



AGENDA:

Meeting of the
FINANCE & AUDIT COMMITTEE

Wednesday 6 December 2017
commencing at 4:00pm

at:

Clocktower Chambers,
Palmerston Street, Westport

Finance & Audit Committee Members:

- His Worship the Mayor Garry Howard
- Cr J Cleine
- Cr D Hawes
- Cr S Roche (Chair)
- Cr R Nahr
- Cr P Rutherford

Terms of Reference

Finance & Audit Committee

Purpose

The Finance and Audit Committee will monitor and assess the following:

- The correct level of service is being delivered within the approved financial parameters.
- External financial funding is on track to be received within the budgeted financial year.
- Council's level of borrowing is financially sustainable and intergenerational equity requirements are achieved.
- Council's investments are growing as predicted and invested as per Treasury Management Policy and that all breaches of policy are reported and approved by Council.
- Rates are being collected and that debt recovery is under control.
- Monitoring of Council's fiscal prudence indicators.
- Both external and internal audit requirements are met.

Delegated Powers

- The Finance and Audit Committee has authority to undertake the following functions and to make recommendations to Council as required:

Financial and Performance Monitoring

- Monitoring financial performance to budgets
- Monitoring service level performance to key performance indicators
- Monitoring of Rates and General Debt collection

External Reporting and Accountability

- Enquire of external auditors for any information that affects the quality and clarity of the Council's financial statements, and assess whether appropriate action has been taken by management.
- Satisfy itself that the financial statements 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 and Mayor and adoption by Council.

External Audit

- Confirm the terms of the appointment and engagement, including the nature and scope of the audit, timetable and fees, with the external auditor.
- Receive the external audit report(s) and review action to be taken by management on significant issues and audit recommendations raised
- Enquire of management and the independent auditor about significant business, political, financial and control risks or exposure to such risks. Internal Audit
- Review the internal audit coverage and annual work plans.

Frequency of Meetings

Monthly

Reporting To

Council

Reporting Timeline

Monthly dashboard report

Membership

Chair:

- Sharon Roche

Members:

