Southland Regional Development Agency, Great South, has been formed as a council-controlled organisation to operate as the region's development agency and contribute to the delivery of the action plan, work and goals of the Southland Regional Development Strategy (SoRDS).

SoRDS was initiated by the Southland Mayoral Forum in 2013. Its objective is to have 10,000 more people living in Southland by 2025, in order to boost employment, strengthen local business and diversify the economy.

As a result of the work done to implement SoRDS and its action plan initiatives, Great South was formed in March 2019 to bring together all the relevant interests to lead regional and economic development opportunities, including tourism.

It is committed to driving economic, social and cultural growth. Great South has a clear mandate to leverage opportunities for Southland in the areas of regional economic development, business support services, regional tourism development and regional events delivery. Its mission is "better lives through sustainable development".

Focusing on encouraging the region's overall wellbeing and success, Great South incorporates the Southland Regional Tourism Organisation, central government's Regional Business Partner (RBP) network, delivers a range of events and regional initiatives, and delivers a number of government-funded contracts that support regional growth and development.

The shareholders include Southland District Council, Invercargill City Council, Gore District Council, Environment Southland, Invercargill Licensing Trust, Mataura Licensing Trust, Southland Chamber of Commerce and Southern Institute of Technology.

Southland Museum and Art Gallery Trust (SMAG)

The Southland Museum and Art Gallery Trust's mission is to celebrate our people, land and culture. One of its strategic objectives is to increase the sense of ownership by Southlanders, and the attractiveness, meaningfulness, relevance and value of the temporary museum and its programmes for them and visitors to Southland.

There more than 100,000 items held in its collections, some of which are important in terms of regional, national and international significance.

The trust receives annual grants from the Southland Regional Heritage Committee and Invercargill City Council.

Milford Community Trust

Southland District Council, Environment Southland and the Department of Conservation jointly established this trust in 2007 to provide leadership and governance for the Milford community. The trust's vision is "the long-term sustainability of Milford Sound Piopiotahi, with a community focus". It allows the Milford community to determine its priorities and projects and provides an avenue for local consultation and engagement, as well as public meetings. Milford covers the developed area of land and adjacent coastal marine area at the end of State Highway 94 at the head of Milford Sound. The Milford community covers residents of Milford, the holders of concessions from the Crown operating at Milford and iwi. The activities of the trust contribute towards the achievement of the two community outcomes of kaitiakitanga for future generations and empowered communities with the right tools to deliver the best services. The trust produces a half-yearly report by the end of February each year and an annual report by the end of September. The trust has adopted a statement of intent that outlines the strategic goals, specific focus areas and activities proposed for 2022-2025.

The ongoing impacts of Covid-19 on the tourism industry continues to affect the revenue of the trust as it has decided not to invoice operators, this time for the entire 2022/2023 financial year. That decision has significant implications for both its revenue stream and key capital project, construction of the recreation centre, which has been deferred. The trust is, however, still in a strong financial position.

Milford Community Trust representatives

Designation	Name	Term expires
Independent Chair	Ebel Kremer	Dec 2022
Milford community appointee	Brad Johnstone	2023
Milford community appointee	Rosco Gaudin	2023
Milford community appointee	Tony Woodham	2024
Milford community appointee	Steve Norris	2024

Planned activities for 2022/2023

- advocate with, and assist, other organisations for strategic improvements in community planning and development in Milford Sound.

FINANCIAL AND RATING *Information*

Part three: financial and rating information

Key assumptions changes

The Long Term Plan 2021-2031 (LTP) included significant forecasting assumptions that had been applied to develop the 10-year forecasts. The assumptions contained in the LTP remain unchanged in this Annual Plan, apart from the variations described below. For details of the unchanged assumptions, please see Council's LTP 2021-2031.

Interest rates on borrowing

Since the LTP was adopted there has been an increase in interest rates and there is a need to increase the interest rates payable on loans from 2% to 3% to complete our capital works projects. As a result, the financial assumption from the LTP relating to interest rates on borrowing has been amended to reflect this.

Return on investment/reserves

In recent months there have been impacts on investment markets due to returns in some of these markets being less than average due to world events such as Covid-19 and the Ukraine war. As a result, the level of uncertainty for the financial assumption from the LTP relating to the return on investments/reserves has been amended to from moderate to high.

Price level changes/inflation

Business and Economic Research Limited (BERL) price level changes/inflation rates were automatically applied to revenue and expenditure items in 2022/2023. Budgets included for 2021/2022 in the LTP were used as the basis for this Annual Plan and have been adjusted as appropriate.

Accounting policies

Reporting entity

Southland District Council (referred to as "SDC" or "Council") is a territorial local authority established under the Local Government Act 2002 (LGA) and is domiciled and operated in New Zealand. The relevant legislation governing Council's operations includes the LGA and the Local Government (Rating) Act 2002.
The primary objective of Council is to provide goods or services for the community or social benefit rather that making a financial profit. Accordingly, SDC has designated itself as a public benefit entity (PBE) for financial reporting purposes.

Council provides local infrastructure, local public services and performs regulatory functions for the community. Council does not operate to make a financial return.

The prospective financial statements were authorised for issue by Council on XX June 2022.

Basis of preparation

The prospective financial statements have been prepared on the going concern basis, and the accounting policies have been applied consistently to all periods presented in these prospective financial statements.

The prospective financial statements have been prepared in accordance with the requirements of the Local Government Act 2002 and the Local Government (Financial Reporting and Prudence) Regulations 2014 (LGFRP): Part 6, Section 98 and Part 3 of Schedule 10, which includes the requirement to comply with New Zealand Generally Accepted Accounting Practice (NZ GAAP).

These prospective financial statements have been prepared in accordance with Tier 1 PBE accounting standards and comply with PBE standards.

Prospective financial information

Council has complied with PBE FRS 42 in the preparation of these prospective financial statements. In accordance with PBE FRS 42, the following information is provided:

Description of the nature of the entity's current operation and its principal activities

Council is a territorial local authority, as defined in the Local Government Act 2020. Council's principal activities are outlined within the annual plan.

Purpose for which the prospective financial statements are prepared

It is a requirement of the Local Government Act 2002 to present prospective financial statements. This provides an opportunity for ratepayers and residents to review the projected financial results and position of Council. Prospective financial statements are revised annually to reflect updated assumptions and costs.

Bases for assumptions, risks and uncertainties

The prospective financial information has been prepared on the basis of best estimate assumptions as the future events which Council expects to take place. Council has considered factors that may lead to a material difference between information in the prospective financial statements and actual results. These factors, and the assumptions made in relation to the sources of uncertainty and potential effect, are outlined within the annual plan and relevant long term plan.

Responsibility for the prospective financial statements

Council is responsible for the prospective financial statements presented, including the appropriateness of the assumptions underlying the prospective financial statements and all other required disclosures.

Cautionary note

The financial information is prospective. Actual results are likely to vary from the information presented and the variations may be material.

Measurement base

The prospective financial statements have been prepared on a historical cost basis, modified by the revaluation of heritage assets, certain infrastructural assets, and biological assets.

Functional and presentation currency

The financial statements are presented in New Zealand dollars (the functional currency of Southland District Council) and all values are rounded to the nearest thousand dollars ($000). As a result of rounding there may be slight discrepancies in subtotals.

Basis of consolidation

Council prospective financial statements represent the results of Council's seven significant activity groups (detailed on pages XX-XXX), including the Stewart Island Electrical Supply Authority (SIESA), as well as Council's share of its joint ventures and associates (including Venture Southland, WasteNet, Southland Regional Heritage committee, Emergency Management Southland, and Great South). SIESA is a business unit of Council, which generates and reticulates electricity to most of Stewart Island residents and industry.

The prospective financial information reflects the operations of Council. It does not include the consolidated results of Council controlled organisations (being Milford Community Trust).

Change in accounting policies

All accounting policies, except the following, have been applied consistently to all periods presented in these prospective financial statements.

SDC is applying, for the first time, the following standard which is effective for annual periods beginning on 1 July 2022, as described below:

PBE IPSAS 41 Financial instruments

PBE IPSAS 41 *Financial instruments* supersedes parts of PBE IPSAS 29 *Financial instruments: Recognition and Measurement* and PBE IFRS 9 *Financial Instruments*. The standard sets out the recognition and measurement requirements for the various classes of financial instruments (refer to accounting policy (j) below for further information). The adoption of the standard does not have a material impact on the forecast financial statements.

Specific accounting policies

(a) Revenue

Revenue is measured at fair value.

The specific accounting policies for significant revenue items are:

The following policies for rates have been applied:

- general rates, targeted rates (excluding water-by-meter) and uniform annual general charges are recognised at the start of the financial year to which the rates resolution relates. They are recognised at the amounts due. Council considers that the effect of payment of rates instalments is not sufficient to require discounting of rates receivables and subsequent recognition of interest revenue
- rates arising from late payment penalties are recognised as revenue when rates become due
- revenue from water-by-meter rates is recognised on an accrual basis based on usage. Unbilled usage, as a result of unread meters at year end, is accrued on an average usage basis
- rates remissions are recognised as a reduction in rates revenue when Council has received an application that satisfies its rates remission policy.

Revenue from the rendering of services is recognised by reference to the stage of completion of the transaction at balance date, based on the actual service provided as a percentage of the total services to be provided.

Revenue from electricity charges is recognised on an accrual basis based on usage. Unbilled usage as a result of unread meters at year end is accrued on an average usage basis.

Interest is recognised using the effective interest method.

Subsidies from Waka Kotahi NZ Transport Agency and grants from other government agencies are recognised as revenue upon entitlement, which is when conditions pertaining to eligible expenditure have been fulfilled.

Other grants and bequests are recognised when they become receivable unless there is an obligation in substance to return the funds if conditions of the grant are not met. If there is such an obligation, the grants are initially recorded as grants received in advance and recognised as revenue when conditions of the grant are satisfied.

Fees for disposing of waste at Council's landfill are recognised as waste disposed by users.

Fees and charges for building and resource consent services are recognised on a percentage completion basis with reference to the recoverable costs incurred at balance date.

For assets received for no or nominal consideration, the asset is recognised at its fair value when Council obtains control of the asset. The fair value of the asset is recognised as revenue, unless there is a use or return condition attached to the asset.

The fair value of vested or donated assets is usually determined by reference to the cost of constructing the asset. For assets received from property developments, the fair value is based on construction price information provided by the property developer.

For long-lived assets that must be used for a specific use (eg land used as a recreation reserve), Council immediately recognises the fair value of the asset as revenue. A liability is recognised only if Council expects that it will need to return or pass the asset to another party.

Donated and bequeathed financial assets are recognised as revenue unless there are substantive use or return conditions. A liability is recorded if there are substantive use or return conditions and the liability released to revenue as the conditions are met (eg as the funds are spent for a nominate purpose).

Development and financial contributions are recognised at the later of the point when Council is ready to provide the service for which the contribution was levied, or the event that will give rise to a requirement for a development or financial contribution under the legislation. Otherwise, development and financial contributions are recognised as liabilities until such time as Council provides, or is able to provide, the service.

Dividends are recognised when the right to receive payment has been established.

(b) Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

(c) Grant expenditure

Non-discretionary grants are those grants that are awarded if the grant application meets the specified criteria and are recognised as expenditure when an application that meets the specified criteria for the grant has been received.

Discretionary grants are those grants where Council has no obligation to award on receipt of the grant application and are recognised as expenditure when a successful applicant has been notified of SDC's decision.

(d) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions,

(e) Leases

Operating leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset.

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term. Lease incentives are recognised in the surplus or deficit as a reduction of rental expense over the lease term.

(f) Equity

Equity is the community's interest in Council as measured by total assets less total liabilities. Equity is classified into a number of reserves to enable clearer identification of the specified uses that Council makes of its accumulated surpluses. The components of equity are:

- accumulated funds
- Council created reserves (general reserve, separate account balances and rates appropriation balance)
- special reserves (managed by allocation committees)
- asset revaluation reserves
- fair value reserves

Reserves represent a particular use to which various parts of equity have been assigned. Reserves may be legally restricted or created by Council.

Council created reserves may be altered without reference to any third party or the courts. Transfers to and from these reserves are at the discretion of Council.

Restricted reserves are subject to specific conditions accepted as binding by Council, which may not be revised by Council without reference to the courts or third party. Transfers from these reserves may be made only for specified purposes or when certain conditions are met.

(g) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

Bank overdrafts are shown within borrowings in current liabilities in the Forecast Statement of Financial Position.

(h) Receivables

Short-term receivables are recorded at the amount due, less an allowance for expected credit losses (ECL).

The Council apply the simplified ECL model of recognising lifetime ECL for receivables.

In measuring ECLs, receivables have been grouped into rates receivables, and other receivables, and assessed on a collective basis as they possess shared credit risk characteristics. They have then been grouped based on the days past due. A provision matrix is then established based on historical credit loss experience, adjusted for forward looking factors specific to the debtors and the economic environment.

Rates are "written-off":

- when remitted in accordance with the Council's rates remission policy; and
- in accordance with the write-off criteria of sections 90A (where rates cannot be reasonably recovered) and 90B (in relation to Māori freehold land) of the Local Government (Rating) Act 2002.

Other receivables are written-off when there is no reasonable expectation of recovery.

(i) Inventories

Inventories (such as spare parts and other items) held for distribution or consumption in the provision of services that are not supplied on a commercial basis are measured at the lower of cost or current replacement cost.

The write down from cost to current replacement cost is recognised in the Forecast Statement of Comprehensive Revenue and Expense.

(j) Other financial assets

Other financial assets (other than shares in subsidiaries) are initially recognised at fair value. They are then classified as, and subsequently measured under, the following categories:

- amortised cost;
- fair value through other comprehensive revenue and expense (FVTOCRE); or
- fair value through surplus and deficit (FVTSD).

Transaction costs are included in the carrying value of the financial asset at initial recognition, unless it has been designated at FVTSD, in which case it is recognised in surplus or deficit. The classification of a financial asset depends on its cash flow characteristics and the Council's management model for managing them.

A financial asset is classified and subsequently measured at amortised cost if it gives rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal outstanding, and is held within a management model whose objective is to collect the contractual cash flows of the asset.

A financial asset is classified and subsequently measured at FVTOCRE if it gives rise to cash flows that are SPPI and held within a management model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Financial assets that do not meet the criteria to be measured at amortised cost or FVTOCRE are subsequently measured at FVTSD. However, the Council may elect at initial recognition to designate an equity investment not held for trading as subsequently measured at FVTOCRE.

Initial recognition of concessionary loans

Loans made at nil or below-market interest rates are initially recognised at the present value of their expected future cash flows, discounted at the current market rate of return for a similar financial instrument. For loans to community organisations, the difference between the loan amount and present value of the expected future cash flows of the loan is recognised in surplus or deficit as a grant expense.

Subsequent measurement of financial assets at amortised cost

Financial assets classified at amortised cost are subsequently measured at amortised cost using the effective interest method, less any expected credit losses. Where applicable, interest accrued is added to the investment balance. Instruments in this category include term deposits, community loans, and loans to subsidiaries and associates.

Subsequent measurement of financial assets at FVTOCRE

Financial assets in this category that are debt instruments are subsequently measured at fair value with fair value gains and losses recognised in other comprehensive revenue and expense, except expected credit losses (ECL) and foreign exchange gains and losses are recognised in surplus or deficit. When sold, the cumulative gain or loss previously recognised in other comprehensive revenue and expense is reclassified to surplus and deficit. The Council do not hold any debt instruments in this category.

Financial assets in this category that are equity instruments designated as FVTOCRE are subsequently measured at fair value with fair value gains and losses recognised in other comprehensive revenue and expense. There is no assessment for impairment when fair value falls below the cost of the investment. When sold, the cumulative gain or loss previously recognised in other comprehensive revenue and expense is transferred to accumulated funds within equity. The Council designate into this category all equity investments that are not included in its investment fund portfolio, and if they are intended to be held for the medium to long-term.

Council's investments in this category include: Civic Assurance (formerly the New Zealand Local Government Insurance Corporation Limited) and Milford Sound Tourism Limited.

Subsequent measurement of financial assets at FVTSD

Financial assets in this category are subsequently measured at fair value with fair value gains and losses recognised in surplus or deficit.

Interest revenue and dividends recognised from these financial assets are separately presented within revenue.

Instruments in this category include the Council's investment fund portfolio (comprising of listed shares, bonds, and units in investment funds) and LGFA borrower notes.

Expected credit loss allowance (ECL)

The Council recognise an allowance for ECLs for all debt instruments not classified as FVTSD. ECLs are the probability-weighted estimate of credit losses, measured at the present value of cash shortfalls, which is the difference between the cash flows due to Council in accordance with the contract and the cash flows it expects to receive. ECLs are discounted at the effective interest rate of the financial asset.

ECLs are recognised in two stages. ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). However, if there has been a significant increase in credit risk since initial recognition, the loss allowance is based on losses possible for the remaining life of the financial asset (Lifetime ECL).

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Council considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis based on the Council's historical experience and informed credit assessment and including forward-looking information.

The Council considers a financial asset to be in default when the financial asset is more than 180 days past due. The Council may determine a default occurs prior to this if internal or external information indicates the entity is unlikely to pay its credit obligations in full.

(k) Goods and Services Tax (GST)

The forecast financial statements have been prepared exclusive of GST with the exception of receivables and payables, which are stated inclusive of GST. When GST is not recoverable as an input tax, it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the Forecast Statement of Financial Position.

The net GST paid to, or received from, the IRD, including the GST relating to investing and financing activities, is classified as an operating cashflow in the Forecast Statement of Cashflows.

Commitments and contingencies are disclosed exclusive of GST.

(l) Property, plant and equipment

Property, plant and equipment consist of:

Infrastructure assets

- infrastructure assets are those systems taken as a whole that are intended to be maintained indefinitely. These assets include Council's roading and bridge networks and the fixed utility systems owned by Council. Each asset type includes all items that are required for the network to function. For example, wastewater reticulation includes reticulation piping and sewer pump stations

Operational assets

- these include land, buildings, improvements, library books, plant and equipment, and motor vehicles

Restricted assets

- restricted assets are parks and reserves owned by Council, which cannot be disposed of because of legal or other restrictions and provide a benefit or service to the community

Recognition

Property, plant and equipment is shown at cost for all asset categories other than infrastructure and heritage assets, which are at valuation; less accumulated depreciation and impairment losses.

Additions

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to Council and the cost of the item can be measured reliably.

In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the Forecast Statement of Comprehensive Revenue and Expense. When revalued assets are sold, the amounts included in asset revaluation reserves in respect of those assets are transferred to retained earnings.

Subsequent costs

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to SDC and the cost of the item can be measured reliably.

The costs of day-to-day servicing of property, plant and equipment are recognised in the surplus or deficit as they are incurred.

Depreciation

Depreciation is provided on a straight-line (SL) or on a diminishing value (DV) basis. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

ESTIMATED ECONOMIC LIFE			DEPRECIATION	
ASSET CATEGORY	(YEARS)		PERCENT	METHOD
Operational assets				
Improvements	4-25		4.00% - 21.00%	SL or DV
Buildings	10-100		1.00% - 10.00%	SL or DV
Light vehicles	4- 8		12.00% - 21.60%	SL or DV
Heavy vehicles	4-8		12.00% - 21.60%	DV
Other plant	2-25		4.00% - 60.00%	SL or DV
Furniture and fittings	3-13		8.00% - 30.00%	SL
ASSET CATEGORY	(YEARS)		PERCENT	METHOD
Office equipment	7-8		13.50% - 14.00%	SL
Computer equipment	2-7		13.50% - 40.00%	SL
Other equipment	3-14		7.00% - 30.00%	SL or DV
Library books	10		10.00%	SL
ASSET CATEGORY	(YEARS)		PERCENT	METHOD
Infrastructural Assets				
Electrical generation plant	1-100		1.00% - 100.00%	SL or DV
Sealed roads	5-80		1.25% - 20.00%	SL
Unsealed roads	4-5		20.00% - 25.00%	SL
Bridges	70-120		0.83% - 1.43%	SL
Footpaths	30-60		1.67% - 3.33%	SL
Streetlighting	20-40		2.50% - 5.00%	SL
Cycle trail	10-99		1.01% - 10.00%	SL

ESTIMATED ECONOMIC LIFE			DEPRECIATION	
Sewerage schemes	5-100		1.00% - 20.00%	SL
Stormwater schemes	80-100		1.00% - 1.25%	SL
Water supply schemes	5-100		1.00% - 20.00%	SL
Marine assets	5-50		2.00% - 20.00%	SL
Transfer stations	10		10.00%	SL
Landfill sites	10-40		2.50% - 10.00%	SL

The residual value and useful life of an asset is reviewed and adjusted, if applicable, at each financial year end.

Revaluations

Roads, bridges, footpaths, cycle trails, streetlights, water treatment systems, sewerage treatment systems and stormwater systems are revalued on an annual basis. Council-owned heritage assets include artworks, war memorials, viaducts and railway memorabilia. Artworks are revalued every three - five years.

All other asset classes are carried at depreciated historical cost. The carrying values of revalued items are reviewed each balance date to ensure that those values are not materially different to fair value. The valuation basis for the different asset categories are described in more detail below.

Land and buildings

The deemed cost of land and buildings were established by registered valuers from Quotable Value in accordance with the requirements of the Institute of Chartered Accountants of New Zealand Standards, as at 30 June 1993. Purchases made since 30 June 1993 are recorded at cost.

Endowment lands are vested in Council for specific purposes for the benefit of various communities. These vestings have been made under various pieces of legislation which restrict both the use of any revenue and any possible dispositions.

Other infrastructural assets

All other infrastructural assets (electrical generation plant and marine assets) are valued at their deemed cost, based on a revaluation of assets undertaken by appropriately qualified personnel from Royds Garden Limited in 1993.

Plant and vehicles (including electrical generation plant) items are shown at historical cost less provision for depreciation.

Library books

Books have been valued by SDC staff on a depreciated replacement cost basis, using New Zealand Library Association guidelines, as at 30 June 1993 representing deemed cost. Additions to library book stocks since 30 June 1993 are recorded at cost.

Heritage assets

The only assets to be included under this category are art works owned by the Council, which have been recorded at fair value in accordance with NZ IAS 16.

Other assets, which would normally be classified under heritage assets, for example war memorials, have been included under "other assets".
Due to the nature of the item, art works are revalued on a three to five-yearly cycle and not depreciated.

Other assets

Other assets are shown at historic cost or depreciated replacement cost, less a provision for depreciation. Additions and deletions to other assets since 30 June 1993 are recorded at cost.

Accounting for revaluations

SDC accounts for revaluations of property, plant and equipment on a class of asset basis.

The results of revaluing are credited or debited to other comprehensive revenue and expense and are accumulated to an asset revaluation reserve in equity for that class of asset.

Where this results in a debit balance in the asset revaluation reserve, this balance is not recognised in other comprehensive revenue and expense but is recognised in the surplus or deficit.
Any subsequent increase on revaluation that off-sets a previous decrease in value recognised in the surplus or deficit will be recognised first in the surplus or deficit up to the amount previously expensed, and then recognised in other comprehensive revenue and expense.

(m) Work in progress

Assets under construction are not depreciated. The total cost of a project is transferred to the relevant asset class on its completion and then depreciated.

(n) Intangible assets

Software acquisition and development

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs associated with maintaining computer software are recognised as an expense when incurred. Costs directly associated with the development of software for internal use by Council are recognised as an intangible asset. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Staff training costs are recognised in the surplus or deficit when incurred.

Costs associated with maintaining computer software are recognised as an expense when incurred.

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in the surplus or deficit.

The useful lives and associated amortisation rates of major classes of intangible assets have been estimated as follows:

Estimated economic life		Depreciation	
Asset category	(years)	Percent	Method
Computer software	2-10	10.00% - 50.00%	SL

Emissions Trading Scheme

Council has approximately 1,384 hectares of pre-1990 forest land. This land is subject to the provisions of the New Zealand Emissions Trading Scheme ('ETS"). The implication of this for the financial accounts is twofold:

Should the land be deforested (ie the land is changed from forestry to some other purpose), a deforestation penalty will arise.

Given the deforestation restriction, compensation units are being provided from the government.

The deforestation contingency is not recognised as a liability on the statement of financial position as there is no current intention of changing the land use subject to the ETS.

However, the estimated liability that would arise should deforestation occur has been estimated in the notes to the accounts.

Compensation units received are recognised based on the market value at balance date (30 June). They are recognised as income in the prospective financial statements. They are not amortised, but are tested for impairment annually.

Emissions Trading Units are revalued annually at 30 June.

The difference between initial value or the previous revaluation, and disposal or revaluation value of the units, is recognised in other comprehensive revenue and expense.

(o) Forestry assets

Forestry assets are revalued independently annually at fair value less estimated point of sale costs. Fair value is determined based on the present value of expected net cashflows discounted at a current market determined pre-tax rate.

Gains or losses arising on initial recognition of biological assets at fair value less estimated point of sale costs and from a change in fair value less estimated point of sale costs are recognised in the forecast surplus or deficit.

The costs to maintain the forestry assets are recognised in the forecast surplus or deficit when incurred.

(p) Impairment of property, plant and equipment and intangible assets

Intangible assets subsequently measured at cost that have an indefinite useful life, or are not yet available for use, are not subject to amortization and are tested annually for impairment.

Property, plant and equipment and intangible assets subsequently measured at cost that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

If an asset's carrying amount exceeds its recoverable amount, the asset is regarded as impaired and the carrying amount is written down to the recoverable amount.

The total impairment loss is recognised in the surplus or deficit.

The reversal of an impairment loss is recognised in the surplus or deficit.

Value in use for non-cash generating assets

Non-cash generating assets are those assets that are not held with the primary objective of generating a commercial return.

For non-cash generating assets, value in use is determined using an approach based on either a depreciated replacement cost approach, or a service unit approach. The most appropriate approach used to measure the value in use depends on the nature and impairment and availability of information.

Value in use for cash generating assets

Cash generating assets are those assets that are held with the primary objective of generating a commercial return.

The value in use for cash generating assets and cash generating units is the present value of expected future cashflows.

(q) Employee benefits

Short-term benefits

Employee benefits that SDC expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave earned to, but not yet taken at balance date, retiring and long service leave entitlements expected to be settled within 12 months.

Long-term benefits

Long service leave and retirement leave.

Entitlements that are payable beyond 12 months, such as long service leave and retiring leave, have been calculated by in-house staff. The calculations are based on:

- likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements information; and
- the present value of the estimated future cashflows.

Superannuation schemes

Defined contribution schemes - Obligations for contributions to defined contribution superannuation schemes are recognised as an expense in the Forecast Statement of Comprehensive Revenue and Expense as incurred.

Presentation of employee entitlements

Annual leave and vested long service leave are classified as a current liability. Non-vested long service leave and retirement gratuities expected to be settled within 12 months of balance date are classified as current liability. All other employee entitlements are classified as a non-current liability.

(r) Payables and deferred revenue

Short term payables are recorded at the amount payable.

(s) Provisions

SDC recognises a provision for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that expenditures will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

The increase in the provision due to the passage of time is recognised as an interest expense and is included in 'finance costs'.

Financial guarantee contracts

A financial guarantee contract is a contract that requires SDC to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due.

Financial guarantee contracts are initially recognised at fair value. If a financial guarantee contract was issued in a stand-alone arm's length transaction to an unrelated party, its fair value at inception is equal to the consideration received. When no consideration is received a provision is recognised based on the probability Council will be required to reimburse a holder for a loss incurred discounted to present value. The portion of the guarantee that remains unrecognised, prior to discounting to fair value, is disclosed as a contingent liability. If the fair value of a guarantee cannot be reliably determined, a liability is recognised at the amount of the loss allowance determined in accordance with the ECL model described in policy (j)

Financial guarantees are subsequently measured at the higher of:

- The amount determined in accordance with the ECL model as described in policy (j); and
- The amount initially recognised less, where appropriate, cumulative amortisation as revenue.

Landfill post-closure costs

Council, as operator, has a legal obligation under its resource consent to provide ongoing maintenance and monitoring services at their landfill sites after closure. A provision for post-closure costs is recognised as a liability when the obligation for post-closure costs arises.

The provision is measured based on the present value of future cashflows expected to be incurred, taking into account future events including new legal requirements and known improvements in technology. The provision includes all costs associated with landfill post-closure.

Amounts provided for landfill post-closure are capitalised to the landfill asset where they give rise to future economic benefits to be obtained. Components of the capitalised landfill asset are depreciated over their useful lives.

The discount rate used is a pre-tax rate that reflects current market assessments of the time, value of money and the risks specific to Council.

(t) Internal borrowings

Internal borrowings are eliminated on consolidation of activities in Council's financial statements.

(u) External borrowings and other financial liabilities

Borrowings on normal commercial terms are initially recognised at the amount borrowed plus transaction costs. Interest due on the borrowings is subsequently accrued and added to the borrowing's balance.

Borrowings are classified as current liabilities unless the Council has an unconditional right to defer settlement of the liability for at least 12 months after balance date.

(v) Investments in associates and joint ventures

An associate is an entity over which SDC has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of another entity but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the agreed sharing of control of an arrangement by way of a binding arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

SDC's investment in its associates and joint ventures is accounted for using the equity method of accounting in the consolidated prospective financial statements.

Under the equity method, an investment in an associate or joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise post-acquisition changes in Council's share of net assets of the associates or joint ventures since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

SDC's share of an associate's or joint venture's surplus or deficit is recognised in the statement of financial performance. Any change in the associate or joint venture's other comprehensive revenue and expense is presented as part of Council's other comprehensive revenue and expense. The cumulative movements are adjusted against the carrying amount of the investment. In addition, when there has been a change recognised directly in the net assets/equity of the associate or joint venture, Council recognises its share of any changes, when applicable, in the statement of changes in net assets/equity. Unrealised gains and losses resulting from transactions between Council and the associate or joint venture are eliminated to the extent of Council's interest in the associate or joint venture.

The aggregate of the SDC's share of surplus or deficit of associates or joint ventures is shown on the face of the statement of financial performance. This is the surplus attributable to equity holders of the associate or joint venture and therefore is surplus after tax and non-controlling interests in the controlled entities of the associates and joint ventures.

The prospective financial statements of the associate or joint venture are prepared for the same reporting period as Council. When necessary, adjustments are made to bring the accounting policies in line with those of Council. After application of the equity method, Council determines whether it is necessary to recognise an impairment loss on Council's investment in its associate or joint venture.

Council determines at each reporting date whether there is any objective evidence that the investment in the associate or joint venture is impaired. If this is the case Council calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the "share of surplus of an associate and joint venture" in the statement of financial performance.

Goodwill included in the carrying amount of the investment in associate is not tested for impairment separately; rather the entire carrying amount of the investment is tested as a single asset. When Council's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, including any unsecured long-term receivables and loans, Council does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

Upon loss of significant influence over the associate or joint control over the joint venture, Council measures and recognises any remaining investment at its fair value, and accounts for the remaining investments in accordance with PBE IPSAS 29. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in surplus or deficit.

(w) Critical accounting estimates and assumptions

In preparing these forecast financial statements, Council has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Infrastructure assets

There are a number of assumptions and estimates used when performing Depreciated Replacement Cost (DRC) valuations over infrastructural assets. These include:

- the physical deterioration and condition of an asset. For example, Council could be carrying an asset at an amount that does not reflect its actual condition. This is particularly so for those assets which are not visible, for example stormwater, wastewater and water supply pipes that are underground. This risk is minimised by Council performing a combination of physical inspections and condition assessments of underground assets
- estimating any obsolescence or surplus capacity of an asset
- estimates are made when determining the remaining useful lives over which the asset will be depreciated. These estimates can be impacted by the local conditions. For example weather patterns and traffic growth. If useful lives do not reflect the actual consumption of the benefits of the asset, then Council could be over or under-estimating the annual depreciation charge recognised as an expense in the Forecast Statement of Comprehensive Revenue and Expense.

To minimise this risk Council's infrastructure asset useful lives have been determined with reference to the NZ Infrastructural Asset Valuation and Depreciation Guidelines published by the National Asset Management Steering Group and have been adjusted for local conditions based on past experience

Asset inspections, deterioration and condition modelling are also carried out regularly as part of Council's asset management planning activities, which gives Council further assurance over its useful life estimates.

Experienced independent valuers perform Council's infrastructure asset revaluations.

(x) Critical judgements in applying Council's accounting policies

Management has exercised the following critical judgements in applying Council's accounting policies to the prospective financial statements.

Classification of property

Council owns a number of properties which are maintained primarily to provide housing to pensioners. The receipt of rental income from these properties is incidental to holding these properties. These properties are held for service delivery objectives as part of Council's social housing policy. These properties are accounted for as property, plant and equipment.

(y) Statement of cashflows

Operating activities include cash and cash equivalents (as defined in (f) above) received from all Council's income sources and record the cash payments made for the supply of goods and services.

Investing activities are those activities relating to the acquisition and disposal of non-current assets.

Financing activities comprise the change in equity and debt capital structure of Council.

(z) Rounding

Some rounding variances may occur in the financial statements due to the use of decimal places in the underlying financial data.

Prospective statement of comprehensive revenue and expense

	2021/2022 AP ($000)	2022/2023 LTP ($000)	2022/2023 AP ($000)
Revenue			
Rates revenue	54,179	58,682	59,189
Other revenue	9,214	10,003	8,766
Interest and dividends	2,020	1,916	1,916
NZ Transport Agency funding	15,328	16,123	17,347
Grants and subsidies	8,669	640	1,287
Other gains/(losses)	647	965	984
Vested assets	-	-	-
Development and financial contributions	10	-	-
MOH subsidy for sewerage/water scheme	-	-	-
	90,067	**88,330**	**89,488**
Expenditure			
Employee benefit expenses	16,907	17,230	18,450
Depreciation and amortisation	27,210	28,769	28,760
Finance costs	1,265	1,709	2,259
Other Council expenditure	45,800	45,429	45,206
	91,182	**93,137**	**94,675**
Surplus/(deficit) before tax	**(1,115)**	**(4,807)**	**(5,187)**
Income tax benefit	-	-	-
Surplus/(deficit) after tax	**(1,115)**	**(4,807)**	**(5,187)**
Financial assets at fair value through other comprehensive revenue and expense	-	-	-
Gain/(loss) on property, plant and equipment revaluations	53,208	49,081	49,081
Total comprehensive revenue and expense	**52,093**	**44,274**	**43,895**

Prospective statement of changes in equity

	2021/2022 AP ($000)	2022/2023 LTP ($000)	2022/2023 AP ($000)
Balance at 1 July	**1,629,495**	**1,681,588**	**1,677,696**
Total comprehensive revenue and expense for the year	52,093	44,274	43,895
Balance at 30 June	**1,681,588**	**1,725,862**	**1,721,590**

Prospective statement of financial position

	2021/2022 AP ($000)	2022/2023 LTP ($000)	2022/2023 AP ($000)
Equity			
Retained earnings	720,986	715,049	721,446
Asset revaluation reserves	922,181	971,262	958,602
Fair value reserves	3,577	3,577	4,771
Other reserves	34,844	35,974	36,771
	1,681,588	**1,725,862**	**1,721,590**
Current assets			
Cash and cash equivalents	221	392	265
Trade and other receivables	10,378	10,363	14,321
Inventories	105	94	103
Other financial assets	448	448	453
	11,152	**11,297**	**15,142**
Non-current assets			
Property, plant and equipment	1,704,339	1,763,763	1,756,170
Intangible assets	3,900	3,321	5,287
Forestry assets	13,320	14,050	14,520
Investments in associates	945	945	1,418
Other financial assets	37,533	38,878	38,580
	1,760,037	**1,820,957**	**1,815,975**
Total assets	**1,771,189**	**1,832,253**	**1,831,117**
Current liabilities			
Trade and other payables	7,957	8,227	15,152
Contract retentions and deposits	719	551	744
Employee benefit liabilities	2,122	2,162	2,212
Development and financial contributions	1,730	1,732	1,625
Provision for decommissioning	10	7	7
Borrowings	6,000	6,000	6,000
	18,537	**18,679**	**25,740**
Non-current liabilities			
Employee benefit liabilities	-	-	23
Provision for decommissioning	-	-	-
Borrowings	71,064	87,713	83,763
	71,064	**87,713**	**83,787**
Total liabilities	**89,602**	**106,392**	**109,527**
Net assets	**1,681,588**	**1,725,862**	**1,721,590**

Prospective statement of cashflows

	2021/2022 AP ($000)	2022/2023 LTP ($000)	2022/2023 AP ($000)
Cashflows from operating activities			
Receipts from rates revenue	54,179	58,682	59,189
Receipts from NZ Transport Agency funding	15,328	16,123	17,347
Interest and dividends	2,020	1,916	1,916
Receipts from other revenue	14,629	10,504	9,914
Payment to suppliers and employees	(63,290)	(62,352)	(63,349)
Interest paid	(1,265)	(1,709)	(2,259)
Net cash inflow/(outflow) from operating activities	**21,601**	**23,164**	**22,757**
Cashflows from investing activities			
Receipts from sale of property, plant and equipment	127	235	254
Receipts from sale of investments	-	-	-
Purchase of property, plant and equipment	(44,478)	(38,521)	(43,590)
Acquisition of investments	1,582	(1,344)	1,173
Purchase of Intangible assets	(1,123)	(11)	(857)
Net cash inflow/(outflow) from investing activities	**(43,892)**	**(39,641)**	**(43,021)**
Cashflows from financing activities			
Proceeds from borrowings	18,447	16,648	20,435
Repayment of borrowings	6,000	-	-
Payments of finance leases	-	-	-
Net cash inflow/(outflow) from financing activities	**24,447**	**16,648**	**20,435**
Net increase/(decrease) in cash and cash equivalents	**2,156**	**171**	**171**
Cash and cash equivalents at the beginning of the year	(1,935)	221	**94**
Cash and cash equivalents at the end of the year	**221**	**392**	**265**

Reconciliation between the operating surplus (from the statement of comprehensive revenue and expense) and net cash flow from operating activities (statement of cashflows)

	2021/2022 AP ($000)	2022/2023 LTP ($000)	2022/2023 AP ($000)
Operating surplus/(deficit)	**(1,115)**	**(4,807)**	**(5,187)**
Add/(less) non cash items			
Depreciation and amortisation	27,210	28,769	28,760
Vested assets	-	-	-
Forestry revaluation	(520)	(730)	(730)
Emission trading units received	-	-	-
Add/(less) items classified as investing or financing activities			
(Gains)/losses on disposal of property, plant and equipment	(127)	(235)	(254)
Add/(less) movements in working capital items			
Trade and other receivables	(3,652)	15	15
Inventories and work in progress	12	12	12
Trade and other payables	(206)	141	141
Net cash Inflow/(outflow) from operating activities	**21,601**	**23,164**	**22,757**

Depreciation by activity

	2021/2022 AP ($000)	2022/2023 LTP ($000)	2022/2023 AP ($000)
Community leadership	54	54	54
Community resources	1,502	1,936	1,916
Corporate services	1,033	827	818
Environmental services	119	120	120
Sewerage	2,707	2,902	2,923
Stormwater	510	555	555
Transport	19,413	20,326	20,326
Water supply	1,872	2,049	2,049
	27,210	**28,769**	**28,760**

Funding impact statement for 2022/2023 for all activities

	2021/2022 LTP ($000)	2022/2023 LTP ($000)	2022/2023 AP ($000)
Sources of operating funding			
General rates, uniform annual general charges, rates penalties	22,017	23,271	23,930
Targeted rates	32,162	35,410	35,258
Subsidies and grants for operating purposes	8,590	6,564	6,873
Fees and charges	5,633	5,890	6,404
Interest and dividends from investments	2,020	1,916	1,916
Local authorities fuel tax, fines, infringement fees, and other receipts[1]	4,096	4,636	2,871
Total operating funding	**74,518**	**77,688**	**77,253**
Applications of operating funding			
Payments to staff and suppliers	58,740	58,632	59,623
Finance costs	1,265	1,709	2,259
Other operating funding applications	4,115	4,179	4,171
Total applications of operating funding	**64,120**	**64,520**	**66,053**
Surplus/(deficit) of operating funding	**10,398**	**13,168**	**11,199**
Sources of capital funding			
Subsidies and grants for capital purposes	15,036	9,825	11,387
Development and financial contributions	10	-	-
Increase/(decrease) in debt	24,447	16,648	14,435
Gross proceeds from sale of assets	127	235	254
Lump sum contributions	-	-	-
Total sources of capital funding	**39,620**	**26,708**	**26,075**
Applications of capital funding			
Capital expenditure			
to meet additional demand	915	937	-
to improve the level of service	15,418	12,846	14,556
to replace existing assets	29,267	24,750	29,891
Increase/(decrease) in reserves	(1,873)	1,130	(1,495)
Increase/(decrease) in investments	6,291	215	(5,678)
Total applications of capital funding	**50,019**	**39,877**	**37,275**
Surplus/(deficit) of capital funding	**(10,398)**	**(13,168)**	**(11,199)**
Funding balance	**-**	**-**	**-**

[1] *includes all other operating funding from sources not identified above.*

Reconciliation of surplus/(deficit) of operating funding to net surplus/(deficit) before tax

	2021/2022 LTP ($000)	2022/2023 LTP ($000)	2022/2023 AP ($000)
Surplus/(deficit) of operating funding from funding impact statement	**10,398**	**13,168**	**11,199**
Depreciation	(27,210)	(28,769)	(28,760)
Subsidies and grants for capital purposes	15,036	9,825	11,387
Development and financial contributions	10	-	-
Gain on sale	127	235	254
Vested assets	-	-	-
Forestry revaluation	520	730	730
Emission trading units	-	-	-
Accruals	-	-	-
Landfill contingency	3	3	3
Net surplus/(deficit) before tax in statement of comprehensive revenue and expense	**(1,115)**	**(4,807)**	**(5,187)**

Funding impact statement (rates section)

The following information sets out the rates mechanisms that Council will use, including information about how the different rates will be set and assessed for 2022/2023.

All figures in the funding impact statement (rates section) include GST.

Council's revenue from the uniform annual general charge and certain targeted rates set on a uniform basis is 22.99%. The maximum allowed under Section 21 of the Local Government (Rating) Act 2002 is 30%.

At times Council amends/updated the land liable for various targeted rates by altering specific rating boundary maps. These changes are detailed on page 99.

Key rating definitions

The following definitions relate to the terms used in this funding impact statement tables below.

Separately used or inhabited part (SUIP) – includes any portion inhabited or used by the owner/a person other than the owner, and who has the right to use or inhabit that portion by virtue of a tenancy, lease, licence or other agreement. For the purposes of this definition, vacant land which is not used or inhabited is not a SUIP.

The following are additional examples of rating units with more than one separately used or inhabited part:

- single dwelling with flat attached
- two or more houses, flats or apartments on one Record of Title (rating unit)
- business premise with flat above
- commercial building leased to multiple tenants
- farm property with more than one dwelling
- Council property with more than one lessee

Unit of service - the unit of service for the particular activity as set out in the description of the relevant rate. The unit of service is determined by the Council given the type of service, nature and location of the rating unit etc, (including trough, connection, meter, loan, half, bin). This can include part charges for eligible assessments within a water or wastewater scheme area with the ability to connect to the scheme to accommodate the potential future burden of the rating unit on the scheme.

Uniform targeted rate (UTR) - a rate that is set as a fixed-dollar amount irrespective of the value of the rating unit.

Uniform annual general charge (UAGC) - a rate that is set as a fixed charge applied to each rateable rating unit.

Utility asset – includes such uses as hydroelectric power stations, networks such as electricity, phone, postal, water and sewerage

General rates

Background

Local authorities can set general rates either as a uniform or differential rate on property value (land, capital or annual value) and/or a Uniform Annual General Charge (UAGC) as a fixed amount per rating unit or SUIP. Council uses a mix of general rates set on capital value and UAGC. General rates are used to fund those services where there is a high public benefit to the district as a whole or, where Council considers the community as a whole should meet the costs or, where it is not efficient/possible for Council to collect the funds via a targeted rate or other user pays type funding source.

Activities funded

General rates fund the costs associated with providing a range of activities that are not funded by fees and charges, targeted rates, borrowings or any other source of income. General rates contribute towards most Council activities in some way. This includes all costs associated with representation, development and promotions and regional initiatives (which form part of Council's community leadership activity), library services and cemeteries (which form part of Council's community services activity), public toilets and Council buildings (which form part of Council's community facilities activity). The activity also contributes towards a portion of the costs of open spaces as part of Council's community resources activity (for district parks/reserves and street litter bins), public good elements of Council's environmental services activity (which includes emergency management, resource management, animal services, environmental health and building solutions) and corporate overhead functions which support all activities (including communications, customer support strategy and policy, people and capabilities). The Revenue and Financing Policy has more details on the activities funded by general rates including the UAGC.

Land liable for the rates

All rateable land within the Southland District is liable for the general rates.

How the rates are is assessed

The uniform annual general charge is assessed on all rating units in the District on the following basis:

- a fixed amount per rating unit of $748.61 (UAGC). The charge will generate $12,267,378 in rates revenue in 2022/2023.

A general rate is assessed on all rating units in the District on the following basis:

- a rate in the dollar on capital value of $0.00063433. The general rate is not set on a differential basis.

The rate will generate $14,993,496 in rates revenue in 2022/2023.

Targeted rates

Targeted rates may be used to fund specific Council activities. Targeted rates are appropriate for services or activities where a specific group of ratepayers benefit from that service or where the revenue collected is targeted towards funding a specific type of expenditure. Lump sums will not be invited in relation to any of the targeted rates.

Targeted district-wide rates

Council has a number of targeted rates which are used to fund services or activities across all properties in the district. These include the roading rate, regional heritage rate and stormwater rate.

Roading targeted rates

Background

Council administers and maintains the District's roading and bridging network (some 5,000km of network), excluding state highways and national park roads which are maintained by the NZTA and DOC, respectively. Council also provides footpaths, streetlights, carparks and noxious plant control.

Activities funded

This targeted rate funds the costs associated with operating and maintenance of Council's roading network (which forms part of the Council's transport activity). This includes the reseal programme, road pavement rehabilitation programme, minor improvements and bridge maintenance, strengthening and replacement.

Land liable for the rates

All rateable land within the Southland District is liable for the rate.