- Garry Howard
- Robyn Nahr
- Phil Rutherford
- Dave Hawes
- Jamie Cleine

FINANCE & AUDIT COMMITTEE MEETING

6 DECEMBER 2017

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FINANCE AND AUDIT COMMITTEE

6 DECEMBER 2017

Agenda Item No 1

Prepared by - Dean Phibbs
- Manager Corporate Services

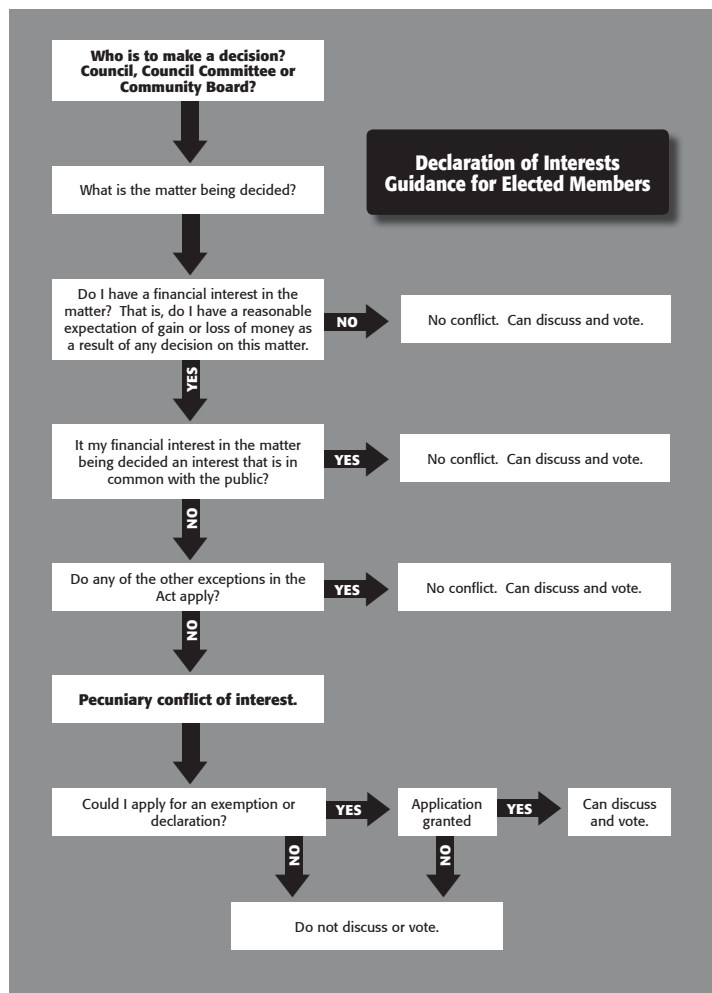
MEMBERS INTEREST

Councillors are encouraged to consider the items on the agenda and disclose whether they believe they have a financial or non-financial interest in any of the items in terms of Council's Code of Conduct.

Councillors are encouraged to advise the Personal Assistant, Corporate Services, of any changes required to their declared Members Interest Register.

The follow flowchart may assist Councillors in making that determination (Appendix A from Code of Conduct).

DRAFT RECOMMENDATION



That Councillors disclose any financial or non-financial interest in any of the agenda items.

FINANCE AND AUDIT COMMITTEE

6 DECEMBER 2017

Agenda Item No 2

**Prepared by - Dean Phibbs
- Manager Corporate Services**

CONFIRMATION OF MINUTES

Minutes of the meeting held 15 November 2017.

DRAFT RECOMMENDATION

That the minutes from the meeting held 15 November 2017 are confirmed.

**MEETING OF THE BULLER DISTRICT COUNCIL FINANCE AND AUDIT COMMITTEE,
COMMENCED AT 5:25pm 15 NOVEMBER 2017 AT CLOCKTOWER CHAMBERS,
PALMERSTON STREET, WESTPORT**

PRESENT:

Councillor's S Roche (Chair), P Rutherford, R Nahr and J Cleine.

IN ATTENDANCE:

Manager Corporate Services (D Phibbs), Management Accountant (L Brooks) and PA Corporate Services (M Wilson).

Councillors S Barry and G Neylon.

APOLOGIES:

Apologies were received from Mayor G Howard and Councillor D Hawes.

**J Cleine/P Rutherford
CARRIED UNANIMOUSLY**

1. MEMBER'S INTEREST

No Members Interests were disclosed.

2. MINUTES

RESOLVED that the minutes of the 18 October 2017 meeting be accepted.

**P Rutherford/R Nahr
CARRIED UNANIMOUSLY**

3. ACTION POINTS

111. An updated was provided from Mike Duff and Rick Barry. Ongoing, change date required to February 2018.

117. Completed.

137. Change date required to February 2018.

RESOLVED that the report be received for information and discussion.

**S Roche/J Cleine
CARRIED UNANIMOUSLY**

4. FINANCIAL PERFORMANCE

RESOLVED that the report be received for information and discussion.

**P Rutherford/S Roche
CARRIED UNANIMOUSLY**

5. INVESTMENTS AND BORROWINGS

RESOLVED that the report be received for information and discussion.

**R Nahr/J Cleine
CARRIED UNANIMOUSLY**

6. SIGNIFICANT PROJECTS REPORT

AP: Council to invite WCRC representatives (Terry Archer or Neal Clementson) to provide an update on flood protection.

AP: Remediation of Peel Street yard to be followed up with Group Manager, Assets and Infrastructure (S Roche).

AP: Advocacy at Punakaiki to be included in the Significant Projects Report (L Brooks).

RESOLVED that the report be received for information and discussion.

**J Cleine/P Rutherford
CARRIED UNANIMOUSLY**

7. DEBT RECOVERY REPORT

RESOLVED that the report be received for information and discussion.

**R Nahr/P Rutherford
CARRIED UNANIMOUSLY**

8. CAPITAL INCOME AND CAPITAL EXPENDITURE REPORT

RESOLVED that the report be received for information and discussion.

**P Rutherford/J Cleine
CARRIED UNANIMOUSLY**

9. AUDIT MANAGEMENT ACTION POINTS

2015 – 4: Completed.

RESOLVED that the report be received for information and discussion.

**S Roche/J Cleine
CARRIED UNANIMOUSLY**

FINANCE WORK PLAN

Reviewed.

-
- There being no further business the meeting concluded at 6:35pm
 - **Next meeting:** 5pm Wednesday 6 December 2017, *Council Chambers, Palmerston Street, Westport.*
-

Confirmed: **Date:**

Name:

FINANCE AND AUDIT COMMITTEE

6 DECEMBER 2017

Agenda Item No 3

Prepared by - Dean Phibbs
- Manager Corporate Services

ACTION POINT LIST

No.	Meeting of:	Action Point	Responsible?	Progress:	Date required by:	Completed
111	11 May 2016	Leases and Licences to Occupy: Update register and provide report	Mike Duff	Sharon Roche to discuss with GM A&I. Report to be available September 2017.	November 2017	
137	17 May 2017	WestReef Services: work with WestReef Services to tidy-up how H&S KPI's are measured to provide consistency to the reporting.	Wendy Thompson Robyn Nahr	Quarterly report to go to Councils October meeting.	February 2018	
144	15 Nov 2017	Flood protection: WCRC Buller councillors to be invited to update Council.	Garry Howard		December 2017	
145	15 Nov 2017	Peel Street yard: remediation report to be provided by Mike Duff.	Sharon Roche		December 2017	
146	15 Nov 2017	Punakaiki: ongoing advocacy of Punakaiki to be included in Significant Projects Report.	Lynn Brooks		December 2017	

DRAFT RECOMMENDATION

That the report be received for information.

FINANCE AND AUDIT COMMITTEE

6 DECEMBER 2017

Agenda Item No 4

Prepared by - Wendy Thompson
- Financial Accountant

Reviewed by - Dean Phibbs
- Manager Corporate Services

FINANCIAL PERFORMANCE: OCTOBER 2017

1. Report Summary :

To provide Council with a financial performance update for the three month period ending 13 October 2017.

2. Recommendation/draft resolution:

That this report be received for information and discussion.

3. Operational Financial Performance

3.1 Operational Performance Report - Summary of results: October 2017

	Actual YTD	Budget YTD	Projected Full Year	Budget Full Year	Projected Variance Full Year
Income	\$5,410,700	\$5,427,100	\$21,818,500	\$21,818,500	0
Expenditure	\$7,705,400	\$7,569,700	\$22,561,000	\$22,561,000	0
					0

3.2 Dashboard – Operational Financial Performance Indicators

Activity	Revenue	Expenditure	Comment
Democracy	●	●	
Property Amenities & Reserves	●	●	
Economic Development, Tourism & Museum Support	●	●	
Community Services	●	●	
Regulatory	●	●	Timing variance - dog control and food premise licencing fees
Roading	●	●	Income over budget due to timing of subsidies
Additional emergency reinstatement subsidy	●	●	
Solid Waste	●	●	
Support	●	●	
Wastewater	●	●	
Water	●	●	Over budget Westport supply electricity; Westport & Punakaiki repairs & maintenance.
Airport	●	●	Timing variance- lease invoicing