How the rates are assessed

- a fixed amount of $92.00 per rating unit. The rate will generate $1,506,305 in rates revenue in 2022/2023; and
- a differential rate in the dollar of capital value across all properties as per the table of rates. The rate will generate $17,259,628 in rates revenue in 2022/2023.

Rate differential definitions

The rate in the dollar of capital value is set on a differential basis for different land uses. The differential category is based on the land use of each rating unit. The definition for each rates differential category is listed in the table below:

Differential category	Definition
Commercial	All land that is principally used for commercial purposes. It includes accommodation services, entertainment, rest homes, retail and office-type use, parking buildings, service stations and tourist-type attractions.
Dairy	All land used or suitable for all types of dairy farm supply and stud.
Forestry	All land that is used for forestry, including land either in production or currently available for planting and protected forest areas. It does not include forest nurseries.
Farming non-dairy	All land that is used exclusively, or almost exclusively, for horticultural, forestry nurseries, pastoral and or specialist farming purposes other than dairy farming. It includes land used for cropping, orchards, market gardening or glasshouses, grazing or fattening of livestock, land used for aquaculture, deer farming, horse studs, poultry and pigs.
Industrial	All land that is used exclusively, or almost exclusively, for industrial uses including associated retailing, food processing or storage, light and large-scale manufacturing, tank farms and other noxious or dangerous industrial uses, excluding utility assets.
Lifestyle	Land located in a rural area where the predominant use is for an existing/future residence or in an urban or semi-urban area where the section size is larger than an ordinary residential allotment. The principal use of the land may be non-economic in the traditional farming sense, and the value exceeds the value of comparable farmland.
Mining	All land used for mining and other mineral extraction sites.
Other	Uses not covered by any other category, and including utility assets.
Residential	All land that is used exclusively, or almost exclusively, for residential purposes including investment flats and not already included elsewhere. It does not include lifestyle properties.

A table of the rates

Roading rates	Uniform targeted rate per rating unit 2022/2023 (incl GST)	Rate in the dollar on capital value 2022/2023 (incl GST)	Revenue from roading rates 2022/2023 (incl GST)
Commercial		$0.00127025	$503,364
Dairy		$0.00100082	$5,967,382
Farming non-dairy		$0.00060554	$5,896,292
Forestry		$0.00444968	$954,346
Industrial		$0.00120762	$523,172
Lifestyle		$0.00053603	$982,260
Mining		$0.02088575	$298,614
Other		$0.00016081	$158,465
Residential		$0.00053603	$1,975,734

Further information on how the differentials for each category are established, refer to Council's activity needs funding analysis.

Regional heritage targeted rate

Background

The regional heritage targeted rate is used to fund heritage sites within the Southland region.

Activities funded

This targeted rate funds the costs associated with operating a Regional Heritage Fund, which is administered by the Southland Regional Heritage Committee and is part of Council's community leadership activity, to promote the development of heritage of value to the region as a whole.

Land liable for the rate

All rateable land within the Southland District is liable for the rate.

How the rate is assessed

The targeted rate is assessed as a fixed amount per SUIP of a rating unit of $46.47.

The rate will generate $756,833 in rates revenue in 2022/2023.

Stormwater targeted rates

Background

Stormwater networks are provided to reduce the impact of flooding due to rainfall. The activity protects people's property, improves road safety and mitigates against accessibility/safety issues which may otherwise be caused during flooding events.

Activities funded

This targeted rate funds the costs involved in operating stormwater networks throughout the District which forms part of the stormwater activity. This includes reticulation repairs and upgrades as well as undertaking monitoring and compliance with resource consents.

Land liable for the rate

All rateable land within the designated stormwater full charge and quarter charge boundaries. Maps of these areas can be viewed at www.southlanddc.govt.nz/my-southland/maps/

How the rates are assessed

The rate is set on a differential basis based on the location of the rating unit, set as a fixed amount per rating unit.

Rating units in areas that have been defined will pay a fixed full charge.

Rating units outside of these areas will pay a fixed quarter charge (25% of the full charge).

Rates differential definitions

The rates are set on a differential basis depending on the location of the rating unit. The differential categories reflect Council's assessment of the relative benefit received by those groups from the stormwater activity and therefore the share of costs each group should bear based on the principles outlined in the Revenue and Financing Policy. The definition for each rates differential category is listed in table below.

Differential category	Definition
Full charge	All rating units in the defined stormwater rating area as shown in the rating boundary maps. These areas have generally been defined in line with the urban and semi-urban township areas used for community board targeted rate where stormwater infrastructure and/or services are provided, operated and maintained by Council.
Quarter charge	All other rating units located outside of the stormwater areas as detailed above.

A table of the rates

Stormwater rates	Differential factor for targeted rate per rating unit	Targeted rate per rating unit 2022/2023 (incl GST)	Revenue from stormwater rates 2022/2023 (incl GST)	Map of land liable for rate
Stormwater - full charge	1.0	$102.23	$888,711	Map 10, 186 -216

Stormwater rates	Differential factor for targeted rate per rating unit	Targeted rate per rating unit 2022/2023 (incl GST)	Revenue from stormwater rates 2022/2023 (incl GST)	Map of land liable for rate
Stormwater – quarter charge	0.25	$25.56	$194,298	Map 217

Targeted local community board rates

Council has a number of targeted local rates which are used to fund services or activities from defined areas of benefit/catchments within the community board areas. Each community board consider the rates revenue proposed for the local rate activities in their area. This includes targeted rates for, community boards, community facilities, swimming pools, Te Anau Airport Manapouri and SIESA.

Community board targeted rates

Background

Council has delegated responsibility for the management of a number of local activities, such as the maintenance of parks and reserves and footpaths to community boards. The cost of providing these activities is funded via local targeted community board rates.

Activities funded

These targeted rates fund the costs associated with operating a range of local activities in each community board area. This includes the operation and maintenance of footpaths, streetscapes, streetlights and water facilities (which form part of the transport activity); open spaces like parks, reserves and playgrounds (which form part of the community resources activity) and community grants (which form part of the community leadership activity).

Land liable for the rate

All rateable land within each specific community board area. Maps of these areas can be viewed at www.southlanddc.govt.nz/my-southland/maps/

How the rates are assessed

The targeted community board rates – are set after considering the recommendation of the relevant community board. For each community board the rate will be set on a differentiated basis, based on location of the rating unit.

- Rating units in the urban area will pay a fixed full charge
- Rating units in the semi-urban area will pay a half charge (50% of the full charge payable by those rating units in the urban area)
- Rating units in the rural area will pay a quarter charge (25% of the full charge payable by those rating units in the urban area)

Rates differential definitions

Some of the rates are set on a differential basis based on the location of the rating unit. The differential categories reflect Council's assessment of the ability of groups of ratepayers to access the activities funded by each local community board rate and the relative benefit received by those groups and therefore the share of costs each group should bear based on the principles outlined in the revenue and financing policy.

The definition for each rate differential category based on the use of land is listed in table below.

Differential category	Definition
Urban	All rating units in the defined community board urban rating area as shown in the rating boundary maps. Urban areas have generally been defined as township areas within the community board area where all or a majority of the local services are provided at scale and with large populations. Some consideration has also been given to the District Plan Urban Zone in defining these areas.
Semi-urban	All rating units in the defined community board semi-urban rating area as shown in the rating boundary maps. Semi-urban areas have generally been defined as township areas within the community board area where most of the local services are provided at a smaller scale and with smaller populations. Some consideration has also been given to the District Plan Rural Settlement Areas in defining these areas.
Rural	All other rating units in the defined community board rating area located outside of the 'urban' and 'semi-urban' areas as detailed above.

A table of the rates

Local rates	Differential factor for targeted rate per rating unit	Targeted rate per rating unit 2022/2023 (incl GST)	Revenue from local rates 2022/2023 (incl GST)	Map of land liable for rate
Ardlussa Community Board rural rate	0.25	$54.43	$29,147	Map 177
Ardlussa Community Board urban rate	1.00	$217.71	$106,297	Map 203, 186, 211
Fiordland Community Board rural rate	0.25	$63.60	$29,415	Map 178
Fiordland Community Board semi-urban rate	0.50	$127.21	$15,774	Map 220
Fiordland Community Board urban rate	1.00	$254.41	$604,733	Map 196, 206
Northern Community Board rural rate	0.25	$85.21	$40,879	Map 179
Northern Community Board semi-urban rate	0.50	$170.42	$14,315	Map 185, 192
Northern Community Board urban rate	1.00	$340.85	$141,794	Map 195, 198
Oraka/Aparima Community Board rural rate	0.25	$55.30	$26,406	Map 180
Oraka/Aparima Community Board semi-urban rate	0.50	$110.60	$20,406	Map 188, 207
Oraka/Aparima Community Board urban rate	1.00	$221.19	$278,478	Map 204
Oreti Community Board rural rate	0.25	$54.77	$110,875	Map 181
Oreti Community Board semi-urban rate	0.50	$109.55	$12,543	Map 187, 189, 194
Oreti Community Board urban rate	1.00	$219.10	$340,974	Map 213, 214
Stewart Island/Rakiura Community Board urban rate	1.00	$312.27	$157,072	Map 10
Tuatapere Te Waewae Community Board rural rate	0.25	$84.39	$49,115	Map 182
Tuatapere Te Waewae Community Board semi-urban rate	0.50	$168.78	$15,865	Map 197, 201
Tuatapere Te Waewae Community Board urban rate	1.00	$337.55	$98,058	Map 209
Waihopai Toetoe Community Board rural rate	0.25	$52.46	$106,520	Map 183
Waihopai Toetoe Community Board semi-urban rate	0.50	$104.91	$9,678	Map 193, 215
Waihopai Toetoe Community Board urban rate	1.00	$209.82	$128,620	Map 191, 208, 216
Wallace Takitimu Community Board rural rate	0.25	$77.77	$49,676	Map 184
Wallace Takitimu Community Board semi-urban rate	0.50	$155.55	$2,333	Map 212
Wallace Takitimu Community Board urban rate	1.00	$311.09	$255,327	Map 199, 200, 202

Community facilities targeted rates

Background

Southland District has a wide range of small community facilities across the District. These facilities (community centres and halls) are maintained by Council through the community facilities activity. Maintenance and upkeep of these facilities is provided by the collection of rates for this activity.

Activities funded

These targeted rates fund community facilities in different areas throughout the District. The targeted rates (which form part of the community resources activity) funds general operating costs (such as electricity, insurance) and maintenance costs (such as painting, replacement roof, carpeting) of community centres and halls across Southland.

Land liable for the rate

All rateable land within the area of service for each specific hall, community centre or recreational facility is liable for the community facilities targeted rate. Maps of these areas can be viewed at www.southlanddc.govt.nz/my-southland/maps/

How the rates are assessed

The rates are assessed as a fixed amount per SUIP of a rating unit.

A table of the rates

Community centre rates	Uniform targeted rate per SUIP of a rating unit 2022/2023 (incl GST)	Revenue from community centre rates 2022/2023 (incl GST)	Map of land liable for rate
Aparima hall	$44.30	$2,879	Map 43
Athol memorial hall	$102.76	$16,339	Map 174
Balfour hall	$39.32	$11,560	Map 45
Blackmount hall	$51.20	$2,918	Map 46
Browns hall	$42.37	$8,177	Map 171
Brydone hall	$68.56	$4,456	Map 48
Clifden hall	$96.52	$8,590	Map 49
Colac Bay hall	$114.87	$18,954	Map 50
Dacre hall	$43.00	$3,999	Map 51
Dipton hall	$106.75	$22,204	Map 52
Eastern Bush hall	$78.89	$2,367	Map 54
Edendale-Wyndham hall	$27.22	$20,143	Map 170*
Fiordland community event centre	$37.06	$83,626	Map 94
Five Rivers hall	$125.13	$10,511	Map 56
Fortrose Domain	$11.50	$782	Map 57

Community centre rates	Uniform targeted rate per SUIP of a rating unit 2022/2023 (incl GST)	Revenue from community centre rates 2022/2023 (incl GST)	Map of land liable for rate
Glenham hall	$33.45	$2,709	Map 59
Gorge Road hall	$49.14	$12,973	Map 60
Heddon Bush hall	$69.00	$4,278	Map 61
Hedgehope-Glencoe hall	$75.01	$7,426	Map 62
Limehills hall	$119.39	$23,281	Map 65
Lochiel hall	$36.07	$5,374	Map 66
Lumsden hall	$53.14	$20,791	Map 68
Mabel Bush hall	$48.27	$3,862	Map 69
Manapouri hall	$48.22	$15,575	Map 71
Mandeville hall	$45.00	$1,980	Map 72
Mimihau hall	$63.25	$3,289	Map 75
Mokoreta-Redan hall	$90.23	$6,226	Map 76
Mossburn hall	$67.15	$18,198	Map 78
Myross Bush hall	$27.70	$2,271	Map 79
Nightcaps hall	$86.00	$17,200	Map 80
Ohai hall	$80.97	$16,923	Map 81
Orawia hall	$95.44	$10,785	Map 82
Orepuki hall	$100.09	$14,513	Map 83
Oreti Plains hall	$84.12	$10,094	Map 84
Otahuti hall	$40.94	$2,129	Map 85
Otapiri-Lora Gorge hall	$77.09	$6,167	Map 86
Riversdale hall	$62.10	$25,088	Map 89
Ryal Bush hall	$72.34	$9,042	Map 90
Seaward Downs hall	$33.76	$3,984	Map 91*
Stewart Island/Rakiura hall	$75.21	30,046	Map 93
Thornbury hall	$108.73	$11,634	Map 95
Tokanui-Quarry Hills hall	$125.23	$17,282	Map 173
Tuatapere hall	$50.50	$19,847	Map 97
Tussock Creek hall	$142.76	$12,563	Map 98
Tuturau hall	$47.37	$1,800	Map 99
Waianiwa hall	$103.50	$15,525	Map 175
Waikaia Recreation hall	$55.44	$17,076	Map 101
Waikawa community centre	$69.18	$9,962	Map 102
Waimahaka hall	$68.32	$6,969	Map 103
Waimatuku hall	$38.50	$2,079	Map 104
Wairio community centre	$48.51	$3,978	Map 105

Community centre rates	Uniform targeted rate per SUIP of a rating unit 2022/2023 (incl GST)	Revenue from community centre rates 2022/2023 (incl GST)	Map of land liable for rate
Wallacetown hall	$60.00	$21,360	Map 106
Winton hall	$32.43	$50,234	Map 107
Wrights Bush hall	$31.18	$1,871	Map 110

SIESA targeted rates

Background

The SIESA activity involves generation and transmission of electrical power to Stewart Island consumers. Electricity is produced by diesel generators which are located at a central power house. Electricity is supplied on a 24-hour basis with a level of fault response commensurate with mainland service.

Activities funded

This targeted rate funds the costs involved in managing and operating the electricity supply network on Stewart Island (which forms part of the Council's community resources activity). This includes maintaining, renewing and upgrading the electricity transmission network and generating plant.

Land liable for the rate

All rateable land within the SIESA targeted rate area of service. A map of this area can be viewed at www.southlanddc.govt.nz/my-southland/maps/

How the rates are assessed

The rate is set on a differential basis. Council has defined its differential categories using the below:

- rating units (excluding vacant ones) within the SIESA network rating boundary are charged a fixed amount per rating unit being the SIESA – full charge rate (regardless of whether they are connected or not).
- vacant rating units within the SIESA network rating boundary are charged a fixed amount per rating unit, being the SIESA – half charge rate.

A table of the rates

SIESA rates	Targeted rate per rating unit 2022/2023 (incl GST)	Revenue from SIESA rates 2022/2023 (incl GST)	Map of land liable for rate
SIESA - full charge	$200.00	$76,800	Map 219
SIESA - half charge	$100.00	$10,500	Map 219

Swimming pool targeted rates

Background

These rates are used to fund community swimming pools which are managed by a local swimming pool committee. These pools are all owned by local community groups, with two on Council land.

Activities funded

These targeted rates fund grants to community groups to assist with the operation and maintenance of community swimming pools (which forms part of the Council's community leadership activity). Each community board liaises with groups in their area about the level of financial support to be provided.

Land liable for the rate

All rateable land within each swimming pool targeted rate area of service is liable for the relevant rate. Maps of these areas can be viewed at www.southlanddc.govt.nz/my-southland/maps/

How the rates are assessed

The swimming pool targeted rate for each area of service is set as a fixed amount per SUIP of a rating unit.

A table of the rates

Pool rates	Uniform targeted rate per SUIP of a rating unit 2022/2023 (incl GST)	Revenue from pool rates 2022/2023 (incl GST)	Map of land liable for rate
Fiordland	$14.91	$36,783	Map 38
Northern Community	$23.85	$17,822	Map 224
Otautau	$19.60	$12,671	Map 35
Riverton/Aparima	$21.03	$36,792	Map 36
Takitimu	$28.93	$17,756	Map 37
Tuatapere Ward	$7.51	$5,828	Map 39
Waihopai Toetoe	$11.50	$31,904	Map 218
Winton	$17.25	$26,461	Map 40

Te Anau Airport Manapouri targeted rate

Background

The Te Anau Airport Manapouri facility is designed and managed to attract and facilitate access by air to the Te Anau community, its businesses and the natural environment. The activity also contributes to safe places as the airport provides for air-based emergency access which can act as an alternative to road transport in an emergency.

Activities funded

This targeted rate funds the operating costs and initial capital development costs of the Te Anau Airport Manapouri facility(which forms part of the Council's transport activity).

Land liable for the rate

All rateable land within the Te Anau Airport Manapouri targeted rate area of service. A map of this area can be viewed at www.southlanddc.govt.nz/my-southland/maps/(Map 11).

How the rate is assessed

The targeted rate is assessed as a fixed amount per rating unit of $69.02.

The rate will generate $201,711 in rates revenue in 2022/2023.

Targeted service rates

Council has a number of targeted service rates which are used to fund specific services from those who receive or are able to receive the service which are defined by areas of benefit/catchments. These rates consist of targeted rates for rubbish, recycling, Stewart Island waste management, water supply, wastewater and septic tank cleaning.

Rubbish bin collection targeted rate and recycling bin collection targeted rates

Background

Council operates a solid waste and recycling bin collection service for serviced properties across the District. Through this activity it collects recycling and solid waste for disposal. The service is compulsory to all rating units containing a residential dwelling within the designated urban bin boundaries (copies of the boundary maps can be obtained from Council), all other rating units can optionally have this service. Any rating unit that is able to transport their bins to the designated rural bin route for collection can also have this service. To find out more about our services or when your bin would be collected visit www.wastenet.org.nz.

Activities funded

These targeted rates fund the costs involved in operating a regular rubbish and recycling wheelie bin collection for households on the defined collection route (which form part of waste services for the community resources activity). The service collects and disposes of waste, glass, plastics, paper, carboard and other recyclables. Please note - separate Stewart Island waste management targeted rate is used to fund the cost of managing solid waste on Stewart Island and the cost of other waste services (such as transfer stations, recycle drop-off centres and green waste disposal sites) are funded through the general rate.

Land liable for the rate

All land within the District which is in the defined service areas for rubbish bin or recycling bin collection that has a residential dwelling is liable for the targeted rates. Other rating units can also opt into the service following agreement with Council. A map of this area can be viewed at www.southlanddc.govt.nz/my-southland/maps/(Map 176).

How the rates are assessed

- the rates are assessed per unit of service. Each rubbish bin and each recycling bin is a seperate unit of service. All rating units within the service area are required to have a minimum of one rubbish bin and one recycling bin
- all rating units receiving the service have the option to receive further bins of each type over and above the minimum service. The rate assessed on each rating unit will reflect the number of units of service (for example, a rating unit with two bins of each type will be assessed twice as much as a rating unit with one bin of each type)
- the targeted rubbish bin collection rate is assessed as a fixed amount per unit of service of $184.51
- the rubbish bin collection rate will generate $1,948,795 in rates revenue in 2022/2023
- the targeted recycling bin collection rate is assessed as a fixed amount per unit of service of $184.51
- the recycling bin collection rate will generate $1,922,779 in rates revenue in 2022/2023.

Stewart Island waste management targeted rates

Background

Stewart Island/Rakiura is serviced by a weekly kerbside refuse bag, recycling and food scrap collection. The service is provided to all rating units on Stewart Island/Rakiura other than vacant land rating units.

Activities funded

This targeted rate funds the collection and disposal of refuse and recycling on Stewart Island/Rakiura (which forms part of waste services for the community resources activity).

Land liable for the rate

All land within the Stewart Island/Rakiura waste management targeted rate area of service is liable for the rate. A map of this area can be viewed at www.southlanddc.govt.nz/my-southland/maps/ (Map 93).

How the rate is assessed

The targeted rate is assessed as a fixed amount per unit of service of $308.06. A unit of service is a weekly kerbside refuse bag, recycling and food scrap collection.

The rate will generate $121,376 in rates revenue in 2022/2023.

Water supply targeted rates

Background

Council operates 12 water supply networks (10 urban and two rural residential) throughout the District. The urban supplies are required to meet drinking water standards while the rural supplies provide non-potable water for rural use.

Activities funded

These targeted rates fund the costs involved in maintaining each of the water supply networks including the costs associated with treating and reticulating water for each community (which forms part of the Council's water supply activity).

Land liable for the rate

The targeted rate applies to all properties that are connected or those capable of connecting within the designated boundary to a Council-owned water supply network. Maps of the scheme areas covered by each water supply can be viewed at www.southlanddc.govt.nz/my-southland/maps/.

How the rates are assessed

The water supply targeted rates are assessed as outlined below.

Te Anau rural water scheme targeted rates

- all rating units pay an annual fixed charge per restricted connection
- rating units pay a fixed amount for each unit made available to the rating unit. One unit is 1,814.4 litres of water per day
- a bulk 7.7 units category exists for larger supplies which provides 7.7 units of restricted supply water at 7.7 times a single unit costs
- minimum allocation is one full unit. Half units are only available for rating units receiving at least one full unit. These rates apply to all properties within the Te Anau rural water rating boundary (refer to Map 160).

Matuku rural water scheme targeted rate

All rating units within the Matuku rural water rating boundary (refer Map 144) are required to pay a fixed annual amount for each unit made available to the rating unit. One unit is 1,814.4 litres of water per day.

Metered property water supply targeted rate (excludes properties within the Matuku and Te Anau rural water rating boundaries)

The Council may require metering of a property when

- a property is estimated to consistently exceed the expected annual usage

- where observation metering indicates high water use in relation to the expected annual usage
- where non-drinking use of water is evident, eg, truck wash-down, water for animal consumption is expected to exceed the expected annual usage quantity; or
- the property is classified commercial/industrial

Properties that have a meter will be charged a fixed annual charge per water meter and a rate for actual water consumption per cubic metre, invoiced quarterly.

Non-metered property water supply targeted rate (excludes properties within the Matuku and Te Anau rural water rating boundaries)

- these rates apply to all properties not within the Matuku rural water and Te Anau rural water rating boundaries and that are not provided with a metered water supply
- one unit of service is one standard domestic connection. All rating units without meters that are connected to a water supply scheme or are within the scheme rating boundary but are not connected are charged a fixed amount for each unit of service.
- rating units with water troughs with direct feed from Council's water mains pay a fixed annual amount per trough (note that backflow prevention and annual testing of backflow preventer is required in these cases)
- vacant rating units within the scheme rating boundary are charged a "half charge" for the provision of the service due to the ability to connect to the scheme.

A table of the rates

Water and metered water rates	\$ per m³ 2022/2023(incl GST)	Targeted rate per unit of service 2022/2023 (incl GST)	Revenue from water supply rates 2022/2023 (incl GST)	Map of land liable for rate
District water rate - full charge		\$650.20	\$5,124,876	
District water rate - half charge		\$325.10	\$222,368	
District water rate - trough charge		\$130.04	2,471	
			\$5,349,716	Maps 138 - 162
District water - meter charge		\$196.00	\$41,478	
Metered charge for water consumed	\$1.10			
Matuku rural water		\$474.32	\$52,175	Map 144
Te Anau rural water - annual charge		\$804.84	\$164,187	Map 160
Te Anau rural water - full charge		\$536.56	\$150,076	Map 160
Te Anau rural water - half charge		\$268.28	\$2,683	Map 160
Te Anau rural water - 7.7 charge		\$4,131.52	\$301,601	Map 160
			\$618,547	

Properties capable of connection are defined as being within 30 metres of a public water supply network to which they are capable of being effectively connected.

Wastewater targeted rates

Background

The wastewater activity involves collecting, treating and disposing of sewage from residential properties, business properties and public sanitary facilities.
The wastewater system also deals with non-domestic liquid wastes (often known as trade wastes). Eighteen towns within the District are reticulated with Council-owned and maintained infrastructure.

Activities funded

These targeted rates fund the costs involved in maintaining wastewater treatment plants, pump stations, reticulation repairs and minor upgrades including renewals of the respective systems (which forms part of the Council's sewerage activity).

Land liable for the rate

The targeted rate applies to all properties that are connected to a Council-owned wastewater scheme or within the defined boundary of one of Council-owned wastewater schemes. Maps of the areas of service for each Council scheme can be viewed at www.southlanddc.govt.nz/my-southland/maps/.

How the rate is assessed

The rate is set on a differential basis. Council has defined its differential categories based on whether the rating unit produces wastewater and the use of the rating unit. The liability factors used are fixed amount per rating unit, per SUIP of a rating unit or fixed amount for each pan/urinal within the rating unit.

How the rate is calculated

Differential category	Definition	Basis of liability
District wastewater rate – full charge	Excluding the category below, all rating units connected to a District wastewater scheme or within the defined wastewater scheme rating boundary which produce wastewater that are: a) primarily residential/domestic/household in nature (eg. residential, lifestyle, farming) b) other rating units (eg. commercial/industrial/other properties)	The rate for these rating units are set as a fixed amount per: a) SUIP b) pan/urinal.
District wastewater rate – half charge	All rating units within the defined wastewater scheme rating boundaries that are vacant or do not produce wastewater.	The rate for these rating units is set as a fixed amount per rating unit.

A table of the rates

Wastewater rates	Targeted rate per rating unit/SUIP/Pan 2022/2023 (incl GST)	Revenue from rates 2022/2023 (incl GST)	Map of land liable for rate
District wastewater rate - full charge	$580.30	$5,641,241	
District wastewater rate - half charge	$290.16	$238,802	
		$5,880,043	Maps 112-135 & 225

Woodlands septic tank cleaning charge targeted rate

Background

Property owners within the Woodlands area are able to have their septic tank cleaned by Council on a three yearly cycle. This service was put in place due to the problems that were experienced in the past with the operation of septic tanks within this community.

Activities funded

The targeted rate is used to fund the costs of cleaning septic tanks within the area of service (which forms part of the Council's sewerage activity).

Land liable for the rate

All land within the Woodlands septic tank cleaning charge area of service is liable for the rate. A map of this area can be viewed at www.southlanddc.govt.nz/my-southland/maps/ (Map 163).

How the rate is assessed

The targeted rate is assessed as an amount of $122.12 per SUIP of a rating unit.

The rate will generate $7,816 in rates revenue in 2022/2023.

Water supply loan targeted rates

Background

A water supply loan targeted rate is used to fund the capital contributions towards development of the water supply schemes for the Edendale and Wyndham communities. Council has previously offered ratepayers the option of paying the contribution as a lump sum or over a number of years.

Activities funded

These targeted rates fund the initial capital costs of developing the relevant water supply scheme (which forms part of the Council's water supply activity).

Land liable for the rate

The properties liable for each targeted rate are within the area of service for each scheme and have previously indicated the period over which they wish to pay the initial capital cost. Units were determined at the establishment of each individual scheme. Maps of the areas of service for each Council scheme can be viewed at www.southlanddc.govt.nz/my-southland/maps/

How the rates are assessed

The rates are assessed against each rating unit based on the option that the ratepayer has previously chosen to either pay a one-off capital contribution for a new scheme or pay it over a selected period.

A table of the rates

Water loan rates	Targeted rate per unit of service 2022/2023(incl GST)	Revenue from water loan rates 2022/2023(incl GST)	Map of Land liable for rate
Edendale water loan - 15 years	$219.09	$657	Map 161
Edendale water loan - 25 years	$134.50	$13,585	Map 161
Wyndham water loan - 15 years	$190.48	$1,905	Map 162
Wyndham water loan - 25 years	$128.30	$15,653	Map 162

Sewerage loan targeted rates

Background

Sewerage loan targeted rates are used to fund the capital contributions towards development of the wastewater schemes for the Edendale, Wyndham, Tuatapere and Wallacetown sewerage schemes. Council has previously offered ratepayers the option of paying the contribution as a lump sum or over a number of years.

Activities funded

These targeted rates fund the initial capital costs of developing the relevant wastewater scheme (which forms part of the Council's sewerage activity).

Land liable for the rate

The properties liable for each targeted rate are within the area of service for each scheme and have previously indicated the period over which they wish to pay the initial capital cost. Units were determined at the establishment of each individual scheme. Maps of the areas of service for each Council scheme can be viewed at www.southlanddc.govt.nz/my-southland/maps/.

How the rates are assessed

The rates are assessed against each rating unit based on the option that the ratepayer has previously chosen to pay a one-off capital contribution for a new scheme or to pay it over a selected period.

A table of the rates

Sewerage loan rates	Targeted rate per unit of service 2022/2023(incl GST)	Revenue from sewerage loan rates 2022/2023(incl GST)	Map of land liable for rate
Edendale sewerage rate - 15 years (incl. connection cost)	$844.76	$6,758	Map 115
Edendale sewerage rate - 25 years (incl. connection cost)	$566.85	$40,246	Map 115
Edendale sewerage rate - 25 years (excl. connection cost)	$469.14	$45,976	Map 115
Tuatapere sewerage loan charge - 15 Years	$390.12	$7,022	Map 132
Tuatapere sewerage loan charge - 25 Years	$327.48	$33,894	Map 132
Wallacetown sewerage loan charge - 25 Years	$302.59	$19,366	Map 133
Wyndham sewerage loan charge - 15 Years (incl. connection cost)	$761.81	$8,380	Map 135
Wyndham sewerage loan charge - 25 Years (incl. connection cost)	$513.13	$54,905	Map 135
Wyndham sewerage loan charge - 15 Years (excl. connection cost)	$619.00	$1,238	Map 135
Wyndham sewerage loan charge - 25 Years (excl. connection cost)	$416.94	$9,173	Map 135

Rating base information

Schedule 10 clause 20A of the Local Government Act 2002 requires Council to disclose its projected number of rating units within the district at the end of the preceding financial year. Council is projecting the following rating units as at the end of 2022/2023: 20,915.

Sample properties

The following table calculates the impact of Council's rating policy on properties in 2022/2023:

- in different locations within the District
- with different land uses (residential, dairy, commercial, etc.) and
- with different land values.

The land values presented in the table are representative of the land values in that location and for that land use.

For the reasons above the information should be treated as indicative.

Indicative rates are inclusive of GST.

District rates are those rates charged to all properties in the District irrespective of their location or the services supplied. This includes roading, regional heritage and the general rates.

Local rates are those rates charged to properties that are dependent on the rating unit's location in respect of rating boundaries. This includes hall rates, pool rates, community board rates and community development area rates.

Service rates are those rates charged to properties based on the services that they do or can receive. This includes water supply, sewerage and wheelie bin rates.

			TOTAL RATES				DISTRICT RATES				LOCAL RATES				SERVICE RATES			
Sector	Land Value	Capital Value	2021/ 2022	2022/ 2023	$ Change	% Change	2021/ 2022	2022/ 2023	$ Change	% Change	2021/ 2022	2022/ 2023	$ Change	% Change	2021/ 2022	2022/ 2023	$ Change	% Change
Residential (Winton)	$134,000	$470,000	$2,902	$3,408	$505	17%	$1,279	$1,539	$261	20%	$242	$269	$27	11%	$1, 381	$1,600	$218	16%
Residential (Manapouri)	$560,000	$1,000,000	$3,671	$4,131	$460	13%	$1,935	$2,160	$225	12%	$355	$372	$17	5%	$1, 381	$1,600	$218	16%
Residential (Balfour)	$97,000	$330,000	$1,705	$2,002	$296	17%	$1,116	$1,376	$259	23%	$243	$257	$14	6%	$347	$369	$22	6%
Residential (Ohai)	$50,000	$225,000	$2,849	$3,273	$425	15%	$1,063	$1,253	$190	18%	$404	$421	$17	4%	$1, 381	$1,600	$218	16%
Residential (Te Anau)	$200,000	$620,000	$3,265	$3,690	$425	13%	$1,525	$1,715	$190	12%	$359	$375	$17	5%	$1,381	$1,600	$218	16%
Residential (Otautau)	$56,000	$375,000	$2,888	$3,358	$470	16%	$1,188	$1,428	$240	20%	$319	$331	$12	4%	$1,381	$1,600	$218	16%

			TOTAL RATES				DISTRICT RATES				LOCAL RATES				SERVICE RATES			
Sector	Land Value	Capital Value	2021/ 2022	2022/ 2023	$ Change	% Change	2021/ 2022	2022/ 2023	$ Change	% Change	2021/ 2022	2022/ 2023	$ Change	% Change	2021/ 2022	2022/ 2023	$ Change	% Change
Residential (Tuatapere)	$72000	$235,000	$2,834	$3,259	$425	15%	$1,062	$1,264	$202	19%	$391	$396	$4	1%	$1,381	$1,600	$218	16%
Lifestyle (Athol)	$500,000	$765,000	$1,944	$2,365	$421	22%	$1,410	$1,808	$398	28%	$188	$188	$0	0%	$347	$369	$22	6%
Lifestyle (Manapouri)	$295,000	$700,000	$2,625	$2,932	$307	12%	$1,525	$1,732	$207	14%	$177	$181	$4	2%	$924	$1,019	$96	10%
Lifestyle (Wyndham)	$210,000	$750,000	$2,073	$2,251	$178	9%	$1,633	$1,790	$157	10%	$93	$91	($2)	(2%)	$347	$369	$22	6%
Lifestyle (Riverton/Aparima)	$900,000	$1,670,000	$2,135	$2,391	$256	12%	$1,767	$2,001	$234	13%	$21	$21	$0	(1%)	$347	$369	$22	6%
Farming (non-dairy)	$4,720,000	$5,470,000	$7,842	$7,871	$29	0%	$7,689	$7,695	$6	0%	$153	$175	$23	15%	$0	$0	$0	0%
Farming (non-dairy)	$6,650,000	$7,850,000	$10,610	$10,816	$206	2%	$10,536	$10,739	$203	2%	$74	$78	$3	5%	$0	$0	$0	0%
Farming (non-dairy)	$5,350,000	$5,910,000	$8,595	$8,416	($178)	(2%)	$8,442	$8,240	($201)	(2%)	$153	$175	$23	15%	$0	$0	$0	0%
Farming (non-dairy)	$2,020,000	$2,180,000	$2,895	$3,624	$729	25%	$2,846	$3,569	$723	25%	$49	$55	$6	12%	$0	$0	$0	0%
Mining	$2,590,000	$3,930,000	$86,476	$85,591	($885)	(1%)	$86,378	$85,487	($892)	(1%)	$98	$104	$7	7%	$0	$0	$0	0%
Industrial	$245,000	$470,000	$2,994	$3,354	$360	12%	$1,718	$1,855	$137	8%	$242	$269	$27	11%	$1,034	$1,231	$196	19%
Industrial	$315,000	$830,000	$4,832	$5,667	$835	17%	$2,040	$2,518	$478	23%	$257	$249	($8)	(3%)	$2,535	$2,900	$365	14%
Commercial	$215,000	$890,000	$4,028	$4,532	$505	13%	$2,390	$2,684	$294	12%	$257	$249	($8)	(3%)	$1,381	$1,600	$218	16%
Commercial	$1,000,000	$5,900,000	$12,273	$12,334	$62	1%	$12,092	$12,150	$57	(0%)	$180	$185	$4	2%	$0	$0	$0	0%
Dairy	$10,400,000	$12,700,000	$22,572	$22,268	($304)	(1%)	$22,217	$21,818	($399)	(2%)	$355	$449	$95	27%	$0	$0	$0	0%
Dairy	$8,650,000	$10,300,000	$19,808	$18,140	($1,668)	(8%)	$19,514	$17,848	($1,666)	(9%)	$295	$293	($2)	(1%)	$0	$0	$0	0%
Dairy	$13,000,000	$16,700,000	$29,317	$28,776	($541)	(2%)	$28,995	$28,452	($543)	(2%)	$323	$324	$1	0%	$0	$0	$0	0%
Dairy	$18,900,000	$23,000,000	$42,996	$42,477	($519)	(1%)	$39,617	$38,846	($771)	(2%)	$259	$309	$50	19%	$3,120	$3,321	$201	6%
Forestry	$1,120,000	$1,160,000	$6,518	$6,816	$298	5%	$6,464	$6,764	$300	5%	$55	$52	($2)	(4%)	$0	$0	$0	0%
Other	$73,000	$83,000	$951	$1,017	$65	7%	$865	$932	$67	8%	$86	$85	($1)	(1%)	$0	$0	$0	0%

- Please note: Southland District was subject to a property revaluation in 2021 and the values stated are the new values as at August 2021, which are the basis for calculating the 2022/2023 rates. Therefore the change in the proposed rates are 2021/2022 to 2022/2023 is in part, a result of the change in valuation of each property.

Targeted rate extensions

Wastewater rate – Curio Bay (targeted rate extension)

Council is extending the current targeted rating area for the district wastewater rate to include properties in Curio Bay connected to the Curio Bay wastewater treatment plant. The Curio Bay wastewater treatment plant was upgraded in 2016 to service the Curio Bay Recreation Reserve. At the time Council resolved to fund the annual operating costs (after contributions from third parties) from the general rate (as a district reserve), noting that the funding of the facility would transfer across to a community wastewater scheme (as part of the targeted wastewater rate) if and when properties outside of the recreation reserve connected. This has recently occurred with the connection of properties in Ara Pahu (part of the Porpoise Bay subdivision).

Northern community swimming pool rate

A new boundary extending the targeted rating approach used to fund swimming pool grants, to provide funding assistance to the Mossburn and Northern Southland pools. The area is across all properties in a new area (represented by a combination of the existing Mossburn hall, Lumsden hall and Five Rivers hall rating areas).

Rate Types represented by the mapped boundary ( ):

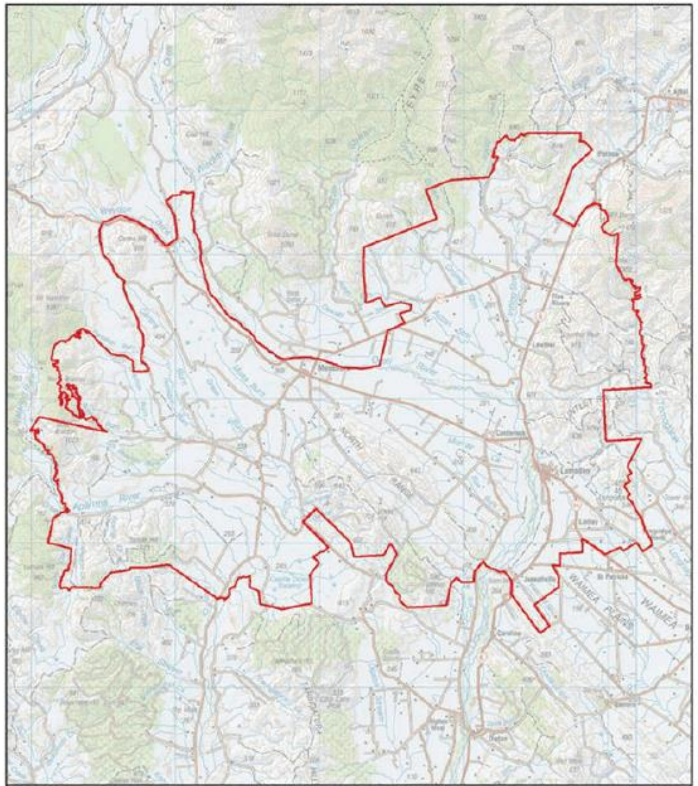
District Sewerage Rate-Full Charge
District Sewerage Rate-Half Charge

Curio Bay

SOUTHLAND DISTRICT COUNCIL

MAP 225

Map Scale 1:5,000 @ A4
Map Date 01 May 2022



Rate Types represented by the mapped boundary:

Northern Pool

SOUTHLAND DISTRICT COUNCIL

0 5 10
Kilometres

MAP 224

Map Scale 1:250,000 @ A4
Map Date 22 April 2022

Balancing the budget

Section 100 of the Local Government Act 2002 requires Council to ensure that for every year its projected operating revenues are set at a level that is sufficient to meet its projected operating expenditure. Council may set projected operating revenues at a different level from that required, if Council resolves that it is financially prudent to do so.

	LTP 2022/2023 ($000)	AP 2022/2023 ($000)
Surplus/(Deficit)	(4,807)	(5,012)

Council is projecting an operational deficit of $5.187 million. Refer to page XX for commentary on the changes in costs contributing to the increased deficit from the LTP.

The areas contributing to Council not having a balanced budget are:

1. Phasing in the funding of depreciation on key District assets
2. Council's decision not to fund depreciation on some buildings and all local assets
3. Council's partial use of depreciation reserves to fund interest repayments.

If the impact of these was to be removed, Council would have a balanced budget.

Refer to page 195 of Council's Long Term Plan 2021-2031 for further explanation.

Overall

In considering intergenerational equity, Council's policies and ongoing consideration of affordability for its communities, it is considered financially prudent that Council operates a financial deficit in 2022/2023.

Variation to fees and charges

The table below shows the variations to the fees and charges from the Long Term Plan 2021-2031. Additional information can be found in Council's Schedule of Fees and Charges. All fees are GST inclusive unless stated otherwise.

Description	Explanations/ comments	2021/2022 (incl GST)	2022/2023 (incl GST)	$ Change	% Change	Reason for the change
Sale and supply of alcohol and gambling						
Application for premises						
Cost/risk rating category	Very low	$112.70	$161.00	$48.30	42.86%	Remove 30% discount in fees bylaw
Cost/risk rating category	Low	$273.70	$391.00	$117.30	42.86%	Remove 30% discount in fees bylaw
Cost/risk rating category	Medium	$442.75	$632.00	$189.25	42.74%	Remove 30% discount in fees bylaw
Cost/risk rating category	High	$742.50	$1,035.00	$292.50	39.39%	Remove 30% discount in fees bylaw
Cost/risk rating category	Very high	$1,006.25	$1,437.00	$430.75	42.81%	Remove 30% discount in fees bylaw
Animal control						
Dog control fees						
Sale of collars		$9.00	$10.00	$1.00	11.11%	Increase to reflect actual cost
Leads		$0.00	$12.00	$12.00		New Fee
Dog impounding fees						
Sustenance of impounded dog per day or part thereof		$20.00	$25.00	$5.00	25.00%	Actual cost charged by ICC
Euthanasia		$40.00	Actual Cost			Reflecting actual veterinary costs.
Building consents						
Building work						
Freestanding fireplace		$440.00	$460.00	$20.00	4.55%	Increase fee by inflation
Inbuilt fireplace		$630.00	$660.00	$30.00	4.76%	Increase fee by inflation
$0 - $2,500		$630.00	$660.00	$30.00	4.76%	Increase fee by inflation
$2,501 - $5,000		$1,010.00	$1060.00	$50.00	4.95%	Increase fee by inflation
$5,001 - $10,000		$1,300.00	$1,365.00	$65.00	5.00%	Increase fee by inflation
$10,001 - $20,000		$1,885.00	$1,980.00	$95.00	5.04%	Increase fee by inflation
$20,000 - $50,000		$2,575.00	$2,705.00	$130.00	5.05%	Increase fee by inflation

$50,001 - $100,000		$3,225.00	$3,385.00	$160.00	4.96%	Increase fee by inflation
$100,001 - $250,000		$3,925.00	$4,120.00	$195.0	4.97%	Increase fee by inflation
$250,001 - $500,000		$5,085.00	$5,340.00	$255.00	5.01%	Increase fee by inflation
$500,001 - $900,000		$6,975.00	$7,325.00	$350.00	5.02%	Increase fee by inflation
$900,000 +		$9,085.00	$9,540.00	$455.00	5.01%	Increase fee by inflation
Residential Re-roof/Re-clad only (includes addition of insulation)		$0.00	$1,450.00	$1,450.00		New Fee
Other fees and charges applied to a building consent (where relevant)						
Site service assessment		$225.00	$235.00	$10.00	4.44%	Increase fee by inflation
Compliance schedule/statement	Per hour	$335.00	$350.00	$15.00	4.48%	
Application for minor variation		$150.00	$160.00	$10.00	6.67%	Increase fee by inflation
Amendment to building consent	Cost is per hour. Amendments relate ONLY to amending works within the scope of the original application. Additional works that expand the scope are required to be applied for as a new building consent.	$495.00	$230.00	-$265.00	-53.54%	Changed the way this is processed to ensure Council cover the cost and clarify the intended use of an amendment.
Code compliance certificate application		$120.00	$125.00	$5.00	4.17%	Increase fee by inflation
Other applications received by Council						
Service required						
PIM	Project information memorandum (PIM only application)	$255.00	$270.00	$15.00	5.88%	Increase fee by inflation
PIM – commercial/ industrial	Project information memorandum (PIM only application)	$485.00	$510.00	$25.00	5.15%	Increase fee by inflation
Tent/ marquee (> 100 m^2)		$475.00	$500.00	$25.00	5.26%	Increase fee by inflation
Amusement device permit		$11.55	$11.50	-$0.05	-0.43%	Increase fee by inflation
Certificate for public use	First six months	$350.00	$370.00	$20.00	5.71%	Increase fee by inflation
Certificate for public use	Second six months	$700.00	$735.00	$35.00	5.00%	Increase fee by inflation
Certificate for public use	Third and subsequent six months	$2,000.00	$2,100.00	$100.00	5.00%	Increase fee by inflation
Certificate of acceptance – urgent works	Applies to emergency work only	$1,115.00	$1,170.00	$65.00	4.93%	Increase fee by inflation

Exemption to building consent application - Schedule 1	Acceptance of paperwork	$150.00	$160.00	$10.00	6.67%	Increase fee by inflation
Exemption to building consent application - Schedule 1 (2)		$420.00	$440.00	$20.00	4.76%	Increase fee by inflation
Other fees for activities / services performed by Council						
Service required						
Building warrant of fitness (BWOF) onsite inspection		$430.00	$450.00	$20.00	3.70%	Increase fee by inflation
Annual BWOF renewal	1-hour admin	$135.00	$140.00	$5.00	5.26%	Increase fee by inflation
Earthquake prone building	Engineer report review and decision	Cost + 10%	$460.00	$460.00		Existing charge aligns to other Councils but doesn't make sense. It is anticipated it will take 2 hours to review a report and make a decision
Exemption from undertaking seismic strengthening		$0.00	$420.00	$420.00		New fee line - existing chargeable work. We are doing one of these now and charging 'cost' which is effectively this amount - many don't realise this is an option so adding to fees for clarity.
Compliance schedule – amendments	Per hour – minimum 1 hour	$230.00	$240.00	$10.00	4.35%	Increase fee by inflation
Swimming pool inspection		$200.00	$210.00	$10.00	5.00%	Increase fee by inflation
Swimming pool re-inspection		$150.00	$160.00	$10.00	6.67%	Increase fee by inflation
Swimming pool report	Receipt of independent qualified pool inspector report review.	$0.00	$50.00	$50.00		New fee line - we haven't received one of these reports before as it is not generally known that this is an option. If received under FY21/22 fee structure we would charge 'admin processing time'. Specifying as a fee for clarity.
Alternative solution or waiver	Assessment of other than minor alternatives (paid on lodging)	$1,155.00	$1,210.00	$55.00	4.76%	Increase fee by inflation
Sale of alcohol reviews		$70.00	$75.00	$5.00	7.14%	Increase fee by inflation

Notice to fix		$225.00	$240.00	$15.00	6.67%	Increase fee by inflation
Administration service providers charges						
Electronic Submission fee		$0.00	$75.00	$75.00		New fee
Community housing rents						
Edendale (56 Seaward Road)	Single (per week)	$105.00	$110.00	$5.00	4.76%	
Edendale (Pioneer Place)	Single (per week)	$105.00	$110.00	$5.00	4.76%	
Lumsden (Tauna Place)	Single (per week)	$105.00	$110.00	$5.00	4.76%	
Nightcaps	Single (per week)	$105.00	$110.00	$5.00	4.76%	
Ohai	Single (per week)	$105.00	$110.00	$5.00	4.76%	
Otautau	Single (per week)	$105.00	$110.00	$5.00	4.76%	
Riversdale	Single (per week)	$105.00	$110.00	$5.00	4.76%	
Riverton/ Aparima (111 Havelock Street)	Single (per week)	$105.00	$110.00	$5.00	4.76%	
Riverton/ Aparima (127 Havelock Street)	Single (per week)	$105.00	$110.00	$5.00	4.76%	
Tuatapere	Single (per week)	$105.00	$110.00	$5.00	4.76%	
Winton	Single (per week)	$105.00	$110.00	$5.00	4.76%	
Wyndham	Single (per week)	$105.00	$110.00	$5.00	4.76%	
Halls and community centres						
Edendale-Wyndham hall						
Main hall - day and night hire		$150-240	$200.00			As per Community Board
Diesel heating	Charged per litre used	$0.00	At cost			
Breakages/damage	Charged at repair/replacement cost	$0.00	At cost			
Cleaning (general)	Per hour	$0.00	$35.00	$35.00		
Fortrose Hall						
All day hire	8 hours	$35.00	$0.00	-$35.00	-100%	No fee required as hall closed
All day and night hire		$80.00	$0.00	-$80.00	-100%	
Hokonui Hall						
All day hire	8 hours	$50.00	$0.00	-$50.00	-100%	No fee required as hall closed
All day and night hire		$100.00	$0.00	-$100.00	-100%	
Meeting room	Per hour	$10.00	$0.00	-$10.00	-100%	
Mokoreta/Redan hall						
Bond (Refundable)	No GST	$0.00	$50.00	$50.00		As per Community Board
Tokanui hall						

All day and night hire		$100.00	$200.00	$100.00	100.00%	As per Community Board
Heating	Per 20 minutes	$0.00	$2.00	$2.00		
Bond (refundable)(may be imposed at discretion of the custodian)	No GST	$0.00	$400.00	$400.00		
Waikawa hall						
Damage/breakages	Charged at repair/replacement cost		At cost			As per Community Board
Library charges						
Photocopying/printing A4	Per side	$0.25	$0.20	-$0.05	-20.00%	Rounding
Refuse and transfer stations						
Car loads	Refuse	$18.00	$24.00	$6.00	33.33%	Updated to reflect actual costs incurred in providing this service
Ute type loads and small trailers	Refuse	$34.00	$40.00	$6.00	17.65%	
	Recycling and refuse	$16.00	$20.00	$4.00	25.00%	
Tandem trailers and high side trailers	Refuse	$66.00	$80.00	$14.00	21.21%	
	Recycling and refuse	$32.00	$36.00	$4.00	12.5%	
Truck (Stewart Island only)		$32.00	$0.00	-$32.00	-100.00%	
Trucks per 1,000 kg gross weight		$74.00	$90.00	$16.00	21.62%	
Trucks per tonne confirmed by weight docket		$146.00	$190.00	$44.00	30.14%	
Trucks per tonne confirmed by weight docket (Stewart Island only)		$72.00	$0.00	-$72.00	-100.00%	
Unstripped car body surcharge		$122.00	$150.00	$28.00	22.95%	
Scrap cars (Stewart Island only)		$40.00	$50.00	$10.00	25.00%	
Stripped car body		$42.00	$50.00	$8.00	19.05%	
Car tyres (each)		$8.00	$10.00	$2.00	25.00%	
4WD tyres (each)		$14.00	$20.00	$6.00	42.86%	
Recycling and reuse only available at Stewart Island						
TV/computer monitor		$8.00	$16.00	$8.00	100.00%	Updated to reflect actual costs incurred in providing this service
Car batteries		$4.00	$10.00	$6.00	150.00%	
Whiteware		$12.00	$16.00	$4.00	33.33%	
Gas Bottle		$10.00	$16.00	$6.00	60.00%	
Greenwaste/cleanfill – Braggs Bay						
Small trailer/ute		$0.00	$20.00	$20.00		Updated to reflect actual costs incurred in providing this service
Tandem trailers or high side trailers		$0.00	$36.00	$36.00		
Truck		$0.00	$40.00	$40.00		
Car boot		$0.00	$8.00	$8.00		
Other items available to purchase only at Stewart Island						
Food bucket		$15.00	$16.00	$1.00	6.67%	

Burn bin – Commercial		$0.00	$20.00	$20.00		Updated to reflect actual costs incurred in providing this service
Burn bin - Household		$0.00	$12.00	$12.00		
Resource Management Act						
Staff charge out rates for any input into Resource Management Act and Local Government Act matters						
Resource management staff	Per hour	$160.00	$0.00	-$160.00	-100.00%	Replaces with below
Planning manager/ Team leader	Per hour	$0.00	$220.00	$10.00	6.67%	New fee to oncharge costs associated with technical experience and is reflective of industry rates and comparable to other TAs
Senior planner	Per hour	$0.00	$180.00	$180.00		
Graduate planner	Per hour	$0.00	$160.00	$160.00		
Planning Coordinator	Per hour	$0.00	$160.00	$160.00		
Monitoring and enforcement officer	Per hour	$0.00	$160.00	$160.00		
Development engineer	Per hour	$0.00	$190.00	$190.00		
Roading asset manager or Transport manager	Per hour	$0.00	$220.00	$220.00		
Roading contract manager or Roading engineer	Per hour	$120.00	$160.00	$40.00	33.33%	Fee description adjusted to reflect the roles that would be recovered through this fee. Fee increase reflective of industry rates and comparable to other TA's
Monitoring charges						
Compliance officer	Actual cost plus disbursements (per hour)	$160.00	$0.00	-$160.00	-100.00%	Deleted – captured elsewhere
Charge applied to issuing an abatement notice		$0.00	$300.00	$300.00		New fee to capture cost of issuing abatement notice
Other Matters						
All other activities undertaken by resource management staff		$140.00	$0.00	-$140.00	-100.00%	Deleted – captured elsewhere
Resource management administration fee	Per RMA based application	$180.00	$0.00	-$180.00	-100.00%	
Riverton Harbour licensing fees						
Wharf fee	Per metre	$26.05	$34.40	$8.35	32.05%	As per Community Board
Transfer fee		$162.00	$166.70	$4.70	2.90%	
Road reserve and service fees						
Carriageway						
Dust suppression	Bond (no GST)	$0.00	No charge			
Application of 150m of semi-permanent dust suppressant	Fee	$0.00	On application			New fee to reflect the cost for applying a semi-permanent seal

						to mitigate dust from roads. Amount to be determined each year and included as part of the advertising/contractual agreement.
Temporary closure of roads for public events (treat as a road opening)	Fee plus disbursements (newspaper fees)	$65.00	$78.00	$13.00	20.00%	To reflect administrative time now required and partial recovery of new corridor management software
Temporary closure of roads for roading purposes (treat as a road opening)	Fee plus disbursements (newspaper fees)	$65.00	$78.00	$13.00	20.00%	
Road margin						
Application for permit on road margin, not specified below	Fee	$0.00	$78.00	$78.00		New fee to cover for items in road margin not specified below but still requires approval
Application for permit on road margin, not specified below	Bond (no GST)	$0.000	No charge	$0.00		To reflect administrative time now required and partial recovery of new corridor management software
Dust suppression	Fee	$65.00	$0.00	-$65.00		
Application fee where dust suppressant carried out by applicant	Fee	$0.00	No Charge	$0.00		
Signs on roads	Fee (resource consent)	$65.00	$78.00	$13.00	20.00%	
Road margin planting	Fee	$65.00	$78.00	$13.00	20.00%	
Cultivation of road margin	Fee	$65.00	$78.00	$13.00	20.00%	
Storage on the road margin (type 3 roads only)	Fee	$65.00	$78.00	$13.00	20.00%	
Whitebait huts	Fee	$65.00	$78.00	$13.00	20.00%	
SIESA electricity charges						
Residential connections						
Standard rate per unit		$0.61	$0.62	$0.01	1.64%	Updated to reflect actual costs incurred in providing this service
Night rate per unit		$0.55	$0.56	$0.01	1.82%	
Fixed monthly charge		$95.00	$97.00	$2.00	2.11%	
Commercial connections						
Standard unit rate		$0.61	$0.00	-$0.61		As per Community Board
Night rate per unit		$0.55	$0.00	-$0.55		
Fixed monthly charge		$95.00	$0.00	-$95.00		
Commercial new connections						
New consumer connection fee		$293.83	$0.00	$293.00		
Capital development charge		$1,762.95	$0.00	-$1,762.95		
Distributed generation						
Subject to its terms and conditions set out in Schedule 1 of the SIESA Domestic Contract,		$0.20	$0.00	-$0.20	-100.00%	

SIESA will buy the electricity generated by residents at the rate of $0.20c per kilowatt per hour, inclusive of GST						
Stewart Island jetties						
Wharf and jetty user annual fee		$1,500.00	$2,300.00	$800.00	$53.33%	As per Community Board
Trade waste charges						
Administrative Charges						
Extra time over two hours will be charged at:	Per hour plus disbursements	$118.39	$120.00	$1.61	1.36%	Small increase to align with charges for water and waste in other divisions eg Resource consent
Inspection fee - actual cost	Per hour plus disbursements	$118.39	$120.00	$1.61	1.36%	
Compliance monitoring - actual cost	Per hour plus disbursements (including re-inspection)	$118.39	$120.00	$1.61	1.36%	
Annual administration fee for waste consent holder - actual cost	Per hour plus disbursements	$118.39	$120.00	$1.61	1.36%	
Wheelie bins						
New/additional recycling bin collection fee (per month charge from 1st of the month following request bin to 30 June of the following year)		$14.44	$15.37	$0.92	6.37%	This fee is based on 1/12th of the annual amount to be rated per wheelie bin
New/additional rubbish bin collection fee (per month charge from 1st of the month following request bin to 30 June of the following year)		$14.44	$15.37	$0.92	6.37%	This fee is based on 1/12th of the annual amount to be rated per wheelie bin
Early payment of specified rates – liability schedule						
This schedule below outlines the liability outstanding for each of the following separate rates. Please refer to the Early Payment of Rates Policy for further details						
Edendale sewerage loan - 15 years (incl connection cost)		$1,655.00	$829.00	-$826.00	-49.91%	Reduction of 1 year repayment and amended for interest rate
Edendale sewerage loan - 25 years (incl connection cost)		$5,760.00	$5,294.00	-$466.00	-8.09%	Reduction of 1 year repayment and amended for interest rate
Edendale sewerage loan - 25 years (excl connection cost)		$4,767.00	$4,382.00	-$385.00	-8.08%	Reduction of 1 year repayment and amended for interest rate
Edendale water loan charge - 15 years		$429.00	$215.00	-$214.00	-549.88%	Reduction of 1 year repayment and amended for interest rate
Edendale water loan charge - 25 years		$1,367.00	$1,256.00	$-111.00	-8.12%	Reduction of 1 year repayment and amended for interest rate

Tuatapere sewerage loan charge - 15 years		$388.00	$0.00	-$388.00	-100.00%	Loan fully repaid
Tuatapere sewerage loan charge - 25 years		$3,094.00	$2,820.00	-274.00	-8.86%	Reduction of 1 year repayment and amended for interest rate
Wallacetown sewerage loan charge - 25 years		$2,636.00	$2,379.00	-$257.00	-9.75%	Reduction of 1 year repayment and amended for interest rate
Wyndham sewerage loan - 15 years (incl connection cost)		$2,205.00	$1,473.00	-$732.00	-33.20%	Reduction of 1 year repayment and amended for interest rate
Wyndham sewerage loan - 25 years (incl connection cost)		$5,569.00	$5,155.00	$-414.00	-7.43%	Reduction of 1 year repayment and amended for interest rate
Wyndham sewerage loan - 15 years (excl connection cost)		$1,792.00	$1,197.00	-$595.00	-33.20%	Reduction of 1 year repayment and amended for interest rate
Wyndham sewerage loan - 25 years (excl connection cost)		$4,535.00	$4,189.00	-$346.00	-7.63%	Reduction of 1 year repayment and amended for interest rate
Wyndham water loan charge - 15 years		$551.00	$368.00	-$183.00	-33.21%	Reduction of 1 year repayment and amended for interest rate
Wyndham water loan charge - 25 years		$1,392.00	$1,121.00	-$103.00	-7.40%	Reduction of 1 year repayment and amended for interest rate

Schedule of financial reserves

Restricted reserves

Reserves	Business unit	Activity to which it relates	Purpose	Forecast opening balance 1/7/2022 ($000)	Deposits In ($000)	Withdraws out ($000)	Forecast closing balance 30/6/2023 ($000)
District reserves							
Holding	SDC - Officers Association	Corporate support	Held on behalf of SDC Officer's Association	1	-	-	1
Holding	Shared services	Corporate support	Held on behalf of shared services forum	-	-	-	-
Assets and Services	Waste minimisation	Waste services	Waste minimisation reserve	17	88	(88)	17
Environmental Services	Dog and animal control	Environmental Services	Residual funds from dog and animal control activity	15	-	30	44
Holding	International relationship	Community leadership	Residual funds from International Relationship activities	58	-	-	58
John Beange	John Beange	Community leadership	Funding available in Edendale and Wyndham area	22	1	(5)	18
Southland Joint Mayoral Fund	Community assistance	Community leadership	Residual funds from Southland Flood Relief	228	11	-	239
Allocation Committee	Community Development Fund	Community leadership	Development of community facilities, Recreational opportunities and events.	3	-	-	3
Allocation Committee	Contribution and levies	Community leadership	Raised through the District Plan be used to remedy, mitigate or offset adverse effects arising from, and in consequence of, or in association with any development	405	5	-	411
Allocation Committee	Contributions and levies - Waihopai Toetoe	Community leadership	Support community initiatives by way of grants	249	-	-	249
Allocation Committee	Creative NZ	Community leadership	Support local communities to create diverse opportunities for accessing and participating in arts activities with their specific geographical area, as well as defined communities of interest.	20	1	-	20
Allocation Committee	Sport NZ	Community leadership	To subsidise travel costs for people 5-19 years of age participating in regular sporting competition.	3	-	-	3
Allocation Committee	Meridian contribution	Community leadership	Support Northern Southland community initiatives by way of grants.	328	15	(11)	333

Reserves	Business unit	Activity to which it relates	Purpose	Forecast opening balance 1/7/2022 ($000)	Deposits In ($000)	Withdraws out ($000)	Forecast closing balance 30/6/2023 ($000)
Allocation Committee	Ohai Railway Board	Community leadership	Support Ohai community initiatives by way of grants.	1,911	27	-	1,938
Allocation Committee	Ohai/Nightcaps Doctors	Community leadership	Medical services within Ohai and Nightcaps, including local ambulance.	-	-	-	-
Allocation Committee	District Heritage Grant	Community leadership	Support the heritage in the District area	15	1	(7)	9
Allocation Committee	Fonterra Reserve Contribution	Community leadership	Support to the Edendale township, surrounds and the district's community initiatives by way of grants.	(10)	23	-	13
Holding	Stewart Island/Rakiura visitor levy	Community leadership	Stewart Island/Rakiura Visitor Levy funds	214	4	-	218
Specific	ECNZ - Projects	Corporate support	Funds available for future projects in accordance with ECNZ requirements	23	1	-	24
Total restricted District reserves				**3,500**	**178**	**(81)**	**3,597**
Local reserves							
Wallacetown	Cemetery bequest	Community services	Wallacetown cemetery	69	1	(10)	60
Total restricted local reserves Wallacetown				**69**	**1**	**(10)**	**60**
Winton	Birthing centre	Community facilities	Winton Birthing Centre	-	-	-	-
Winton	Medical centre equip	Community facilities	Winton Medical Centre	-	-	-	-
Total restricted local reserves Winton				**-**	**-**	**-**	**-**
Total restricted local Reserves				**69**	**1**	**(10)**	**60**
TOTAL RESTRICTED RESERVES				**3,569**	**179**	**(91)**	**3,658**

Council created – general

Reserves	Community	Business unit	Activity to which it relates	Purpose	Forecast opening balance 1/7/2022 ($000)	Deposits in ($000)	Withdraws out ($000)	Forecast closing balance 30/6/2023 ($000)
District reserves								
Council		Global	Corporate support	General reserve	1,054	25	(10)	1,069
Council		District operations	Corporate support	General reserve	218	225	(550)	(107)
Council		Strategic assets reserve	Corporate support	Offset rates	7,508	-	(2,000)	5,508
Total Council created general district reserves					**8,780**	**250**	**(2,560)**	**6,470**
Total Council created - general reserves					**8,780**	**250**	**(2,560)**	**6,470**

Council created – special

Reserves	Business unit	Activity to which it relates	Purpose	Forecast opening balance 1/7/2022 ($000)	Deposits In ($000)	Withdraws out ($000)	Forecast closing balance 30/6/2023 ($000)
District reserves							
Assets and Services	District reserve surplus	Open spaces	Operational reserve for District parks and reserves	(13)	-	-	(13)
Assets and Services	Community housing	Community services	Operational reserve for community housing	196	254	(274)	176
Assets and Services	Community task force	Community services	Operational reserve for community task force	(9)	(15)	-	(24)
Assets and Services	Forestry Council reserve	Corporate support	Residual funds from forestry activities	5,980	-	(442)	5,538
Assets and Services	Ex Forestry reserve	Corporate support	Residual funds from forestry activities	148	-	-	148
Assets and Services	Forestry reserve	Corporate support	Residual funds from forestry activities	2,675	(155)	(766)	1,754
Assets and Services	Gravel reserves	Transport	Ensure Council has sufficient funds available for reinstatement of Council's pits	547	-	(38)	509
Assets and Services	Property development	Community facilities	Balancing fund for sales and operational building expenditure	167	1	(78)	91
Assets and Services	Proposed wastewater	Wastewater	Operational account for proposed sewerage	-	-	-	-

Reserves	Business unit	Activity to which it relates	Purpose	Forecast opening balance 1/7/2022 ($000)	Deposits In ($000)	Withdraws out ($000)	Forecast closing balance 30/6/2023 ($000)
Assets and Services	Proposed water	Water supply	Operational account for proposed water	553	-	-	553
Assets and Services	Road safety community	Transport	Funding accrued from programmes not completed by year end	-	-	-	-
Assets and Services	Waste management	Waste services	General waste reserve	61	-	(33)	28
Assets and Services	Water schemes	Water supply	Development for water schemes	194	-	-	194
Assets and Services	Public toilets	Community facilities	Public toilets capital project reserves	-	-	-	-
Assets and Services	District water	Water supply	Development for water supply	72	-	-	72
Assets and Services	District wastewater	Wastewater	Development for sewerage schemes	-	-	-	-
Assets and Services	Sewerage contribution	Wastewater	Development for building sewerage	-	-	-	-
Assets and Services	Roading	Transport	Fund Council's roading activity	285	-	-	285
Assets and Services	District stormwater	Stormwater	District stormwater investigation	3	-	-	3
Assets and Services	Rates civil defence	Emergency management	Fund emergency management	11	-	-	11
Assets and Services	Rates wheelie bin	Waste services	Operation reserve for wheelie bins	-	-	-	-
Total Council created - special reserves assets and services				**10,871**	**85**	**(1,632)**	**9,325**
Chief executive	SDC/DOC Joint Project	Corporate support	Residual funds from past joint projects for future projects	61	-	-	61
Chief executive	Around the mountains	Transport	Around the Mountains Cycle Trail	125	-	(45)	80
Total Council created - special reserves chief executive				**186**	**-**	**(45)**	**141**
Policy and community	Waimumu Field Day	Corporate support	Fund Council's field day every three years	-	-	-	-
Policy and community	Community Outcomes	Community leadership	Contribute to Southland Regional Development Strategy	45	-	-	45
Policy and community	Elections	Community leadership	Fund Council's election costs every three years	152	(91)	-	61
Policy and community	War memorial grant	Community leadership	Funding received for memorial archway	3	-	-	3
Total Council created - special reserves policy and community				**200**	**(91)**	**-**	**109**
Depreciation	Information technology	Corporate support	To fund depreciation	414	131	(144)	401
Depreciation	Motor vehicle	Corporate support	To fund depreciation	1,155	502	(571)	1,086
Depreciation	Matuku water supply	Water supply	To fund depreciation	(7)	8	(3)	(1)
Depreciation	Wastewater	Wastewater	To fund depreciation	(879)	2,046	(2,046)	(879)

Reserves	Business unit	Activity to which it relates	Purpose	Forecast opening balance 1/7/2022 ($000)	Deposits In ($000)	Withdraws out ($000)	Forecast closing balance 30/6/2023 ($000)
Depreciation	Building	Community facilities	To fund depreciation	259	251	(128)	382
Depreciation	Roading	Transport	To fund depreciation	3	7,245	(7,245)	3
Depreciation	Waste management	Waste services	To fund depreciation	-	56	(34)	22
Depreciation	Water	Water supply	To fund depreciation	(31)	1,316	(1,316)	(31)
Depreciation	Public conveniences	Community facilities	To fund depreciation	-	239	(239)	-
Depreciation	Te Anau rural water supply	Water supply	To fund depreciation	-	106	(106)	-
Depreciation	Wheelie bin	Waste services	To fund depreciation	143	73	(46)	170
Depreciation	Cycle trail	Transport	To fund depreciation	-	99	(99)	-
Total Council created - special reserves depreciation				**1,057**	**12,091**	**(12,088)**	**1,060**
Development and financial	Parks contribution	Open spaces	Contribution to capital activity - parks and reserves	144	-	-	144
Development and financial	Roading contribution	Transport	Contribution to capital activity - roading and transport	317	-	-	317
Development and financial	Sewerage contribution	Wastewater	Contribution to capital activity - wastewater	338	-	-	338
Development and financial	Water contribution	Water supply	Contribution to capital activity - water	108	-	-	108
Total Council created - special reserves development and financial contributions				**907**	**-**	**-**	**907**
Community	Corporate uniforms	Corporate support	Staff uniform subsidies	-	-	-	-
Environmental Services	Alcohol licensing-operating	Environmental services	To fund the alcohol licensing services	(2)	16	-	14
Environmental Services	Health licensing	Environmental services	To fund the health licensing services	22	-	(19)	3
Total Council created - special reserves environment and community				**19**	**16**	**(19)**	**17**
Holding	Milford flood protect	Community leadership	Residual funds from Milford flood protection	46	-	-	46
Holding	Stewart Island heritage building	Community leadership	Set up for new heritage building	-	-	-	-
Council created - special reserves holding				**46**	**-**	**-**	**46**
Specific	Biodiversity initiative	Community leadership	Funds set aside for future biodiversity initiatives	21	-	-	21

Reserves	Business unit	Activity to which it relates	Purpose	Forecast opening balance 1/7/2022 ($000)	Deposits In ($000)	Withdraws out ($000)	Forecast closing balance 30/6/2023 ($000)
Specific	Disaster recovery	Community leadership	Funds set aside in case of disaster in accordance with insurance requirements	1,443	-	-	1,443
Specific	Predator Free Rakiura	Community leadership	Contribution to the Predator Free Rakiura programme	10	-	-	10
Specific	Tuatapere (Clifden Bridge)	Community services	Residual funds from Tuatapere project in 2000, to be used for community projects at Council's discretion	19	-	-	19
Specific	North Makarewa recreation reserve	Open spaces	North Makarewa recreation reserve	3	1	-	4
Council created - special reserves specific reserves				**1,496**	**1**	**-**	**1,497**
Specific	LGFA repayment reserve	Corporate support	LGFA repayment reserve	3,142	3,008	-	6,149
Total council created -special LGFA repayment reserves				**3,142**	**3,008**	**-**	**6,149**
Total council created -special district reserves				**17,926**	**15,111**	**(13,784)**	**19,252**
Local reserves							
Athol	General	Various	Athol general purpose	2	-	-	2
Athol	Community centres	Community facilities	Athol hall	8	-	-	8
Council created - special reserves Athol				**10**	**-**	**-**	**10**
Balfour	General	Various	Balfour general purpose	107	2	-	109
Council created - special reserves Balfour				**107**	**2**	**-**	**109**
Browns	Community centres	Community facilities	Browns general purpose	1	-	-	1
Browns	General	Various	Browns general purpose	47	1	-	48
Council created - special reserves Browns				**48**	**1**	**-**	**49**
Clifden	Community centres	Community facilities	Clifden hall	11	-	-	11
Clifden	Recreation reserve	Community services	Clifden Reserves Committee	48	6	-	55
Council created - special reserves Clifden				**60**	**6**	**-**	**66**

Reserves	Business unit	Activity to which it relates	Purpose	Forecast opening balance 1/7/2022 ($000)	Deposits In ($000)	Withdraws out ($000)	Forecast closing balance 30/6/2023 ($000)
Colac Bay/Ōraka	Community centres	Community facilities	Colac Bay hall	3	-	-	3
Colac Bay/Ōraka	General	Various	Colac Bay general purpose	31	-	(27)	5
Council created - special reserves Colac Bay/Ōraka				**34**	**-**	**(27)**	**8**
Dipton	Cemetery	Community services	Dipton cemetery	7	-	-	7
Dipton	General	Various	Dipton general purpose	24	-	-	24
Dipton	Stormwater	Stormwater	Dipton stormwater	-	-	-	-
Dipton	Community centres	Community facilities	Dipton hall	3	-	-	3
Council created - special reserves Dipton				**34**	**1**	**-**	**35**
Drummond	General	Various	Drummond general purpose	10	-	-	10
Drummond	Recreation reserve	Community facilities	Drummond Reserves Committee	2	1	-	3
Council created - special reserves Drummond				**12**	**1**	**-**	**13**
Edendale	Cemetery	Community services	Edendale cemetery	8	0	(4)	4
Edendale-Wyndham	Footpaths	Transport	Footpaths	22	-	-	22
Edendale-Wyndham	General	Various	General purpose	519	9	(37)	492
Edendale-Wyndham	Stormwater	Stormwater	Stormwater	-	-	-	-
Edendale-Wyndham	Community centre	Community facilities	Edendale-Wyndham hall	74	2	-	76
Council created - special reserves Edendale-Wyndham				**623**	**11**	**(41)**	**593**
Five Rivers	Community centre	Community facilities	Five Rivers hall	-	-	-	-
Council created - special reserves Five Rivers				**-**	**-**	**-**	**-**
Fortrose	Community centre	Community facilities	Fortrose hall	9	-	-	9
Council created – special reserves Fortrose				**9**	**-**	**-**	**9**
Garston	Special projects	Various	Garston general purpose	29	-	(2)	27
Council created - special reserves Garston				**29**	**-**	**(2)**	**27**

Reserves	Business unit	Activity to which it relates	Purpose	Forecast opening balance 1/7/2022 ($000)	Deposits In ($000)	Withdraws out ($000)	Forecast closing balance 30/6/2023 ($000)
Gorge Road	Gorge Road general	Various	Gorge Road general purpose	38	1	-	39
Council created - special reserves Gorge Road				**38**	**1**	**-**	**39**
-	-	Community facilities	Hokonui community centre	92	-	-	92
Council created - special reserves Hokonui				**92**	**-**	**-**	**92**
Limehills	Hall Improvement	Community facilities	Limehills hall	-	-	-	-
Limehills	General	Various	Limehills general purpose	59	-	-	60
Limehills	Stormwater	Stormwater	Limehills stormwater	-	1	-	1
Council created - special reserves Limehills				**59**	**1**	**-**	**60**
Lumsden	Footpaths	Transport	Lumsden footpaths	2	-	-	2
Lumsden	Cemetery	Community services	Lumsden cemetery	1	-	-	1
Lumsden	General	Various	Lumsden general purpose	135	2	(78)	59
Lumsden	Stormwater	Stormwater	Lumsden stormwater	-	-	-	-
Lumsden	Community centre	Community facilities	Lumsden community centre	13	-	-	13
Council created - special reserves Lumsden				**151**	**2**	**(78)**	**75**
Manapouri	Fraser's Beach	Open spaces	Frasers Beach reserve	2	1	-	3
Manapouri	General	Various	Manapouri general purpose	57	-	(23)	35
Manapouri	Community centre	Community facilities	Manapouri community centre	22	(20)	-	2
Manapouri	Swimming pool area	Community services	Manapouri pool	2	-	-	3
Council created - special reserves Manapouri				**83**	**(19)**	**(23)**	**41**
Mararoa/Waimea Ward	Mararoa/Waimea Ward	Various	Mararoa/Waimea Ward	63	1	-	64
Council created - special reserves Mararoa/Waimea Ward-				**63**	**1**	**-**	**64**
Mataura Island	Community centre	Community facilities	Mataura Island community centre	6	-	-	6
Council created - special reserves Mataura Island				**6**	**-**	**-**	**6**
Matuku	Rural water supply general	Water supply	Matuku Water	-	-	-	-

Reserves	Business unit	Activity to which it relates	Purpose	Forecast opening balance 1/7/2022 ($000)	Deposits In ($000)	Withdraws out ($000)	Forecast closing balance 30/6/2023 ($000)
Council created - special reserves Matuku				**-**	**-**	**-**	**-**
Menzies Ferry	Community centre	Community facilities	Menzies Ferry community centre	9	-	-	9
Council created - special reserves Menzies Ferry				**9**	**-**	**-**	**9**
Mokoreta/Redan	Community centre	Community facilities	Mokoreta/Redan community centre	21	-	-	22
Council created - special reserves Mokoreta/Redan				**21**	**-**	**-**	**22**
Mossburn	General	Various	Mossburn general purpose	95	4	-	99
Mossburn	Community centre	Community facilities	Mossburn community centre	-	-	-	-
Council created - special reserves Mossburn				**95**	**4**	**-**	**99**
Nightcaps	McGregor Park	Open spaces	Nightcaps McGregor Park	42	6	(6)	42
Nightcaps	Community centre	Community facilities	Nightcaps community centre	18	-	-	18
Nightcaps	General	Various	Nightcaps general purpose	3	-	-	3
Nightcaps	Stormwater	Stormwater	Nightcaps stormwater	-	-	-	-
Council created - special reserves Nightcaps				**62**	**7**	**(6)**	**63**
Ohai	Community centre	Community facilities	Ohai community centre	-	-	-	-
Ohai	General	Various	Ohai general purpose	298	5	(3)	300
Ohai	Stormwater	Stormwater	Ohai stormwater	-	-	-	-
Council created - special reserves Ohai				**298**	**5**	**(3)**	**300**
Orawia	Community centre	Community facilities	Orawia Hall Group	25	-	-	25
Council created - special reserves Orawia				**25**	**1**	**-**	**25**
Orepuki	General	Various	Orepuki general purpose	27	-	(20)	8
Orepuki	Community centre	Community facilities	Orepuki community centre	25	-	-	26
Council created - special reserves Orepuki				**52**	**1**	**(20)**	**33**
Oreti	Community centre	Community facilities	Oreti community centre	-	-	-	1

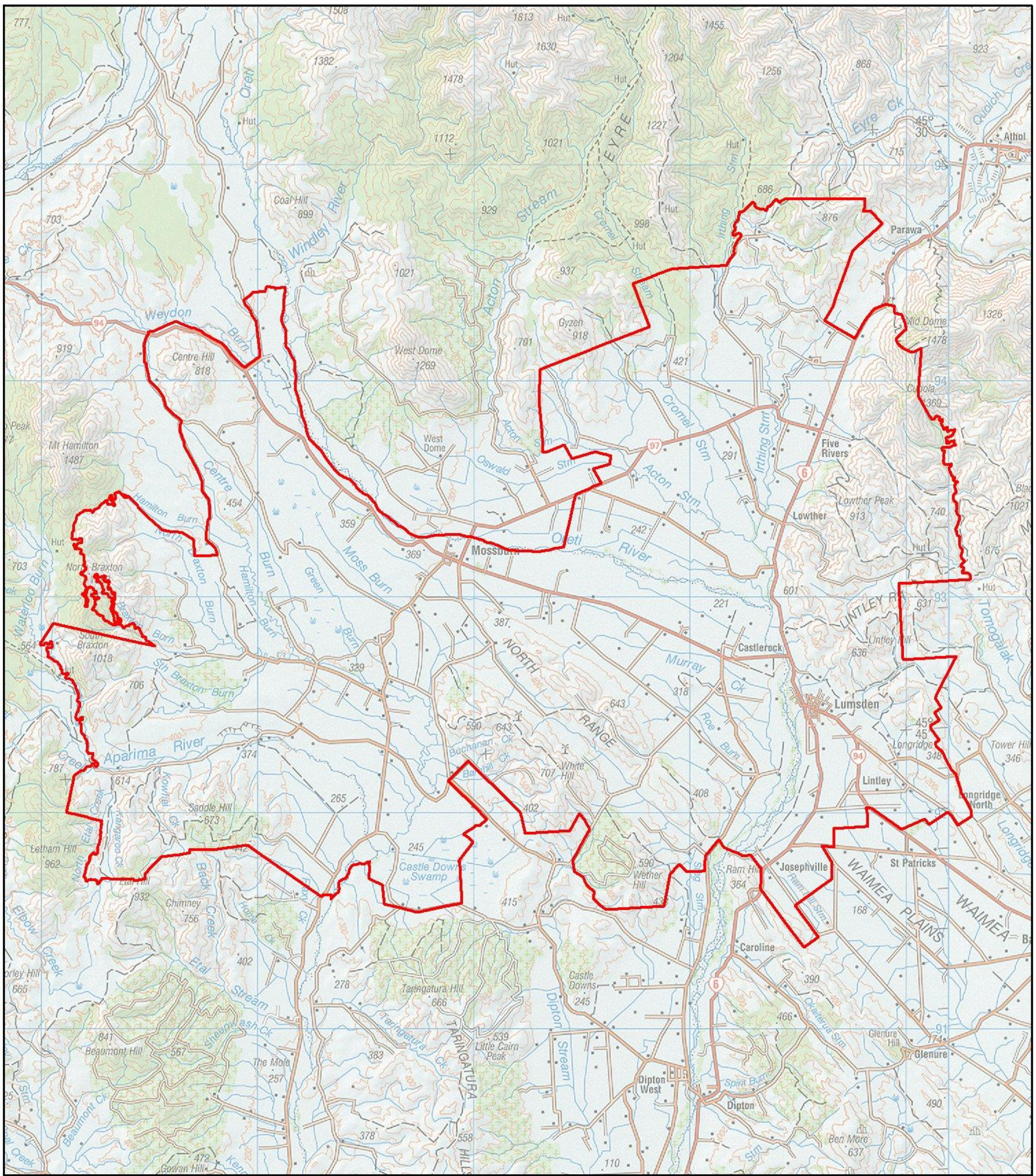
Reserves	Business unit	Activity to which it relates	Purpose	Forecast opening balance 1/7/2022 ($000)	Deposits In ($000)	Withdraws out ($000)	Forecast closing balance 30/6/2023 ($000)
Council created - special reserves Oreti				**-**	**-**	**-**	**1**
Otapiri/Lora	Community centre	Community facilities	Otapiri/Lora community centre	63	1	(6)	57
Council created - special reserves Otapiri/Lora				**63**	**1**	**(6)**	**57**
Otautau	Baths	Community services	Otautau pool	5	-	-	5
Otautau	Brightwood development	Community services	Otautau financial contribution	17	-	-	18
Otautau	CB conference	Community leadership	Community board conference	-	-	-	-
Otautau	Forestry	Community services	Holt Park forestry	170	3	(4)	169
Otautau	General	Various	Otautau general purpose	334	6	(11)	329
Otautau	Stormwater	Stormwater	Otautau stormwater	-	-	-	-
Otautau	Community centre	Community facilities	Otautau community centre	30	1	-	30
Otautau	Bowling Club	Community facilities	Otautau Bowling Club	-	-	-	-
Council created - special reserves Otautau				**555**	**10**	**(15)**	**551**
Riversdale	Fire bore	Community services	Riversdale general purpose	-	-	-	-
Riversdale	General	Various	Riversdale general purpose	5	-	-	5
Council created - special reserves Riversdale				**5**	**-**	**-**	**5**
Riverton/Aparima	Cemetery maintenance	Community services	Riverton cemeteries	79	1	(4)	77
Riverton/Aparima	Doc profits library sale	Community services	Riverton projects	71	1	-	72
Riverton/Aparima	General	Various	Riverton general purpose	178	5	(10)	173
Riverton/Aparima	Riverton Harbour general	Community services	Riverton Harbour	11	-	-	12
Riverton/Aparima	Parks and reserves development	Open spaces	Riverton parks and reserves	-	-	-	-

Reserves	Business unit	Activity to which it relates	Purpose	Forecast opening balance 1/7/2022 ($000)	Deposits In ($000)	Withdraws out ($000)	Forecast closing balance 30/6/2023 ($000)
Riverton/Aparima	Property sales	Community services	Riverton general purpose	154	3	-	157
Riverton/Aparima	War memorial	Community services	Riverton war memorial	14	-	-	15
Riverton/Aparima	Stormwater	Stormwater	Riverton stormwater	-	-	-	-
Riverton/Aparima	Taramea Bay/Rocks development	Community services	Taramea Bay Foreshore	27	-	-	27
Riverton/Aparima	Taramea Howells Point	Community services	Taramea Howells Point	30	-	-	31
Council created - special reserves Riverton/Aparima				**565**	**8**	**(14)**	**559**
Ryal Bush	Community centre	Community facilities	Ryal Bush community centre	4	-	-	4
Council created - special reserves Ryal Bush				**4**	**-**	**-**	**4**
SIESA	Operations	SIESA	SIESA operations	366	58	-	424
Council created - special reserves SIESA				**366**	**58**	**-**	**424**
Stewart Island	General	Various	Stewart Island general purpose	103	3	-	106
Stewart Island	Waste management	Waste services	Stewart Island general purpose	41	1	-	42
Stewart Island	Jetties	Transport	Wharf replacement Golden Bay	-	-	-	-
Stewart Island	Jetties	Transport	Wharf replacement Ulva Island	121	-	-	121
Stewart Island	Jetties	Transport	Stewart Island jetties	-	-	-	-
Council created - special reserves Stewart Island/Rakiura				**266**	**3**	**-**	**269**
Te Anau	Te Anau carpark reserve	Community services	Te Anau general purpose	26	1	-	27
Te Anau	Cemetery improvements	Community services	Te Anau cemetery	-	-	-	-
Te Anau	General	Various	Te Anau general purpose	986	17	(92)	911
Te Anau	Luxmore	Community services	Luxmore subdivision	734	23	-	757
Te Anau	Te Anau Airport Manapouri	Transport	Te Anau Airport Manapouri	178	-	(146)	32
Te Anau	Rural water supply general	Water supply	Te Anau water	-	-	-	-
Te Anau	Stormwater	Stormwater	Te Anau general purpose	-	-	-	-
Te Anau	Sandy Brown loan	Wastewater	Loan to ratepayers	-	-	-	-

Reserves	Business unit	Activity to which it relates	Purpose	Forecast opening balance 1/7/2022 ($000)	Deposits In ($000)	Withdraws out ($000)	Forecast closing balance 30/6/2023 ($000)
Council created - special reserves Te Anau				**1,924**	**40**	**(238)**	**1,727**
Thornbury	Community centre	Community facilities	Thornbury community centre	-	-	-	-
Thornbury	General	Various	Thornbury general purpose	15	-	-	15
Council created - special reserves Thornbury				**16**	**-**	**-**	**16**
Tokanui	Community centre	Community facilities	Tokanui community centre	2	-	-	2
Tokanui	General	Various	Tokanui general purpose	51	1	-	51
Council created - special reserves Tokanui				**52**	**1**	**-**	**53**
Tuatapere	Water meridian contract	Various	Tuatapere general purpose	8	-	-	8
Tuatapere	Community centre	Community facilities	Tuatapere community centre	5	-	-	5
Tuatapere	General	Various	Tuatapere general purpose	147	3	(30)	120
Tuatapere	Property	Community services	Tuatapere general purpose	3	-	-	3
Tuatapere	Waiau River collection	Water supply	Tuatapere Waiau River	1	-	-	1
Ward	Pool	Community services	Tuatapere Ward pool rate	38	1	-	39
Elder Park	Elder Park forestry	Community services	Elder Park forestry reserve	25	-	-	26
Council created - special reserves Tuatapere				**226**	**5**	**(30)**	**200**
Tussock Creek	Community centre	Community facilities	Tussock Creek community centre	5	-	-	5
Council created – special reserves Tussock Creek				**5**	**-**	**-**	**5**
Waianiwa	Community centre	Community facilities	Waianiwa community centres	25	-	-	25
Council created - special reserves Waianiwa				**26**	**-**	**-**	**26**
Waiau/Aparima Ward	General	Various	Waiau/Aparima Ward general purpose	212	4	-	217
Waiau/Aparima Ward	Cosy Nook	Community services	Cosy Nook general purpose	32	4	-	36
Waiau/Aparima Ward	Hirstfield reserve	Open spaces	Hirstfield reserve general purpose	29	3	-	32
Waiau/Aparima Ward	Arboretum reserve	Open spaces	Arboretum reserve	17	-	-	17

Reserves	Business unit	Activity to which it relates	Purpose	Forecast opening balance 1/7/2022 ($000)	Deposits In ($000)	Withdraws out ($000)	Forecast closing balance 30/6/2023 ($000)
Waiau/Aparima Ward	Wairio cemetery	Community services	Wairio cemetery	36	1	-	38
Waiau/Aparima Ward	Wairio Town general	Various	Wairio general purpose	5	-	(4)	1
Waiau/Aparima Ward	Wairio reserve	Open spaces	Wairio reserve	1	-	(10)	(9)
Waiau/Aparima Ward	Takitimu pool	Community services	Takitimu pool	10	-	-	10
Waiau/Aparima Ward	Calcium cemetery	Community services	Calcium cemetery	3	-	-	3
Council created - special reserves Waiau/Aparima				**345**	**13**	**(14)**	**344**
Waihopai/Toetoes Ward	Waihopai/Toetoes Ward	Various	Waihopai/Toetoes Ward	59	1	-	60
Council created - special reserves Waihopai/Toetoes Ward				**59**	**1**	**-**	**60**
Waikaia	Dickson Park	Community services	Waikaia general purpose	6	-	-	6
Waikaia	Drain filling	Stormwater	Waikaia drain filling	6	-	-	6
Waikaia	General	Various	Waikaia general purpose	193	2	(41)	154
Waikaia	Museum donations	Various	Waikaia museum funding	1	2	-	3
Waikaia	Refuse removal	Waste services	Waikaia general purpose	10	-	-	11
Waikaia	Stormwater	Stormwater	Waikaia stormwater	-	-	-	-
Council created - special reserves Waikaia				**216**	**5**	**(41)**	**180**
Waikawa/Niagara	Community centre	Community facilities	Waikawa/Niagara community centres	-	-	-	-
Council created - special reserves Waikawa/Niagara				**-**	**-**	**-**	**-**
Waitane Glencoe	Recreation reserve	Open spaces	Waitane Glencoe Reserves Committee	2	-	-	2
Council created - special reserves Waitane Glencoe				**2**	**-**	**-**	**2**
Wallacetown	General	Various	Wallacetown general purpose	206	4	(27)	183
Wallacetown	Stormwater	Stormwater	Wallacetown general purpose	-	-	-	-
Council created - special reserves Wallacetown				**206**	**4**	**(27)**	**183**
Winton	Community centre	Community facilities	Winton community centres	37	-	(21)	17
Winton	General	Various	Winton general purpose	165	1	(121)	46

Reserves	Business unit	Activity to which it relates	Purpose	Forecast opening balance 1/7/2022 ($000)	Deposits In ($000)	Withdraws out ($000)	Forecast closing balance 30/6/2023 ($000)
Winton	Medical Centre	Community facilities	Winton Medical Centre	148	22	(129)	41
Winton	Multi sports	Community services	Winton Sports Complex	-	-	-	-
Winton	Property sales	Community Services	Winton general purpose	161	9	-	170
Winton	Res capital development	Community services	Winton general purpose	107	2	-	110
Winton	Stormwater	Stormwater	Winton stormwater	-	-	-	-
Council created - special reserves Winton				**618**	**35**	**(270)**	**383**
Winton/Wallacetown Ward	Winton/Wallacetown Ward	Various	Winton/Wallacetown Ward	344	7	(16)	335
Council created - special reserves Winton/Wallacetown Ward				**344**	**7**	**(16)**	**335**
Woodlands	General	Various	Woodlands general purpose	52	1	(2)	51
Woodlands	Septic tank rates	Wastewater	Woodlands septic tank cleaning	4	-	(1)	3
Council created - special reserves Woodlands				**56**	**1**	**(3)**	**54**
Ardlussa	Community	Various	Ardlussa Community Board	-	-	-	-
Fiordland	Community	Various	Fiordland Community Board	53	77	(24)	106
Northern	Community	Various	Northern Community Board	-	-	-	-
Oraka Aparima	Community	Various	Oraka Aparima Community Board	-	-	-	-
Oreti	Community	Various	Oreti Community Board	-	-	-	-
Tuatapere -Te Waewae	Community	Various	Tuatapere -Te Waewae Community Board	-	-	-	-
Waihopai/Toetoe	Community	Various	Waihopai Toetoe Community Board	-	-	-	-
Wallace Takitimu	Community	Various	Wallace Takitimu Community Board	-	-	-	-
Council created - special reserves community				**53**	**77**	**(24)**	**106**
Total Council created - special local reserves				**7,992**	**296**	**(896)**	**7,392**
Total Council created - special reserves				**25,918**	**15,407**	**(14,680)**	**26,644**
Total Council created – general reserves				**9,780**	**250**	**(2,560)**	**6,470**
Total Council restricted reserves				**3,569**	**179**	**(91)**	**3,658**
Total reserve funds				**38,266**	**15,836**	**(17,331)**	**36,771**



Rate Types represented by the mapped boundary:

Northern Pool

SOUTHLAND DISTRICT COUNCIL

0 5 10
Kilometres

MAP 224

Map Scale 1:250,000 @ A4
Map Date 22 April 2022

NORTH

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	Annual Plan review notes
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	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	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.		No change

'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	Annual Plan review notes
whole is growing, which is partly due to the Southland District having a lower rate of international immigration.	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 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.	High	**MEDIUM** There may be a need to accelerate infrastructure upgrades.	*Continuing support for regional development initiatives.*	No change as the assumption is focused on increase impacts from tourism demand. The impact on tourism across the District due to covid-19 border restrictions is noted.