Operational Financial Report for the period ending 30 October 2017

	Year to Date										Temporary or Permanent Variance	Explanation of Variances of \$50,000 or greater
	Actual	Budget	Variance to October	U/F	Full Year Prediction	Annual Budget	Variance Full Year Prediction	U/F	Note			
Income												
Community Services	191,457	222,330	(30,873)	U	676,940	676,940	0					
Democracy	268	0	268	F	0	0	0					
Tourism & Promotion	0	0	0	U	0	0	0					
Water Supply	636,900	674,602	(37,702)	U	3,033,130	3,033,130	0			Temporary	Timing of water meter billing cycle	
Airport	54,991	97,584	(42,593)	U	188,752	188,752	0			Temporary	Timing of lease invoicing \$52,000 under budget	
Amenities & Reserves	282,219	261,732	20,487	F	785,200	785,200	0					
Roading & Urban Development	703,070	589,917	113,153	F	2,341,130	2,341,130	0			Temporary	Timing of NZTA operating subsidy over budget \$144,000 offset by petrol tax receipts under budget \$50,000	
Environmental Services	384,497	427,801	(43,304)	U	870,895	870,895	0			Temporary	Under budget dog registrations \$29,000 and timing of food premise licences \$17,000	
Solid Waste	210,004	205,372	4,632	F	779,620	779,620	0					
Support Services	21,389	24,664	(3,275)	U	73,992	73,992	0					
Council (General Rates & Investments)	2,319,158	2,308,845	10,313	F	10,622,491	10,622,491	0					
Wastewater	606,703	614,294	(7,591)	U	2,446,380	2,446,380	0					
Total Income	\$5,410,655	\$5,427,141	\$(16,486)	U	\$21,818,530	\$21,818,530	0					

Operational Financial Report for the period ending 30 October 2017

	Year to Date							U/F	Note	Temporary or Permanent Variance	Explanation of Variances of \$50,000 or greater
	Actual	Budget	Variance to October	U/F	Full Year Prediction	Annual Budget	Variance Full Year Prediction				
Expenditure											
Community Services	1,110,419	1,065,382	(45,037)	U	3,259,563	3,259,563	0		Temporary	Kotui software licence fee paid earlier than budgeted \$21,000	
Democracy	140,589	141,250	661	F	532,000	532,000	0				
Tourism & Promotion	231,918	208,961	(22,957)	U	451,648	451,648	0				
Water Supply	841,205	702,172	(139,033)	U	2,282,008	2,282,008	0		Partial Permanent	Over budget Westport supply electricity \$40,000 and repairs & maintenance \$75,000; Punakaiki supply repairs & maintenance \$35,000	
Airport	128,549	113,984	(14,565)	U	325,952	325,952	0				
Amenities & Reserves	825,313	877,042	51,729	F	2,088,356	2,088,356	0		Temporary	Timing of repairs & maintenance \$50,000 under budget	
Roading & Urban Development	1,846,824	1,839,036	(7,788)	U	5,526,626	5,526,626	0				
Environmental Services	428,281	440,376	12,095	F	1,356,785	1,356,785	0				
Solid Waste	301,411	306,334	4,923	F	971,714	971,714	0				
Support Services	1,174,643	1,182,824	8,181	F	3,510,599	3,510,599	0				
Wastewater	676,290	692,363	16,073	F	2,256,121	2,256,121	0				
Total Expenditure	\$7,705,442	\$7,569,724	\$(135,718)	U	\$22,561,372	\$22,561,372	0				
Net Variance			\$(152,204)	U			0				

FINANCE AND AUDIT COMMITTEE

6 DECEMBER 2017

Agenda Item No 5

Prepared by - Wendy Thompson
- Financial Accountant

Reviewed by - Dean Phibbs
- Manager Corporate Services

INVESTMENTS AND BORROWINGS: NOVEMBER 2017

Report Summary

This report summarises Councils cash investments and borrowings for the month ended October 2017, interest earned for the period from 1 July 2017 to 30 November 2017 and policy compliance.

Recommendation/Draft Resolution

That the report be received for information.

Issues and Discussions

Investments

Investments have increased by \$1.7 million in total from the last report circulated to the end of October 2017. This is mainly due to the effect of the rates billing cycle and monthly creditor payment obligations. The trading account closing balance is \$266,300.

Interest Revenue

Interest revenue to the end of November 2017 is \$207,300 compared to a budget of \$229,500. Council will continue to reinvest term investment funds at the most favourable interest rate when deposits are up for renewal. There are often opportunities to take advantage of bank pricing differences to maximise returns even in time of low interest rates.

Borrowings and Net Debt Position

Total borrowings are stable at \$23,500,000.

Net debt (borrowings less term investments) has decreased to \$5,072,000 from the \$6,792,000 balance in October due to the movement in investments.