'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	Annual Plan review notes
	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 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.	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*	No change

'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	Annual Plan review notes
	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. 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.			*LTP for a specific role within the Policy Planning team to lead the next stage of our climate change analysis.*	

'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	Annual Plan review notes
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* *Any new development should be undertaken with a view to mitigating exposure to natural disasters.*	No change

'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	Annual Plan review notes
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).	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.*	No change but potential implications are noted due to national discussions regarding the potential fluoridation of drinking water supplies.

'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	Annual Plan review notes
	The amendment to the Climate Change Response (Zero Carbon) Bill may alter the delivery of Council activities. This may 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		No changes but notes the impacts on some industries and incomes from covid-19.

'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	Annual Plan review notes
			changes in current land use patterns and economic activity across the district as a whole which will lead to significant change in 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.		No change but potential implications are noted due to national discussions regarding the potential fluoridation of drinking water supplies, three waters and resource management reforms.
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.	Low	**LOW** There is a low consequence due to council being able to		No change

'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	Annual Plan review notes
	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.		react to changes prior to them negatively impacting levels of service or customer expectations.		
Resource Constraints Ability to find procure contractors and resources will 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.	It is assumed that due to increased work across the district (e.g. Invercargill city centre development, Dunedin Hospital build, etc) 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.	Moderate	**MEDIUM** Resource constraints may disrupt delivery of the Long Term Plan work programme and meeting the established levels of service.		No change but notes the ongoing challenges for contractors and legislative impacts on staff resources.
Three Waters Reforms In July 2020 the government released its three waters	An overarching regulator, Taumata Arowai, will oversee the sector, and is proposing a small number of larger regional entities providing these	High	**Low** By assuming that Council will	*The community will need three waters services whether the council delivers them or not.*	No change but notes the ongoing challenges for contractors and

'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	Annual Plan review notes
reform, a three-year programme to change the way drinking water, wastewater and stormwater are delivered to improve public health, environmental and economic outcomes.	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 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.		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.	*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.*	legislative impacts on staff resources as part of three waters reforms.
Covid-19 The Covid-19 pandemic has created a lot of change and economic uncertainty	The Southland economy has weathered the storm relatively well because of its base of food production.	High	**Moderate** Council may need to prioritise works should economic	*Council is consulting over changes to its rates remission and postponement policy to have greater flexibility to*	No change but note the impact of covid-19 on the ability of some to pay rates

'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	Annual Plan review notes
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.	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.		conditions worsen and affect the capacity of our communities to pay rates.	*provide relief from rates during unexpected events.*	and potential flow on effect to rates income.

Key Financial Assumptions

Financial issue/risk	Assumption for the LTP	*Level of Uncertainty*	*Risk if the assumption is incorrect*	Annual Plan review notes
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.	No change but notes the minor risk with budget being slightly overstated but offset by increased costs from supply chains.
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	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.	No change but monitoring cost increases in capital works.

Financial issue/risk	Assumption for the LTP	*Level of Uncertainty*	*Risk if the assumption is incorrect*	Annual Plan review notes
	new/upgraded schemes (Te Anau and Winton). 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.	No change

Financial issue/risk	Assumption for the LTP	*Level of Uncertainty*	*Risk if the assumption is incorrect*	Annual Plan review notes
			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 associated operating costs and future asset replacement costs become the responsibility of Council.	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 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.	No change
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.	No change

Financial issue/risk	Assumption for the LTP	*Level of Uncertainty*	*Risk if the assumption is incorrect*	Annual Plan review notes
			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.	No change
Emission Trading Scheme Fluctuation in the value of Council's investment in emission trading units.	Council will retain its investment in the Emission Trading Scheme (105,632 units) at a value of $32.10 per unit across the 10 years of the plan.	Moderate	**LOW** 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.	No change
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.	No change
Funding of future replacement of significant assets	We have assumed that Council will continue to incrementally increase funding depreciation of the following	Low	**MEDIUM** The level of depreciation being funded is inaccurate and will result in either	No change

Financial issue/risk	Assumption for the LTP	*Level of Uncertainty*	*Risk if the assumption is incorrect*	Annual Plan review notes
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.	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% 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.		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.	
Subsidies for roading Waka Kotahi NZ Transport Agency (Waka Kotahi) has announced its indicative	Through this LTP we have identified a programme of work necessary to maintain the assets and levels of service for our roading network.	Very High	**High** There is also additional risk that over the uncertainty of a component of funding from Waka Kotahi being	No change but note change in work programme with additional

Financial issue/risk	Assumption for the LTP	*Level of Uncertainty*	*Risk if the assumption is incorrect*	Annual Plan review notes
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.	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. 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.		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 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.	funding provided for years 2 and 3 following the Waka Kotahi funding announcement in August 2021.
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	Low	**MEDIUM** If revenue sources are not achievable, the levels of service may be reduced or an alternate funding source required to	No change

Financial issue/risk	Assumption for the LTP	*Level of Uncertainty*	*Risk if the assumption is incorrect*	Annual Plan review notes
	accordance with the Revenue and Financing Policy.		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. 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~~ High	**MEDIUM** A decrease in investment interest rates may require Council to collect more rates to cover the shortfall of interest used to offset rates.	**Recommend increasing uncertainty from moderate to high to reflect current investment markets**
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.	**Recommend changing the external and internal interest rate assumption from 2% to 3% in the Annual Plan 2022/2023 to reflect the increase in**

Financial issue/risk	Assumption for the LTP	*Level of Uncertainty*	*Risk if the assumption is incorrect*	Annual Plan review notes
				market interest rates.
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.	No change
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.	No change
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: 1. Further Covid-19 lockdowns 2. Capacity of local market to deliver due to a. Lack for resources	No change

Financial issue/risk	Assumption for the LTP	*Level of Uncertainty*	*Risk if the assumption is incorrect*	Annual Plan review notes
			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.	

Financial issue/risk	Assumption for the LTP	*Level of Uncertainty*	*Risk if the assumption is incorrect*	Annual Plan review notes
			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 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

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

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

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%

Targeted rates

Targeted rates may be used to fund specific Council activities. Targeted rates are appropriate for services or activities where a specific group of ratepayers benefit from that service or where the revenue collected is targeted towards funding a specific type of expenditure. Lump sums will not be invited in relation to any of the targeted rates.

Targeted district-wide rates

Council has a number of targeted rates which are used to fund services or activities across all properties in the district. These include the roading rate, regional heritage rate and stormwater rate.

Roading targeted rates

Background

Council administers and maintains the District's roading and bridging network (some 5,000km of network), excluding state highways and national park roads which are maintained by the NZTA and DOC, respectively. Council also provides footpaths, streetlights, carparks and noxious plant control.

Activities funded

This targeted rate funds the costs associated with operating and maintenance of Council's roading network (which forms part of the Council's transport activity). This includes the reseal programme, road pavement rehabilitation programme, minor improvements and bridge maintenance, strengthening and replacement.

Land liable for the rates

All rateable land within the Southland District is liable for the rate.

How the rates are assessed

- a fixed amount of $92.00 per rating unit. The rate will generate $1,506,305 in rates revenue in 2022/2023; and
- a differential rate in the dollar of capital value across all properties as per the table of rates. The rate will generate $17,259,628 in rates revenue in 2022/2023.

Rate differential definitions

The rate in the dollar of capital value is set on a differential basis for different land uses. The differential category is based on the land use of each rating unit. The definition for each rates differential category is listed in the table below:

Risk management - June 2022 quarterly update

Record no: R/22/4/14070
Author: Jane Edwards, Policy analyst
Approved by: Fran Mikulicic, Group manager democracy and community

☐ Decision ☒ Recommendation ☐ Information

Purpose

1 The purpose of this report is to:

a) submit the June 2022 Quarterly Risk Management Report for consideration by the Finance and Assurance Committee (the committee)

b) seek recommendation to Council for the adoption of Council's proposed priority strategic risks, to become effective 1 July 2022.

Executive summary

2 A risk management framework (RMF) was adopted by Council in February 2019. This framework supports risk thinking across Council so that risk can be understood, planned for and mitigated across all levels and activities.

3 As part of the RMF, Council's priority strategic risks were identified and endorsed in June 2021 and these form the basis of the Finance and Assurance Committee quarterly risk report including the risk register.

4 The leadership team (LT) jointly owns the current 12 priority risks for Council and is responsible for maintaining oversight of Council's risks, controls and treatments. The LT has reviewed the status of the primary strategic risks for the June 2022 quarter and areas of issue are highlighted in this report.

5 In order that the ongoing risk management process remains relevant and continues to inform consistent and effective decision making, the LT is required by the RMF to undertake an annual review of its priority risks.

6 The review process took place over two workshops over the last quarter. The review confirmed that the 12 priority risk areas currently being reported on continue to have the potential to significantly impact Council's achievement of its current strategic objectives.

7 This report seeks recommendation from the committee that Council adopts the reviewed top strategic risks at its meeting 22 June 2022 with a proposed operational date of 1 July 2022.

8 The risk register for the June 2022 quarter is included as Attachment A.

9 The proposed priority strategic risks are presented as Attachment B for the committee's consideration.

10 The matrices used to assess the risks are included for information as Attachment C.

Recommendation

That the Finance and Assurance Committee:

a) receives the report titled "Risk management - June 2022 quarterly update" dated 8 June 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 to recommend that Council adopt the revised top strategic risk areas as follows to become effective 1 July 2022:

i. change and reform – the risk that Council has inadequate adaptability to respond to a continuously changing environment
ii. climate change – the risk that Council fails to adapt to, or mitigate the effects of, climate change impacts
iii. compliance and fraud – the risk that Council is unable to adapt to the impacts of fraud and increasing compliance standards on the organisation
iv. Covid-19 response – the risk that Council fails to adequately respond to Covid-19 impacts which affects its ability to deliver for the community
v. cyber security – the risk that Council's systems are vulnerable to cyber-attack and/or error
vi. data and systems – the risk of ineffective and inefficient use of information in Council's decision-making
vii. disaster event – the risk that Council is unable to respond to the consequences of a natural or human-induced event impacting the District
viii. health, safety and wellbeing – the risk of health, safety and wellbeing harm to staff, contractors and community
ix. public health –the risk that Council exposes the community to a public health emergency
x. relationships and reputation – the risk that Council fails to manage its local, regional and national relationships. The risk that Council suffers reputational damage because of service delivery failure
xi. resource and delivery – the risk of non-performance/delivery of committed outcomes and meeting expectations
xii. strategy and direction – the risk of poor or ineffective decision-making due to lack of strategic integration and alignment

e) agrees to endorse those risks considered of significant issue being reported to Council at its 22 June 2022 meeting

Quarterly risk management update

Background

11 Eleven priority risks were assessed by LT workshops in March 2021 and adopted by Council in June 2021. As a living document, the risk register will be reviewed formally on an annual and as required basis.

12 To note is the addition of the Covid-19 response risk which was identified as an emergent risk in December 2021 and will be monitored as a priority strategic risk going forwards.

13 The priority strategic risks endorsed by Council are jointly owned by the LT and form the basis of the risk register.

14 The LT review the status of the top risks, and any emerging risks, on a quarterly basis and this report is then presented to the committee for consideration. After feedback from the committee each quarter, the RMF requires those risks considered of significant issue to be reported to the next Council meeting.

15 The priority risks are considered of equal importance to Council and are outlined in a single tiered risk register. This will allow prioritisation to be fluid for the reporting year with resource allocated where appropriate across the top risks. Governance will continue to have a clear indication of management's risk priorities by the utilisation of the risk thresholds and status to indicate where focus and resource could be directed each quarter.

16 The consequences, likelihoods and thresholds for each risk have been assessed after a review of the risk register and they reflect the highest assessed aspect of each risk for this current quarter.

17 The status of each risk is a summary of the mitigations that are currently in place for each risk and indicate whether the mitigations are assessed as causing the threshold to rise, lower or remain static.

Issues

18 The risk register update for the June 2022 quarter is attached as attachment A.

19 The risk register has twelve priority risks of which there are two 'very high', six 'high', and four 'medium' rated risk post mitigation.

20 Issues to note this quarter include:

Change and reform

21 This risk continues to be assessed as worsening this quarter.

22 This risk looks to understand and manage both the external and internal factors that could have significant negative impact on Council's resilience. If Council does not have the capacity to respond to increasing levels of change then adequate financial planning and exploiting potential opportunities may be missed. Factors that could affect Council's adaptability could include an external impact such as a significant activity being removed because of legislative change required by central government (e.g. Three Waters), or internal impacts such as the change or loss of key staff/elected members causing a loss of momentum and/or change of direction.

June 2022 updates

23 This risk was subject to a deep dive with the committee last quarter and in consequence, LT have reviewed and adjusted the risk thresholds to more accurately reflect the effect of Council's mitigations against the continued implications of this risk.

24 The three waters and resource management act reforms along with the review of local government will continue to be monitored and assessed to ensure adequate awareness and understanding at both management and governance levels. Staff will continue to provide visibility of central government's reform agenda where possible through regular reporting and workshops with Council and/or committee.

25 It will be essential that Council positions itself to take advantage of opportunities to influence legislative development and potential transition planning on behalf of the District where possible. Staff will continue to monitor and participate where appropriate, for example, a joint submission to the draft National Adaptation Plan is currently underway to try and ensure that the process is relevant and appropriate for the District. However, it should be noted that given the breadth and complexity of anticipated reform, the expectation that Council should respond may begin to exceed the organisation's capacity to do so.

26 To ensure the community's ongoing resilience in the face of complex change, it is important that Council both identifies and documents the community's long-term needs; and that it also finds a way to effectively communicate the implications of the anticipated reforms back to the community.

27 In October 2022, Council faces the potential for a loss in momentum and a loss of intellectual capital as it approaches local body elections with a number of elected members confirming that they will not stand again. Mitigations currently in place include projects designed to encourage people to stand for both Council and community boards, along with work to smooth the induction programme for new elected members however Council will need to be prepared to manage any further implications of a new Council table transitioning in.

Climate change

28 This risk continues to be assessed as static.

29 This risk relates to Council being unable to adapt to, or mitigate against, the effects of climate change because of inadequate planning for anticipated impacts. Climate change effects are currently and will continue to result in significant uncertainty and challenge for the District. Not only will infrastructure be vulnerable, but so too will economic development and growth, community health and safety and social support systems.

30 To tackle the short- and long-term threats of climate change, Council will need to identify effective climate change mitigation and adaptation strategies to ensure it can meet the current and future needs of the community. While it is acknowledged that the uncertainty of climate change modelling and lack of clear direction from central government has slowed the development of a climate change strategy, it is essential that Council continues to proactively build capacity at a District level in order to implement this.

31 At a local level, this risk is particularly relevant to district planning (e.g. allowing urban development in hazard zones and managing those that have previously got consent) and the

infrastructure team (e.g. identifying areas where critical infrastructure is vulnerable to the effects of climate change and relocating if needed).

June 2022 updates:

32 The recruitment process for a climate change officer is complete and the role is expected to be taken up in July 2022. This role will drive the development of a climate change strategy for the organisation. External resource may be sought to support its development.

33 Great South has begun work at Council's request to support the District Plan, spatial planning and climate change assumptions. This work will make impact assessments of natural hazards and climate change on Council's infrastructure.

34 Council is currently preparing a joint submission to the draft National Adaptation Plan. A workshop regarding this was held with the community and strategy committee on 25 May 2022.

Compliance and fraud

35 This risk continues to be assessed as static.

36 This risk highlights the effects of increasing compliance standards on council's strategic direction. New legislation from central government such as the Privacy Act, new climate change legislation and the Three Waters reform all have the potential to raise challenges in terms of compliance with central government timeframes. Additionally, if Council breaches legislation because of non-compliance with key employment and/or health and safety legislation, there is the potential risk of prosecution and financial penalty.

37 Council has a range of system and management controls in place to detect and prevent fraud. These include financial controls around procurement practices and authorisation, and regular and thorough management reporting.

June 2022 updates:

38 As national environmental reforms progress, new legislative requirements will be imposed on the organisation. This may present challenges to attract and retain skilled employees combined with the obligations that affect Council's ability to maintain agreed performance standards.

39 Under the Covid-19 traffic light protocols, separation of roles has continued over the quarter to keep employees safe and ensure continued compliance with legislative requirements. Business continuity plans have been received from contactors to ensuring that essential services such as reticulation and sewerage are able to be maintained with ongoing impacts on the workforce.

40 Staff have engaged in collaborative discussions with Gore District Council and Invercargill City Council to mitigate against staff shortage and a prioritised programme of work has indicated which projects could be stalled to focus on urgent work if required.

Covid-19 response

41 This risk is currently assessed as static – changed from worsening last quarter.

42 This risk explores the effects of an inadequate response to Covid-19 impacts on Council's ability to deliver to the community.

43 Work has been undertaken by the LT over the past quarter to fully consider the drivers, consequences, and likelihood of this risk. For this report, the detail that sits within the LT risk register has been included in the attached risk register for the committee's information.

June 2022 updates:

44 The management of the Omicron outbreak, and its expected long tail, has remained prominent this quarter, especially the health, safety and wellbeing impacts, financial implications, and resourcing issues for the organisation.

45 The Incident Management Team (IMT) has continued to manage Council's response as cases have continued to emerge both in the District and within the organisation. This has included continued provision of support and advice to the organisation in response to impacts on critical services and the wellbeing of staff and community

46 While staff are beginning to transition back into the offices, working remotely has meant the risk of Covid spread has been reduced and the organisation has showed that the majority of work can be done offsite.

47 While key internal controls are currently continuing to operate effectively, external issues of supply chain constraints and the potential for critical skills shortages are addressed elsewhere in this report.

48 People leaders have continued to monitor productivity levels, barriers, and the wellbeing of their teams. This is currently being done informally with monitoring via conversations rather than surveys to not overload staff already at capacity.

49 Regular delivery of information has utilised communication channels from chief executive to staff via a weekly newsletter Kia Korero, and to governance via a weekly elected member newsletter. In addition, weekly meetings have been held between mayor and CE.

Cyber security

50 This risk continues to be assessed as static.

51 Council's IT systems are potentially exposed to greater security threats because of the move towards online and cloud services resulting in the potential for hacking and subsequent outages and/or privacy breaches. This risk outlines the mitigations both proposed and in place that seek to manage the organisation's external and internal vulnerabilities.

June 2022 updates:

52 Supply chain issues have meant that the March 2022 decommissioning of Citrix has been pushed out to July 2022. Multi Factor authentication has been enabled for key contractors and SDC staff. Automated IT Asset management has been implemented to capture all information of hardware and software being used by SDC. Implemented automated software to capture and alert security change within the network.

53 Disaster recovery plan testing was completed Dec 2021 and staff are currently working with the vendor to finalise and test cloud restore configurations.

54 Pilot group testing of cybersecurity awareness and phishing training has been completed and planning is being undertaken to deliver training across the organisation.

55 Council is continuing to work closely with the other southern councils to discuss security initiatives and share learnings.

Data and systems

56 This risk is currently assessed as static.

57 This risk looks to illustrate the consequences of incomplete or inaccurate data or systems on Council's ability to effectively and optimally manages its infrastructure and community assets.

58 Impacts include Council's ability to identify the true costs of operating its assets (and whether the current level of investment in maintenance and renewals is appropriately matched to asset criticality and condition), the accuracy of asset valuations and insurance coverage, proposed maintenance scheduling and asset management planning.

<u>June 2022 updates:</u>

59 The asset management tool (IPS) is now operational and staff are currently importing asset data into the system. Community facilities will work with geographic information system (GIS) team to create linkage creating further functionality similar to what is available with the three waters' data

Disaster event

60 This risk continues to be assessed as static.

61 This risk relates to a natural or human-induced disaster event that occurs with little or no warning. The risk details the consequences, in terms of Council services, of being unable to appropriately respond to or recover from an emergency because of Council's inadequate emergency response and business continuity planning arrangements.

<u>June 2022 updates:</u>

62 Throughout the reporting period, the incident management team have maintained a capability to support with emergency response in the event of natural or human induced disaster.

63 Business continuity planning has been undertaken across the organisation to ensure that Council is able to provide essential services and support to the community in the face of a disaster event.

64 It should be noted however that the business continuity plans are targeted towards pandemic response not natural disaster. Consideration should be given to broadening business resilience beyond a pandemic focus as a natural disaster will draw on resources already at capacity.

65 A review is currently being undertaken by the people and capability team to ensure that two teams with appropriate staff, based on capacity and competency, are assigned to the collaborative response and that their training is kept sufficiently up to date. Consideration should be given to ensuring clarity of roles and responsibilities internally are in place pre-event.

Health, safety and wellbeing

66 This risk is currently assessed as improving – changed from static last quarter.

67 This risk outlines the consequences of a member of the public, a council employee or a contractor working on Council's behalf, being exposed to a critical risk because of the action or inaction of Council.

68 Council has a legal obligation to ensure appropriate protection against critical risks including vehicle movements, public health, working at height and contractor management. This strategic risk also incorporates psychosocial risk within the organisation such as mental and social wellbeing which can result in high staff turnover, absenteeism and other performance issues.

June 2022 updates:

69 The change in status is as a result of a number of downgrades in post mitigation likelihoods as a result of work completed over the quarter. This moves the overall post mitigation risk threshold from very high to high.

70 Initial governance training is report as being on target for the quarter. As part of ongoing training for governance and management, due diligence reviews are currently being prepared ready for the new triennium.

71 Following the health and safety gap analysis undertaken in 2020, a draft 2022/23 implementation plan was approved by the LT on 12 May 2022. The draft health and safety risk management framework is complete and implementation planning underway. The strategic core improvement project is also currently underway.

72 The review of SMART health and safety KPIs against position descriptions has been pushed back to ensure risk management improvement project remained on track with resource needing directed to Covid-19 response over last 12 months.

73 Staff are continuing to monitor office/remote working dynamics and challenges for the organisation due to the evolving Covid-19 risk landscape and government mandates.

74 A number of risk mitigations have been completed over the last quarter and can be viewed in the attached risk register.

Public health

75 This risk continues to be assessed as static.

76 This risk is primarily focused on Council's drinking water supply being disrupted or compromised, but also includes the potential of damaging discharges to water, land or air resulting in poor health outcomes for individuals or groups in the District.

June 2022 updates:

77 Business continuity plans have been received from contactors ensuring that essential services such as reticulation and sewerage are able to be maintained in the event of Omicron impacts on the workforce.

78 A collaborative approach is in place between staff at Gore District Council and Invercargill City Council to mitigate against staff shortage. Currently, some key contractors are being heavily impacted by staff shortage.

79 Staff are currently redrafting and reviewing water safety plans to meet new rules and criteria. These are due to be completed by November 2022.

Relationships and reputation

80 This risk continues to be assessed as static.

81 This risk explores the impacts of dysfunctional strategic relationships internally and externally and the factors that might result in reputational damage.

82 Externally, the delivery of Māori outcomes is a key area that Council must consider if its Tiriti o Waitangi obligations are to be met. The risk incorporates the impacts of an incohesive relationship between iwi and Council along with incorporating the risks of dysfunctional relationships with community boards and key stakeholders.

83 Internally, consideration is also given to the consequences of poor relationships and mistrust between elected members, management and staff and the potential for resultant reputational damage, undermining of management decisions and/or the appointment of a Crown Manager to replace Council.

<u>June 2022 updates:</u>

84 Work has begun with community boards to implement improvements to strengthen boards, increase communication and enhance relationships.

85 Feedback has been received on community board roles and responsibilities which will be a foundation in establishing a way forward. Further work is currently being undertaken by the governance, community leadership, and communications teams to develop Board communication implementation plans and induction plans post-election.

86 To note is that Council will need to monitor the separation between staff and elected members between July and October to ensure no reputational damage to the organisation throughout the election period.

87 To consider is the potential risk of over-engagement with the community. Recent feedback indicated consultation fatigue from a community that is being engaged with not only by Council but with other organisations such as Environment Southland and central government agencies.

Resource and delivery

88 This risk continues to be assessed as worsening.

89 This risk focuses on the significant strain on resources locally, nationally and globally, and the impact this has on achieving Council's strategic objectives. Organisational performance, the delivery of Council's committed outcomes, and meeting community expectations are significantly impacted by difficulties obtaining skilled resources and materials.

June 2022 updates:

90 The likelihood of negative impacts on the delivery of Council's agreed work programme has been assessed as likely rather than unlikely this quarter despite current mitigations. This raises the post mitigation threshold from medium to very high. Given increasing costs, Council is currently facing this risk being realised with the prospect of delivering less at increased cost.

91 The current volatility of the market is impacting nationally and globally and has meant that staff have had to consider different and increasingly flexible ways of procuring materials and services to reduce risk i.e. alliance type tendering and increasing project contingencies for work with high price component risks.

92 Procurement plans will need to be updated to reflect current climate regarding Covid 19 and the effects e.g. corporate material controls, availability and/or lead in times required to secure certain high demand materials, volatility of material pricing and labour price increases.

93 Council should be aware of the heightened risk for relationship tensions with subcontractors who are also under pressure from rising costs. Putting a tender together has a cost impact for contractors due to time, fuel and complexity and so staff are considering ways in which Council could split work packages to target contractors and ensure the work programme remains attractive.

94 To consider also, is the risk if knowledge loss and relationship impacts if key contractor positions are lost. Many contractors are under pressure and some are downsizing plus the current job market is encouraging many to seek other employment.

95 Council also faces the potential for a loss of key staff within the organisation with possible diversion of management to the three waters entities and the likelihood of staff positioning their career decisions at the cost of Council.

Strategy and direction

96 This risk continues to be assessed as static.

97 This risk looks to understand and manage both the external and internal factors that could have significant negative impact on Council's direction. It also highlights the potential that a lack of consistent direction-setting could result in poorly aligned and uninformed decisions that impact the community.

June 2022 updates:

98 The strategic programme currently underway is gathering data on regional spatial planning and growth information for the District and will drive Council's strategic direction.

99 The community board health check currently underway is an opportunity to rebuild the connections between council and the community to ensure that the two-way conduit is working effectively.

Emergent risks

100 No potential emergent risks have been identified this quarter.

101 Staff will continue to scan for emerging risks and escalate as appropriate.

Operational risk assurance

102 Following the adoption of the revised strategic risk register in June 2021, work has begun to develop the operational risk register.

103 Discussions have been held both internally, and externally with risk managers within other local government organisations and risk management software providers to ascertain an effective model that Council could utilise. A risk '101' presentation was given to the team leaders' forum on 4 November 2021. This introduction to the organisation's strategic risk management process was proposed to be followed early 2022 with more detailed discussion with team leaders and activity managers to identify operational risks within each area of the organisation.

104 Due to resourcing issues and following feedback from LT, it is proposed to temporarily halt progress on the operational risk register until capacity allows this process to be undertaken again.

In-depth risk analysis

105 As part of the risk management reporting process, the LT also undertakes a regular programme of in-depth analysis into each of the key risks identified by Council.

106 A workshop is scheduled to be held at the conclusion of the June committee meeting to facilitate discussion of both the cyber security, and the disaster event risks.

107 Due to resourcing issues, a full report has not been prepared for the workshop however both LT and appropriate staff will be available for any questions.

Annual priority risk review

108 The LT jointly owns the current priority risks for Council and is responsible for maintaining oversight of the risks, controls and treatments. In order that the ongoing risk management process remains relevant and continues to inform consistent and effective decision making, the LT is required by the RMF to undertake an annual review of its priority risks.

109 Over the last quarter, Council's top risks have been reviewed and reset to ensure their continued relevance in a changing risk environment. The review process has confirmed the 12 priority risk areas currently being monitored continue to be identified as having the potential to significantly impact Council's strategic objectives. These are included as attachment B.

110 This report seeks the committee's recommendation to Council for the adoption of Council's proposed priority strategic risks, to become effective 1 July 2022

Analysis of Options

111 The committee has two options on how it chooses to proceed:

Option 1 – that the committee endorses the proposed priority strategic risks for adoption by Council as outlined in Attachment B

Advantages	*Disadvantages*
• this ensures clarity and focus is given to those risks deemed as most important to Council • governance will have a clear indication of management's risk priorities • the risk register will continue to give clarity to the community of Council's risk priorities • setting a non-ranked risk register means prioritisation can continue to be fluid for the reporting year	• this approach is not consistent with the risk management framework requirements which states risks should be ranked by priority weighting

Option 2 – that the committee proposes a different way forward

Advantages	*Disadvantages*
• this will give clarity to the preference of governance • management will have clear indication of the committee's risk priorities	• continuing to utilise the current risk register until further direction is given may result in misleading or inappropriate resource allocation • this approach is not consistent with management's risk priorities

Recommendation

112 Staff recommend option 1 - that the committee endorses the proposed priority strategic risks for adoption by Council as set out in attachment B.

Next steps

113 Following consideration by the committee, staff will present the proposed top strategic risks to Council at its 22 June 2022 meeting seeking adoption with an operational date of 1 July 2022.

114 Following the committee's consideration of the June 2022 quarterly risk management update, those strategic risks assessed as of significant issue will be reported to Council at its meeting 22 June 2022.

Attachments

A Risk register - Finance and Assurance committee - June 2022 quarter ⇩
B Proposed priority strategic risks - 2022 ⇩
C Risk management framework - risk matrices ⇩

Quarterly risk register June 2022

Finance and Assurance Committee

STRATEGIC RISK SUMMARY TABLE											
Change & reform	Climate change	Compliance and fraud	Covid 19 response	Cyber-security	Data & systems	Disaster event	Health, safety & wellbeing	Public health	Relationships & reputation	Resource & delivery	Strategy & direction
PRE TREATMENT THRESHOLD											
High	Very high	High	Very high	Very High	High	Very high	Very high	Very high	Very high	Very high	High
POST TREATMENT THRESHOLD											
High	High	Medium	High	Medium	Medium	Very high	High	High	High	Very high	Medium
RISK STATUS FOR THE CURRENT QUARTER IS ASSESSED AS:											
Worsening	Static	Static	Static	Static	Static	Static	Improving	Static	Static	Worsening	Static
RISK LEAD											
Chief executive	Leadership team										Chief executive
ACTION OFFICER											
Chief executive	Environmental planning manager Services & assets leadership team	Building solutions manager Environmental planning manager Strategic manager water & waste Transactional project lead	Incident management team	Business solutions manager	Leadership team	Communications manager Environmental planning manager Services & assets leadership team	Health, safety & wellbeing advisor	Strategic manager water & waste Asset manager – water & waste Environmental health manager	Leadership team	Commercial infrastructure manager Project delivery manager	Leadership team

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Strategic risk CHANGE AND REFORM

DESCRIPTION	**Risk that Council has inadequate adaptability to respond to a continuously changing environment**		**Status:** Worsening
Risk management framework CATEGORY	Strategic	**Risk register LINKS**	Climate change Compliance Strategy and direction
RISK LEAD	Chief executive	**ACTION OFFICER**	Chief executive

POTENTIAL RISK TRIGGERS	External:
	• changes in central government political direction and/or decision-making
	• changes in community/stakeholder service level expectations
	• sector messaging creating uncertainty for business, communities and organisation
	Internal:
	• organisational lack of agility and resilience due to:
	  o inadequate capacity and capability
	  o complexity and effectiveness of organisational systems and processes
	  o siloed culture
	  o political personalities, trust and relationships
	  o loss of key staff/elected members
	  o inadequate contingency planning
	  o ineffective change communication
	  o lack of strategic direction		

PRE TREATMENT THRESHOLD	**Consequence:** Moderate	**Likelihood:** Highly likely	
	High		

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CURRENT MITIGATIONS	• monitoring of macro trends/broader environment
	  ○ taking an apolitical approach to continue momentum on projects
	  ○ continued monitoring and participation where appropriate to influence the direction of new legislation
	  ○ visibility of central government's reform agenda provided through regular reporting and workshops with Council and/or committee
	  ○ work to understand implications of climate changes to communities and how this will impact on service delivery
	• improving organisational resilience
	  ○ review and improve systems/procedures around data capture, management and storage
	  ○ review of current internal structures and practices to ensure they are fit for purpose
	  ○ review and identify process to increase adaptiveness and agility of governance/management/staff
	• improving financial resilience
	  ○ monitoring of macro trends/broader environment
	  ○ ensuring the ability to urgently reprioritise capital spending and/or community levels of service spending
	• maintain trust and confidence of our communities through effective communication and engagement
	  ○ continued engagement/collaboration with neighbouring councils/central government / governance/management/ staff level relationships			

POST TREATMENT THRESHOLD	**Consequence:**	High	**Likelihood:**	Highly likely
	High			
PROPOSED MITIGATIONS	• engagement strategy to articulate external messaging to the community • leadership forum – developed but currently on hold due to Covid-19 impacts			
COMPLETED MITIGATIONS	• none reported for the June 2022 quarter			

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Strategic risk CLIMATE CHANGE

DESCRIPTION	**Risk that Council fails to adapt to, or mitigate the effects of, climate change impacts**			**Status:** Static
Risk management framework CATEGORY	Health, safety and wellbeing Regulatory and compliance Strategic Social, cultural and environmental	**Risk register LINKS**	Change and reform Disaster event	
RISK LEAD	Leadership team	**ACTION OFFICER**	Services and Assets Leadership Team Environmental planning manager	
POTENTIAL RISK TRIGGERS	External: • ineffective clear advice to enable evidence-based quality decisions due to: ○ variability and uncertainty in climate change modelling ○ changes in political direction Internal: • inadequate consideration of climate impacts in: ○ strategic decision-making ○ fit for purpose activity management			
PRE TREATMENT THRESHOLD	**Consequence:** Major	**Likelihood:**	Likely	
	Very high			
CURRENT MITIGATIONS	• effective governance, strategies and plans ○ infrastructure planning to have activity-based approach to address zoning decisions ○ climate change considerations included in draft Long Term Plan 21/31, draft infrastructure strategy, activity management plans ○ ensuring continued compliance with appropriate national and regional plans • build knowledge ○ understand and identify implications of climate changes to communities and how this will impact service delivery			

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	○ research programme including stakeholders ○ continuing to engage with LGNZ and central government to monitor anticipated reform change ○ continuing to engage at regional level on information gathering and analysis relating to hazards • build capacity ○ adequate borrowing capacity in place through the financial strategy to assist with recovery costs ○ Local Authority Protection Programme insurance in place ○ emergency resourcing in place and available			
POST TREATMENT THRESHOLD	**Consequence:**	Major	**Likelihood:**	Possible
	High			
PROPOSED MITIGATIONS	• development of a climate change strategy which will identify and prioritise actions towards managing climate change impacts • development of a draft climate change policy that sets out appropriate climate change scenarios to use, governance for climate change, capability and capacity requirements • investigate Council's carbon footprint to better understand actions required to reduce Council's operational emissions			
COMPLETED MITIGATIONS	• none reported for the June 2022 quarter			

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Strategic risk COMPLIANCE AND FRAUD

DESCRIPTION	**Risk that Council is unable to adapt to the impacts of fraud and increasing compliance standards on the organisation**				**Status: Static**
Risk management framework CATEGORY	Financial Regulatory and compliance	Strategic	**Risk register LINKS**	Public health Reputation	Service delivery
RISK LEAD	Leadership team		**ACTION OFFICERS**	Fraud – Transactional project lead Compliance – Building solutions manager Environmental planning manager Strategic manager water & waste	
POTENTIAL RISK TRIGGERS	External: • central government changes to the regulatory standards for compliance o external attempts to perpetrate fraud Internal: • community and stakeholder service-level expectations not being met • breakdown in internal controls resulting in: o continued or serious breaches leading to increased compliance requirements and regulation o poor resource allocation/prioritisation o complacency o emotionally and financially stressed staff o lack of training and awareness o remote/flexible working				
PRE TREATMENT THRESHOLD	**Consequence:** Catastrophic		**Likelihood:** Unlikely		
	High				

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<table>
<tr><td>CURRENT MITIGATIONS</td><td colspan="4">Fraud:
effective governance, strategies and plans
fraud policy adopted, fraud officers nominated and fraud awareness training initiated
external and internal audits, segregation of duties and well established documented approvals process
well documented and aligned procurement process - procurement policy and manual adopted and training workshops initiated
Compliance:
ensuring continued compliance with appropriate national and regional plans
effective governance, strategies and plans
prioritisation of projects to ensure compliance is maintained
forward planning for resourcing works programme
documented process and procedures, internal and external audit, staff training, strengthened links between teams and quality assurance processes
collaborative governance group meetings</td></tr>
<tr><td rowspan="2">POST TREATMENT THRESHOLD</td><td>Consequence:</td><td>Catastrophic</td><td>Likelihood:</td><td>Rare</td></tr>
<tr><td colspan="4">Medium</td></tr>
<tr><td>PROPOSED MITIGATIONS</td><td colspan="4">none reported for the June 2022 quarter</td></tr>
<tr><td>COMPLETED MITIGATIONS</td><td colspan="4">none reported for the June 2022 quarter</td></tr>
</table>

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Strategic risk: COVID-19 RESPONSE

DESCRIPTION	**Risk that Council fails to adequately respond to Covid-19 impacts which affects its ability to deliver for the community**						**STATUS**	
							Static	
RMF CATEGORY	Financial, social, cultural and environmental			**LINKS**	All strategic risk areas			
RISK LEAD	Chief executive			**ACTION OFFICER**	Incident management team			
WHAT COULD HAPPEN?		**PRE MITIGATION**			**POST MITIGATION**			
		Consequence	**Likelihood**	**Risk**	**Consequence**	**Likelihood**	**Risk**	
1	Political impacts • increased reactive decision making • inability to keep pace with central government expectations	Moderate	Likely	High	Moderate	Possible	Medium	
2	Significant service delivery disruption • inability to provide infrastructure levels of service • lack of trained/organised response • uncertainty around delivery of significant projects underway and planned	Major	Likely	Very high	Moderate	Likely	High	
3	Community, social and economic wellbeing reduced • inability to keep pace with community service delivery expectations • increased pressure on staff/community due to scale and complexity of impacts	Major	Likely	Very High	Moderate	Likely	High	
4	Financial loss • loss of revenue • increased uncertainty in budget setting	Major	Likely	Very high	Major	Likely	Very High	

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	• lack of resource to fix/respond						
5	Reputational damage • increased media coverage • community discontent	Major	Possible	High	Major	Possible	High
6	Loss of momentum/change of direction/increased inefficiencies as a result of absence of key staff/elected members	Minor	Likely	Medium	Minor	Possible	Medium

RISK TRIGGERS

External:

- changes in central government political direction and/or decision-making
- changes in community/stakeholder service level expectations
- sector messaging creating uncertainty for business, communities and organisations

Internal:

- insufficient organisational agility and resilience as a result of
  - inadequate capacity and capability
  - complexity and effectiveness of organisational systems and processes
  - absence of key staff/elected members
  - inadequate contingency planning
  - ineffective change communication

Pre-treatment CONSEQUENCE	Major	Pre-treatment LIKELIHOOD	Likely	Pre-treatment THRESHOLD	Very high

CURRENT MITIGATIONS	DUE DATE	WHAT DOES THAT LOOK LIKE?	UPDATE
Effective governance, strategies and plans		Monitoring of macro trends/broader environment to understand implications to the community and the organisation and how	Continued monitoring and adaptation to changes in central government's Covid-19 response strategy

		this will impact on service delivery and business continuity	including the devolution of isolation management back into the community
Organisational resilience		Adaptive and agile governance/management/staff	People leaders have been monitoring productivity levels, barriers, wellbeing of their teams. Currently being done informally monitoring via conversations rather than surveys to not overload staff already at capacity. Work to identify capability gaps
		Build capacity	Development of prioritised list of critical services/roles All teams have completed documented plans for preparedness. Separation of key essential roles into bubbles so that teams should not all be impacted at once. Documented second and third fall back plans to allow agility and flexibility. e.g. NZTA funding – if no one from roading team can do, finance can. If everyone in call centre gets sick, Palmerston North can provide coverage Contractors have been contacted to ensure they have appropriate contingency plans in place. Working remotely has meant the risk of Covid spread has been reduced., the organisation has showed that the majority of wok can be done remotely.
Financial resilience		Monitoring of macro trends/broader environment.	Ability to urgently reprioritise capital spending and/or community levels of service spending

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Effective communication and engagement			Is this an opportunity to identify what the community need for us in a pandemic? Communications out to the community to keep informed of impacts to services e.g. closure of libraries and area offices. Investigated ways of doing things differently – click and collect at the library, opened area offices for rates payments. Reputation could have been impacted but reaction to measures appears to have been minimal. Comms team comfortable – community predominantly see as a 'good job'. Communication down via weekly staff newsletter Kia Korero from CE, upwards via weekly EM newsletter from CE plus weekly meetings between mayor and CE. Virtual staff meetings with the CEO.
PROPOSED MITIGATIONS	**DUE DATE**	**PREVIOUS UPDATES**	**UPDATE**

COMPLETED MITIGATIONS	**COMPLETED**

Post-treatment CONSEQUENCE	Major	**Post-treatment LIKELIHOOD**	Possible	**Post-treatment THRESHOLD**	High

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Strategic risk CYBER SECURITY

DESCRIPTION	**Risk that Council's systems are vulnerable to cyber-attack and/or error**				**Status: Static**
Risk management framework CATEGORY	Financial Operational	Regulatory and compliance	**Risk register LINKS**	Data and systems Disaster event	Reputation Service delivery
RISK LEAD	Leadership team		**ACTION OFFICER**	Business solutions manager	

POTENTIAL RISK TRIGGERS	External:
	• external threat attempts
	• complacency with regard to international trends and attacks
	Internal:
	• technical failure to protect IT systems
	  ○ increasing digitisation without integration with processes
	  ○ inadequate cyber strategy
	  ○ underinvestment/lack of maintenance
	• breakdown of internal controls
	  ○ inadequate IT security awareness/culture/behaviours /competency potentially resulting in malicious or innocent employee activities
	  ○ remote/flexible working creating less secure connections				

PRE TREATMENT THRESHOLD	**Consequence:** Catastrophic		**Likelihood:** Possible		
	Very high				

CURRENT MITIGATIONS	• increased digital protection
	  ○ E-delivery project, regular updating of IT equipment including enhanced mobility
	• effective governance, strategies and plans
	  ○ cyber security strategy, SAM for compliance, disaster recovery plan				

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	• improve internal controls
	  ○ regular reporting to management and governance
	  ○ phone systems, systems back up, role based controls in place
	  ○ establishment of cyber security engineer role completed			

POST TREATMENT THRESHOLD	**Consequence:**	Catastrophic	**Likelihood:**	Rare
	Medium			
PROPOSED MITIGATIONS	• improve internal controls: ○ mobile device management (MDM)			
COMPLETED MITIGATIONS	• SAM audit completed • technical disaster recovery test completed • cyber security engineer role established			Dec 21 Dec 21 Sept 21

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Strategic risk DATA AND SYSTEMS

DESCRIPTION	**Risk of ineffective and inefficient use of information in Council's decision-making**			**Status: Static**
Risk management framework CATEGORY	Financial Strategic Operational	**Risk register LINKS**	Cyber security	
RISK LEAD	Leadership team	**ACTION OFFICER**	Leadership team	
POTENTIAL RISK TRIGGERS	Internal: • inability to maximise effectiveness of information systems and tools due to: ○ complexity of organisational systems ○ lack of integration/alignment across information systems ○ lack of analytics capability/capacity ○ insufficient data governance ○ poor resource allocation/prioritisation • cyber security ○ inefficient systems which are vulnerable to attack and/or error			
PRE TREATMENT THRESHOLD	**Consequence:** Moderate	**Likelihood:** Likely		
	High			
CURRENT MITIGATIONS	• review and improve systems/procedures around data capture, management and storage ○ implementation of asset management tool (IPS) ○ contract alignment ○ staff training and reporting options ○ implementation of metadata standards ○ established infrastructure design standards • effective communication			

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	◦ part of BAU with operational reporting to community boards • effective resourcing ◦ recruitment has been completed and currently being utilised to resolve the backlog of Three Waters data			
POST TREATMENT THRESHOLD	**Consequence:**	Moderate	**Likelihood:**	Possible
	Medium			
PROPOSED MITIGATIONS	• review and prioritisation of data analytics			
COMPLETED MITIGATIONS	• asset management workshops • recruitment of data/GIS temporary resources to resolve backlog of 3-Waters data • communication with community – part of BAU with operational reporting via community leadership team and services& assets			Dec 21 Jun 21 Jun 21

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Strategic risk DISASTER EVENT

DESCRIPTION	**Risk that Council is unable to respond to the consequences of a natural or human-induced event impacting the District**					**Status: Static**
Risk management framework CATEGORY	Financial	Social, cultural and environmental	**Risk register LINKS**	Climate change Cyber security	Public health Relationships	
RISK LEAD	Leadership team		**ACTION OFFICERS**	Services and Assets Leadership Team	Communications manager Environmental planning manager	
POTENTIAL RISK TRIGGERS	External: • biosecurity outbreak • severe weather event • disaster caused by failure of man-made structure • natural disaster event without warning or build up • global financial crisis Internal: • critical asset failure that impacts safety as a result of poor resource allocation/prioritisation • insufficient organisational agility and resilience • ineffective clear advice to enable evidence-based quality decisions due to variability and uncertainty • inadequate or ineffective engagement, communication, governance • ineffective or lack of collaboration /partnership • relationship mismanagement • inadequate contingency planning					
PRE TREATMENT THRESHOLD	**Consequence:** Catastrophic		**Likelihood:** Possible			
	Very high					

CURRENT MITIGATIONS	• emergency management ○ collaboration on emergency management response approach across agencies and the region ○ organisational emergency response plans ○ community emergency response plans ○ ensuring warning systems and protocols are in place e.g. flood monitoring system, tsunami alerts • business continuity planning • infrastructure resilience ○ identify strategic sites at risk and develop plan for their maintenance and return to normal ○ criticality assessment and asset identification ratings ○ availability of technical expertise to manage, monitor, operate and maintain critical infrastructure ○ infrastructure strategy			
POST TREATMENT THRESHOLD	**Consequence:**	Catastrophic	**Likelihood:**	Possible
	Very high			
PROPOSED MITIGATIONS	• overarching and organisation-wide emergency response plan			
COMPLETED MITIGATIONS	• none reported for the June 2022 quarter			

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Strategic risk HEALTH, SAFETY AND WELLBEING

DESCRIPTION	**Risk of health, safety and wellbeing harm to staff, contractors and community**			**Status: Improving**
Risk management framework CATEGORY	Health, safety and wellbeing Operational	**Risk register LINKS**	Public health Reputation	
RISK LEAD	Leadership team	**ACTION OFFICER**	Health, safety & wellbeing advisor	
POTENTIAL RISK TRIGGERS	External: • complacency leading to greater risks being taken by the community of public safety issues Internal: • poor health and safety culture and/or behaviours across the organisation leading to: o stressed disengaged staff o increased staff workloads o limited capability and capacity o inadequate governance understanding of role/accountability • competing priorities: o deferred maintenance / under resourcing o time pressures and/or complacency leading to acceptance of high levels of risk • failure to engage with and listen to the community • failure to act on lessons learned from near misses and incidents (including lessons from other industry experiences) • BCP and Pandemic Plans not adhered to			
PRE TREATMENT THRESHOLD	**Consequence:** Catastrophic	**Likelihood:** Highly likely		
	Very high			
CURRENT MITIGATIONS	o effective governance, strategies and plans o health and safety wellbeing policy and framework			

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	◦ health and safety strategic road map 2021-23 ◦ health and safety gap analysis – development of a prioritisation programme to address gap analysis recommendations ◦ health and safety risk management framework implemented across organisation ◦ pandemic business continuity plan in place and current ◦ training for governance and management on roles and responsibilities ◦ organisational culture ◦ wellbeing progamme ◦ ongoing education process with staff about the controls in place along with continued monitoring of their effectiveness ◦ comprehensive audit framework ◦ collaboration with other agencies			
POST TREATMENT	**Consequence:**	Catastrophic	**Likelihood:**	Unlikely
THRESHOLD	High			
PROPOSED MITIGATIONS	• health and safety KPIs linked to individual staff performance • annual review of health and safety management system • draft health and safety risk management framework is complete and implementation planning underway			
COMPLETED MITIGATIONS	• risk management standard including critical risk management – Jun 22 • incident management standard – Jun 22 • health and safety management system – Jun 22 • health, safety & wellbeing review undertaken and improvements actioned – Dec 21 • wellbeing calendar launched – Dec 21 • health and safety risk management framework in place – Dec 21 • health and safety competency register developed across the organisation – Sep 21 • revised HS&W dashboard reporting prepared for LT and governance reporting providing hot spot data – Jun 21 • core improvement in standardisation of contract administration process – Mar 21			

SOUTHLAND DISTRICT COUNCIL

Strategic risk	PUBLIC HEALTH

DESCRIPTION	**Risk that Council exposes the community to a public health emergency**			**Status:** **Static**
Risk management framework CATEGORY	Financial Health, safety and wellbeing Operational Regulatory and compliance Social, cultural and environmental	**Risk register LINKS**	Compliance and fraud Disaster event Health, safety and wellbeing	
RISK LEAD	Leadership team	**ACTION OFFICERS**	Strategic manager water & waste Asset manager – water & waste Environmental health manager	

POTENTIAL RISK TRIGGERS	External:
	• severe weather, natural disaster, a fire, chemical spill
	• complacency leading to greater risks being taken by the community of public safety issues e.g. potential for unknown residential connection to stock water supplies resulting in contamination event
	
	Internal:
	• failures in asset maintenance
	    ○ ineffective clear advice to enable evidence-based quality decisions results in poor understanding of the health and safety risks within Council's facilities and services provided
	    ○ competing priorities lead to deferred maintenance across portfolio and/or under resourcing
	• time pressures and/or complacency leading to acceptance of high levels of risk
	• human error / inappropriate behaviours / criminal behaviours or damage at Council assets
	• failure to engage with and listen to the community
	• failure to act on lessons learned from near misses and incidents (including lessons from other industry experiences)
	• BCP and Pandemic Plans not adhered to			

SOUTHLAND DISTRICT COUNCIL

PRE TREATMENT THRESHOLD	**Consequence:**	Catastrophic	**Likelihood:**	Highly likely
	Very High			
CURRENT MITIGATIONS	• ensure compliance with appropriate national and regional plans ○ robust compliance monitoring system ○ prioritised programme of review including sanitary assessment report and water safety plans ○ condition assessments for assets ○ review of public access to operational sites • effective governance, strategies and plans ○ business continuity planning including contractors ○ prioritisation of projects to ensure compliance is maintained ○ collaborative approach with other southern councils ○ sanitary assessment report, water safety plans, ○ conditions assessments for assets ○ review of public access to operational sites			
POST TREATMENT THRESHOLD	**Consequence:**	Catastrophic	**Likelihood:**	Unlikely
	High			
PROPOSED MITIGATIONS	• review of sanitary assessment report and water safety plans • increased public education and awareness of requirements of the Health Act • effective communication strategy in place for potential contamination event			
COMPLETED MITIGATIONS	• recruitment of water safety officer • establishment of water and waste leadership team			Dec 21 Sep 21

Strategic risk RELATIONSHIPS AND REPUTATION

<table>
<tr><td>DESCRIPTION</td><td colspan="4">Risk that Council fails to manage its local, regional and national relationships
Risk that Council suffers reputational damage because of service delivery failure</td><td>Status:
Static</td></tr>
<tr><td>Risk management framework CATEGORY</td><td>Social and cultural
Strategic</td><td>Risk register LINKS</td><td>Change and reform
Compliance and fraud
Cyber security
Disaster event</td><td colspan="2">Health, safety and wellbeing
Public health
Resource and delivery
Strategy and direction</td></tr>
<tr><td>RISK LEAD</td><td>Leadership team</td><td>ACTION OFFICER</td><td colspan="3">Leadership team</td></tr>
<tr><td>POTENTIAL RISK TRIGGERS</td><td colspan="5"><u>External</u>
political EQ
<u>Internal:</u>
inadequate or ineffective engagement, communication, governance
narrow, short term/misaligned strategic focus
ineffective or lack of collaboration/partnership with stakeholders/community
dysfunctional internal relationship between governance and staff
dysfunctional organisational culture - job uncertainty/restructures/staff burnout/remote working
lack of awareness regarding Treaty obligations and iwi protocol</td></tr>
<tr><td rowspan="2">PRE TREATMENT THRESHOLD</td><td>Consequence: Major</td><td colspan="4">Likelihood: Likely</td></tr>
<tr><td colspan="5">Very high</td></tr>
<tr><td>CURRENT MITIGATIONS</td><td colspan="5">establish strong networks with other agencies and external stakeholders to share knowledge, learnings and culture
regular engagement with stakeholders at political and executive level
collaborative governance group meetings to progress alignment of strategic direction – Mayoral forum, TAMI board sessions, Te Roopu Taiao meetings, CEG civil defence forums, neighbouring councils</td></tr>
</table>

	• understanding Council's Treaty obligations
	    ○ Iwi charter of understanding in place
	    ○ identify and address gaps in organisational cultural and diversity awareness
	• enabling community boards to bring community voice back into Council
	    ○ community board 'health check' completed – planning underway to action improvements
	• establish internal mentoring and knowledge sharing workshops by senior management
	    ○ monthly team leader forums established for knowledge sharing across the organisation			

POST TREATMENT THRESHOLD	**Consequence:**	Major	**Likelihood:**	Possible
	High			
PROPOSED MITIGATIONS	• induction and training of management in terms of Treaty obligations • establish internal mentoring and knowledge sharing workshops by senior management • proactive steps taken at the start of each local government triennium to re-establish trust and relationships with community and stakeholders • relationship management between: CE/Mayor, LT/key staff, Mayor/elected members			
COMPLETED MITIGATIONS	• community board 'health check' review completed and work has begun to implement recommendations			Sep 21

SOUTHLAND DISTRICT COUNCIL

Strategic risk	RESOURCE AND DELIVERY

DESCRIPTION	**Risk of non-performance/delivery of committed outcomes and meeting expectations**			Status: Worsening
Risk management framework CATEGORY	Operational Regulatory and compliance	Risk register LINKS	Reputation	
RISK LEAD	Leadership team	ACTION OFFICER	Commercial infrastructure manager Project delivery manager	

POTENTIAL RISK TRIGGERS	External:
	• market capacity
	• inadequate response to macro factors affecting price and accessibility e.g. climate change, Covid alert level impacts, international political instability
	• change in community/ stakeholder service level expectations
	Internal:
	• ineffective clear advice to enable evidence-based quality decisions
	• inadequate measures including accountability, capability, transparent and proactive self-monitoring
	• complexity of organisational systems
	• competing priorities resulting in deferred maintenance across portfolio
	• siloed organisational culture
	• inadequate or failed cooperation and collaboration with neighbouring councils
	• difficulty attracting and maintaining skilled resources
	• strategic objectives:
	  ○ narrow strategic approach - not looking at 'big picture'
	  ○ unclear and incomplete understanding of objectives			

PRE TREATMENT	Consequence: Major	Likelihood: Highly likely		

THRESHOLD	Very high			
CURRENT MITIGATIONS	• effective governance, strategies and plans ○ development of a well-informed capital works programme based on known condition and performance of assets ○ allocation of appropriate funding and resources to deliver the prioritised work plan ○ procurement optimisation ○ Three Waters works programme ○ internal and external audit ○ effective communication between teams and other agencies • recruiting and retaining skilled resources ○ monitoring organisational climate ○ work closely with industry providers and training institutions ○ workforce strategy ○ resource sharing ○ develop potential for secondments, internships and developing a cadet system • organisational culture ○ look after staff by building a culture that encourages staff to stay and to recruit into ○ outsourcing and using external mechanisms at key pressure points to mitigate stress			
POST TREATMENT	**Consequence:**	Major	**Likelihood:**	Likely
THRESHOLD	Very high			
PROPOSED MITIGATIONS	• prioritisation plan to consider the number and impact of work outside the formally signed off works programme			
COMPLETED MITIGATIONS	• procurement plan prepared for the entire 2021-22 year – completed and signed off by Council as part of LTP	Sep 21		
	• project scoping document developed and signed off by community boards – completed through LTP process	Sep 21		
	• project delivery team in place and adequately resourced	Sep 21		

	• development of established minimum LoS for community facilities. Review was progressed through AMP update process with community board • works programme input into Global Forecast Programme and baseline tracking set up	Sep 21 Sep 21

SOUTHLAND DISTRICT COUNCIL

Strategic risk	**STRATEGY AND DIRECTION**

DESCRIPTION	**Risk of poor or ineffective decision-making due to lack of strategic integration and alignment**				**Status: Static**
Risk management framework CATEGORY	Financial	Strategic	**Risk register LINKS**	Change and reform	
RISK LEAD	Chief executive		**ACTION OFFICER**	Leadership team	
POTENTIAL RISK TRIGGERS	• inadequate discussion of strategic direction • unclear and incomplete understanding of strategic objectives • near-sighted decision making • competing priorities • complex decision-making processes and requirements • ineffective clear advice to enable evidence-based quality decisions				
PRE TREATMENT THRESHOLD	**Consequence:**	Moderate	**Likelihood:**	Likely	
	High				
CURRENT MITIGATIONS	• effective governance, strategies and plans ○ strategy development workplan currently being developed				
POST TREATMENT THRESHOLD	**Consequence:**	Moderate	**Likelihood:**	Possible	
	Medium				
PROPOSED MITIGATIONS	• long term formal commitment to collaboration between Council and key agencies • deliver strategic vision to the community effectively				
COMPLETED	• none reported for the June 2022 quarter				

SOUTHLAND
DISTRICT COUNCIL

Proposed priority strategic risks – 2022

LT annual risk review 2022

CHANGE AND REFORM	Risk that Council has inadequate planning adaptability to respond to a continuously changing environment
CLIMATE CHANGE	Risk that Council fails to adapt to, or mitigate the effects of, climate change impacts
COMPLIANCE AND FRAUD	Risk that Council is unable to adapt to the impacts of fraud and increasing compliance standards on the organisation
COVID-19 RESPONSE	Risk that Council fails to adequately respond to Covid-19 impacts which affects its ability to deliver for the community
CYBER SECURITY	Risk that Council's systems are vulnerable to cyber-attack and/or error
DATA AND SYSTEMS	Risk of ineffective and inefficient use of information in Council's decision-making
DISASTER EVENT	Risk that Council is unable to respond to the consequences of a natural or human-induced event impacting the District
HEALTH, SAFETY AND WELLBEING	Risk of health, safety and wellbeing harm to staff, contractors and community
PUBLIC HEALTH	Risk that Council exposes the community to a public health emergency
RELATIONSHIPS & REPUTATION	Risk that Council fails to manage its local, regional and national relationships Risk that Council suffers reputational damage because of service delivery failure
RESOURCE AND DELIVERY	Risk of non-performance/delivery of committed outcomes and meeting expectations
STRATEGY AND DIRECTION	Risk of poor or ineffective decision-making due to lack of strategic integration and alignment

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SOUTHLAND DISTRICT COUNCIL

Risk management framework – risk matrices

CONSEQUENCE	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 Letter to CEO, complaints to Councillors 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 changes to service level 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 of 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 months 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
HEALTH, SAFETY AND WELLBEING	No Medical treatment required Issue noted, no action required	Minimal personal injury and/or sickness AND Less than 2 weeks incapacitation H&S issue noted by Worksafe	Personal injury and/or sickness with up to 3mths incapacitation OR H&S issue to court	Significant public health impact OR Personal injury and/or sickness with 3+ months incapacitation or long term disability OR	Permanent severe disability or loss of life OR H&S issue taken to court resulting in imprisonment OR

Risk management framework – risk matrices
5/12/2019

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CONSEQUENCE	INSIGNIFICANT	MINOR	MODERATE	MAJOR	CATASTROPHIC
				H&S issue to court and fine imposed	Widespread community sickness
SOCIAL, CULTURAL, ENVIRONMENTAL	No significant community Impact	Single community affected	Multiple communities affected	Many communities affected	Most or all communities OR
	Localised short-term reversible environmental, economic or social impact	Localised short-term reversible environmental, economic or social damage	Localised medium term (1 month +) reversible damage or disruption (environmental, economic, social or cultural)	Localised or widespread long term (3-6m) reversible damage or disruption (environmental, economic, social or cultural)	Extensive or irreversible damage or disruption (environmental, economic, social or cultural)
REGULATORY AND COMPLIANCE	Fine/ liability less than $10K	Fine/ liability $10 - $100K	Fine/ liability $100 - $250K	Fine/ liability $250K - $1M	Fine/ liability $1M+

SOUTHLAND DISTRICT COUNCIL

LIKELIHOOD	
HIGHLY LIKELY	Risk event is expected to occur in most circumstances; or 90% chance within the next 12 months; or 18 out of every 20 years
LIKELY	Risk event will probably occur in most circumstances; or 55% chance within the next 12 months; or 11 out of every 20 years
POSSIBLE	Risk event should occur at some time; or 25% chance within the next 12 months; or 5 out of every 20 years
UNLIKELY	Risk event could occur at some time; or 10% chance within next 12 months; or 1 out of every 10 years
RARE	Risk event may occur only in exceptional circumstances Up to 4% chance within next 12 months Once in 25 years

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

Information services activity summary

Record No: R/22/5/18553
Author: Jock Hale, Business solutions manager
Approved by: Matt Russell, Group manager infrastructure and environmental services

☐ Decision ☐ Recommendation ☒ Information

Purpose of report

1 The purpose of the report is to present the activity summary report for information services to update the committee on activity status.

Recommendation

That the Finance and Assurance Committee:

a) Receives the report titled "Information services activity summary" dated 8 June 2022.

Attachments

A Activity summary - Information Services - June 2022 ⇩

Finance and Assurance monthly activity summary report May 2022 – information services

Previous month's achievements

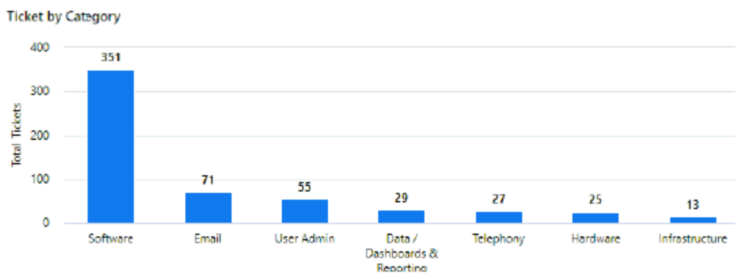
- migration of email from on premise to cloud almost complete
- migration of 3 waters data into new Esri GIS system
- remote access multi factor authentication enable for Downer contractors
- online applications for Alcohol
- testing the new version of Goget building application software in preparation for Go Live in June
- pathway user security review
- testing of new web-based version of Pathway
- corridor management software negotiations
- disaster recovery planning for simulation test.
- cyber insurance review.

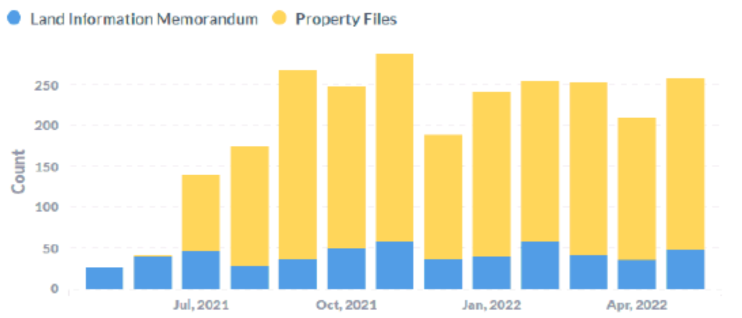
Priorities for upcoming month

- supporting FMIS design processes
- rollout cyber awareness campaigns to all staff and councilor's
- disaster recovery simulation test
- new acceptable use policy and supporting framework
- recruitment, IT Team Leader, IM Team Leader
- online applications for Alcohol (environment health)
- rates arrears and debt recovery (finance)
- corridor management system (strategic roading)
- cemetery management SYSTEM RFP (property)
- GoGet upgrade go live (Building)
- Winton library setup and RFID rollout.

Service desk summary

- there were 615 for May and an average of 575 per month for 2022
- average first response was 4.2hrs and average resolution time was 12.18hrs.





Risks and hotspots

(eg top five with commentary as required)

SDC WORKS PROGRAMME KEY RISKS

Likelihood / Impact

(Likelihood x Impact = Risk Score)

Red	(15-25)	Extreme
Orange	(8-12)	High
Yellow	(4-6)	Moderate
Green	(1-3)	Low

Likelihood		Consequence: Negligible 1	Minor 2	Moderate 3	Major 4	Catastrophic 5
Likelihood	5 Almost certain	Moderate 5	High 10	Extreme 15	Extreme 20	Extreme 25
	4 Likely	Moderate 4	High 8	High 12	Extreme 16	Extreme 20
	3 Possible	Low 3	Moderate 6	High 9	High 12	Extreme 15
	2 Unlikely	Low 2	Moderate 4	Moderate 6	High 8	High 10
	1 Rare	Low 1	Low 2	Low 3	Moderate 4	Moderate 5

Ref No	I.T	RISK FACTORS Post mitigation: Likelihood	Impact	Risk Score	Mitigation actions
1	Cyber Security	3	4	12	Working through SAM for compliance workplan. Implementing MFA. Disaster recovery Testing User awareness training FMIS upgrade
2	Resourcing	4	2	8	Staff recruitment is challenging for technical roles due to increased demand. Non-critical projects and planned improvements have been rescheduled to account for lack of resources.
3	Project Delivery	3	2	6	Delays in delivery of planned projects due to Covid and increased BAU impacting internal resourcing.
4	Supply Chain	3	2	6	Access to new computer equipment has been challenging due to constraints in the supply chain because of Covid. Adjustments to our ordering timelines have been made to allow for these delays
5	Cost Control	2	2	4	Currently all costs are in line with forecasted budgets.

Information Services budgets

		Actual (A) (YTD)	Projection (P) (YTD)	Budget (B) (full Year)	Variance (B-A)
IM	Income	$2,405,720	$2,907,262	$2,922,262	$516,542
	Expenditure	$2,641,424	$3,428,786	$3,437,906	$796,482
	Capital	$128,815	$449,432	$1,035,210	$906,395
KM	Income	$601,325	$761,075	$761,075	$159,750
	Expenditure	$491,265	$673,694	$629,003	$137,738
GIS	Income	$245,036	$354,204	$354,204	$109,168
	Expenditure	$245,036	$267,961	$267,961	$22,925

IM Capital variance due to timing for the FMIS being moved to April 2023 and HRIS full deployment falling between 2022 and 2023 financial years. The full year budget was reforecast to account for these delays

KM expenditure is higher due to how the LIM income split was originally budgeted.
All other income and expenditure lines are on track to budget.

Strategic priorities

- Financial Management Information System (FMIS) replacement
- migration of Geographical Information System (GIS) from Hexagon to Esri
- Pathway UX
- cyber security
- shared services (ICC, ES, GDC, CDC, SDC)
- digital strategy
- IT policies, processes and procedures
- online services.

Information management

- implemented new team structure
- Property officer vacancy filled by Tracy Irwin
- Information management team leader vacancy
- 45 LIMs issued, and 208 property file requests were actioned
- document management system upgrade.

Information technology

- implemented new team structure
- information technology team leader vacancy
- email migration to cloud
- new user setup
- Service desk
- area office networking upgrades.

Information systems

- implemented new team structure
- setting up new online services
- FMIS design workshops
- Testing Pathway upgrade and new UX interface
- Preparation of dog registration
- System integration between Pathway and RM8.

GIS

- implemented new team structure
- Migration of utilities data to Esri.

Cyber security

- disaster recovery planning for simulation test.
- remote access MFA rollout to contractors
- security patching
- Acceptable Use Policy.

Health and safety

- staff have completed all H&S modules and there have been no incidents reported for the period.

Update to policy on remission and postponement of rates on Maori freehold land

Record no: R/22/5/20275
Author: Nicole Taylor, Finance development co-ordinator
Approved by: Anne Robson, Chief financial officer

☐ Decision ☒ Recommendation ☐ Information

Purpose

1 This report requests that the Finance and Assurance Committee (the Committee) endorse updates to the policy on Remission and Postponement of Rates on Māori Freehold Land (the Policy) following the enactment of the Local Government (Rating of Whenua Maori) Amendment Act 2021.

Executive summary

2 The Council has an existing Policy on Remission and Postponement of Rates on Māori Freehold Land (attachment A).

3 This policy enables Council to consider remitting up to 100% of rates (excluding service rates like water/sewerage/rubbish) on Māori freehold land (MFL) where the land is not occupied by a dwelling, out-building or commercial building; and not used for economic benefit.

4 In early 2021 legislation was passed amending the Local Government Act (LGA) and the Local Government (Rating) Act 2002 (LGRA) to (among other things):

- make unused MFL and land that is subject to a Nga Whenua Rahui Kawenata (conservation covenant) non-rateable from 1 July 2021
- provide Council with the ability to write off rates arrears on unused MFL from 1 July 2021
- provide that, from 1 July 2022, the Council's policy on the remission and postponement of rates on MFL must support the principles set out in the Preamble to Te Ture Whenua Maori Act 1993 (TTWMA)
- require Council to consider applications for remission of rates on MFL under development
- enable individual homeowners of Māori land to be rated separately
- enable multiple land blocks from one parent block of Maori land to be treated as one rating unit.

5 The Council needs to update its existing policy to reflect these changes and is required to review and amend or replace its existing policy by 1 July 2022.

6 Staff have carried out a review of the existing policy and are proposing a number of administrative amendments for 1 July 2022 to reflect the new legislative requirements and simplify the policy. The changes are shown in the tracked changes version of the draft policy in attachment B.

7 Staff have also identified a number of other potential enhancements to the policy flowing out of the legislative changes that will require further investigation and discussion with Council and interested/affected parties before being included in any draft policy for public consultation.

8 Given the legislative requirement to review the policy for legislative compliance by 1 July 2022, staff are proposing that these wider changes form part of a secondary review to be carried out over the next 12 months. This approach ensures that the legislative deadline is met whilst ensuring that there is no change to how any MFL currently receiving remission is rated.

9 As such, the key changes being proposed to the policy at this stage include:

- recognising the principles in the Preamble to Te Ture Whenua Maori Act 1993 Act (TTWMA) in the purpose and background of the policy
- including a new remission condition to acknowledge the new statutory remission process (in section 114A of the LGRA, as inserted in 2021) which provides that the Council must consider an application for rates remission on MFL that is being developed, where the development is likely to have certain economic or social benefits.

10 In addition, staff note that while most of the MFL with rate remissions under the existing policy will now be considered unused and therefore non-rateable, the existing remission (for land that is not occupied by a dwelling, out-building or commercial building; and not used for economic benefit) has been retained to ensure that there is no change in the existing rates relief provided until a fuller review is carried out.

11 As such, staff are proposing that Council adopt an amended Policy on Remission and Postponement of Rates on Māori Freehold Land from 1 July 2022 as attached.

Recommendation

That the Finance and Assurance Committee:

a) receives the report titled "Update to policy on remission and postponement of rates on Maori freehold land " dated 9 June 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 to endorse the draft Policy on Remission and Postponement of Rates on Māori Freehold Land incorporating the amendments detailed in attachment B of the officer's report.

e) agrees to recommend to Council that Council adopt the amended draft Policy on Remission and Postponement of Rates on Māori Freehold Land.

f) notes that a comprehensive review of the Policy on Remission and Postponement of Rates on Māori Freehold Land policy will be carried out within the next 12 months to explore what opportunities exist to further promote the principles in the Preamble to the Te Ture Whenua Maori Act 1993 around the retention, use, development, and control of Maori land as taonga tuku iho by Maori owners, their whanau, their hapu, and their descendants, and that protects wahi tapu.

Background

12 The Council has an existing Policy on Remission and Postponement of Rates on Māori Freehold Land (attachment A), adopted in 2017. The policy outlines the circumstances under which Council will consider remitting up to 100% of rates (excluding service rates like water/sewerage/rubbish) on Maori freehold land (MFL).

13 MFL is land whose beneficial ownership has been determined by the Māori Land Court by freehold order. There are 332 rating units of MFL in Southland district. Most are located in Stewart Island/Rakiura, Ruapuke Island and around Riverton/Aparima, Colac Bay, Te Waewae/Rowailan, Waikawa and Waimumu. The total capital value of this land is around $66 million. The majority of these properties are either non-rateable or receive 100% remission (excluding service rates). In the 2021/22 rating year Council set rates of around $41,000 (including GST) on this land.

14 The Local Government (Rating of Whenua Maori) Amendment Act 2021 became law during 2021. Changes required by the new Act are being phased in between the implementation date, 12 April 2021, and the adoption of the Long Term Plan 2024-2034. The changes are part of the government's wider commitment to supporting whānau and regional development through whenua by;

- reducing the barriers for owners of MFL who want to use, occupy, build houses on, and develop their whenua, particularly for those who have rates arrears
- stimulating regional development through fully utilising and developing Māori land
- providing greater consistency, equity and clarity around the rating of Māori land for the benefit of Māori landowners and local authorities.

15 The key legislated changes to the Local Government Act 2002 (LGA) and the Local Government (Rating) Act 2002 (LGRA) are highlighted in attachment C.

16 Section 102 of the LGA now requires that a number of Council funding and financing policies support the principles set out in the Preamble to Te Ture Whenua Maori Act 1993 (TTWA).

Te Ture Whenua Maori Act 1993 (TTWMA) - Preamble

Nā te mea i riro nā te Tiriti o Waitangi i motuhake ai te noho a te iwi me te Karauna: ā, nā te mea e tika ana kia whakaūtia anō te wairua o te wā i riro atu ai te kāwanatanga kia riro mai ai te mau tonu o te rangatiratanga e takoto nei i roto i te Tiriti o Waitangi: ā, nā te mea e tika ana kia mārama ko te whenua he taonga tuku iho e tino whakaaro nuitia ana e te iwi Māori, ā, nā tērā he whakahau kia mau tonu taua whenua ki te iwi nōna, ki ō rātou whānau, hapū hoki, a, a ki te whakangungu i ngā wāhi tapu hei whakamāmā i te nohotanga, i te whakahaeretanga, i te whakamahitanga o taua whenua hei painga mō te hunga nōna, mō ō rātou whānau, hapū hoki: ā, nā te mea e tika ana kia tū tonu he Te Kooti, ā, kia whakatakototia he tikanga hei āwhina i te iwi Māori kia taea ai ēnei kaupapa te whakatinana.

Whereas the Treaty of Waitangi established the special relationship between the Maori people and the Crown: And whereas it is desirable that the spirit of the exchange of kawanatanga for the protection of rangatiratanga embodied in the Treaty of Waitangi be reaffirmed: And whereas it is desirable to recognise that land is a taonga tuku iho of special significance to Maori people and, for that reason, to promote the retention of that land in the hands of its owners, their whanau, and their hapu, and to protect wahi tapu: and to facilitate the occupation, development, and utilisation of that land for the benefit of its owners, their whanau, and their hapu: And whereas it is desirable to maintain a court and to establish mechanisms to assist the Maori people to achieve the implementation of these principles.

17 Section 2(2) of TTWA provides some further guidance that "*without limiting the generality of subsection (1), it is the intention of Parliament that powers, duties, and discretions conferred by this Act shall be exercised, as far as possible, in a manner that facilitates and promotes the retention, use, development, and control of Maori land as taonga tuku iho by Maori owners, their whanau, their hapu, and their descendants, and that protects wahi tapu*".

18 Council is required to consider how these principles can be supported when developing the revenue and financing policy, the policy on development contributions or financial contributions, the policy on the remission and postponement of rates on Maori freehold land adopted under subsection (1) and any rates remission policy or rates postponement policy adopted under subsection (3).

19 The effective date for updating policies is being phased in, with the changes required at the earlier of the first review of each policy and 1 July 2024. The exception is the policy for remission and postponement of rates on Maori freehold land. Council must review and if needed, amend or replace its policy for compliance with this requirement by 1 July 2022.

20 Other changes introduced by the Amendment Act include:

- **making wholly unused Maori freehold land non-rateable** (section 8 and clause 14A of Schedule 1 Part 1 of LGRA). Non-rateability means that targeted rates for services (sewerage, water, rubbish/recycling) will still be set on that land, but other rates are not set on the land;
- making land that is subject to a **Nga Whenua Rahui Kawenata (conservation covenant) non-rateable** (clause 1A of Schedule 1 Part 1 of LGRA);
- introducing a statutory remission process for **Maori freehold land under development** which gives land owners the right to apply in writing for a rates remission when land is under development irrespective of whether Council has a policy for this (section 114A of the LGRA in attachment C);
- providing for the creation of **separate rating areas** where individual owners can choose to have their house rated separately to the balance of the land as if it were a separate rating unit (section 98A of the LGRA);
- enabling **multiple land blocks from one parent block to be treated as one rating unit** (section 20A of the LGRA);
- requiring Council to **write-off rates arrears** on all Maori freehold land that is considered to be unrecoverable, including rates debt on land inherited from deceased owners (section 90A and 90B of the LGRA);

21 While most of these changes are dealt with outside of the policy, some changes are needed to the existing policy to ensure that it complies with the new requirements.

22 Staff have carried out a review of the existing policy and are proposing a number of administrative amendments to reflect the new legislative requirements and simplify the policy. The proposed amendments are shown using tracked changes in attachment B.

23 The key changes to the policy include:

- extending the policy purpose and background sections to recognise the principles in the Preamble to Te Ture Whenua Maori Act 1993 Act (TTWMA)
- acknowledging the new statutory remission process (in section 114A of the LGRA) which provides that the Council must consider an application for rates remission on MFL that is being developed, where the development is likely to have certain economic or social benefits (as detailed in section 3.1.2 of the draft policy)
- retaining the existing remission provision in section 3.1.1 to ensure any properties that currently receive remission that are not unused (and therefore non-rateable under the Schedule 1 Part 1 of the LGA) can continue to receive remissions
- simplifying and aligning the wording on remission on penalties on MFL (section 3.1.3) with the Council's general land rate remission policy
- amending the existing policy to remove reference to any rates administration sections of the LGRA (which have also been modified by the legislative changes)
- combining the information about the applications process under a single heading (section 3.3)

- including reference to the Council's policy on remission and postponement of rates on general land.

24 While staff have also identified a number of other potential enhancements to the policy and processes flowing out of the legislative changes, these changes will require further investigation and discussion with Council and interested/affected parties before being included in a draft policy for consultation.

25 Given the Council must review the policy for legislative compliance by 1 July 2022, staff are proposing that these wider changes form part of a secondary review to be carried out over the next 12 months. This approach will ensure that the legislative deadline is met whilst ensuring that there is no change to how any MFL is currently rated in the meantime.

26 As detailed in the community views section below, staff have spoken with Te Ao Marama representatives about this proposed approach.

Issues

Remission of rates for Maori freehold land generally

27 In considering whether to provide rate relief on MFL in developing its policy, Council is required to consider the matters and objectives listed in schedule 11 of the LGA. The Council's current policy includes all objectives as per the Act and states that it will provide for remission of rates/penalties on MFL that is:

- not occupied by a dwelling, out-building or commercial building; and
- not used for economic benefit.

28 Changes resulting from the new legislation have largely made this existing policy irrelevant as most of the land that previously had rates remitted under the policy is now likely to be considered unused and non-rateable (clause 14A of Schedule 1 Part 1 of LGRA).

29 *For the purposes of clause 14A:*

(a) a rating unit is unused if—

(i) there is no person actually using any part of the rating unit; or

(ii) the entire rating unit is used in a similar manner to a reserve or conservation area and no part of the rating unit is—

(A) leased by any person; or

(B) used as residential accommodation; or

(C) used for any activity (whether commercial or agricultural) other than for personal visits to the land or personal collections of kai or cultural or medicinal material from the land; and

(b) a rating unit must not be treated as being used solely because a person is a participant under the Climate Change Response Act 2002 in respect of an activity relating to the rating unit.

30 This is an important change in approach as rates remissions on these properties were previously at the discretion of the Council and granted on a temporary basis, whereas non-rateability provides more certainty for owners of unused MFL.

31 However, given that staff have not carried out a full review of current remissions to ensure that <u>all</u> remissions would now be non-rateable, it is appropriate to retain the existing

conditions/criteria to ensure that there is no material change to the rateability of individual properties in the meantime (refer section *3.1.1 Remission of rates on Maori freehold land generally*).

32 While the Council's policy is currently quite broad in terms of the matters that Council will consider remission for (being those outlined in LGA Schedule 11), the remission conditions are more restrictive.

33 The Council could amend/widen/narrow the specific remission conditions further including considering what changes to the policy/process may be needed to better reflect the principles set out in the Preamble to TTWA. However, given the limited timeframe for legislative compliance and the likely need to publicly consult on such changes, staff are recommending this type of review be carried out over the next 12 months to allow time for engagement with interested/affected parties as well as public consultation.

34 Remission for Maori freehold land under development

35 Under the new legislation, Council must also consider rate remission applications for MFL under development (section 114A LGRA). The aim is to facilitate the occupation, development, and utilisation of Māori freehold land for the benefit of its owners.

36 While Council is not required to include such a remission in its policy, staff believe it makes sense to do so and have added this into the updated draft policy as section *3.1.2 Remission of rates on Maori freehold land under development*.

37 Council may remit all or part of the rates on MFL if it is satisfied that the development is likely to have one or all of the following economic or social benefits (section 114A(3) LGRA):

- benefits to the district by creating new employment opportunities
- benefits to the district by creating new homes
- benefits to the Council by increasing the Council's rating base in the long term
- benefits to Māori in the district by providing support for marae in the district
- benefits to the owners by facilitating the occupation, development, and utilisation of the land

38 Council is not obliged to remit rates for MFL under development and retains flexibility to determine the extent of remission and whether to include any specific any conditions/criteria.

39 While the legislation does not prevent Council from including additional criteria in the policy when determining remissions for MFL under development (e.g. remission period, remission value and any exclusions), staff have kept the proposed policy within the legislation considerations given the limits on consultation being proposed at this stage.

40 Staff expect that this will be considered further as part of the next stage of the review.

Factors to consider

Legal and statutory requirements

41 Changes to the LGA and the LGRA require that Council's policy must support the principles in the Preamble to the TTWMA.

42 The LGRA also requires Council to consider any request for remission for MFL under development.

43 While Council has policies on the remission and postponement of rates on MFL, this policy doesn't specifically address each area of development set out in section 114A of the LGRA or the Preamble.

44 The LGRA (s114) specifies that if a Council wishes to introduce and apply a remission and/or postponement of rates on MFL, it must first introduce policies that provide for this. The LGA (s102) specifies that Council can amend its policy at any time after consulting on the proposed amendments in a manner that gives effect to the principles of consultation under section 82 of the LGA.

45 Under LGA section 82(3) and 82(4) Council in exercising its discretion under section 82 must have regard to the extent to which current views of persons who may be affected by or have an interest in the matter are known, the significance and likely impact on the decision of those who may be affected or interested, and the costs and benefits of any consultation process or procedure.

46 Staff believe that it is appropriate/reasonable to make these changes despite limited consultation with affected parties (primarily via a representative of Te Ao Marama), given that the changes proposed:

- are mainly administrative changes to meet new legislative requirements
- do not change the objectives, conditions or criteria for any current remissions available for MFL
- do not impinge/alter any existing remissions provided for MFL in the policy
- ensure that all current remissions and new legislated remissions are included in the policy for ease of use
- do not impact the existing rights of affected parties.

47 In making these administrative changes to the existing policy, staff consider that the nature and significance of the decision in the matter, and likely impact from persons who will and may be affected or have an interest in this matter, are of low impact. This is particularly in relation to there being no changes to the current conditions or criteria for remissions available. There is some risk associated with this however, whereby Council has only undertaken limited consultation with interested parties to meet new legislative requirements.

48 In light of this, staff consider it appropriate, following the adoption of this policy to meet legislative requirements, to undertake a comprehensive review of this policy within the next 12 months to ensure that Councils' policy is fully supporting and committed to reducing rating barriers for Māori landowners.

49 This review would not be limited by the 1 July 2022 date and would focus on looking at the principles behind the legislative changes and what forms of remission/postponement may be appropriate. This would also provide an opportunity to consider how the processes surrounding the policy could be improved (e.g. access to information about remissions, developing application processes/forms, reviewing how applications are considered and by whom).

Community views

50 Staff have spoken with Te Ao Marama representatives to ensure that making administrative changes to this policy to meet legislative requirement is appropriate given the time available.

51 Te Ao Marama kaimahi (staff) are supportive of this approach in principle, on the basis that further review work is undertaken over the next 12 months, and that timely engagement is sought with Rūnanga and landowners throughout this process.

52 Staff will work closely with Te Ao Marama kaimahi to shape engagement for the review of this policy, and early in the new financial year will discuss timing and process to begin the comprehensive review.

53 Representatives from Te Ao Marama have recently been asked to provide feedback on the proposed changes and have also been invited to attend and speak to this item and proposed amendments to the existing policy. Any feedback received will be verbally presented at the meeting.

54 No other community views have been sought in relation to making a decision to amend the existing policy to meet new legislative requirements.

55 When this policy was last reviewed in 2017 Council received one submission from an individual around rates remission for land that has no road access and that land other than MFL should also be eligible for rates remission.

Costs and funding

56 Rate remissions reduce the income received by the Council for the period the remission is granted. This reduction in income is already allowed for in the Council's financial planning (including the rates funding impact statement in the Annual Plan) and associated rate setting process.

57 While there is potential for Council's income to reduce further given that MFL under development is now able to apply for rate remission, the financial impact is expected to be minor and temporary. This is because most undeveloped/unused land is currently non-rateable and any remission on land under development is only likely to be granted for the period of development.

58 The financial impact of any proposed remission for MFL under development will be considered in more detail once an application has been received. Any remissions granted will then be incorporated into the relevant financial planning processes/documents.

Policy implications

59 The main change to the policy is the requirement to consider rate remission applications for MFL under development. The legislation does not prevent additional criteria being included in the policy about when remissions will be considered for MFL under development. As such Council retains flexibility to determine the extent of remission.

60 While Council could set out a remission period, remission value and any exclusions (e.g. about what land under development doesn't include), staff have left these areas open at this stage, given the limits on consultation undertaken detailed above.

61 The implications of particular issues are discussed further in other parts of this report.

Analysis

Options considered

62 Staff have identified two practicable options:

- Option 1 – that the committee endorses the proposed policy to Council
- Option 2 – that the committee endorses an amended policy or alternative policy to Council

Analysis of Options

Option 1 – that the committee endorses the proposed policy to Council

Advantages	*Disadvantages*
• complies with the legislative requirement to review, and (if necessary) amend, the policy on the remission and postponement of rates on Māori freehold land before 1 July 2022 to ensure these policies show support for the principles in the Preamble to the TTWMA • incorporates the legislative requirement to consider applications for rate remission on MFL under development • removes references to rating requirements which are either administrative and not required in the policy or are out of date due to changes in legislation or delegated roles/responsibilities • is in line with the approach supported by key stakeholders to make administrative changes now with a fuller review to follow • allows more time to consider how the policy can further support the principles in the Preamble.	• doesn't consider wider changes to the policy which may further promote the principles in the Preamble to TTWMA • limited consultation undertaken to identify views of interested parties • provides no guidance on whether applications for remission on MFL under development will be granted and for how long.

Option 2 – that the committee endorses an amended policy or alternative policy to Council

Advantages	*Disadvantages*
• amended/expanded policies may better reflect the Council's view • complies with the legislative requirement to review, and (if necessary) amend, the policy on the remission and postponement of rates on Māori freehold land before 1 July 2022 to ensure these policies show support for the principles in the Preamble to the TTWMA • incorporates the legislative requirement to consider applications for rate remission on MFL under development • depending on the nature of the changes, may remove references to rating requirements which are either administrative and not required in the policy or are out of date due to changes in legislation or delegated roles/responsibilities • the approach to make administrative changes now with a fuller review to follow has been supported by key stakeholders.	• amended policies may introduce material which key stakeholders have not had an opportunity to consider or comment on • amended policies may significantly alter or restrict the scope of existing remissions or legislative changes • doesn't consider wider changes to the policy which may further promote the principles in the Preamble to TTWMA • limited consultation undertaken to identify views of interested parties • provides no guidance on whether applications for remission on MFL under development will be granted and for how long.

Assessment of significance

63 This matter has been assessed as being of lower significance in relation to Council's Significance and Engagement Policy and the LGA given that the nature of the changes proposed at this stage:

- are administrative
- do not alter any of the current remissions for individual MFL
- result from specific legislative changes which require Council to consider applications on MFL under development irrespective of its policy
- identify the need for a fuller second stage review, in conjunction with those likely to be interested in or affected by the policy, to explore what opportunities exist to further promote the principles in the Preamble to the TTWMA around the retention, use, development, and control of Maori land as taonga tuku iho by Maori owners, their whanau, their hapu, and their descendants, and that protects wahi tapu.

64 In making this assessment, staff have also taken into account the feedback provided by representatives of Te Ao Marama supporting the proposed two stage review approach. The second stage of the review is likely to be of greater interest to stakeholders/community and as such, of higher significance.

Recommended option

65 It is recommended that the committee proceed with Option 1 – that the committee endorses the proposed policy to Council.

Next steps

66 The report and amended policy are scheduled to be adopted by Council on 22 June 2022.

67 With a tight timeframe between the committee meeting and circulation of the Council meeting agenda, there may not be sufficient time to incorporate any changes or feedback from the committee into the agenda. As such, staff will provide a verbal update to the Council at its June meeting on the committee's feedback and recommendations.

68 Following the adoption of a policy to meet the legislative requirements by 1 July 2022, staff will initiate a full review of the policy in line with the principles of consultation under section 82 of the LGA, and will work closely with Te Ao Marama kaimahi to determine an engagement approach with affected/interested parties prior to consultation.