Considerations

1. Strategic impact

It is important that Council retains suitable cash holdings and credit facilities to ensure its activities and capital projects are able to be funded in a timely and affordable manner.

2. Significance assessment

The significance policy sets out the criteria and framework for a matter or transaction to be deemed significant. The content included in this report is not considered significant because the matters disclosed are of a routine nature, and not large in terms of total assets and total annual operations of council.

3. Values assessment

- The Buller District Councils values are: One Team; Community Driven; We Care; Future Focussed; and Integrity.
- Treasury management functions and reporting align most strongly with the values of Future Focussed and Integrity.
- Consideration of current and future cash requirements and intergenerational equity are required when managing cash deposits and credit facilities.
- Public reporting of investments and borrowings encourages open and honest discussion and decision making.

4. Risk analysis

- Risk is assessed by taking into account the likelihood of an event occurring and the result of that event.
- Cash flow management is an integral part of ensuring Council is able to deliver the services and projects it has committed to in successive Long Term and Annual Plans.
- This risk is mitigated by establishing policies and procedures, engaging staff to manage investment and borrowings and regular reporting to Council to ensure high level oversight.

5. Policy / legal considerations

- The Local Government Act (2002) and associated regulations prescribe prudent financial management and nationwide benchmarks. The financial prudence benchmarks are now compulsory sections included in Council Long Term/ Annual Plans and Annual Reports.
- Council's Investment Policy and Treasury Policy govern the management of cash assets and borrowings.

6. Tangata whenua considerations

None identified

7. Views of those affected

Council's financial strategies, investment levels and borrowing projections are included in the Long Term Plan and Annual Plan consultation processes.

8. Costs

There are no extraordinary costs relating to investments and borrowings.

9. Benefits

The benefits of structured Treasury management include risk minimisation, prudent cash management and long term financial stability.

10. Media / publicity

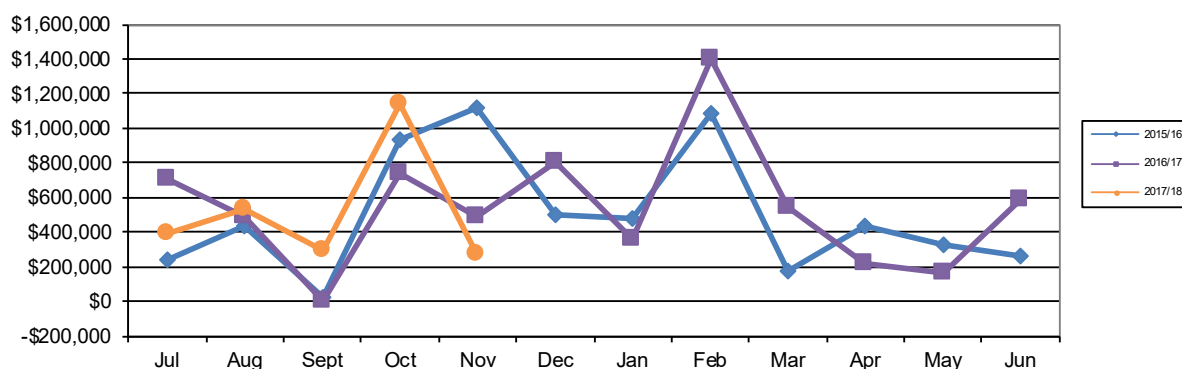
None identified.

INVESTMENTS AND BORROWINGS REPORT

1. BANK BALANCE

	This Month 30 Nov-17	Last Month 31 Oct-17	Last Year 30 Jun-17
Council	\$266,279	\$1,143,250	\$585,661