Attachments

A Current Remission and Postponement of Rates Policy on Maori Freehold Land (2017) ⇩

B Amended draft Remission and Postponement of Rates on Maori Freehold Land Policy with changes tracked (2022) ⇩

C Extract of key 2021 legislative changes related to rates remission and postponement on Maori Freehold Land ⇩

SOUTHLAND
DISTRICT COUNCIL

Remission and Postponement of Rates on Māori Freehold Land

Southland District Council
Te Rohe Pōtae o Murihiku

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Document Revision

Date	Amendment	Amended by	Approved by	Approval date
23 February 2017		Community and Futures	Council	1 July 2017

1. Purpose

Southland District Council has developed the Remission and Postponement of Rates on Māori Freehold Land Policy (the Policy) to ensure fair and equitable collection of rates from all sectors of the community. The Policy recognises that certain Māori-owned lands have particular features, ownership structures or other circumstances that make it appropriate to provide rates relief.

The Policy provides the framework for granting remissions and postponements for the payment of rates and penalties on Māori freehold land, as is adopted under Section 102(2)(e) and Section 108 of the Local Government Act (2002).

2. Definitions and Abbreviations

Term	Meaning
LGA	Local Government Act (2002)
LGRA	Local Government (Rating) Act (2002)
Maori freehold land	Land whose beneficial ownership has been determined by the Māori Land Court by freehold order.
Service Rates	Sewerage and water rates, recycling and rubbish bin collection rates
Waahi Tapu	Place sacred to Māori in the traditional, religious, ritual or mythological sense.

3. Policy Details

3.1 Background

The Southland District Council carries out its rating function in accordance with the requirements of the LGRA and the LGA.

All Māori freehold land in the Southland District is liable for rates in the same manner as if it were general land (as per section 91 LGRA).

Māori Freehold land is defined in the LGRA as land whose beneficial ownership has been determined by a freehold order issued by the Māori Land Court. Only land that is the subject of such an order may qualify for remission or postponement under this policy.

Whether rates are remitted in any individual case will depend on the individual circumstances of each application. Schedule 11 of the LGA identifies the matters which must be taken into account by Council when considering rates relief on Māori freehold land.

When considering the objectives listed below Council must take into account:

- the desirability and importance of the objectives (3.2) to the District; and
- whether remitting the rates would assist attainment of those objectives.

3.2 Objectives

The objectives of rates remission and postponement on Māori freehold land by Council are:

(a) supporting the use of the land by the owners for traditional purposes;
(b) recognising and supporting the relationship of Māori and their culture and traditions with their ancestral lands;
(c) avoiding further alienation of Māori freehold land;
(d) facilitating any wish of the owners to develop the land for economic use;
(e) recognising and taking account of the presence of Waahi Tapu that may affect the use of the land for other purposes;
(f) recognising and taking account the importance of the land in providing economic and infrastructure support for marae and associated papakainga housing (whether on the land or elsewhere);
(g) recognising and taking account of the importance of the land for community goals relating to:
    i. the preservation of the natural character of the coastal environment,
    ii. the protection of outstanding natural features,
    iii. the protection of significant indigenous vegetation and significant habitats of indigenous fauna;
(h) recognising the level of community services provided to the land and its occupiers;
(i) recognising matters related to the physical accessibility of the land.

3.3 Conditions and Criteria for the Postponement and Remission of Rates on Māori Freehold Land

Conditions for the rates to receive rates remission include for defined Māori freehold land to be:

- Māori freehold land as set out in the definitions
- not occupied by a dwelling, out-building or commercial building; and
- not used for economic benefit.

Applications for remission of rates on Māori freehold land must be made in writing, and should include:

- a description of the size, position and current use of the land,
- an indication of the ownership and documentation that shows the land which is subject to the application for rates remission is Māori freehold land,
- outline future plans for the land (if any),
- sources and level of income generated by the land (if any),
- financial accounts if requested,
- outline the reason for the request,
- describe how the application meets any one or more of the objectives listed in 3.2.

Council may grant a remission of up to 100% of all rates, except Service Rates.

3.4 Postponement of Rates

Council does not postpone rates for Māori freehold land; however, it will remit 100% of rates (excluding Service Rates) on application, if the application meets the criteria set out in 3.3.

3.5 Remission of Penalties

Remission on rates penalties on Māori freehold land will be subject to application meeting the criteria set out in 3.3. Each application will be considered on its merits and remission will be granted where it is considered just and equitable to do so.

Where significant arrears exist, penalties may be remitted whilst regular payments are made to reduce the arrears balance.

Decisions on remission of penalties will be made on the same basis as remission of rates, with the delegated authority to remit penalties being given to the Chief Financial Officer, with recommendations from the Finance Manager.

3.6 Remission of Rates

An application for remission of rates must be considered by the Chief Financial Officer.

All rates on Māori freehold land whose owners name or names (or the name of the lessee) appears on the valuation roll (under Section 92 of the LGRA) will be collected in the usual manner of rate collection and follow up.

All rates, rates arrears and penalties on Māori freehold land vested in trustees will be collected from income derived from that land and held by the trustees for the beneficial owners, but limited to the extent of the money derived from the land and held by the trustees on behalf of the beneficial owner or owners (as per Section 93 LGRA).

For Māori freehold land, any person who actually uses the land whether for residing, farming, storage or any other use, whether they have a lease or not, is liable to pay the rates (as per Section 96 LGRA). The rates invoice will be delivered to that person and the rates will be collected in the usual manner. Section 97 of the LGRA provides for the person to be treated as having used the whole of the land for the whole financial year, unless they can establish otherwise.

Rates arrears on Māori freehold land shall be reviewed annually and amounts determined by Council as uncollectible shall be written off (for accounting purposes) on such land.

3.7 Existing decisions on Māori Freehold land

Any decisions made by Council regarding rates remissions on Māori freehold land before 1 July 2017 remain recognised by Council.

3.8 Length of decision

Decisions regarding rates remission on Māori freehold land remain in perpetuity, unless the land becomes occupied or used for economic benefit. In this case, it is expected that the landowners would advise Council of the change in land use. If there is evidence of the use of the land for occupation or economic benefit, Council may request financial statements regarding the property in order to review a decision. Reviews of decisions regarding rates remission for Māori freehold land will be made by the Chief Financial Officer.

4. Roles and Responsibilities

Party/Parties	Roles and Responsibilities
Finance Manager	Receive applications and make recommendations to Chief Financial Officer for remission of rates on Māori freehold land.
	May request financial statements regarding the property if there is evidence that the land is occupied or being used for economic benefit.
	May write off rates if the application is accepted
Chief Financial Officer	Accept or decline applications for remission of rates on Māori freehold land. Review applications, if applicable, for remission of rates on Māori freehold land.

5. Associated Documents

- Local Government Act (2002),
- Local Government (Rating) Act (2002)

SOUTHLAND DISTRICT COUNCIL

Remission and Postponement of Rates on Māori Freehold Land Policy (DRAFT SHOWING CHANGES)

Group responsible:	**Finance**
Date approved:	**~~23 February 2017~~22 June 2022 (expected date)**
Effective from:	**1 July 2022~~17~~ (expected date)**
File no:	**R/19/4/6301~~R/16/8/13717~~**

~~1.~~ Purpose

The Policy recognises that certain Māori-owned lands have particular features, ownership structures or other circumstances that make it appropriate to provide rates relief.

Southland District Council has developed the Remission and Postponement of Rates on Māori Freehold Land Policy (the Policy) to respond to those differences in ways that encourage the long term retention, use and enjoyment of Māori freehold land by its owners and ensure fair and equitable collection of rates from all sectors of the community.

The Policy provides the framework for granting remissions and postponements for the payment of rates and penalties on Māori freehold land. The policy~~, as~~ is prepared in accordance with~~adopted under~~ ~~S~~section 102(2)(e), section 102(3A) and ~~s~~Section 108 of the Local Government Act (2002) and section 114 and 114A of the Local Government (Rating Act) 2002.

~~2.~~ Definitions and Abbreviations

TERM	MEANING
LGA	Local Government Act (2002)
LGRA	Local Government (Rating) Act (2002)
Māori freehold land	Land whose beneficial ownership has been determined by the Māori Land Court by freehold order.
Postponement	Delay in the payment of rates
Remission	Reduction in the amount of rates to be paid
Service Rates	Sewerage and water rates, recycling and rubbish bin collection rates
TTWMA	Te Ture Whenua Maori Act 1993
Wāhi Tapu	Place sacred to Māori in the traditional, religious, ritual or mythological sense.

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~~3.~~ Policy Details

1. Background

Māori freehold land is defined in the LGRA as land whose beneficial ownership has been determined by a freehold order issued by the Maori Land Court.

Māori freehold land is recognised in the principles set out in the Preamble to the Te Ture Whenua Maori Act 1993 as a taonga tuku iho of special significance to Maori and, for that reason, to promote the retention of that land in the hands of its owners, their whanau, and their hapu, and to protect wahi tapu: and to facilitate the occupation, development, and utilisation of that land for the benefit of its owners, their whanau, and their hapu.

The Southland District Council carries out its rating~~function~~ and financial policy functions in accordance with the requirements of the LGRA and the LGA in a manner that supports these principles.

All Māori freehold land in the Southland District is liable for rates in the same manner as if it were general land (as per section 91 LGRA).

Only land that is the subject of a freehold order issued by the Maori Land Court ~~such an order~~ may qualify for remission or postponement under this policy.

Council has identified a series of objectives for providing rate relief on Māori freehold land in section 2. These are consistent with Schedule 11 of the LGA as ~~identifies~~ the matters which Council must ~~be~~ take~~n~~ into account ~~by Council~~ when considering rates relief on Māori freehold land.

Whether rates are remitted in any individual case will depend on the individual circumstances of each application.

When considering the objectives listed below Council must take into account:

- the desirability and importance of the objectives (~~3.~~2) to the District; and
- whether remitting the rates would assist attainment of those objectives.

Council also has a **Rates Remission and Postponement Policy** which applies to all general land rather than specifically to Māori freehold land. Nothing in this Policy prevents owners of Māori freehold land from applying for a rates remission under that Policy (e.g. a not-for-profit community organisation providing services from Māori freehold land might apply for a remission under that policy). However, two rates remissions will not be given in respect of the same rates.

2. Objectives

The objectives of rates remission and postponement on Māori freehold land by Council are:

(a) supporting the use of the land by the owners for traditional purposes;
(b) recognising and supporting the relationship of Māori and their culture and traditions with their ancestral lands;
(c) avoiding further alienation of Māori freehold land;
(d) facilitating any wish of the owners to develop the land for economic use;

(e) recognising and taking account of the presence of Wā~~a~~hi Tapu that may affect the use of the land for other purposes;
(f) recognising and taking account the importance of the land in providing economic and infrastructure support for marae and associated papakainga housing (whether on the land or elsewhere);
(g) recognising and taking account of the importance of the land for community goals relating to:
  i. the preservation of the natural character of the coastal environment,
  ii. the protection of outstanding natural features,
  iii. the protection of significant indigenous vegetation and significant habitats of indigenous fauna;
(h) recognising the level of community services provided to the land and its occupiers;
(i) recognising matters related to the physical accessibility of the land.

3~~.3~~ Conditions and Criteria for the Remission and Postponement of Rates on Māori Freehold Land

3.1 Remission

3.1.1 Remission of rates for Māori freehold land generally

This remission is intended for land that is not considered to be unused and non-rateable under clause 14A of Part 1 of Schedule 1 of the LGRA, but still meets the following ~~C~~conditions ~~for the rates to receive rates remission include for defined Māori freehold land to be~~:

- Māori freehold land as set out in the definitions
- not occupied by a dwelling, out-building or commercial building; and
- not used for economic benefit; and
- will promote the Council's objectives for remission (2)~~.~~

Council may grant a remission of up to 100% of all rates, except Service Rates on a land area that meets these conditions.

3.1.2 Remission of rates for Māori freehold land under development

This remission is intended to facilitate the occupation, development and utilisation of Māori freehold land for the benefit of its owners in line with the requirements with section 114A of the LGRA and in a way that helps promote the objectives in section 2 above.

Council may grant a remission of up to 100% of all rates, except Service Rates on a land area that:

- is Māori freehold land as set out in the definitions
- is under development in a way that will:
  - create new employment opportunities, or
  - create new homes, or
  - increase Council's rating base in the long term, or
  - provide support for marae in the district, or
  - facilitate the occupation, development, and utilisation of the land, and
  - comply with section 114A of the Local Government (Rating) Act 2002.

Any rates remission may be calculated based on the rates that would be applicable:

a) for that portion of land in a rating unit that is under development; and
b) for the duration of a development; and
c) differently during different stages of a development; and
d) subject to any conditions specified by Council, including conditions relating to—
 (i) the commencement of the development; or
 (ii) the completion of the development or any stage of the development.

In determining what proportion of the rates to remit during the development or any stage of the development, Council will also consider:

a) if the land is being developed for a commercial purpose, when the ratepayer or ratepayers are likely to generate income from the development; and
b) if the development involves the building of one or more dwellings, when the ratepayer or any other persons are likely to be able to reside in the dwellings.

3.1.35 Remission of penalties

This remission is intended to recognise that there may be specific circumstances where there may be delays in payment of rates on Māori freehold land. This policy provides for a discretionary right to remit penalties on rates (in full or part) which meet the criteria set out in section 3 and where it is considered fair and reasonable to do so.

~~Remission on rates penalties on Māori freehold land will be subject to application meeting the criteria set out in 3.3. Each application will be considered on its merits and remission will be granted where it is considered just and equitable to do so.~~

~~Where significant arrears exist, penalties may be remitted whilst regular payments are made to reduce the arrears balance.~~

~~Decisions on remission of penalties will be made on the same basis as remission of rates, with the delegated authority to remit penalties being given to the Chief Financial Officer, with recommendations from the Finance Manager.~~

3.24 Postponement ~~of Rates~~

Council does not postpone rates for Māori freehold land; however, it will remit up to 100% of rates (excluding Service Rates) on application, if the application meets the criteria set out in section 3.13.

3.36 ~~Remission of Rates~~Application and consideration process

In general, Council will provide remission under this Policy only where an application ~~Applications for remission of rates on Māori freehold land must be~~ is made in writing. This allows Council to obtain the information it needs to make a decision. However, if Council already has sufficient information, it may grant remission without an application.~~;~~ Applications~~and~~ should ~~include~~:

- outline the reasons why relief is sought ~~for the request,~~
- describe how the application meets any one or more of the objectives listed in section ~~3.~~2,
- a description of the size, position and current use of the land,
- an indication of the ownership and documentation that shows the land which is subject to the application for rates remission is Māori freehold land~~;~~

- outline future plans for the land (if any)~~;~~
- details any sources and level of income generated by the land (if any)~~;~~
- include financial accounts if requested~~;~~

In the case of **Māori freehold land under development**, in addition to the above, applications should also be supported by details of the development as outlined in 3.1.2 including:

- the objectives or benefits expected to be provided by the development,
- the portion of land of the rating unit under development,
- the intended commencement, duration and stages of development,
- when the development is expected to generate income if the development is for a commercial purpose
- when people are expected to be able to reside in the dwellings if the development involves the building of one or more dwellings

The amount and timing of any remission provided under this policy is entirely at the discretion of Council.

Council's delegation manual details the specific responsibilities of Council and staff to make decisions in relation to rate remission and postponement on Māori freehold land. An application for remission of rates or reviews of decision regarding rate remissions ~~must~~ are generally ~~be~~ considered by the Chief Financial Officer with authority for penalty remissions delegated to other finance staff.

Any decisions made ~~by Council~~ regarding rates remissions on Māori freehold land before 1 July 2017 remain recognised by Council.

Decisions regarding rates remission on Māori freehold land generally under 3.1.1 remain in perpetuity, unless the land becomes occupied or used for economic benefit. In this case, it is expected that the landowners would advise Council of the change in land use. If there is evidence of the use of the land for occupation or economic benefit, Council may request financial statements regarding the property in order to review a decision. ~~Reviews of decisions regarding rates remission for Māori freehold land will be made by the Chief Financial Officer.~~

Decisions to grant rate remissions on Māori freehold land under development under section 3.1.2 will apply for the period indicated by Council when the application is approved. If the development is not completed within the expected timeframe, additional applications may also be made for the same development and will be assessed based on the amount of any previous remission provided, progress on the development against previous expectations and forward development plans. Council reserves the right to review the decision to remit rates on Māori freehold under development when the circumstances that led to the granting of remission have changed.

~~All rates on Māori freehold land whose owners name or names (or the name of the lessee) appears on the valuation roll (under Section 92 of the LGRA) will be collected in the usual manner of rate collection and follow up.~~

~~All rates, rates arrears and penalties on Māori freehold land vested in trustees will be collected from income derived from that land and held by the trustees for the beneficial owners, but limited to the extent of the money derived from the land and held by the trustees on behalf of the beneficial owner or owners (as per Section 93 LGRA).~~

~~For Māori freehold land, any person who actually uses the land whether for residing, farming, storage or any other use, whether they have a lease or not, is liable to pay the rates (as per Section 96 LGRA).~~

~~The rates invoice will be delivered to that person and the rates will be collected in the usual manner. Section 97 of the LGRA provides for the person to be treated as having used the whole of the land for the whole financial year, unless they can establish otherwise.~~

~~Rates arrears on Māori freehold land shall be reviewed annually and amounts determined by Council as uncollectible shall be written off (for accounting purposes) on such land.~~

~~3.7 Existing decisions on Māori Freehold land~~

~~Any decisions made by Council regarding rates remissions on Māori freehold land before 1 July 2017 remain recognised by Council.~~

~~3.8 Length of decision~~

~~Decisions regarding rates remission on Māori freehold land remain in perpetuity, unless the land becomes occupied or used for economic benefit. In this case, it is expected that the landowners would advise Council of the change in land use. If there is evidence of the use of the land for occupation or economic benefit, Council may request financial statements regarding the property in order to review a decision. Reviews of decisions regarding rates remission for Māori freehold land will be made by the Chief Financial Officer.~~

~~4. Roles and responsibilities~~

~~PARTY/PARTIES~~	~~ROLES AND RESPONSIBILITIES~~
~~FINANCE MANAGER~~	~~Receive applications and make recommendations to Chief Financial Officer for remission of rates on Māori freehold land.~~
	~~May request financial statements regarding the property if there is evidence that the land is occupied or being used for economic benefit.~~
	~~May write off rates if the application is accepted~~
~~CHIEF FINANCIAL OFFICER~~	~~Accept or decline applications for remission of rates on Māori freehold land.~~ ~~Review applications, if applicable, for remission of rates on Māori freehold land.~~

~~5.~~ Associated Documents

- Local Government Act (2002),
- Local Government (Rating) Act (2002)
- Te Ture Whenua Maori Act 1993
- Remission and Postponement of Rates Policy (2021)
- Local Government (Rating of Whenua Māori) Amendment Act 2021

Extract of key legislative changes related to rates remission and postponement on Maori Freehold Land

Local Government Rating Act 2002 (LGRA)

114A Remission of rates for Māori freehold land under development

(1) The purpose of this section is to facilitate the occupation, development, and utilisation of Māori freehold land for the benefit of its owners.

(2) A local authority must consider an application by a ratepayer for a remission of rates on Māori freehold land if—

(a) the ratepayer has applied in writing for a remission on the land; and

(b) the ratepayer or another person is developing, or intends to develop, the land.

(3) The local authority may, for the purpose of this section, remit all or part of the rates (including penalties for unpaid rates) on Māori freehold land if the local authority is satisfied that the development is likely to have any or all of the following benefits:

(a) benefits to the district by creating new employment opportunities:

(b) benefits to the district by creating new homes:

(c) benefits to the council by increasing the council's rating base in the long term:

(d) benefits to Māori in the district by providing support for marae in the district:

(e) benefits to the owners by facilitating the occupation, development, and utilisation of the land.

(4) The local authority may remit all or part of the rates—

(a) for the duration of a development; and

(b) differently during different stages of a development; and

(c) subject to any conditions specified by the local authority, including conditions relating to—

(i) the commencement of the development; or

(ii) the completion of the development or any stage of the development.

(5) In determining what proportion of the rates to remit during the development or any stage of the development, the local authority must take into account—

(a) the expected duration of the development or any stage of the development; and

(b) if the land is being developed for a commercial purpose, when the ratepayer or ratepayers are likely to generate income from the development; and

(c) if the development involves the building of 1 or more dwellings, when the ratepayer or any other persons are likely to be able to reside in the dwellings.

(6) Sections 85(2) and 86 apply to a remission made under subsection (3).

(7) This section does not limit the application of section 85 or 114 to Māori freehold land.

Section 114A: inserted, on 13 April 2021, by section 50 of the Local Government (Rating of Whenua Māori) Amendment Act 2021 (2021 No 12).

Schedule 1 - Categories of non-rateable land
Part 1 - Land fully non-rateable

1 Land forming part of—

(a) a National Park under the National Parks Act 1980:

(b) a reserve under the Reserves Act 1977:

(c) a conservation area under the Conservation Act 1987:

(d) a wildlife management reserve, wildlife refuge, or wildlife sanctuary under the Wildlife Act 1953.

1A Land that is subject to a Nga Whenua Rahui kawenata under section 77A of the Reserves Act 1977 or section 27A of the Conservation Act 1987.

Schedule 1 Part 1 clause 1A: inserted, on 1 July 2021, by section 52(1) of the Local Government (Rating of Whenua Māori) Amendment Act 2021 (2021 No 12).

2 Land vested in the Crown and forming part of—

(a) a flood ponding area:

(b) *[Repealed]*

(c) *[Repealed]*

(d) the bed of any navigable lake or navigable river.

Schedule 1 Part 1 clause 2(b): repealed, on 1 April 2011, by section 128 of the Marine and Coastal Area (Takutai Moana) Act 2011 (2011 No 3).
Schedule 1 Part 1 clause 2(c): repealed, on 1 April 2011, by section 128 of the Marine and Coastal Area (Takutai Moana) Act 2011 (2011 No 3).

3 Land that is—

(a) owned by a society or association of persons (whether incorporated or not); and

(b) used for conservation or preservation purposes; and

(c) not used for private pecuniary profit; and

(d) able to be accessed by the general public.

4 Land used by a local authority—

(a) for a public garden, reserve, or children's playground:

(b) for games and sports (except galloping races, harness races, or greyhound races):

(c) for a public hall, library, athenaeum, museum, art gallery, or other similar institution:

(d) for public baths, swimming baths, bathhouses, or sanitary conveniences:

(e) for soil conservation and rivers control purposes, being land for which no revenue is received.

5 Land owned or used by, and for the purposes of,—

(a) Heritage New Zealand Pouhere Taonga:

(b) the Queen Elizabeth the Second National Trust:

(c) the Museum of New Zealand Te Papa Tongarewa Board:

(d) the charitable trust known as Children's Health Camps—The New Zealand Foundation for Child and Family Health and Development:

(e) the Royal New Zealand Foundation of the Blind, except as an endowment.

Schedule 1 Part 1 clause 5(a): replaced, on 20 May 2014, by section 107 of the Heritage New Zealand Pouhere Taonga Act 2014 (2014 No 26).
Schedule 1 Part 1 clause 5(e): amended, on 30 April 2003, by section 28(1) of the Royal New Zealand Foundation of the Blind Act 2002 (2002 No 3 (P)).

6 Land owned or used by, and for the purposes of, any of the following as defined in section 10(1) of the Education and Training Act 2020:
(a) a State school:
(b) a State integrated school:
(c) a specialist school:
(d) a special institution:
(e) an early childhood education and care centre, except an early childhood education and care centre that operates for profit:
(f) a private school, except a registered school that operates for profit:
(g) an institution.
Schedule 1 Part 1 clause 6: replaced, on 1 August 2020, by section 668 of the Education and Training Act 2020 (2020 No 38).

7 Land owned or used by, and for the purposes of, an institution for the instruction and training of students in theology and associated subjects, being land that does not exceed 1.5 hectares for any one institution.

8 Land owned or used by a district health board and used to provide health or related services (including living accommodation for hospital purposes and child welfare homes).

9 Land used solely or principally—
(a) as a place of religious worship:
(b) for a Sunday or Sabbath school or other form of religious education and not used for private pecuniary profit.

10 Land that is used as—
(a) a cemetery, crematorium, or burial ground, within the meaning of section 2(1) of the Burial and Cremation Act 1964 (except a burial ground or crematorium that is owned and conducted for private pecuniary profit):
(b) a Māori burial ground.
Schedule 1 Part 1 clause 10: amended, on 1 July 2021, by section 52(2) of the Local Government (Rating of Whenua Māori) Amendment Act 2021 (2021 No 12).

11 Māori customary land.

12 Land that is used for the purposes of a marae, excluding any land used—
(a) primarily for commercial or agricultural activity; or
(b) as residential accommodation.
Schedule 1 Part 1 clause 12: replaced, on 1 July 2021, by section 52(3) of the Local Government (Rating of Whenua Māori) Amendment Act 2021 (2021 No 12).

13 Land that is set apart under section 338 of Te Ture Whenua Maori Act 1993 or any corresponding former provision of that Act and used for the purposes of a meeting place, excluding any land used—
(a) primarily for commercial or agricultural activity; or
(b) as residential accommodation.
Schedule 1 Part 1 clause 13: replaced, on 1 July 2021, by section 52(3) of the Local Government (Rating of Whenua Māori) Amendment Act 2021 (2021 No 12).

13A Māori freehold land on which a meeting house is erected, excluding any land used—
(a) primarily for commercial or agricultural activity; or
(b) as residential accommodation.
Schedule 1 Part 1 clause 13A: inserted, on 1 July 2021, by section 52(3) of the Local Government (Rating of Whenua Māori) Amendment Act 2021 (2021 No 12).

13B Land that is a Māori reservation held for the common use and benefit of the people of New Zealand under section 340 of Te Ture Whenua Maori Act 1993.
Schedule 1 Part 1 clause 13B: inserted, on 1 July 2021, by section 52(3) of the Local Government (Rating of Whenua Māori) Amendment Act 2021 (2021 No 12).

14 Māori freehold land that is, for the time being, non-rateable by virtue of an Order in Council made under section 116 of this Act, to the extent specified in the order.

14A An unused rating unit of Māori freehold land.
Schedule 1 Part 1 clause 14A: inserted, on 1 July 2021, by section 52(4) of the Local Government (Rating of Whenua Māori) Amendment Act 2021 (2021 No 12).

15 Machinery, whether fixed to the soil or not, but excluding, in the case of a hydro-electric power station, everything other than the turbines, generator, and associated equipment through which the electricity produced by the generator passes.

16 Land that is specifically exempt from rates under the provisions of any other enactment, to the extent specified in the enactment.

17 Land vested in the Crown or a local authority that is formed and used for a road, limited access road, access way, or service lane.

18 Land vested in and occupied by the Crown, or by any airport authority, that is—
(a) within the operational area of an aerodrome; and
(b) used solely or principally—
(i) for the landing, departure, or movement of aircraft; or
(ii) for the loading of goods and passengers on to or from aircraft.

19 Land occupied by the New Zealand Railways Corporation, or by a railway operator, that is—
(a) part of the permanent way of the railway, being land on which is sited any railway line together with contiguous areas of land that are occupied incidentally and not otherwise used; or
(b) used, solely or principally, for the loading or unloading of goods or passengers on to or from trains situated on the railway line.

20 Land used as a wharf.

21 Land used or occupied by, or for the purposes of, an institution that is carried on for the free maintenance or relief of persons in need, being land that does not exceed 1.5 hectares for any one institution.

22 Land on which any vice-regal residence or Parliament building is situated.

23 The common marine and coastal area, including any customary marine title area, within the meaning of the Marine and Coastal Area (Takutai Moana) Act 2011.
Schedule 1 Part 1 clause 23: added, on 1 April 2011, by section 128 of the Marine and Coastal Area (Takutai Moana) Act 2011 (2011 No 3).

24 The bed of Te Whaanga Lagoon in the Chatham Islands.
Schedule 1 Part 1 clause 24: added, on 1 April 2011, by section 128 of the Marine and Coastal Area (Takutai Moana) Act 2011 (2011 No 3).

25 Structures that are—
(a) fixed to, or under, or over any part of the common marine and coastal area; and
(b) owned, or deemed to be owned, by the Crown under section 18 or 19 of the Marine and Coastal Area (Takutai Moana) Act 2011; or
(c) owned by the Crown, Te Urewera Board, or the trustees of Tūhoe Te Uru Taumatua under the Te Urewera Act 2014, but subject to note 2.

Notes

4A For the purposes of clause 14A,—
(a) a rating unit is **unused** if—
(i) there is no person actually using any part of the rating unit; or
(ii) the entire rating unit is used in a similar manner to a reserve or conservation area and no part of the rating unit is—
(A) leased by any person; or
(B) used as residential accommodation; or
(C) used for any activity (whether commercial or agricultural) other than for personal visits to the land or personal collections of kai or cultural or medicinal material from the land; and
(b) a rating unit must not be treated as being used solely because a person is a participant under the Climate Change Response Act 2002 in respect of an activity relating to the rating unit.

Local Government Act 2002 (LGA)

102 Funding and financial policies

(1) A local authority must, in order to provide predictability and certainty about sources and levels of funding, adopt the funding and financial policies listed in subsection (2).

(2) The policies are—

- (a) a revenue and financing policy; and
- (b) a liability management policy; and
- (c) an investment policy; and
- (d) a policy on development contributions or financial contributions; and
- (e) a policy on the remission and postponement of rates on Māori freehold land; and
- (f) in the case of a unitary authority for a district that includes 1 or more local board areas, a local boards funding policy.

(3) A local authority may adopt either or both of the following policies:

- (a) a rates remission policy:
- (b) a rates postponement policy.

(3A) The following policies must also support the principles set out in the Preamble to Te Ture Whenua Maori Act 1993:

- (a) the revenue and financing policy, the policy on development contributions or financial contributions, and the policy on the remission and postponement of rates on Māori freehold land adopted under subsection (1):
- (b) any rates remission policy or rates postponement policy adopted under subsection (3).

(4) A local authority—

- (a) must consult on a draft policy in a manner that gives effect to the requirements of section 82 before adopting a policy under this section:
- (b) may amend a policy adopted under this section at any time after consulting on the proposed amendments in a manner that gives effect to the requirements of section 82.

(5) However, subsection (4) does not apply to—

- (a) a liability management policy:
- (b) an investment policy.

Section 102: substituted, on 27 November 2010, by section 19 of the Local Government Act 2002 Amendment Act 2010 (2010 No 124).
Section 102(2)(e): amended, on 8 August 2014, by section 37(1) of the Local Government Act 2002 Amendment Act 2014 (2014 No 55).
Section 102(2)(f): inserted, on 8 August 2014, by section 37(2) of the Local Government Act 2002 Amendment Act 2014 (2014 No 55).
Section 102(3A): inserted, on 1 July 2021, by section 77 of the Local Government (Rating of Whenua Māori) Amendment Act 2021 (2021 No 12).
Section 102(4): replaced, on 8 August 2014, by section 37(3) of the Local Government Act 2002 Amendment Act 2014 (2014 No 55).

Schedule 11

Matters relating to rates relief on Māori freehold land

ss 5(2), 108(4), 109(2), 110(2)

1 The matters that the local authority must consider under section 108(4) are—

- (a) the desirability and importance within the district of each of the objectives in clause 2; and
- (b) whether, and to what extent, the attainment of any of those objectives could be prejudicially affected if there is no remission of rates or postponement of the requirement to pay rates on Māori freehold land; and
- (c) whether, and to what extent, the attainment of those objectives is likely to be facilitated by the remission of rates or postponement of the requirement to pay rates on Māori freehold land; and
- (d) the extent to which different criteria and conditions for rates relief may contribute to different objectives.

2 The objectives referred to in clause 1 are—

- (a) supporting the use of the land by the owners for traditional purposes:
- (b) recognising and supporting the relationship of Māori and their culture and traditions with their ancestral lands:
- (c) avoiding further alienation of Māori freehold land:
- (d) facilitating any wish of the owners to develop the land for economic use:
- (e) recognising and taking account of the presence of waahi tapu that may affect the use of the land for other purposes:
- (f) recognising and taking account of the importance of the land in providing economic and infrastructure support for marae and associated papakainga housing (whether on the land or elsewhere):
- (g) recognising and taking account of the importance of the land for community goals relating to—
  - (i) the preservation of the natural character of the coastal environment:
  - (ii) the protection of outstanding natural features:
  - (iii) the protection of significant indigenous vegetation and significant habitats of indigenous fauna:
- (h) recognising the level of community services provided to the land and its occupiers:
- (i) recognising matters related to the physical accessibility of the land.

Te Ture Whenua Maori Act 1993 (TTWMA)

Preamble

Nā te mea i riro nā te Tiriti o Waitangi i motuhake ai te noho a te iwi me te Karauna: ā, nā te mea e tika ana kia whakaūtia anō te wairua o te wā i riro atu ai te kāwanatanga kia riro mai ai te mau tonu o te rangatiratanga e takoto nei i roto i te Tiriti o Waitangi: ā, nā te mea e tika ana kia mārama ko te whenua he taonga tuku iho e tino whakaaro nuitia ana e te iwi Māori, ā, nā tērā he whakahau kia mau tonu taua whenua ki te iwi nōna, ki ō rātou whānau, hapū hoki, a, a ki te whakangungu i ngā wāhi tapu hei whakamāmā i te nohotanga, i te whakahaeretanga, i te whakamahitanga o taua whenua hei painga mō te hunga nōna, mō ō rātou whānau, hapū hoki: ā, nā te mea e tika ana kia tū tonu he Te Kooti, ā, kia whakatakototia he tikanga hei āwhina i te iwi Māori kia taea ai ēnei kaupapa te whakatinana.

Whereas the Treaty of Waitangi established the special relationship between the Maori people and the Crown: And whereas it is desirable that the spirit of the exchange of kawanatanga for the protection of rangatiratanga embodied in the Treaty of Waitangi be reaffirmed: And whereas it is desirable to recognise that land is a taonga tuku iho of special significance to Maori people and, for that reason, to promote the retention of that land in the hands of its owners, their whanau, and their hapu, and to protect wahi tapu: and to facilitate the occupation, development, and utilisation of that land for the benefit of its owners, their whanau, and their hapu: And whereas it is desirable to maintain a court and to establish mechanisms to assist the Maori people to achieve the implementation of these principles.

Preamble: amended, on 1 July 2002, by section 3(1)(a) of Te Ture Whenua Maori Amendment Act 2002 (2002 No 16).
Preamble: amended, on 1 July 2002, by section 3(1)(b) of Te Ture Whenua Maori Amendment Act 2002 (2002 No 16).
Preamble: amended, on 1 July 2002, by section 3(2) of Te Ture Whenua Maori Amendment Act 2002 (2002 No 16).

External Credit Rating discussion

Record no: R/22/6/21638
Author: Anne Robson, Chief financial officer
Approved by: Cameron McIntosh, Chief executive

☒ Decision ☐ Recommendation ☐ Information

Purpose

1 To consider if Council should proceed to obtain a credit rating in order to access better borrowing rates from the Local Government Funding Agency (LGFA).

Executive summary

2 In February 2022, the Finance and Assurance Committee, requested staff investigate further the option of Council obtaining a credit rating. For Council a credit rating means access to better borrowing rates from the LGFA, of up to 0.20%.

3 Council's LTP indicated an increasing loan portfolio to help finance the growing programme of work for its activities. Overall internal borrowings are projected to increase to $134 million including three waters projects at the end of the 10 year period or $46 million excluding three waters projects.

4 To obtain a credit rating, Council would approach market provider Standard and Poors or Fitch. The process would involve an analytical team from the provider, performing a review of Council over four to six weeks, followed by a meeting with senior finance staff. The rating agency would then discuss and Council would be advised of the rating. Examples of what Fitch would consider in establishing the credit rating, is noted in Attachment A, staff found this on their website.

5 Attachment B, is a listing of those Councils in New Zealand who have a credit rating. This shows that the majority of Councils (25 out of 34) are assessed in the AA+/AA category (saving 0.20%), 6 in the AA- category (saving 0.15%) and 3 in the A+ category (saving 0.10%).

6 An initial credit rating will cost between $55 and $65 thousand. The annual fee is estimated to be between $50 and $65 thousand. Council needs to meet this cost from any interest savings for it to be beneficial to procced. The below indicates the breakeven borrowing level to order to cover the annual cost.

Breakeven borrowing level		**AA+/AA rated (0.20% saving)**	**AA- (0.15% saving)**	**A+ (0.10% saving)**
$50k cost		25,000,000	33,333,333	50,000,000
$55k cost		27,500,000	36,666,667	55,000,000
$65k cost		32,500,000	43,333,333	65,000,000

7 To assess the potential savings/cost, staff have looked at the borrowing levels needed for the following four years of Long Term Plan (LTP). This is a representative period of the plan. The borrowing level for the remaining years of the LTP are similar to the June 24, June 25 and June 26 period. As Council has already borrowed $16.4 million, any credit rating would only apply to future borrowings. Based on the LTP borrowings staff have calculated the interest

savings/(additional cost) for each of the three levels of credit ratings that Council may achieve after assuming that three waters borrowings will no longer be held by Council.

LTP Borrowings (excl 3 waters less borrowings to date)				
Interest Savings @ $50k annual cost	**30-Jun-23**	**30-Jun-24**	**30-Jun-25**	**30-Jun-26**
Borrowings Excl 3 waters (if AA+/AA rated)	(12,330)	4,923	18,173	19,090
Borrowings Excl 3 waters (if AA- rated)	(21,748)	(8,808)	1,129	1,818
Borrowings Excl 3 waters (if A+ rated)	(31,165)	(22,539)	(15,914)	(15,455)

8 Given the level of savings/(additional cost) indicated above over the term of the remaining Long Term Plan period before Council administration costs, staff are recommending not to proceed with obtaining a credit rating. The above indicates that the level of savings is minor in these years should Council gain a AA+/AA rating. If Council gained a AA- or A+, it will just breakeven or cost Council. This is all based on the borrowings as indicated in the Long Term Plan, actual borrowing needs may change this.

Recommendation

That the Finance and Assurance Committee:

a) receives the report titled "External Credit Rating discussion" dated 10 June 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 deciding on this matter.

d) agrees the reason for obtaining a credit rating is to access lower borrowing costs from the Local Government Funding Agency

e) agrees that there needs to be a cost benefit to Council after considering Councils administration costs, to proceed with obtaining a credit rating

f) acknowledges that the financial breakeven point of obtaining a credit rating is dependent on the rating obtained by Council from the credit agency

g) agrees not to proceed with obtaining a credit rating at this time given the level of borrowings that would remain over the term of the 2021-31 Long Term Plan that would be subject to the credit rating and noting the removal of 3 waters borrowings from this calculation.

Background

9 Council's LTP indicated an increasing loan portfolio to help finance the growing programme of work for its activities. Overall internal borrowings are projected to increase to $134 million including three waters projects at the end of the 10 year period or $46 million excluding three waters projects.

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

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

12 In February 2022, the Finance and Assurance Committee, requested staff investigate further the option of Council obtaining a credit rating. For Council a credit rating means access to cheaper funding at the LGFA, of up to 0.20%.

13 In obtaining a credit rating, Council would approach market provider Standard and Poors or Fitch. The process would typically involve

- Council signing an engagement letter
- The credit rating agency sending an analytical team to perform the credit rating work over four to six weeks
- A management meeting, involving senior finance people and the credit agency analysts
- The credit rating agency undertaking an internal committee meeting, at which an initial rating for council would be determined
- Council being advised of the credit rating and being asked to decide if it is to be a public monitored credit rating. Should it decide to do this the agency would publish commentary around the rating and rationale.

14 Attached (Attachment A) is a copy of the Fitch credit rating drivers that Council staff obtained from their website. This sets out what Fitch would consider in determining the credit rating for Council.

15 Attachment B, is the current credit ratings of Councils across New Zealand. This shows that the majority of Councils (25 out of 34) are assessed in the AA+/AA category, 6 in the AA- category and 3 in the A+ category.

Issues

16 If Council has a credit rating, from either Standard and Poors or Fitch, it would be able to get better borrowing rates from LGFA. Depending on the rating Council received it could get up to 0.20% savings. At this time Councils rated AA+/AA, save 0.20%, those rated AA- save 0.15% and those rated A+ save 0.10%.

17 An initial credit rating will cost between $55 and $65 thousand. The annual fee is estimated to be between $50 and $65 thousand.

18 Council needs to meet this cost from any interest savings for it to be beneficial to procced. Council also needs to consider the initial and ongoing administrative cost of staff to maintain this rating.

19 To date Council has used its cash reserves to internally fund its borrowing needs. During the LTP process, Council decided to split its investing and borrowing functions. This meant that Council was looking to invest its $43 million of reserves (at 30 June 2021) and borrow its internal loan portfolio of $54 million (at 30 June 2021). Council is still working through this process but should it decide to delay or not proceed with this approach this will affect the breakeven point of the credit rating process and the timing of when additional interest savings will be achieved.

Factors to consider

Legal and statutory requirements

20 Council also needs to meet the covenants agreed with LGFA as indicated below. Any reduction in borrowing rates will improve Councils borrowing limit percentage.

Borrowing ratio	Council borrowing limit proposed	LGFA maximum borrowing limit
Net interest as a percentage of total revenue	<10%	<20%
Net interest as a percentage of rates revenue	<7%	<20%

Community views

21 Although no specific consultation on this issue has occurred with the community, it is reasonable to think that the community would want Council to take advantage of any cost savings it could obtain.

Costs and funding

22 An initial credit rating will cost between $55 and $65 thousand. The annual fee would be between $50 and $65 thousand. The below indicates the breakeven borrowing level to order to cover the annual cost.

Breakeven borrowing level		AA+/AA rated (0.20% saving)	AA- (0.15% saving)	A+ (0.10% saving)
$50k cost		25,000,000	33,333,333	50,000,000
$55k cost		27,500,000	36,666,667	55,000,000
$65k cost		32,500,000	43,333,333	65,000,000

23 The LTP indicated the below level of funding for the coming four years. It indicates the level of borrowing including and excluding three waters.

	30 June 2023	30 June 2024	30 June 2025	30 June 2026
Other activities	$35,234,939	$43,861,265	$50,486,294	$50,945,189
Three waters borrowing	$44,627,679	$51,214,629	$57,477,362	$66,572,331
Total internal loans	$79,862,618	$95,075,894	$107,963,656	$117,517,520

24 Currently Council has borrowed $16.4 million to cover expected cashflow requirements to the end of the financial year. $8.4 million till 15 April 2036 fixed at 3.45% and $8.4 million till 15 May 2035 fixed at 3.49%. As this has already been borrowed, no savings on these rates can be made.

25 Therefore the balance of LTP borrowings that any credit rating advantage could be used for is as follows, based on the above "other activities" borrowings (total internal loans less three waters loans)

	30-Jun-23	30-Jun-24	30-Jun-25	30-Jun-26
LTP Borrowings (excl 3 Waters)	35,234,939	43,861,265	50,486,294	50,945,189
Less $16.4million already borrowed	- 16,400,000	- 16,400,000	- 16,400,000	- 16,400,000
	18,834,939	27,461,265	34,086,294	34,545,189

26 Loans reach a peak in Jun 27 at $51,402,097, then reduce to a balance of $45,523,753 at 30 June 2031.

27 In comparing the borrowings in paragraph 25 to the breakeven borrowings in paragraph 22, the level of interest savings/(additional cost) is noted below. This is based on a $50,000 annual cost and notes the three levels of the current Council credit ratings. It is also based on Council borrowing the full amount indicated

LTP Borrowings (excl 3 waters less borrowings to date)				
Interest Savings @ $50k annual cost	30-Jun-23	30-Jun-24	30-Jun-25	30-Jun-26
Borrowings Excl 3 waters (if AA+/AA rated)	(12,330)	4,923	18,173	19,090
Borrowings Excl 3 waters (if AA- rated)	(21,748)	(8,808)	1,129	1,818
Borrowings Excl 3 waters (if A+ rated)	(31,165)	(22,539)	(15,914)	(15,455)

28 For the committees information if Council had not already borrowed the $16.4million the savings/(additional cost) would have been as follows.

LTP Borrowings (excl 3 waters before borrowings to date)				
Interest Savings @ $50k annual cost	30-Jun-23	30-Jun-24	30-Jun-25	30-Jun-26
Borrowings Excl 3 waters (if AA+/AA rated)	20,470	37,723	50,973	51,890
Borrowings Excl 3 waters (if AA- rated)	2,852	15,792	25,729	26,418
Borrowings Excl 3 waters (if A+ rated)	(14,765)	(6,139)	486	945

Policy implications

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

Analysis

Options considered

30 Based on the above the committee, needs to consider if it wishes to obtain a credit rating or not.

Analysis of Options

Option 1 – acknowledges the cost of obtaining a credit rating, the level of Council borrowing to which it would apply and agrees that at this time not to proceed to obtaining one

Advantages	*Disadvantages*
• Depending on the level of borrowing actually undertaken, obtaining a credit rating may cost Council rather than saving money • Savings in the level of administrative needed to develop and maintain the credit rating compared to cost.	• The actual level of borrowings may be higher than estimated and therefore worthwhile undertaking now.

Option 2 – acknowledges the cost of obtaining a credit rating, the level of Council borrowing to which it would apply but still believes it appropriate to obtain a rating for the future

Advantages	*Disadvantages*
• Should Council actual borrowing be higher than expected, full advantage of the savings can be taken when these are drawn.	• Depending on the level of funding and Councils investment choice it may cost Council rather than save Council money by obtaining a credit rating

Assessment of significance

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

Recommended option

32 Acknowledges the cost of obtaining a credit rating, the level of Council borrowing to which it would apply and agrees that at this time not to proceed to obtaining one

Next steps

33 If the staff recommendation is adopted then no further steps needs to be undertaken.

34 If the committee wishes to proceed with a credit rating, Council staff will approach the two agencies Standard & Poors and Fitch, to look to start the process of obtaining one.

Attachments

A Fitch Local Government Credit Rating Criteria ⇩
B Council credit rating analysis ⇩

FitchRatings

Public Finance
Local and Regional Governments
Global - Non-US

International Local and Regional Governments Rating Criteria

Master Criteria

Scope

This report outlines the criteria that apply to the rating of local and regional governments (LRGs) outside the US or to debt issued by them. Ratings under these criteria are typically assigned to entities (Issuer Default Ratings; IDRs) and their debt instruments (issue ratings). They do not incorporate recovery prospects given default. These criteria apply to both new ratings and the surveillance of existing ratings.

Key Rating Drivers

Key Risk Factors: The risk profile of the LRG is determined by the interplay between risk sources and corresponding risk mitigants. Fitch Ratings has identified three main risk pillars: revenues, expenditures and debt and liquidity. These combine three risk sources and their corresponding risk mitigants.