2. MONTH END BANK BALANCE



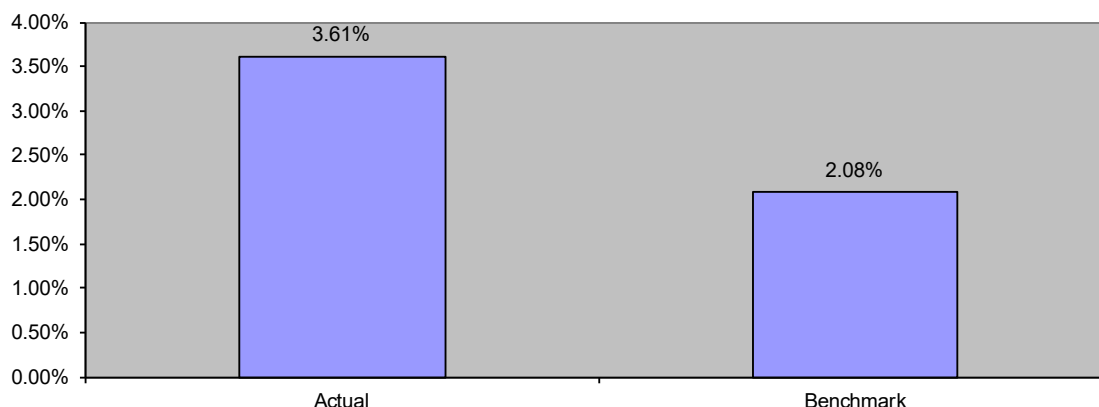
3. SUMMARY OF INVESTMENTS

	This Month 30 Nov-17	Last Month 31 Oct-17	Last Year 30 Jun-17
Term Deposits	18,398,148	16,698,148	17,098,148
Other Loans (includes loan to Holding Company)	2,507,923	2,529,068	2,537,348
Total Investments	\$20,906,071	\$19,227,217	\$19,635,496

4. SOURCE OF FUNDS

	This Month 30 Nov-17	Last Month 31 Oct-17	Last Year 30 Jun-17
Depreciation Funds	1,000,000	1,000,000	1,000,000
West Coast Package (Govt subsidy for halt to logging)	2,829,551	2,829,551	2,829,551
Harbour (profit from past harbour operations)	1,979,092	1,979,092	1,979,092
Freeholding Proceeds (sale of leasehold land)	2,840,838	2,840,838	2,840,838
Capital Sponsorship (deposits from V2010 sponsors)	5,034,038	5,034,038	5,034,038
Reserves Contribution Funds	1,314,630	1,314,630	1,314,630
Short Term Funds (rates income plus tds held pending debt reduction)	3,400,000	1,700,000	2,100,000
	\$18,398,148	\$16,698,148	\$17,098,148

5. INVESTMENTS PORTFOLIO PERFORMANCE (12 Month Average)



6. INTEREST REVENUE

	Actual YTD	Budget YTD	Budget Full Year
Interest Revenue	\$207,311	\$229,465	\$1,220,715

7. COMPLIANCE WITH INVESTMENT POLICY

All term deposits are held with New Zealand Registered banks with no more than \$10 million with any one institution. The terms and maturity dates of investments are spread to minimise Council's exposure to interest rate fluctuations while still aiming to optimise interest earned.

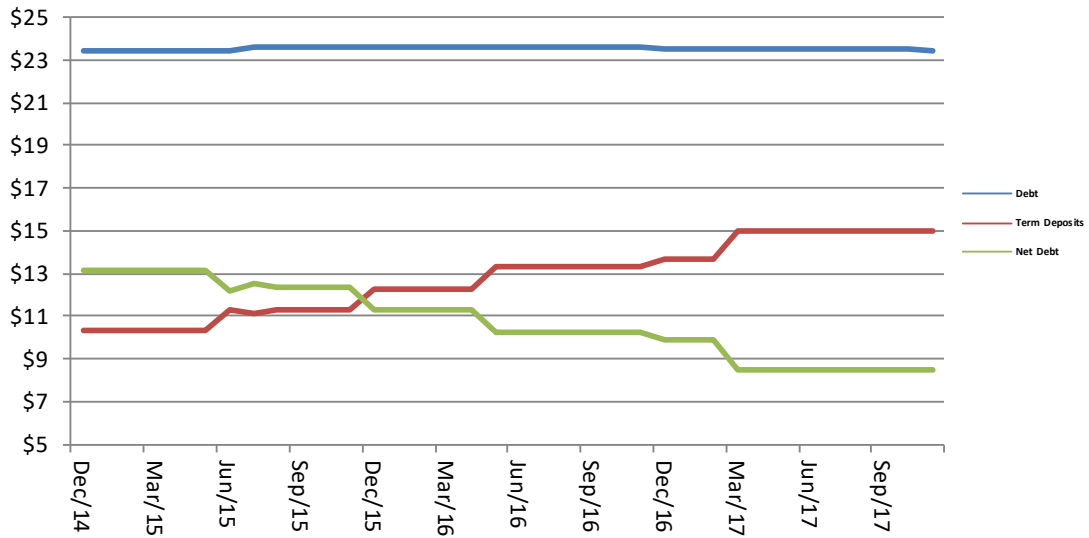
Council has approved the investment in NBS which sees us in breach of the Treasury Management Policy. This breach will continue as investments mature and are rolled over.