Fitch analyses the extent to which LRGs' resilience to risk can be derived from the ability to adjust revenues, curtail or recover expenses, and access backup liquidity. Fitch assigns assessments (attributes) to each of these six Key Risk Factors (KRFs). The analysis focuses on long-term trends and expectations.

The six KRFs, combined according to their relative importance, collectively represent the risk profile of the LRG. KRFs do not have specific weights when determining the risk profile, and risk profile assessments consider the relative importance of each KRF on an entity-specific basis. The blend will generally reflect the interplay between risk sources and corresponding risk mitigants for each entity, with more importance given to sources of risk.

LRGs are vested with missions by their relevant sovereigns with corresponding revenue to fund these responsibilities. Their ability to borrow or access liquidity may be regulated, including how they manage and report their liabilities. This set of (often evolving) rules is referred to as the institutional framework. The influence of the institutional framework on an LRG's risk profile is captured through the assessments of the KRFs.

Debt Sustainability: Fitch applies several quantitative metrics to assess the ability of the LRG to withstand a reasonable downturn over the rating horizon. This is done through the application of an issuer-specific rating case scenario and results in the LRG's Debt Sustainability assessment. This approach establishes the range of performance where a rating would be expected to remain stable.

Standalone Credit Profile: Risk Profile and Debt Sustainability assessments are combined in a global Standalone Credit Profile (SCP) positioning table to suggest a category-specific SCP outcome for the most common combinations of risk profiles and debt sustainability levels. A notch-specific SCP is determined based on the components of the Risk Profile, the position of Debt Sustainability metrics in the score range, and the peer analysis that provides the overarching consistency.

Extraordinary Support, Asymmetric Risks: Most risk factors are addressed and captured in the KRFs. Some additional risk factors, such as transparency and governance, are not scaled and only weaker characteristics affect the rating. However, some issuers may benefit from

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This report updates and replaces International Local and Regional Governments Rating Criteria, dated 27 October 2020.

Related Criteria

National Scale Rating Criteria (December 2020)
Government-Related Entities Rating Criteria (September 2020)
Country Ceilings Criteria (July 2020)
Emerging Market Countries' Local and Regional Governments' Specific Securities Rating Criteria (December 2020)
Public-Sector Counterparty Obligations in PPP Transactions Rating Criteria (May 2021)
Sovereign Rating Criteria (April 2021)
Sukuk Rating Criteria (February 2021)

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extraordinary support from an upper tier of government. These negative or positive factors are assessed once the SCP has been established and together with the SCP produce the IDR.

Influence of the Sovereign Rating: LRG ratings are typically capped by the sovereign rating in recognition of the high degree of control and potential intervention by the central government, even within the most decentralised frameworks. LRGs that have a high degree of financial autonomy and institutional recognition could have a Long-Term Local-Currency (LT LC) IDR above the LT LC IDR of the sovereign.

Framework

This criteria report identifies rating factors considered by Fitch when assigning ratings to a particular LRG or debt instrument within the scope of the criteria. LRGs are defined as subnational or sub-sovereign governments in their institutional frameworks, as well as their groupings. They are run by elected or appointed officials and carry some autonomy on own-source revenues and expenditure.

Not all rating factors in the criteria may apply to each individual rating or rating action. Each specific rating action commentary or rating report will discuss those factors most relevant to the individual rating action.

Summary of the IDR Derivation Steps

Step 1: KRF Analysis

Fitch assesses attributes for each KRFs, including both the robustness/sustainability and flexibility/adjustability factors noted above. Each factor is evaluated based on a guidance table that combines the identified risk components and supports the consistency of the assessments of the KRFs. For each factor, Fitch expresses the resulting attribute as either "Stronger", "Midrange", or "Weaker".

Step 2: Risk Profile

Fitch's KRF assessments are combined into a Risk Profile, based on the Risk Profile Guidance Table provided in these criteria (see Aggregating KRF Assessments: Tackling the Interplay of Risk Sources and Corresponding Risk Mitigants).

Step 3: Debt Sustainability and Scenarios

Fitch creates issuer-specific scenarios that project the financial metrics to assess the LRG's debt sustainability, using stresses informed by the historical data and the qualitative inputs consistent with each of the KRF attributes. This scenario analysis is an important step in Fitch's "through-the-cycle" approach to ratings and longer-term risk assessment. The stresses included in the main scenario, called the rating case, indicate where the rating would be expected to remain stable over the course of an economic cycle and relative to historical revenue and expenditure volatility.

Step 4: Rating Positioning

Risk Profile (Step 2) and Debt Sustainability (Step 3) assessments are combined in a global SCP positioning table. Because differences in issuers' institutional framework have been included in Steps 1 and 2, the table is applicable worldwide except for LRGs in the United States. This provides a category (not notch-specific) indication of the SCP outcome.

Step 5: Fine Positioning and Peer Analysis

The notch-specific positioning and verification of consistency of the SCP suggested by the rating positioning procedure (Step 4) is then achieved through the comparison of the issuers' peers. Applicable peers are selected based on a mix of parameters: sovereign (anchor), same country/tier, same tier/other country, same country/other tier, same SCP/other country, and same risk profile/other rating, subject to availability. Indicators used to draw the comparisons are the key risk factor attributes assigned in Step 1, their constituent metrics, such as measure of revenue adjustability, and the financial metrics used for debt sustainability assessment.

IDR Derivation Steps

1	**KRFs**
2	**Risk profile assessment** Combination of KRFs provides an aggregated Risk Profile (from Stronger to Vulnerable)
3	**Debt sustainability and scenarios**
4	**SCP positioning table** Connects risk profile with debt sustainability assessment into a standalone credit profile – cross-country relevant
5	**Peer analysis**
	↓ **SCP**
6	+ Potential extraordinary support - Potential asymmetric risk factors subject to sovereign ceiling/floor

Source: Fitch Ratings

Step 6: Factors Beyond SCP

In some cases, LRGs can benefit from external support, including potential for bail-out from an upper tier of government. This may take the form of intergovernmental debt with concessionary terms or ad hoc flexibility measures such as additional revenues or exemption of expenditure obligations. Such contingent support, which has not translated into debt relief or an improved financial condition, is not reflected in the SCP assessment. Instead, this is reflected in various ways, including rating floors and rating uplift, subject to the sovereign ceiling.

Three Pillars of Capacity for Payment of Financial Commitments

Fitch's rating approach is based on the forward-looking assessment and international comparison of the three risk pillars that influence the financial performance of an issuer, which together represent the capacity for payment of financial commitments.

The first two pillars relate to the LRG's cash flow (i.e. the *capacity*), which is determined by the revenue structure, particularly the risk that it shrinks beyond cyclical expectations; and the expenditure structure, particularly the risk that it rises during economic recession. When analysed together, they address the risk that the cash flow contracts beyond expectations, creating a budget gap that would lead to an accumulation of debt or increased utilisation of reserves, ie an increase in net debt.

The third pillar relates to the debt service (ie the *payment of financial commitments*). This is the risk that debt service obligations increase for reasons other than those already captured by the two factors above. This could be due to either a rise in the cost of debt (price/rate effect) or an increase in the nominal debt levels (volume effect) due to the realisation of contingent risks or unhedged exposure to foreign-currency debt or the risk that maturing debt cannot be rolled over (liquidity risk).

Sources of Risk and Possible Mitigants

Fitch assesses each of the three risk pillars by considering the interplay between the sources of risk exposure and the corresponding risk mitigants: an issuer's exposure to cyclical and structural downturn risks on the one hand (robustness/sustainability) and the options available to address those risks (adjustability/flexibility) on the other. This creates a set of six KRFs grouped in the three pillars:

Revenue Risks $KRF_{1.a}$ – Revenue Robustness (growth, stability and predictability, ie risk that revenue shrinks)

Revenue Risks Mitigants $KRF_{1.b}$ – Revenue Adjustability (ability to increase)

Expenditure Risks $KRF_{2.a}$ – Expenditure Sustainability (risk that expenditure rises)

Expenditure Risks Mitigants $KRF_{2.b}$ – Expenditure Adjustability (ability to curb)

Liabilities and Liquidity Risks $KRF_{3.a}$ – Liabilities and Liquidity Robustness (risk that debt service increases suddenly)

Liabilities and Liquidity Risks Mitigants $KRF_{3.b}$ – Liabilities and Liquidity Flexibility (ability to use liquidity or access new financing)

These six KRFs (three risk sources and three risk mitigants) capture the primary elements driving financial performance. They are influenced by other considerations, such as the institutional framework, the state of the economy, as well as governance and management practices, none of which are scored or graded in themselves. Rather, these influencing elements feed into the assessment of the risk factors when relevant. This allows the specific circumstances of a rated entity to be assessed in the appropriate context. For example, a population with a low level of personal income may not be considered credit negative if household income has little influence on the assessment of the revenue robustness, as may be the case when the LRG's revenues are mainly derived from per-capita grants from the national government.

Institutional Rules Are Analysed Within the KRFs

In the analysis of the various KRFs, the institutional rules applicable to each credit play a major role. These rules and mechanisms, known as the institutional framework, include an LRG's

Sovereign Rating Requested

In order to assign a rating to an LRG in a given country, Fitch needs first to have a sovereign rating on the same scale (international or national) and in the same currency (foreign or local). If such a sovereign rating is not available, Fitch will ask the sovereign group to provide a rating, possibly private.

revenue mix, tax autonomy, intergovernmental relations, funding and any equalisation mechanisms, expenditure profile, level and mix of responsibilities, bankruptcy regime, sector-wide accounting and reporting policies for borrowing, and control and monitoring. The analysis of the same rules, applicable to a given tier of government in a given country, may produce two different attributes when two issuers in the same country/tier are considered. An example is tax autonomy (legal ability to hike tax rates): if two municipalities legally enjoy a large degree of tax autonomy, one with an affluent population may be judged Stronger on Revenue Adjustability, while one with a deprived community would likely receive a Weaker attribute, because what matters is the actual ability to generate additional revenue, not just hike the tax rate.

Attribute Guidance

Each risk factor is assessed using a *KRF Attribute Guidance Table* described below, which outlines general expectations for a given group of rating categories. The table combines qualitative and quantitative considerations, drawing from both the issuer institutional framework and issuer-specific data. Framework-specific items are analysed with the institutional rules applicable to each issuer and are consistent across the portfolio of entities sharing similar features.

KRF Attribute Guidance Table

Revenue	Stronger	Midrange	Weaker
KRF1a revenue robustness	Highly stable revenue sources (eg tax revenues mostly based on property with delayed assessment, stable transfers from AAA-AA counterparties)	Stable revenue sources (eg stable transfers from A-BBB counterparties; tax revenues based on moderately cyclical economic activities like retail sales)	Volatile revenue sources (unstable transfer framework or stable transfers from BB+ and below counterparties; tax revenues based on highly cyclical economic activities like housing or commodity sales)
	Sustainable and sound revenue growth expected to be fueled by strong economic prospects	Revenue growth expected to be marginally positive due to sound economic growth prospects	Weak revenue growth prospects to be flat or slightly negative due to limited or negative economic growth
KRF1b revenue adjustability	Additional revenue increase covering 200% of reasonably expected decline of revenue, using discretionary tax leeway up to legal maximum rate and base width[a]	Additional revenue increase covering at least 50% of reasonably expected decline of revenue, using discretionary tax leeway up to legal maximum rate and base width	Additional revenue increase covering less than 50% of reasonably expected decline of revenue, using discretionary tax leeway up to legal maximum rate and base width
	Strong affordability of additional taxation (additional local taxes represent a marginal proportion of median household disposable income, wide and diversified corporate tax base)	Moderate affordability of additional taxation (additional local taxes represent a modest proportion of median household disposable income, average width and diversification of corporate tax base)	Low affordability of additional taxation (additional local taxes represent a material proportion of median household disposable income, narrow or concentrated corporate tax base)
	OR	OR	OR
	Strong track record of revenue equalisation (with constitutional rank or high legal anchor)	Moderate track record of revenue equalisation (with legal anchor but no constitutional rank)	Low track record of revenue equalisation (with no constitutional rank or high legal anchor)
Expenditure	**Stronger**	**Midrange**	**Weaker**
KRF2a expenditure sustainability	Proven track record and good prospects of tight control over total expenditure growth (eg below pace of total revenue growth).	Moderate control over total expenditure growth prospects (eg close to total revenue growth).	Weak control over total expenditure growth prospects (eg above total revenue growth).
	Responsibilities over expenditure that are relatively stable through the economic cycle (eg maintenance, planned investment, education)	Responsibilities over expenditure that are moderately correlated to the economic cycle (eg healthcare)	Responsibilities over expenditure that are highly correlated to the economic cycle implying little control during downturns (eg unemployment benefits, social assistance) or track record of stimulus package
KRF2b expenditure adjustability	Effective budget balance rules in place	Budget balance rules in place but no strong track record of application	No budget balance rule in place or track record of deficits carried forward
	Low share of inflexible costs. Minimum expenditure can be measured by benchmarking to best peers, as well as by: <70% share of mandatory or committed expenditure. Flexibility in workforce management (volume or price)	Moderate share of inflexible costs. Minimum expenditure can be measured by benchmarking to best peers as well as by: 70%-90% share of mandatory or committed expenditure. Flexibility in workforce management (volume or price)	High share of inflexible costs. Minimum expenditure can be measured by benchmarking to best peers as well as by: >90% share of mandatory or committed expenditure. Very limited flexibility in workforce management (volume or price)
	Strong affordability of reduction (high level of existing service or investment)	Moderate affordability of reduction (moderate level of existing service or inv.)	Low affordability of reduction (low level of existing service or investment)
Liab. & liquid.	**Stronger**	**Midrange**	**Weaker**
KRF3a liabilities and liquidity robustness	Developed financial market and solid national framework for debt and liquidity management, strict formal prudential regulations and/or financial market discipline.	Evolving financial market and national framework for debt and liquidity management.	Underdeveloped financial market, weak national framework for debt and liquidity management
	Robust issuer-specific framework for debt, liquidity and off-balance-sheet management (proven low appetite for risk, eg restrictions on risky loan types, derivatives.)	Moderate issuer-specific framework for debt, liquidity and off-balance-sheet management (eg some appetite for risk, provision for loose prudential borrowing limits, restrictions on risky loan types, derivatives.)	Weak issuer-specific framework for debt, liquidity and off-balance-sheet management (eg proven high appetite for risk, weak/no prudential borrowing limits, reliance on risky loan types, derivatives)

KRF Attribute Guidance Table (Cont.)

Liab. & liquid.	Stronger	Midrange	Weaker
	Strong debt profile: fully amortising debt – little proportion of short-term debt, established market access	Some use of bullet debt with substantially amortising debt – no maturity concentration, moderate market access	Sculpted debt profile or use of bullet debt with no/little amortising debt, maturity concentration or high proportion of short-term debt, limited track record of market access
	Negligible exposure to unhedged[b] Interest rate or FX risk, very limited off-balance sheet risks[c] (satellites, guarantees, pensions etc.).	Limited exposure to Interest rate or FX risk; Some off-balance sheet risks (satellites, guarantees, pensions etc.)	Material exposure to Interest rate or FX risk; Material off-balance sheet risks (satellites, guarantees, pensions etc.)
KRF3b liabilities and liquidity flexibility	Strong framework for emergency liquidity support from upper tier(s) with counterparty risk on Treasury facilities above A+ level	Framework providing emergency liquidity support from upper tier(s), yet within limits of the issuer's possible needs, with counterparty risk on Treasury facilities between BBB- and A+	Framework providing no or very limited emergency liquidity support from upper tier(s), below the issuer's possible needs with counterparty risk below BBB-
	OR	OR	OR
	Abundant access to liquidity in various forms, ie unrestricted cash, liquid deposits, undrawn committed lines with counterparty risk (banks' IDRs) above A+	Liquidity available in various forms, notably unrestricted cash, liquid deposits, undrawn committed lines with counterparty risk (banks' IDRs) between BBB- and A+	Low liquidity available; high concentration of counterparty risk on committed liquidity lines (banks' IDRs) below BBB-

[a] Terms are defined in the *Revenue - Adjustability* paragraphs
[b] Hedged with counterparties commensurate with the attribute level (eg minimum AA- for Stronger)
[c] Off-balance-sheet risk-weighted (eg guarantees extended to very safe sectors less risky than weak government-related entities)
Source: Fitch Ratings

Sovereign Rating Is Usually a "Ceiling"

With a few exceptions, subnational governments are influenced by (and subject to) decisions of their central/federal government to such an extent that not only is the LRG rating capped by this rating (see Annex 1: Rating LRGs Above the Sovereign) but also the KRFs tend to be influenced by it.

Sovereign Rating Influences the Attributes

In addition to the rating ceiling applied at the end of the rating process for most countries, Fitch takes the sovereign IDR into consideration throughout the analytical process, in order to reflect how the drivers of the sovereign IDR feed into and influence the risk factors of the LRGs. Revenue structure is affected by central government decisions, not only in the payment of transfers but also in restrictions on tax autonomy. Expenditures are affected by devolution of responsibilities and the regulation of service standards or wage indices of civil servants. Debt is affected by borrowing limitations, prudential regulation, cash pooling at the national Treasury level, or the sovereign spread being the reference for the cost of new debt.

Unless justified by specific analysis (see Annex 1: Rating LRGs Above the Sovereign), each KRF attribute should reflect the risk that the sovereign interferes with, or drives, the characteristics of that KRF. For example, a subnational in a 'BBB' country would see its Revenue KRFs influenced by the role of the sovereign as a key stakeholder in the LRG's operations or by shared risk factors between the sovereign and its subjects. Such an LRG is very likely to be exposed to 'BBB' macroeconomic conditions on its own tax base and is exposed to 'BBB' counterparty risk on the transfers it receives from central government. Often, LRGs in this context face less stable intergovernmental relationships typical of midrange jurisdictions ('A'/'BBB' countries), where central government either needs to offload fiscal discipline or change the framework in order to manage its own fiscal constraints.

Sovereign IDRs do not therefore directly drive or cap the attributes but there is a high probability that mostly LRGs in 'AAA' or 'AA' countries will achieve Stronger attributes, and that LRGs in 'A' and 'BBB' countries will achieve Midrange attributes. Weaker assessment of KRFs' attributes would be typical for LRGs in 'BB' category and below countries.

How the Sovereign Rating Influences the Attribute

- Sovereign rated within 'BBB'/'BB' rating categories would tend to limit the KRF attributes to Midrange.
- Sovereign rated within 'B' rating category and below would limit the KRF attributes to 'Weaker'.

Importance of Government Level in the Rating

Fitch rates various tiers of government in various countries. The analytical significance of the administrative ranking of an LRG, whether a municipality or a state, can vary depending on the institutional framework. In some countries, an administrative or political hierarchy is in place so that lower tiers have less autonomy than higher tiers over the policy goals and means of executing them, and the upper tier of government plays a "deputy" sovereign role for the entities of lower rank. The considerations outlined above between sovereign and LRGs would partly apply between state and LRGs. Such frameworks, typically found in federal countries, are likely to result in KRFs and ultimately Risk Profile hierarchies in which municipalities in a state, region or province would typically carry lower assessment of Risk Profile than the relevant upper tier.

However, in frameworks where no such government hierarchy exists, typically found in unitary countries, LRG Risk Profiles would be independent of the administrative tier.

Key Risk Factors

Revenue

Fitch considers two risk dimensions in assessing the strength of an LRG's revenue structure: prospects for revenue stability and growth (robustness) and the LRG's legal ability to raise revenues (adjustability). The goal of this assessment is to establish expectations for the issuer's revenue system, incorporating both likely performance in the absence of policy action and the issuer's independent ability to make changes over time.

Revenue – Robustness ($KRF_{1.a}$)

The Robustness dimension of the Revenue system is assessed through a combination of volatility and growth. This feeds into the rating in two ways: historical patterns of growth and volatility (e.g. peak-to-trough) are reviewed in the process of establishing our rating scenario; the qualitative assessment embedded in the KRF would address possible deviations between the observed and the future performance (see Scenarios and Assumptions). Specific attention is paid to the potential for volatility of the economy to the extent it is relevant to the LRG's financial performance. This is addressed notably through the analysis of the link of revenues with the broader economy. The sovereign rating and its macroeconomic component can be a good indicator of macroeconomic instability.

The analysis of the revenue mix identifies the revenue drivers, establishing the links with the LRG's socio-economics profile (the base from which taxes and fees derive) and its dependence on intergovernmental transfers, which are the two main pillars of international LRGs.

This assessment is made without consideration of policy action an LRG could take to affect revenues, such as raising or cutting tax rates or asking for extraordinary transfers, which are addressed in the next key risk factor.

The most robust revenue systems are those that exhibit the following features: consistent growth[1] in line with or above the level of national economic growth in a context of high sovereign IDR ('AAA'-'A'); a degree of stability such that revenue is dynamic but not subject to severe cyclicality; or stability in transfers from a highly rated counterparty ('AAA'-'AA'). The macroeconomic background, which exposes the LRG to greater or lesser degrees of volatility and uncertainty, is assessed through the sovereign rating and its "macroeconomic" component.

Less robust revenue systems are those exhibiting declining performance beyond cyclical fluctuations, strong dependence on highly cyclical economic activities (such as housing or commodities) or unstable transfer frameworks.

Fitch analyses the underlying drivers of revenues and their dynamics. These mainly include the diversity of the economy, demographic trends and the structure of key industries. This analysis incorporates an assessment of the nature of tax and transfer revenues and the bases on which these flows are levied or calculated. Fitch does not score the economy in itself, but only evaluates it in the context of the issuer's future revenue performance. In most cases, a growing GDP and population will generally be seen as positive. For example, in a context of an LRG with

[1] The analysis will typically focus on the "real" growth rate of revenue compared to growth in real GDP. For that purpose, revenue figures are deflated by the relevant national GDP deflator.

a population growing much faster than the national average, a revenue system based on per-capita allocation would be positive. But if this issuer is operating in a system that simply indexes transfers with a nationwide growth rate, it would receive at best a midrange attribute.

For entities with a material share of transfers, the stability and financial equilibrium of the framework is a major input. Fitch deems that a history of vertical fiscal imbalances is largely credit negative. This situation creates room for structural funding gaps, in turn generating either mounting debts or a propensity to offload risks off-balance sheet. This situation may lead the sovereign to provide temporary support to a whole government tier or wide group of LRGs when these LRGs face acute episodes of fiscal gaps; examples include Brazil in 1989, 1993, and 1997, or Spain in 2012. Note that government support to individual distress cases would not be addressed in the KRF but rather in Step 6 (see Factors beyond the SCP).

Transfers can take many different forms and calculation methods and can be earmarked for specific programme expenditure or unrestricted. Credit is given to transfers that provide dynamic (for example incorporating GDP growth through the cycle) and protective (absorbing possible shocks) revenue sources.

LRGs do not usually benefit from full control of their revenue resources (limited tax autonomy) and their spending responsibilities (mandates). In compensation, they tend to be protected from external shocks by higher-level mechanisms in which transfers are more stable than underlying sovereign revenues and do not fall proportionately with tax proceeds. However, as budget consolidation is implemented, LRGs often see their transfers reduced (other than transfers reflecting shared taxes): the shock is therefore delayed and smoothed (as is the following recovery), but is not totally avoided. This dynamic is captured in the analysis of the revenue growth pattern. A smoother pattern than for GDP fluctuations is typically credit positive, provided the subsequent corrections are not disproportionate; when reviewing through the cycle, the cumulative average growth rate should be similar, not lower.

Revenue – Adjustability (KRF 1.b)

The second component of the revenue structure assessment is evaluating the government's independent ability to increase operating revenues. This involves considering the range of legal and practical limits on the government's autonomy in this area, including tax caps and requirements for approvals from voters or other levels of government. The degree of flexibility typically involves tax autonomy (through discretion over the rate, base and exemptions). It may also include discretion over user charges and fees levied for public services. Finally, revenue adjustability covers the degree to which transfers are provided without conditions or without discretion being exercised by the payer, such as automatic equalisation transfers which compensate for losses on other revenues.

Fitch considers an LRG to have independent legal revenue-raising ability as long as such power is encoded in the respective laws or regulation, even if a supermajority or other such requirements exist. Given the focus on incorporating only potential tax changes that are under the control of the government, tax caps that limit annual increases to specific economic metrics, such as inflation or population growth, are not considered a source of revenue-raising flexibility upon which the LRG can rely in a downturn.

Fitch stresses that the focus of this assessment is on the government's legal control over its revenue system. While noting that increasing taxes can be politically or practically difficult in many cases, Fitch believes the legal framework is a significant differentiating factor in assessing the ability to manage fiscal challenges. A government can be evaluated highly on this risk factor even if Fitch believes the issuer is unlikely to raise taxes under normal circumstances. Tax rates would generally be materially hiked only under stressed circumstances (such as looming default). Fitch assesses the issuer's ability to raise revenue under such a theoretical scenario of financial stress. In some frameworks, the issuer's constitution or an upper-tier government, represented by a central government prefect or commissioner, would oblige the issuer to raise tax rates to a level commensurate with the required revenue generation level at a time of distress. Such "balancing" rules, if credible, give more comfort to a 'Stronger' assessment.

Revenue adjustability is primarily assessed on own-source revenues – i.e. flexibility in raising taxes, fees and charges. It is measured quantitatively, calculated as the increase in additional revenues versus the reasonably expected decline in operating revenues.

The revenue adjustability headroom is assessed based on the LRG's discretionary leeway up to maximum rate and base. The maximum tax rate (or fee or user charge level) may be determined by legal limits. Absent a legal maximum, the KRF would be considered Stronger by default on this aspect. Credit will also be given to entities with large, saleable asset pools, typically those not restricted by public mission.

The "reasonably expected operating revenue decline" is assessed as the impact on the revenue of a routine, cyclical economic downturn and reflects revenue peak-to-trough performance. This impact is observed by comparing the growth rate of revenue in periods of recession or cool-down compared to that of the general economy (GDP) and historical average (through-the-cycle) revenue growth. Where long series of LRG fiscal data are not available to observe actual peak-to-trough performance, Fitch instead uses national or peer proxies. Fitch would look at national economic cycles and performance of the LRG's resource base (transfers, tax bases of similar nature at national level or with peers) against such economic cycles.

The affordability of additional taxation is taken into account, which depends primarily on the burden of the local taxation and the additional weight of a tax increase on total household income. The gap between the current level of tax rates and the envisaged maximum is therefore addressed in the affordability assessment, when measuring the impact of the increase in proportion to the median or average household disposable income. For corporate taxes, the affordability of additional taxation is measured in reference to the proportion of the GDP or its subsets, when available. When data is scarce, the width and diversity of the tax base, as well as the level of economic activity reflected by local GDP or a similar per-capita indicator, is qualitatively assessed.

In some frameworks, revenue adjustability may derive from the transfer system. To be given credit in Fitch's analysis for flexibility, transfer mechanisms need to provide equalisation with balancing mechanisms that offset a loss of other revenues, notably tax proceeds. This is notably the case when transfers are calculated to achieve a standard of average "financial strength". The track record of such revenue equalisation schemes over time and its legal strength is an important factor.

Flexibility can also come from a high degree of cost pass-through. In this case, flexibility is meant as a form of automatic protection. Some systems allow for grants and transfers that directly reflect the costs incurred by the LRG, providing protection against rising costs. Credit is given in the analysis to the extent of the payer as counterparty (the upper tier of government providing the transfers): transfers coming from a 'BBB' sovereign, for example, cannot lift the risk factor for Revenue Adjustability to "Stronger".

Expenditure

The second risk pillar focuses on the sustainability and flexibility of government expenditure. Specifically, Fitch considers the pace of expected spending growth as well as the flexibility of an LRG's expenditures. Fitch thereby assesses how pressured an issuer is likely to be, based on the natural pattern of spending growth[2] and how well positioned it is to manage that growth throughout the economic cycle.

The analysis of the LRG's expenditure mix includes identifying drivers of responsibilities such as welfare costs, having also established the links with the socio-economic profile.

Expenditure – Sustainability (KRF$_{2.a}$)

After evaluating an issuer's spending responsibilities and policy positions, Fitch considers baseline trends in spending as compared to the pace in revenue growth.

This analysis relies on the main drivers of spending and is informed by Fitch's expectations for the issuer's economic trajectory. The demands of certain expenditure items could be in correlation with the pace of economic cycles, as many LRGs' policies are focused on mitigation of negative impact during economic slowdown. Expenditure items such as social support or welfare transfers tend to rise at times of economic deceleration and revenue decline. In some cases, LRGs may be

[2] In order to allow international comparisons in expenditure growth trends, expenditure figures are typically deflated by the relevant national GDP deflator. This neutralises differences in inflation contexts and focuses on the pure "volume" or "real" growth rate of expenditure.

required to adopt anti-cyclical measures focused on local economy support, notably through infrastructure stimulus, leading to increasing capital expenditure during times of economic stress.

Fitch also assesses the stability and predictability of LRGs' expenditure responsibilities. Therefore, the evolving nature of the national institutional framework, typical for countries rated in the 'BB' category and below, could lead to weak expenditure predictability and, hence, weak assessment of expenditure sustainability.

The expenditure sustainability assessment considers expected average performance over time. In this context, expenditure cyclicity is not considered a handicap in itself, as Fitch's scenarios take into account reasonably expected fluctuations. However, LRGs exposed to such policies have a greater risk of deviating from the expected spending trajectory (beyond rating case fluctuations) than those vested with missions implying very stable spending.

Aggressive off-loading of investments and borrowings also creates greater downside potential. Fitch considers the sustainability of the public investment policy: capital expenditure below the level required to adequately maintain facilities or that may be insufficient to accommodate demographic growth would likely lead to the need for future catch-up efforts.

Expenditure – Adjustability ($KRF_{2.b}$)

Fitch considers that effective budget balance rules create incentives to control expenditure, whether self-imposed or imposed by the upper level of government.

Fitch notes that some spending items are significantly easier to control than others. Fitch considers the inherent flexibility of each programme spending category that the LRG provides and the specifics of each LRG's situation, evaluating the practical as well as legal ability to reduce spending. This reflects Fitch's observation that there is generally a base level of services an LRG must provide that is often well above legal requirements, if any, for such services. This is informed by the analysis of institutional rules.

The outcomes of voter initiatives and court decisions may constrain an LRG's spending flexibility. In addition, inflexible statutory or constitutional operating limitations are potential credit risks, as they may constrain an issuer's ability to react to negative developments. Such limitations include the status of the issuer's administrative staff, with civil servants generally protected, making payroll costs inflexible. Fitch has observed that pensions and benefits can become a heavy burden for KRFs and a source of fiscal distress. When rated entities control

these expenditure items, consideration is paid to the drivers of their development, including demographics, funding and institutional arrangements.

The ability to reduce spending is key in response to shrinking revenue or increasing costs. Expenditure adjustability is assessed on the total expenditure excluding debt service, and on its two key components, ie operating and capital expenditure. It is measured quantitatively through the proportion of total expenditure that is considered fixed, representing mandatory or committed costs. The minimum level of services and spending may be determined by legal limits or, absent a legal minimum, by reference to the lowest spending per capita observed in an equivalent entity in the same legal framework.

Practically, inflexible expenditure is expressed as a percentage of expenditure as measured in the rating case, using the flexibility assessed by Fitch on the relevant constitutional and legal frameworks. In the absence of legal expenditure requirements, Fitch can assess the flexibility by benchmarking to most efficient peers (LRGs with similar responsibilities and lower unitary expenditure). This assessment is driven by the ratio of mandatory and committed expenditure to discretionary expenditure. A higher share of discretionary spending makes cuts easier. Flexibility in workforce management expressed in headcount and salary is a major driver for LRGs with labour-intensive missions. Most countries have rigid public employee labour laws and staff costs are assumed to be inflexible. Fitch estimates the share of workforce spending in total expenditure and the proportion that can be reduced, including outsourcing peripheral functions. Transfers to decentralised entities that fulfil an important public mission and that simultaneously support their employees' salaries are also considered.

The affordability of reductions is measured by considering the level of existing service or investment compared with immediate peers. Services set at a minimum level may give rise to acceptance or political issues. A good track record of past cuts is considered a proxy for acceptance.

Liabilities and Liquidity

Liability and Liquidity – Robustness (KRF$_{3.a}$)

Fitch first reviews the national framework for debt, risk and liquidity management, notably the presence of borrowing limits or restrictions on loan types, derivatives or transactions. Fitch views administrative or prudential regulations, such as debt or debt-servicing limits, as credit positive, subject to the overall effectiveness of liability and liquidity regulation and controls. Fitch assesses the degree of conservativeness in borrowing policies, including authorisation by an upper tier of government, eligibility of products, monitoring of risks, disclosure of debt quantities and properties, and the reporting of off-balance-sheet commitments. In developed markets where debt-management experience among LRGs is considerable, formal prudential regulations can be replaced by capital market discipline. However, in countries with an evolving regulatory framework or where responsibilities have recently been devolved to the LRG, prudential regulations can act as a control mechanism for responsible budgeting and debt accumulation.

Fitch also considers the presence of issuer-specific or self-imposed regulation, and notably the LRG's appetite for risk. Fitch believes LRGs have no economic rationale to engage in risky debt and liquidity management, as most have limited fiscal flexibility and need to retain sound financial standing to avoid aggressive risk-taking.

Fitch also analyses currency, interest rate or refinancing risk where it affects a substantial part of the LRG's capital profile, applying stress assumptions for costs and liquidity derived from historical patterns in the relevant debt market (see Scenarios and Assumptions). Whether debt instruments include financial or other covenants, if disclosed, can lead to an accelerated repayment and affect the issuer's relative capacity to manage that risk. Fitch also considers the proportion of unhedged floating-rate debt, unhedged FX debt and the debt amortisation profile.

Issuers exposed to material refinancing risk, particularly a highly sculptured and substantial proportion of deferred amortisation instruments, are typically viewed as structurally weaker from a credit perspective as they are exposed to greater uncertainty for both market access and the future cost of debt, unless mitigated by the creation of a sinking fund. Issuers exposed to floating-rate interest may mitigate rate exposure in full or in part through interest rate hedges. Fitch considers whether the unhedged portion of exposure, or refinancing exposure, would have a material impact on the issuer's debt sustainability under stressed interest-rate assumptions. Currency exposures are considered in a similar manner.

In its analysis, Fitch focuses on Fitch-adjusted debt (Adjusted Debt), which may include some reclassification of contingent debt or additions of third-party debts. All such debts reclassified are not considered in the KRF assessment (to avoid double counting). However, the KRF$_{3.a}$ qualitatively addresses the existence of risks not already captured by the (adjusted) credit metrics.

Contingent liabilities such as agencies' or majority owned government-related entities' (GREs) debt, guarantees or pensions need to be analysed in details. Fitch looks at those off-balance-sheet liabilities with a risk-weighted approach. This means Fitch does not simply add off-balance-sheet commitments, because the likelihood of realisation of the liability may differ considerably between two different cases. Rather, a qualitative view needs to be taken. Some entities may have a wide web of dependent agencies and state-owned companies, or extend a large amount of guarantees. Nevertheless, the analysis focuses on the risk that these commitments are effectively triggered and migrate onto the entity's balance sheet. Guarantees extended to very safe sectors (eg sectors subject to strict oversight from the central government), such as regulated social housing, are less risky than weak, not self-sustainable GREs, even without guarantees. These obligations remain contingent and are not adjusted (see second row of the ***Reclassification of Contingent Liabilities*** table).

In cases where the contingent risk is not remote but likely to be realised by the LRG, Fitch would proceed to adjustments under "Other Fitch-classified debt" (see third row of the ***Reclassification of Contingent Liabilities*** table).

Data (Un)Availability

Under-reporting of contingent liabilities may be a material limitation to the analysis of the liabilities and liquidity framework.

When data is available and comprehensive, Fitch applies the analysis and reclassification as described in this section.

When data is limited, Fitch would perform consistency checks, searches in news flows and media articles.

If these searches suggest there are risks but no sufficient data is available to assess them, Fitch may assign a Weaker attribute to the KRF or apply asymmetric risk. In some extreme cases, Fitch may decline to rate the issuer.

Fitch also adjusts for "under-reported" debts. For purposes of liability analysis, Fitch classifies as LRG's Adjusted Debt third-party obligations when the LRG is the actual payer irrespective of any conditionality and contracts with associated debt that would become the obligation of the LRG if it failed to comply with the ongoing contractual payment terms. Examples include capitalised payments for public-private partnership (PPP) transactions, the payment of instalments in build-and-transfer schemes, or ongoing transfers to debtors to cover their principal debt service. If the risk is ascertained but such data required for a reclassification is not available, Fitch makes an analytical adjustment. All debts of this kind (see fourth row of the ***Reclassification of Contingent Liabilities*** table) would also be added to "Other Fitch-classified debt" and be captured in the Adjusted Debt.

Fitch views the detailed disclosure of all debt obligations of the entity, including direct bank placements and other obligations, to be best practice. Fitch includes all such obligations, including the impact of any covenants they may contain such as acceleration clauses, in its analysis.

Reclassification of Contingent Liabilities

How is contingent debt repaid?	Treatment by Fitch	Examples
The debtor (GRE) has its own, robust, market revenue flow (fees, charges, rents etc.)	Not included in the LRG analysis and debt aggregates	Self-sustaining utility, robust financial or development agency
The debtor (GRE) benefits from a guarantee, it is less likely than not to crystallise	Pure contingent debt; not aggregated in Adjusted Debt	Solid social housing benefiting from a guarantee
The debtor (GRE) has its own revenue flow (e.g. fees, charges and rents) but this flow is more likely than not to be insufficient and the debt (guaranteed or not) is to crystallise as a liability for the LRG	Other Fitch-classified debt; aggregated in Adjusted Debt	Distressed social housing benefiting from a guarantee
The debtor's debt was raised to build a facility on behalf of the LRG and is primarily paid by LRG	Other Fitch-classified debt; aggregated in Adjusted Debt	Availability-based PPP (completed and operating); urban development state-owned company

Source: Fitch Ratings

Fitch's analysis of a government's unfunded or net pension liability burden considers defined-benefit pension plans only. Defined-contribution plans are a predictable annual commitment and considered in the assessment of an issuer's expenditure framework. In practice, very few countries hold their LRGs liable for defined-benefit pension plans. Those countries tend to use actuarial valuations from reputable actuaries, which Fitch will use in its analysis. If an LRG carries the unfunded liability associated with employment-related pensions, Fitch assesses the nature and materiality of the benefit obligation, the assumptions underlying the obligation, and the actual and potential contribution burden on the rated entity. If such pensions represent, in Fitch's view, a material risk to its assessment of a rated entity's liability position, it could be reflected as an asymmetric risk factor (Asymmetric Additive Risk Considerations).

Fitch distinguishes, for the purpose of its Debt Sustainability analysis, the debt owed to other tiers of government if this debt offers flexibility in its terms from traditional debt. All debt types are included in the debt sustainability metrics that inform the SCP. If relevant, a supplementary ratio is calculated, excluding intergovernmental debt offering concessionary terms, which informs an "enhanced debt sustainability ratio". This is used to estimate the uplift between the SCP and IDR.

In some countries, LRGs may have recourse to GREs to fulfil some policy missions. When these GREs simply raise debt to execute projects paid by the LRG, their debt is reclassified as explained above. But the GREs may combine commercial activities, with their own revenue flow, and some policy missions (paid by LRGs) that represent material risks for the LRG. When it is difficult to precisely evaluate the GRE debt that must be reclassified as Adjusted Debt, Fitch assesses the Debt Sustainability score on a broader aggregate of debt, called Net Overall Debt,

PPP-Related Debt Adjustments

Under certain circumstances, Fitch includes liabilities related to PPP arrangements in an LRG's Adjusted Debt calculations. These adjustments are most commonly related to availability-based PPP arrangements, which requires certain, quantified and multi-year payments by a government over the life of the contract.

To include these PPP-related liabilities in an LRG's Adjusted Debt figures, Fitch assesses the project implementation status and includes obligations for completed and operating facilities or when payments related to the project are inevitable.

Availability-based PPP arrangements are distinct from demand-based PPPs (also known as concessions), which are funded from tolls or other user charges rather than ongoing government payments. Fitch does not include debt associated with such demand-based PPPs in an LRG's Adjusted Debt calculations, except for PPPs where the government provides a minimum revenue guarantee and where the guarantee is more likely than not to be triggered.

which includes all the reported GRE debt (see Metrics to Assess Debt Sustainability). In such a case and in order not to double count the same risk, the KRF attribute does not include the presence of off-balance-sheet risk, since the latter are conservatively added to the debt metric that is taken into account in the quantitative analysis.

Liability and Liquidity – Flexibility ($KRF_{3.b}$)

This assessment addresses only the "stock" dimension of total liquidity, i.e., liquidity that is not subject to uncertainty other than counterparty risk from liquidity providers, which, if present, serves as a cap for the amount of credit in the attribute. This assessment does not aim to capture all the sources of liquidity, which would include cash-flow generation, addressed separately in the scenario and financial analysis step. Instead, to evaluate the "stock" dimension of liquidity, Fitch considers both a government's liquidity needs and its internal and external liquidity resources. The analysis focuses on liquid resources that are expected to be available to a government in a downturn, when liquidity is most likely to be strained, to close a budget gap of any origin or to redeem maturing debt.

Fitch recognises that LRGs in the strongest position are those not reliant on external borrowing for cash flow needs, even in economic down-cycles. However, liquidity, when committed by creditworthy external counterparties, such as banks, upper tiers of government

or special government-sponsored lenders such as the Public Works Loan Board in the United Kingdom, is the typical source of financial flexibility for most LRGs.

The analysis starts with the provisions in the institutional framework that address emergency liquidity support, if any, from upper tiers. Some countries have legal provisions that allow LRGs to access emergency liquidity such as contingency funds, Treasury open facilities, pooled cash or mutual lending among peers. However, consideration is given for the counterparty risk associated with the liquidity provider and may be limited by that provider's rating. For example, the attribute could not be Stronger if the government extending emergency liquidity is rated 'BBB'. Moreover, such liquidity arrangements may be subject to political risk; for example, Treasury facilities such as Spain's Fondo de Liquidez Autonomico may require a high degree of cooperation between the LRG and the liquidity provider. In addition to legal analysis, Fitch studies the track record and effectiveness of these schemes.

At the issuer level, Fitch looks at unrestricted cash and committed liquidity available under various forms. Indeed, an LRG facing an unexpected budget gap would likely mobilise committed credit lines first. Counterparty risk on committed liquidity lines, reflected by banks' ratings, is assessed, and liquidity lines with ratings one full rating category or more below the issuer's Standalone Credit Profile are ignored. Available liquidity, retaining only counterparties commensurate with the corresponding attribute level, is measured as a percentage of rating case debt service.

Risk Profile Assessment

After each of the six KRFs have been assessed with an attribute, the committee decides a final overall risk profile assessment based on the attributes and the relative importance of each KRF, so that the overall risk of the issuer is scaled.

The risk profile assessment would therefore address:

1. Risk that cash flow shrinks; and
2. Risk that debt service requirements unexpectedly increase (for reasons other than the accumulation of deficits, which is already captured in the risk that cash flow shrinks, above).

Aggregating KRF Assessments: Tackling the Interplay of Risk Sources and Corresponding Risk Mitigants

When synthesising the six assessments into the risk profile, KRFs do not have specific weights. Overall Risk Profile assessments consider the relative importance of each KRF on an entity-specific basis. The blend will generally reflect the interplay between robustness and adjustability for each entity with more importance given to robustness KRFs. Adjustability may be relatively lower when robustness is strong, since the former addresses weaknesses of the latter. A lower need to face shocks/downturns would be captured in higher robustness assessments. A Midrange revenue adjustability assessment would not preclude the overall risk profile from being assessed as Stronger if the three Robustness KRFs are assessed as Stronger. One Weaker KRF would not preclude the overall risk profile from being assessed as Midrange if the three Robustness KRFs are assessed as Midrange.

The table below provides typical guidance for combining the KRFs into an overall risk profile.

Risk Profile Guidance Table

Risk profile	Typical minimum sovereign IDR[a]	Blend of KRF attributes
Stronger	AA-	A vast majority of Stronger, unless one KRF overrules[b] the others; no Weaker
High midrange	A-	A combination of Stronger and Midrange, no Weaker
Midrange	BBB-	A balanced combination of Stronger, Midrange and Weaker attributes
Low midrange	BB-	A combination of attributes with a majority of Midrange and some Weaker
Weaker	B-	A majority of Weaker (including 3 Weaker and 3 Midrange)
Vulnerable	C	A majority of Weaker, in countries rated in B category or below

[a] In a few cases, the Risk Profile could be better than the Minimum Sovereign IDR, if the LRG is materially stronger, from an institutional and economic perspective, than what the sovereign reflects as an "average"
[b] A KRF overrules the others when it makes them irrelevant. An example is when there is an automatic and unlimited revenue equalisation, aimed at matching the expenditure burden over the short or medium term
Source: Fitch Ratings

Debt Sustainability and Scenarios

A major part of the analysis is addressed in the risk profile above, where the issuer's ability to service its obligations is determined by its ability to maintain or restore a robust cash flow and stable debt service with adequate liquidity. Drivers of this ability are captured in the KRFs and their assessment. The only element not yet tackled is the magnitude of financial obligations.

Scenarios and Assumptions

Scenario analysis considers potential performance under a common set of assumptions, thereby illustrating how cycles or reasonable downturns affect individual LRGs differently.

Ratings should not change due to routine cyclical swings. Economic downturns are inevitable, and even if an issuer's financial performance does not correlate to the broader economy, significant year-to-year variations in revenue, expenditure and debt costs may be evident. Fitch believes that ratings should account for this. On the other hand, structural shifts (broad shifts different from the ebb and flow of a routine economic cycle) are also inevitable. Scenario

Risk Profile

Risk Profile reflects the risk associated with unexpected weakening of LRGs' ability to cover their debt service needs over the scenario horizon.

This factors in unexpected cash flow declines due to revenue drops, expenditure hikes and debt service increases driven by the debt structure (e.g. foreign-currency exposure) or cost of debt increases (e.g. floating rate debt) in the context of the macroeconomic environment. The latter is mainly assessed through the respective sovereign rating.

Associated risk could vary from very high for 'Vulnerable' risk profiles to negligible for 'Stronger' risk profiles (see *Risk Profile Guidance Table*) and factored in to the scenario analysis, leading to higher magnitude of stress for LRGs with low risk profile assessments.

analysis helps make the distinction between the two and communicates what may rise to the level of a credit event and what is already anticipated in the current rating.

Once general expectations for the issuer's performance through the cycle are established, a rating would change only when performance is outside of these expectations. For example, deterioration of the issuer's financial cushion during a downturn would not trigger a rating change as long as the cushion remains above minimum expectations for that point in the cycle, adjustments are under way if that threshold is approaching, and Fitch expects the cushion to be rebuilt to higher levels in a recovery.

The institutional framework analysis aims at using a common set of assumptions, such as GDP growth or national government transfer indexation, for the relevant peer group (credits operating in the same framework, such as regions in a given country). This is a key step to ensure consistent approach in the formation of rating scenarios (see below).

Base Case

Fitch will evaluate a cash flow scenario that serves as the agency's expected, or base, case in the current macroeconomic environment. Fitch's base case is the starting point of rating case scenario and sensitivity analysis. The base case scenario reflects the trend of the LRG's historical performance subject to: relevant macroeconomic assumptions; and changes in revenue and expenditure frameworks.

Macroeconomic assumptions used in the base case are primarily derived from Fitch's economic data (notably *Global Economic Outlook*) and Fitch sovereign reports; in the absence of such data, Fitch would use other reputable research and economic institutions.

Shifts in the framework could affect revenue/expenditure dynamics irrespective of the economic fundamentals. Examples include country-specific changes in tax allocations, expenditure responsibilities, or issuer-specific factors that should be considered in the scenario. These adjustments are usually factored in the first projection year (i.e., year 1 of the scenario). The base case scenario development for the remaining years (years 2-5) usually follows national economic trends.

Rating Case

The rating case will consist of a through-the-cycle scenario that incorporates a combination of revenue, cost or financial risk stresses as described below. These stresses are formed typically by reference to historical events, peer analysis, and Fitch's expectations for the future. These may incorporate a particular scenario of events to which the issuer is particularly vulnerable, such as the loss of a key taxpayer, a sector downturn, such as in real estate, or currency, interest rate or refinancing risk. Statistical analysis of the historical data may be used to measure volatility, subject to the availability of sufficient data that is comparable.

The rating case will reveal levels and shifts in key revenue, expenditure and debt structure metrics, and consequentially in the debt sustainability and liquidity metrics, in contrast to the base case. Since the rating will be positioned based on the rating case, these levels and shifts are consistent with a stable rating through that stress. In other words, the rating would not be downgraded if the metrics were to deteriorate or be expected to deteriorate from the base-case levels down to rating-case levels.

In those cases where the LRG is not subject to cyclicality in revenues or expenditures, the rating case and the base case will be closely aligned. For an entity with base case financial profile indicating an SCP of 'b' or below, the base case analysis alone may be sufficient to evaluate the risk of default and transition for the debt.

The assumptions used to determine the amount of stress included in the rating case are based on KRF assessments. A Stronger Revenue Robustness assessment would suggest a lower expected level of stress on revenues than a Midrange assessment. Some assumptions can be common to all credits belonging to a similar tier in a given country. Some will be specific, adapted to the individual risk profile.

Net Adjusted Debt

In its analysis Fitch focuses on Fitch-adjusted debt (Adjusted Debt), that includes all financial long-term and short-term debt, and other liabilities classified as "Other Fitch-classified debt" where Fitch deems the additional risk to the issuer to be material. The latter could include principal of financial leasing, unfunded pension liabilities, fixed payments for PPPs, Build and Transfer instalments, subsidies-in-annuity (see Liabilities and Liquidity).

Unrestricted cash and cash equivalents (e.g. liquid deposits), and readily available reserve funds are deducted from the Adjusted debt to come up with Net Adjusted Debt.

In some cases, such as China, where proper reclassification of contingent liabilities is not possible, analysts can use Net Overall Debt, instead of Net Adjusted Debt for debt sustainability metrics calculation.

Additional Sensitivities

Sensitivities on Single Variables

In order to assess the vulnerability of an issuer to a specific risk, where relevant, analysts may simulate the effect of a change in a single variable beyond the stress applied in the rating case. Typical magnitudes of stress could be dimensioned on previous episodes of crises experienced in the same country or elsewhere. For example, a real estate market crisis, with its consequences on property transfer duty, would be a good sensitivity for LRGs where such revenues are important. The same sensitivity (such as a decline in property market values) would be applied to comparable peers, possibly yielding different rating impacts and therefore suggesting different rating outcomes.

Break-Evens

If an LRG is particularly exposed to a single risk driver, analysts may also use the LRG's cash flows to test a breakeven scenario that determines the maximum level stress that can be applied to a single variable without a default on a rated instrument. Break-even scenarios could apply on tax base contraction, an interest rate hike, currency depreciation or an expenditure increase. These scenarios will be compared to historical troughs and can be added to the peer analysis, which will help analysts form a view on the headroom available at the envisaged rating level.

Metrics to Assess Debt Sustainability

Fitch assesses debt sustainability using a combination of credit metrics, focusing on those that are best adapted to the rated entity, according to its obligations and flexibility to face them.

The most relevant credit metrics used to assess the financial performance of LRGs are determined based on the institutional rules, notably on the classification between two main types of subnational governments. These types will drive which metrics are most relevant to evaluating debt sustainability in the rating guidance and peer group. They are defined as follows.

Type A: Countries/tiers with the ability to incur structural deficits (sovereign-like features). These are typically state-level LRGs in federal arrangements, which share with the central government some key attributes of sovereignty and are often in charge of supporting policies or missions, resulting in fiscal deficits during economic downturns and possibly beyond. Typically, Type A governments collectively have the following traits:

1. Provide key public services such as healthcare, education or social services.
2. Represent a material share of the general government expenditure and debt (above 30%).
3. Display high vertical fiscal imbalances[3] and tax-sharing arrangements with the central government.

These features are not binding or exclusive and analysts should analyse these quasi-sovereign entities with a broader perspective to make a final decision, based on LRGs' intrinsic responsibilities to absorb negative shocks together with the central government, and looking at LRGs' ability to mobilise resources beyond their current resource base, as expressed by GDP, and to tap various liquidity sources when needed, such as bank lines, commercial paper, trade credit or inter-governmental facilities.

Type B: Countries/tiers with requirements to cover debt service from cash flow on an annual basis. For such governments, the LRG is subject to requirements imposed and enforced by upper-tier or national legislation, although some flexibility may be observed.

[3] A vertical fiscal imbalance is the discrepancy between the federal/national government's extensive capacity to raise revenue and the responsibility of the states/LRGs to provide most public services, such as physical infrastructure, health care, or education, despite having only limited capacity to raise its own revenue.

The Following Primary Metrics Are Assessed

Economic Liability Burden [Augmented Debt (Net Adjusted Debt + a Pro-Rata Share of Central Government Debt) / Local GDP] measures the size of debt in proportion of the GDP. As for sovereign entities, GDP is used as a proxy of potential resources of the LRG: not only its current resources, but more broadly the economic base that could be taxed in order to service the debt. For the numerator, Fitch augments the debt figure by adding a share of the central government debt to the LRG's debt. This reflects the overlap of tax burden: the entity may be able to raise additional tax, but will take into account the existing burden on the taxpayers, who generally need to service federal debt from the same resource base. This ratio is best adapted to Type A credits as defined above.

Payback Ratio [Net Adjusted Debt / Operating Balance[4]] is a measure of the ability of an entity to pay down its debt from its own recurring resources, before any policy action is taken, such as tax or fee hike, cost cutting, asset sales or other measures. It is therefore a hard measure of debt sustainability. A negative operating balance, carried through the cycle, would mean the entity is unable to service its debt with recurring resources. This would flag medium-term risk of insolvency, absent corrective measures. This ratio is particularly adapted to credits that need to service their debt with their own resources, rather than new borrowing, and that have limited legal leeway in taking policy actions (Type B as defined above). It is the ratio most adapted for basic local governments with hard budget constraints.

The primary metric for Type A issuers is the economic liability burden, whereas for Type B entities the payback ratio is the main metric. For Type A issuers, the payback ratio is a useful secondary measure of debt sustainability and could justify a higher (when the payback is structurally strong) or lower debt sustainability score than a suggested outcome derived from the Economic Liability Burden.

For all Entities, the Following Secondary Ratios Are Considered

Coverage: Synthetic Debt Service Coverage SDSCR [Operating Balance / Mortgage-Style Debt Annuity[5]]: Coverage of debt service is measured by a synthetic indicator, which assumes a mortgage-style amortisation over 15 years, normalised over the most frequently seen amortisation maturity, using the average cost of debt[6] of the entity. This allows for comparing entities that may make different choices of debt management, such as straight amortisation, bullet debt, or back-ended structures.

Coverage: Actual Debt Service Coverage ADSCR [Operating Balance / Debt service, including short-term debt maturities in the current year]: For issuers with a high proportion of short-term debt or in countries where the typical maturity of debt cannot reach the 15 years used in the synthetic DSCR as above, the actual DSCR will be used instead. This allows capture of the actual risk of not covering debt service with internal resources.

Fiscal Debt Burden [Net Adjusted Debt / Operating Revenue] is an indication of the size of debt in proportion to the fiscal capacity in the form of recurring resources. It compares entities with similar scopes of responsibility but is less adapted to compare debt burden across jurisdictions or tiers with different scopes of responsibility, as the scope of responsibility will drive the size of both revenue and expenditure. The Fiscal Debt Burden metric has less weight for the Debt Sustainability score assessment than Coverage, and is used primarily for notch-specific positioning of the SCP.

Based on the combination of relevant ratios, Fitch determines a category-specific Debt Sustainability Score based on the *Debt Sustainability Score* table. The primary and secondary metrics considered are taken from the Fitch Rating Case forward-looking scenario. The positioning of the metrics is considered over the five-year scenario horizon under the rating

[4] Operating Revenue less Operating Expenditure. Both aggregates are excluding one-off items such as asset investments, asset sales or extraordinary support transfers (classified as "capital").

[5] Mortgage-Style Debt Annuity: maturity = 15 years, interest rate= average cost of debt, debt outstanding = net adjusted debt.

[6] Apparent cost of debt [actual interest paid/direct debt] could be used as a proxy of average cost of debt in most cases, if apparent cost of debt is not meaningful, ie when the LRG does not have any outstanding debt, cost of debt of similar peers should be used.

Augmented Debt

Augmented debt is used in calculation of Economic Liability Burden – primary metrics for Type A LRGs. It is the sum of the LRG's net adjusted debt and its pro-rata share of the central government's debt. This acknowledges that the GDP of the LRG will also be mobilised to service central government debt, which may be considered "senior" in the economic and political waterfall.

Where Fitch deems the additional risk to the issuer to be material, pro-rata share of social security system debt can be added to the pro-rata share of central government debt.

case to best reflect the risk associated with the entity. Usually, this positioning is weighted towards the end of the scenario horizon using, for example, the final year or a blend of the last two or three years.

The rating committee will opine on debt sustainability by combining the relevant primary and secondary metrics. The score suggested by the primary metric will act as a cap. Secondary metrics (typically coverage) of a weaker level could drive a lower outcome if they reveal a real additional weakness. The influence of the secondary metric on the debt sustainability final outcome would be one category, if applied. This adjustment, when applicable, would work asymmetrically, only downwards.

Debt Sustainability Score

	Primary metrics		Secondary metrics	
	Type A eco. liability burden (%)	Type B payback ratio (x)	Coverage (x)	Fiscal debt burden (%)
aaa	X ≤40	X ≤5	X ≥ 4	X ≤ 50
aa	40< X ≤70	5< X ≤9	2≤ X <4	50 < X ≤ 100
a	70< X ≤100	9< X ≤13	1.5≤ X <2	100 < X ≤ 150
bbb	100< X ≤140	13< X ≤18	1.2≤ X <1.5	150 < X ≤ 200
bb	140< X ≤180	18< X ≤25	1≤ X <1.2	200 < X ≤ 250
b	X >180	X >25	X <1	X > 250

Source: Fitch Ratings

Standalone Credit Profile (SCP) Derivation

SCP Positioning

The Risk Profile and Debt Sustainability score assessments are combined in a global *SCP Positioning Table* that provides typical ranges of debt sustainability based on differences in the risk profile. This table provides a suggested analytical outcome for the category-specific SCP. Notch-specific SCP derivation is primarily based on peer analysis, which includes analysis of the positioning of an entity's Risk Profile, primary and secondary debt sustainability metrics in the *Debt Sustainability Score* table.

SCP Positioning Table

Risk profile	Debt sustainability score					
Stronger	aaa or aa	a	bbb	bb	b	
High midrange	aaa	aa	a	bbb	bb	b
Midrange		aaa	aa	a	bbb	bb or below
Low midrange			aaa	aa	a	bbb or below
Weaker				aaa	aa	a or below
Vulnerable					aaa	aa or below
Suggested analytical outcome	**aaa**	**aa**	**a**	**bbb**	**bb**	**b**

Source: Fitch Ratings

Differentiation between SCPs in 'b' category and lower assessments are significantly affected by sovereign- and issuer-specific factors, such as the circumstances of distress in economic and financial environments, and the already weak relative positioning of an LRG assessed at these levels compared with peers.

For these reasons, SCPs of 'ccc' or below have not been incorporated into the table above. In these cases, the nuances are defined as follows.

LRGs with SCPs at 'ccc' indicate that default is a real possibility and typically would have exposure to significant refinancing needs and high liquidity risk accompanied by weak debt coverage metrics. If necessary, SCPs may be further differentiated in the 'ccc' category via the use of "+" or "-" modifiers by comparing qualitative factors and quantitative metrics against similar peers.

Further transitions to SCP assessments of 'cc' means that the credit has a very high level of credit risk and a default of some kind appears probable, particularly if there are indications that a default or a distressed debt exchange is likely to occur in the next 12 months.

An SCP would be lowered to 'c' when a default or default-like process has begun, or the issuer is in a formal payment standstill period, or payment capacity is otherwise irrevocably impaired.

Peer Analysis

The peer-analysis is a tool in the process of establishing the final outcome for notch-specific SCP. It is informed by the rating positioning table, and then the consistency and nuanced rating are established at this level – except any factors outside the SCP, such as governance.

Where information on appropriate rated peers is available to Fitch, as is typically the case for the same country/tier, for a country or tier alone, or for a role in government systems, this information will be used for comparative analysis of individual qualitative and quantitative risk factors or in establishing the rating with respect to the peer group. Peer selection considers the various components of the rating outcome, including risk profile, debt sustainability metrics, support factors, and ceilings.

Peer analysis is likely to play a more important role in countries where the portfolio of ratings is more developed. When the portfolio is limited, the scope of comparable credits is broadened; the comparability is less direct and is therefore less informative. Fitch uses standard metrics, normalising assumptions and using uniform definitions to ensure comparability. Under this approach, rating cases in a given country/tier will rely on common macro assumptions, and assumptions across countries are compared and benchmarked.

Finally, all subnational ratings are positioned paying attention to the "rating distance" to their respective sovereign.

From SCP to IDR: Factors Beyond the SCP

Bailout Mechanisms – Supported Ratings

The limitation to LRGs' fiscal autonomy, which often results in a sovereign rating ceiling (see Capped Ratings), is often balanced by protection or rescue mechanisms provided by the upper tier of government.

Upper-Tier Support Captured in KRFs – Impact on SCP

When the rated entity is the lower-tier government, Fitch gives credit to the support mechanisms in the appropriate KRF. When funding is under the form of extraordinary transfers, such as Sonderzuweisung in Germany or Subvention exceptionnelle in France, this mechanism is captured in the Revenue Adjustability KRF. When support comes in the form of emergency liquidity, such as the Fondo de Liquidez Autonomico in Spain, such support is captured in the Liquidity Flexibility KRF. When this form of support is permanently available, it is embedded in the KRF attribute, and naturally enhances the rating. This cannot be disentangled from other aspects of the credit.

Support not Already Reflected in KRFs and Financials – Impact Beyond the SCP

When the support is discretionary or not based on robust legislation, it will not be included in the KRF (and hence, in the SCP). This support would be assessed and reflected in the IDR, not in the SCP.

Various instruments are used in practice by governments to convey support.

1. Budget loans, typically derived from intergovernmental financing, are one form through which the distressed entity may receive financing to close its budget gap or refinance maturing debt. Such loans are usually junior to commercial debt and offer considerable flexibility. The actual exposure to default on the ordinary financial debt (see Default and Rating Definition) is therefore lowered and reflected by a higher IDR.

2. Ad hoc support by the central government may also be provided. Such support may consist of adjustments to equalisation, access to tax revenues that ordinarily would flow to the higher level of government, direct transfers for operations, capital needs, or debt service, or other resource shifts, whether on a one-time or a multi-year basis. Being ad hoc and not necessarily enshrined in the institutional framework, this type of support is not included in the KRF assessments.

Fitch calculates enhanced primary debt sustainability metrics when governmental support mechanisms are considered, and assesses the subsequent improvement in the DS Score table it would have given, had the SCP been calculated on that basis. In countries where such form of support does not have a well-established record, the influence on the final outcome (IDR) would be at a maximum of one rating category. In countries with established precedents of subordination of budget loans, the uplift could go to two categories. In any case, the uplift could not lead beyond the lending government's rating.

The Following Enhanced Metrics Are Assessed

Enhanced Payback Ratio [Net Adjusted Debt Excluding Intergovernmental Debt / Operating Balance] is the same as the payback ratio above but considers only debt owed to non-governmental lenders. If ad hoc support is justified, the expected reasonable magnitude of this support may be used to calculate enhanced payback. In contrast to the ratios above, this ratio is not used to derive SCPs, but rather to evaluate the effect of extraordinary support, when relevant. It is applicable to countries where the central government or one of its agencies lends money to the LRG with the clear objective of alleviating financing pressure on the LRG, typically by offering some flexibility on debt servicing terms. This debt is considered junior by Fitch, as a delay or moratorium likely would not be considered a default (see Default and Rating Definition). As a result, debt sustainability using the enhanced payback ratio would appear stronger than with the payback ratio, and would be a better indication of the actual default risk. However, Fitch would not ignore the payback ratio, including financial debt owed to other government tiers, as this remains an indication of the overall fiscal tension. Arrears or restructuring on intergovernmental debt would flag financial distress. Therefore, the enhanced payback ratio would be used exclusively in the assessment of potential uplift from SCP to IDR.

Similarly, Enhanced Economic Liability Burden Ratio, Enhanced Fiscal Debt Burden and Enhance Coverage Ratios would be calculated by removing the debt owed to governmental lenders from the relevant LRG aggregate debt. These ratios would be considered to compare to the "normal ratios", and therefore assess the maximum potential benefit that the LRG would display if the governmental lenders were to write-off or indefinitely defer the payment of their debt.

Rating Floors

When support mechanisms are unconditional, unlimited and timely, the support could result in a rating on par with the supporting entity, such as German Laender backed mutually and by the sovereign. When support mechanisms have some limitation or conditionality, but Fitch believes the supporting government has a "target" rating for its LRGs to maintain a given borrower credit standing, Fitch could use a rating floor at a level lower than the rating of the sponsor. Such a rating floor can be static (the floor level would not be affected by a change in the sovereign LT LC IDR), or moving in sync with the sovereign rating. The continued existence of a ratings floor is reviewed regularly to ensure that the elements that existed at the time the floor was introduced are still valid. Any changes to the equalisation funding mechanism, liquidity back-up or view of the likelihood of government support could result in the change in the floor or its elimination. A rating floor can only be applied when the sponsor government has the ability and the willingness to provide the expected support.

Asymmetric Additive Risk Considerations

The analysis will consider whether certain additional risk factors may affect the rating conclusion. These additional risk factors work asymmetrically, where only below-standard features are factored into the final rating levels, while more credit-positive features are expected to be the rule, and would have a neutral impact on the rating. These risk factors include accounting policies, reporting and transparency, management and governance and pension liabilities[7]. In applying these additional risk assessments, it will be noted how the assessment has affected the rating positioning suggested when assessing the issuer's financial profile.

Accounting Policies, Reporting and Transparency

The accounting and reporting policies adopted by LRGs vary by jurisdiction. The quality of the accounting and reporting is generally captured through the assessment of the Liabilities Robustness KRF, since a weaker framework may correspond with under-reported liabilities. However, this factor is generally asymmetric, as a weaker assessment would lead to a lower rating. For peers with higher-quality accounting and reporting, this factor would not positively affect the rating, since it would not improve the ability to repay debt.

LRGs are usually mandated to comply with national accounting standards; very few countries implement IPSAS norms. Fitch therefore makes analytical adjustments to improve comparability internationally, as presented in *Annex 2: Main Analytical Adjustments*.

Attributes: Accounting Policies, Reporting and Transparency

Neutral to the rating	Data from actual operation; regular updates; independently validated; forecast supported by significance or error range statistic; no history of material data errors; detailed cash flow — receipts and disbursements; audited financial data; significant amount of public information available
Negative to rating	Substantially based on assumptions; extrapolated; subject to material caveats; data often subject to delay; history of revisions or errors; limited scope

Source: Fitch Ratings

Management and Governance

The quality of governance and management is an important consideration when assessing the potential performance of an LRG. These considerations generally affect the KRFs, with many possible credit implications captured in the attributes, for example in the liability and liquidity robustness KRF.

However, some additional considerations may apply beyond the KRFs and are addressed separately. Fitch considers these factors to be asymmetric. Weak governance and management may cause the rating to be lower, all other things being equal. In contrast, the presence of adequate governance and management will be assumed when evaluating the impact of stress scenarios and the ability of an issuer to manage through those stresses.

The effectiveness of governance and management is an important factor in assessing an entity's creditworthiness, as management's decisions and initiatives – subject to the oversight and strategic direction of the governing body, such as a regional parliament or city council – can ultimately determine an entity's long-term financial viability. Fitch generally focuses its commentary on management and governance practices if their effectiveness materially influences the rating decision.

Governance: With the level of analysis tailored to the structural characteristics of the institutional framework Country/Tier, Fitch reviews the effectiveness of the governing body in establishing and implementing the organisation's policies and principles. Fitch's assessment may involve developing an understanding of the issuer's missions and strategy, structure, composition, interaction with and oversight by management, knowledge of industry issues where relevant, and performance standards.

Management: Fitch also examines the track record of senior administration in implementing the government's policies and providing day-to-day management. Fitch's analysis is qualitative in nature. When evaluating rating-case stress scenarios, Fitch considers management's history of meeting the goals defined in a strategic plan and adjustments historically made when encountering changes to the operating environment. Fitch also considers management's

[7] Pension liabilities are normally addressed in Expenditure framework as well as Liability and liquidity framework. However, in cases of insufficient data reporting or valuation of unfunded pension liabilities, Fitch may consider adding an asymmetric risk factor.

explanation of significant deviations from its planned, expected or budgeted results and its formulation of contingency plans.

Management effectiveness may also be judged through a review of planning processes. The most effective leadership teams are those that possess a strong understanding of their missions and capabilities, effectively articulate goals and objectives and are organised to operate consistent with best practices.

Attributes: Management and Governance

Neutral to rating	• Management and governing body with extensive experience in the sector • Generally stable management team and leadership with modest turnover • Transparency and strong communication between management and governing body • In the case of affiliated entities or group member, coordinated efforts among members and the governing body • Well-developed and documented policies and procedures that are consistently adhered to • Resource management plans, forecasts of demand and management policies that generally reflect current economic, system and political conditions
Negative to rating	• Lack of experience and depth at the issuer • Repeated failure to adopt budgets on a timely basis due to absence of consensus in governing body or resistance of key stakeholders • Failure to maintain open communications between the issuer and any relevant governing body, which may reveal itself in unexpected operating changes • Weak or lack of forecasts and resource management plans • Limited or lack of policies and procedures, or policies not adhered to • Official allegations of substantial corruption or breach of financial reporting law or regulation that affects financial operations

Source: Fitch Ratings

Pensions Liabilities

As noted earlier, employee pensions and benefits can become a potential source of fiscal distress, affecting the liability position or expenditures of LRGs. Where material, Fitch's analysis starts by assessing the nature of the LRG's financial commitment to its retirees, incorporating the varying legal, fiscal, administrative and accounting frameworks of pension obligations from one country to another. In many countries, the LRG's commitment to retirees is limited or non-existent, because systems for supporting retirees are the responsibility of the sovereign, while in others the obligation to support retirees is shared with or falls entirely on the LRG.

Due to their long-term nature and uncertain timing and amount, Fitch views a commitment to pay pensions as a liability, regardless of how pensions are structured and accounted for in financial reporting. Where robust liability, contribution and benefit data is present, Fitch incorporates unfunded liabilities and the current spending burden of pensions into its KRF assessments. To the extent some or all data is not reported or available, Fitch may not view pensions as a debt obligation for the purpose of computing leverage metrics, instead focusing on the impact on the LRG's expenditure. However, in such cases, evidence that the unstated obligation to retirees is material, rising or difficult to change may be reflected as an asymmetric risk factor.

Attributes: Pensions Liabilities

Neutral to rating	• Immaterial or fully or largely prefunded pensions or those with long sufficiency periods, with liabilities based on conservative assumptions • LRG consistently funding the contributions in a timely manner, and contributions represent a limited burden on overall finances • Flexibility of benefits or assumptions, and history of active pension reforms implemented in recent years
Negative to rating	• Pensions systems with little or no prefunding of benefits, and liabilities based on favorable assumptions • Lack of actuarial studies or sufficient information to assess the pensions' liability burden • Little indication of commitment to prefund benefits, or benefits funded by ad hoc transfers to the pensions; evidence that the current funding demands and contribution practices may hurt the LRG's operating balance performance • Little ability or history of active pension reforms

Source: Fitch Ratings

Capped Ratings

Subnational governments are influenced to such a degree by, and subject to, decisions of their central/federal government that the LRG's ratings are generally capped by the ratings of the sovereign in which the LRG is located in recognition of a certain degree of interdependence between national and subnational finances, even under the most decentralised frameworks of intergovernmental relations. Even in cases where a subnational enjoys the highest degree of autonomy on taxation and freedom to access financial resources, the relationship between the LRG and central government's finances is more diverse, subtle and far-reaching than suggested by immediate budgetary flows.

LRGs are generally subject to the sovereign's decisions on funding, borrowing rules and responsibilities. Sovereign discretionary power may therefore undermine the predictability of the LRGs' budgets, whose strength may be temporary or contingent on a favourable allocation of taxes that may not survive changes in electoral cycles. The highly adverse economic and financial environments in which a sovereign might default would severely affect LRGs' budgets.

In these cases, the SCP would show the intrinsic strength of the subnational, but its IDR would be capped at the level of the sovereign rating. The few exceptions to this rule are found when LRGs enjoy a high degree of autonomy on taxation, scope of responsibilities, freedom to access financial resources, and institutional recognition. See details and conditions of exceptions in Annex 1: Rating LRGs Above the Sovereign. The rating cap (floor) is applied after all other factors beyond the SCP mentioned in this section.

Lower Speculative Grade

The rating for an issuer or issue where the existing or proposed IDR is 'B' category or below suggests that such an issuer will have little capacity to navigate adverse economic conditions. Given the limited number of defaults in the local public finance sector, metrics are less useful for scaling ratings from "CCC' to 'C'. Fitch will make a qualitative assessment of the level of default risk and the extent of any remaining margin of safety indicated by the issuer's overall operating and financial risk profile. In this respect, the Fitch rating definitions associated with rating categories from 'B' to 'C' provide guidance.

Rating Assumption Sensitivity

Revenue: Ratings will be sensitive to changes in attributes of Revenue. Changes in Robustness or in Adjustability can change the final assessment. An example would be the devolution to an LRG (by way of an institutional reform decided by the central government) of additional tax-raising capacity.

Expenditure: Ratings will be sensitive to changes in attributes of Expenditure. Changes in Sustainability or in Adjustability can change the final assessment. An example would be the decision of an LRG to engage in a plan to sustainably reduce its expenditure in a material responsibility field.

Liabilities and Liquidity: Ratings will be sensitive to changes in attributes of Liabilities and Liquidity. Changes in Robustness or in Flexibility can change the final assessment. An example would be the material change of the debt structure, with significantly more foreign-currency denominated debt.

Debt Sustainability: Ratings will be sensitive to changes in debt sustainability that result in a different rating positioning in the analytical guidance table, which is category-specific only, not notch-specific. Changes could also occur at notch-specific level, as a result of a change in the fine peer positioning based on metrics.

Surveillance Analysis

The criteria are applied with no difference between new rating analysis and surveillance analysis.

Default and Rating Definitions

LRG Default Definitions

Default/Non-Default Events

Default event (resulting in 'D' or 'RD' rating)	Non-default event
Missed coupon or principal repayment on a public debt security issued by the LRG	Arrears on payments to suppliers or reported failure to pay out under an LRG "guaranteed" contract, bilateral loan or similar commitment that falls short of an unequivocal, irrevocable and unconditional guarantee by the LRG
Missed coupon or principal repayment on a public debt security benefiting from an unequivocal, irrevocable and unconditional guarantee provided by the LRG	Failure to pay on a swap instrument if this is due to legal dispute over the terms of the contract
Reported failure to pay unrated debt obligations owed to private creditors by the LRG provided Fitch opines that a default event has occurred	Default by a wholly government-owned and/or controlled issuer, even if it occurs as a direct result of actions by the LRG
On completion of a distressed debt exchange on a public debt security issued by the LRG	Reported failure to pay debt owed to the upper tier of government, notably the sovereign, and official creditors by the LRG, including multilateral development banks such as the European Investment Bank or EBRD

Source: Fitch Ratings

Rationale/Conditionality

LRGs have a wide range of financial relationships with resident and non-resident entities. The IDR, however, only relates to the probability of default on debt owed to private creditors. The table above distinguishes between events that may result in the LRG's IDR being lowered to 'D' or 'RD' (left-hand column) and those that would not be considered a default event (right-hand column), although they could have negative rating implications for the LRG.

Official Sector Debt – Intergovernmental Lending

Although reported failure to repay debt owed to the official sector, including an upper tier of government or the sovereign, would not be judged a default event, reflecting the opacity of financial relations between governments and the influence of political and non-financial factors, if arrears to official creditors indicate growing financial distress and/or a lack of willingness to pay, the LRG rating may be adversely affected.

Fitch is also aware that LRGs would likely prioritise payments of multilateral or international official creditors' debt, such as multilateral development banks, since a default on that debt may create spillover effects on other government layers, notably for the sovereign[8].

[8] Except when the multilateral development banks have a political or statutory mandate to lend in the country and where an LRG default would not impair the lending of such official creditor to other public authorities.

FitchRatings

Public Finance
Local and Regional Governments
Global - Non-US

Issuer Default Ratings

Ratings under these master criteria are, in most cases, IDRs. An IDR generally reflects all of an issuer's financial obligations, whether or not they have distinguishing security features. In assigning an instrument rating, Fitch considers the issuer's entire liability structure to form a view on risk of insolvency, and then takes into account any security features that may reduce the risk of default associated with the specific instrument. Public finance issue ratings and IDRs are default ratings and do not incorporate any assessment of recovery prospects.

International-scale senior unsecured instrument ratings are usually equalised with the relevant IDR.

National Scale Ratings

The rating levels discussed in these master criteria relate to Fitch's international rating scale. For issuers and debt instruments in local markets that require national-scale ratings, Fitch will apply the National Scale Ratings Criteria in conjunction with these master criteria. National-scale senior unsecured instrument ratings are usually equalised with the relevant national scale rating.

National-scale ratings for securities or counterparty obligations in a PPP transaction issued by LRGs in emerging-market countries and supported by pledged revenues of these issuers are assessed by applying the Emerging Market Countries' Local and Regional Governments' Specific Securities Rating Criteria in conjunction with these master criteria.

Short-Term Ratings

Short-Term IDRs reflect an issuer's vulnerability to default in the short term. For LRGs, the "short term" typically means up to 13 months. Short-Term IDRs are assigned to all LRGs that have Long-Term IDRs, except where an issuer does not have, and is not expected to have, material short-term obligations. In some circumstances, the issuer may be assigned only a Short-Term IDR if it does not have any long-term securities outstanding.

Short-Term IDRs are related to Long-Term IDRs as shown in the Rating Correspondence table. Both Short-Term Local-Currency (LC) and Foreign-Currency (FC) IDRs are rated on Fitch's short-term rating scale. Short-Term FC IDRs are determined from Long-Term FC IDRs, and Short-Term LC IDRs are determined from Long-Term LC IDRs. Fitch does not envision a circumstance under which it would assign Short-Term IDRs differently than the mapping suggests. However, the higher of the two short-term ratings may be assigned at the cusp, in circumstances where there are strong structural features supporting the repayment of the debt.

The three basic types of short-term analysis relate to cash available for debt repayment on a specific repayment date, market access for long-term debt and continuously available liquid resources. After evaluating the long-term credit characteristics, Fitch focuses on factors that affect each of these repayment structures.

Therefore, the higher Short-Term IDR of the two would be chosen when the issuer shows relatively[9] stronger features on the following items (at least two of three):

Thresholds for Higher-Rated Short-Term IDR

Higher Short-Term IDR	Liquidity coverage ratio[a] (x)	Liability and liquidity robustness (KRF3a)	Liability and liquidity flexibility (KRF3b)
A+/F1+	>1.8	Stronger	Stronger
A/F1+	>2.0	Stronger	Stronger
A-/F1	>1.4	Midrange	Midrange
BBB+/F1	>1.6	Midrange	Midrange

Rating Correspondence

Long-Term IDR	Short-Term IDR
From AAA to AA−	F1+
A+	F1 or F1+
A	F1 or F1+
A−	F2 or F1
BBB+	F2 or F1
BBB	F3 or F2
BBB−	F3
From BB+ to B−	B
From CCC to C	C
RD	RD
D	D

Source: Fitch Ratings

[9] "Relatively" means here in relation to the typical attributes found for the LT rating category.

Thresholds for Higher-Rated Short-Term IDR (Cont.)

Higher Short-Term IDR	Liquidity coverage ratio[a] (x)	Liability and liquidity robustness (KRF3a)	Liability and liquidity flexibility (KRF3b)
BBB/F2	>1.3	Midrange	Midrange

[a] Liquidity Coverage ratio computed as (Operating Balance + Unrestricted Cash)/(Interest & Principal Payment in current year)
Source: Fitch Ratings

The coverage ratio considered in the ST rating positioning is slightly different from those used for the Debt Sustainability score because it has to take into account the liquidity available for debt servicing (unrestricted cash).

Distressed Debt Exchange

When an exchange or tender offer that Fitch considers to be distressed is announced, the IDR will typically be downgraded to 'C' and, for bond issues, the instrument ratings will typically be downgraded to the 'C'-'CCC' range. Completion of the distressed debt exchange (DDE) typically results in an IDR being downgraded to 'RD'. Affected instrument ratings will be changed according to Fitch's rating scale. Shortly after the DDE is completed, an IDR or instrument will be re-rated, usually still low speculative grade.

Data Sources

Fitch's analysis and rating decisions are based on relevant information available. The sources are the issuer, the arranger, financial advisory consultants, third-party engineers or consultants, and the public domain. This includes publicly available information on the issuer, such as audited and unaudited or interim financial statements and regulatory filings. The rating process can incorporate information provided by other third-party sources. If this information is material to the rating, the specific rating action will disclose the relevant source. These criteria were designed using sources mostly from Fitch's rated credits portfolio. Reference was also made to public and credible sources of data and information, such as the IMF, the World Bank, the OECD and similar institutions.

Limitations

Ratings, including Rating Watches and Outlooks, assigned by Fitch are subject to the limitations specified in Fitch's Ratings Definitions and available at https://www.fitchratings.com/site/definitions.

Variations from Criteria

Fitch's criteria are designed to be used in conjunction with experienced analytical judgement exercised through a committee process. The combination of transparent criteria, analytical judgement applied on a transaction-by-transaction or issuer-by-issuer basis, and full disclosure via rating commentary strengthens Fitch's rating process while assisting market participants in understanding the analysis behind our ratings.

A rating committee may adjust the application of these criteria to reflect the risks of a specific transaction or entity. Such adjustments are called variations. All variations will be disclosed in the respective Rating Action Commentaries, including their impact on the rating where appropriate.

A variation can be approved by a ratings committee where the risk, feature or other factor relevant to the assignment of a rating and the methodology applied to it are included within the scope of the criteria, but where the analysis described in the criteria requires modification to address factors specific to the particular transaction or entity.

Criteria Disclosure

The following elements are included in Fitch's Rating Action Commentaries and issuer research reports:

- A Rating Derivation section, which explains the positioning of the issuer's rating against its peers and the rating positioning table thresholds and describes additional considerations impacting the rating not included in the table. These include in particular cross-sector criteria considerations such as the Country Ceiling.
- A description of those drivers most relevant to the individual rating action.
- A brief description of the main rating case assumptions.
- A description of the major institutional rules influencing the assessment of the KRFs.
- Any analytical adjustment made to the debt figure to reflect contingent liabilities where detailed data was not available. This will include a description of the key assumptions underlying the adjustment.
- Whether the rated entity has been classified as Type A or Type B.
- Where applicable, the presence of any rating floors and caps.
- Any variation from criteria.
- Information provided by other third-party sources, if this information is material to the rating.

Annex 1: Rating LRGs Above the Sovereign

General Approach

Sovereign ratings are usually a ceiling for LRGs' ratings, but under certain circumstances (see Conditions for Subnational Rating Above the Sovereign) LRGs can be rated above the sovereign. Despite a sovereign's generally higher powers of taxation, LRGs can remain current on financial obligations even in the event of sovereign default, particularly those with low reliance on central government transfers. This applies to both the Long-Term Foreign-Currency (LT FC) IDR and the LT LC IDR of an LRG. The Country Ceiling will serve as a rating ceiling for the LT FC IDR of the LRG.

The respective Short-Term IDR is derived as described in the relevant section of this criteria report (see Short-Term Ratings) and therefore could also be above the sovereign's Short-Term IDR.

In the countries with sovereign LT IDR below 'B' category, different rating dynamics for LRGs may apply (see Other Rating Implications).

Conditions for Subnational Rating Above the Sovereign

Fitch may rate an LRG above the sovereign LT IDR when its finances are shielded from the kind of sovereign interferences that may lead to unilateral changes of funding and responsibilities, and when it does not rely on national grants or transfers to give it strong credit fundamentals. Resilience of revenues to adverse economic cycles gives an LRG the potential to outperform even in cases of severe sovereign stress or default, while a clear sense of political independence may generate confidence in the strong willingness of an LRG to meet its financial obligations even in the event of sovereign default.

Factors that could allow a subnational to be rated above its sovereign are:

- institutional recognition;
- financial and fiscal autonomy.

Generally, both the above conditions have to be met for a subnational to be rated above the sovereign LT IDR.

Institutional Recognition

For an LRG to be able to be rated above the LT IDR of the sovereign, the LRG must have some form of constitutional or legal protection that would prevent the central government from unilaterally interfering in the subnational's fiscal and final operations without a constitutional change or other legal provision amendments. This protection may result either from **legal** recognition of an LRG's unique status compared to national peers or from a protective institutional framework at the national level.

The recognition of unique status can be through a special mention in the constitution of the LRG's unique independent status within the national framework or by way of a separate legal declaration that recognises the entity's status.

Financial and Fiscal Autonomy

Sovereigns can deliberately interfere with or indirectly influence the finances of most LRGs, for example by changing the tax base or tax rates, or transferring expenditure responsibilities without adequate funding. LRGs in centralised countries benefit from financial and institutional proximity to the sovereign. This feature enables them to obtain financial support if and when the need arises. However, as a consequence, these LRGs may not be rated above the sovereign; when the latter faces financial stress, attempts at subsequent budgetary consolidation measures usually translate into the imposition of revenue compression and constraints and/or pressures on LRG spending without consultation.

Fitch analyses intergovernmental arrangements to assess whether the national government can unilaterally change the mix of an LRG's power of taxation, funding, ability to borrow and expenditure responsibilities. If the LRG's consent for such changes is required by the country's constitution, and the sovereign is thereby prevented from making unilateral decisions that might alter the LRG's finances, the latter's performance may have a high degree of visibility over time and be partly de-linked from the performance of the national government.

The abilities of a subnational to meet its obligations without relying on central government transfers and, in case of need, to pass at least some revenue-strengthening measures are the clearest evidence of an LRG's capacity to de-link to some extent its finances from those of the national government. It is highly likely that a national government under stress would be tempted to impair the finances of its LRGs by reducing transfers to the latter in an attempt to bolster its own budget.

If local taxes and non-tax revenue directly levied and collected by the LRGs represent the overwhelming majority of revenue, this may make their budgets more resilient to external shocks affecting the national government. Some LRGs with specific constitutional arrangements directly collect taxes generated in their territories; in these cases, the weakening (strengthening) of the budgetary performance that corresponds with economic downturn (upturn) is attributable to economic fundamentals rather than sovereign actions or stress. Where LRGs control the tax payment system, provided there is no obligation to forward these tax receipts to the sovereign government, they are more likely to be able to insulate themselves from a sovereign's severe stress or collapse as taxpayers make payments directly to the LRG.

Rating Leeway

As a general guideline, Fitch derives an indication of the leeway that a rating can be raised above the sovereign rating from the difference between the LRG's SCP and the sovereign LT IDR as defined in the *Rating Leeway Correspondence Table* below.

Rating Leeway Correspondence Table

Issuer's SCP	Suggested Leeway for Issuer's LT IDR
6 notches or more above the Sovereign LT IDR	3 notches above the sovereign LT IDR
4 or 5 notches above the Sovereign LT IDR	2 notches above the sovereign LT IDR
Up to 3 notches above the Sovereign LT IDR	1 notch above the sovereign LT IDR

Source: Fitch Ratings

The suggested notch leeway could be reduced by one notch if additional weaknesses are revealed. Reasons justifying a lower leeway could reflect the following:

- The LRG has a large budget comparable to the central budget and a close relationship with the central government, which could lead to the ability and incentive to support the central budget by the LRG in case of sovereign distress to maintain the financial stability of the national public sector;
- Risks related to the sovereign could put pressure on the LRG's ability to repay its debt. This is most common among low investment-grade or speculative-grade sovereign ratings, which typically have more volatile and less predictable environments than more highly rated, investment-grade sovereigns.

Other Rating Implications

When a sovereign is rated below 'B−', it is possible that an LRG in that country could remain current on its financial obligations. In such a case, the LRG could still be rated above the sovereign and up to 'B−' for both FC and LC IDRs if Fitch was confident of its capacity to withstand a sovereign default. Fitch would assess each such case on its merits. However, the LRG would need to maintain a strong budget, have no need to undertake external refinancing of debt over the following one or two years, and have sufficient liquidity available for it not to face an imminent default. The Country Ceiling will continue to serve as a rating ceiling for the LT FC IDR of the LRG.

When LRGs rated above the LT IDR of the sovereign take over the latter's responsibility for financing and monitoring the constituent municipalities, Fitch considers that the former's rating, rather than that of the sovereign, serves as a ceiling for the other local authorities in the region's territory – although this does not ultimately imply a rating equalisation between the LRGs.

Annex 2: Main Analytical Adjustments

Where available, Fitch uses accrual-based accounts and adjusts such accounts to a modified accrual basis to better reflect cash flow by removing non-cash items[10].

Liabilities are adjusted to encompass known obligations matching the economic definition of debt, including all identified long-term, certain and quantifiable obligations that will be serviced from fiscal resources. In countries using simplified cash flow basis reporting, a comprehensive balance sheet may be lacking even if reported long-term financial liabilities is generally correct. Fitch makes adjustments to reflect the reclassification of some liabilities under "Other Fitch-classified debt" (see Reclassification of Contingent Liabilities table); these will include availability-based PPPs, unfunded pensions or debt of companies that raised debt on behalf of the LRG. In such cases, the transfers and payments paid by the LRG for the debt servicing would be deducted from the LRG operating expenditure and classified as capital expenditure, which would result in positively adjusting the operating balance.

Cash is adjusted to reflect only the unrestricted amount not pledged or earmarked to offset payables. The assessment of working capital, notably payables, may be difficult when no proper balance sheet is disclosed. In such cases, Fitch may prudently consider the available cash as "restricted" and does not deduct it from liabilities in the calculation of Net Adjusted Debt.

Fitch also reallocates revenue/expenditure items between operating and capital items where allocations are not reported.

External audits are rare and timelines of public audits, such as Court of Accounts, can sometimes lag by a number of years. The use of such reports is asymmetric, with the absence of a negative report being the norm, while alerts weigh on the assessment and ultimately on the rating. The quality of the overall oversight system is captured in the Liability and Liquidity Adjustability KRF.

In addition to the above adjustments, Fitch may detail specific adjustments required by a national framework, notably by accounting rules, which need to be consistently applied to all issuers subject to the same institutional framework.

[10] E.g. depreciation (few countries have assets appraised at market values with offsetting depreciation) or uncollectible taxes that may be inflating fiscal revenues.

FitchRatings

Public Finance
Local and Regional Governments
Global - Non-US

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Attachment B

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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 Annual Insurance Renewal (for the year 1 July 2022 to 30 June 2023)

C8.2 Fund Manager Appointment

C8.3 Follow up audit action points

C8.4 Milford Opportunities Project - Stage 2

C8.5 Approved unbudgeted expenditure impact on rates and district operations reserve

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
Annual Insurance Renewal (for the year 1 July 2022 to 30 June 2023)	s7(2)(b)(ii) - the withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information.	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.
Fund Manager Appointment	s7(2)(b)(ii) - the withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information. s7(2)(i) - the withholding of the information is necessary to enable the local authority to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).	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.
Follow up audit action points	s7(2)(j) - the withholding of the information is necessary to prevent the disclosure or use of official information for improper gain or improper advantage.	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.
Milford Opportunities Project - Stage 2	s7(2)(i) - the withholding of the information is necessary to enable the local authority to carry on, without	That the public conduct of the whole or the relevant part of the proceedings of the meeting would be

	prejudice or disadvantage, negotiations (including commercial and industrial negotiations).	likely to result in the disclosure of information for which good reason for withholding exists.
Approved unbudgeted expenditure impact on rates and district operations reserve	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.