8. SUMMARY OF BORROWINGS

	This Month 30 Nov-17	Last Month 31 Oct-17	Last Year 30 Jun-17
External Debt:			
Westpac Loan Facility	3,433,860	3,433,860	3,433,860
LGFA Loan Facility	20,000,000	20,000,000	20,000,000
EECA Loan	35,989	55,885	66,241
	\$23,469,849	\$23,489,745	\$23,500,101
Weighted Average Interest Cost	4.00%	4.00%	4.60%
Net Debt:			
Total Borrowings	23,469,849	23,489,745	23,500,101
Less: Term Deposits	18,398,148	16,698,148	17,098,148
	\$5,071,701	\$6,791,596	\$6,401,953

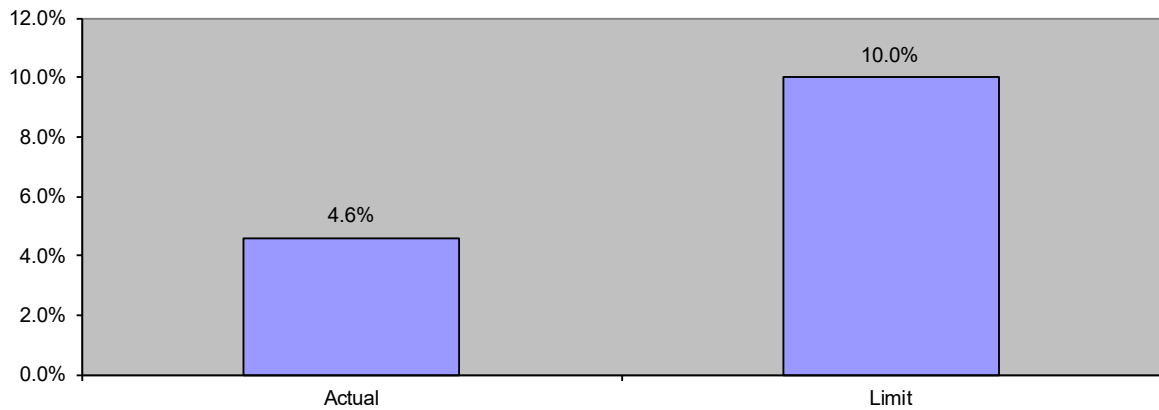
9. DEBT AND INVESTMENTS 3-YEAR TREND

\$ Millions

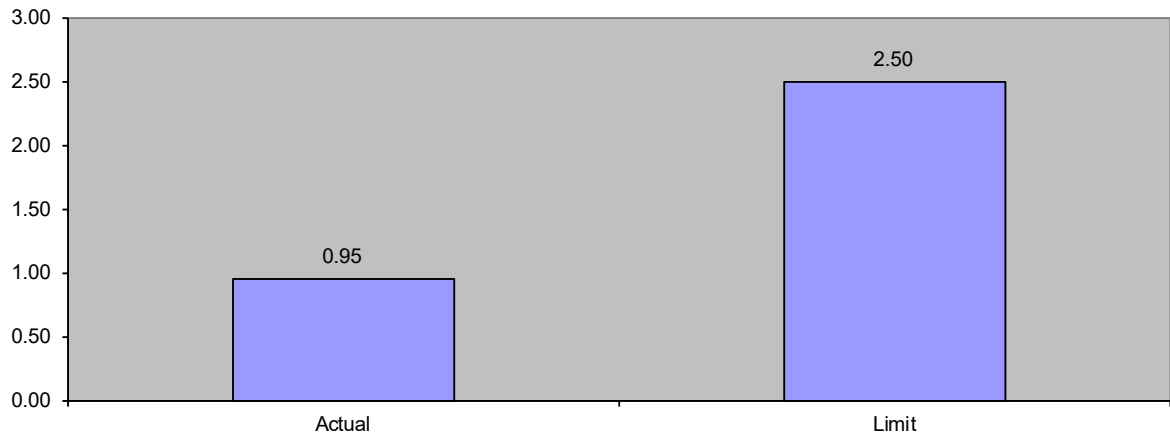


10. COMPLIANCE WITH TREASURY POLICY

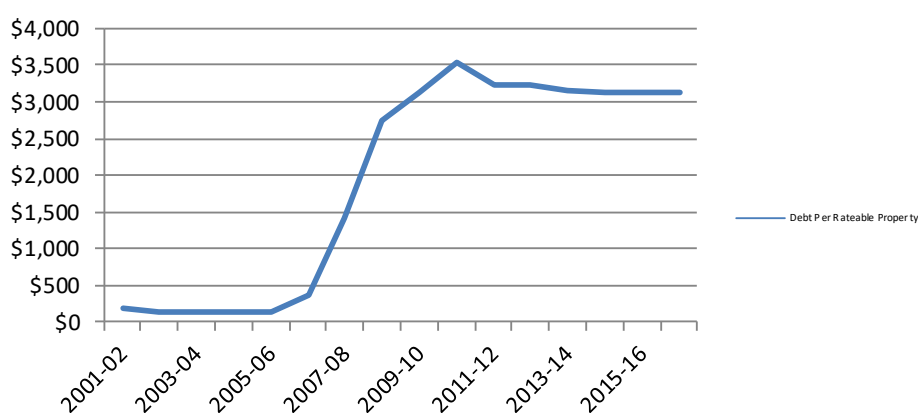
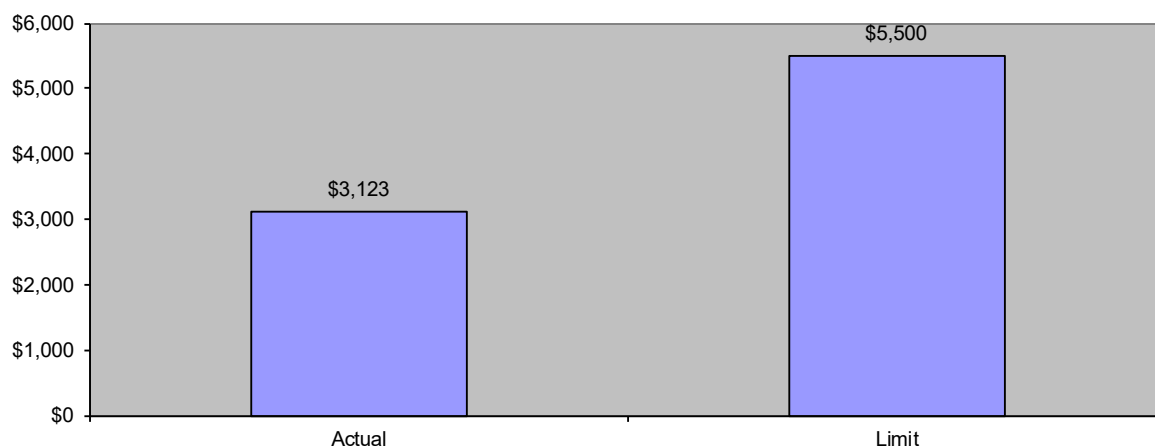
10.1 Interest Expense / Total Income



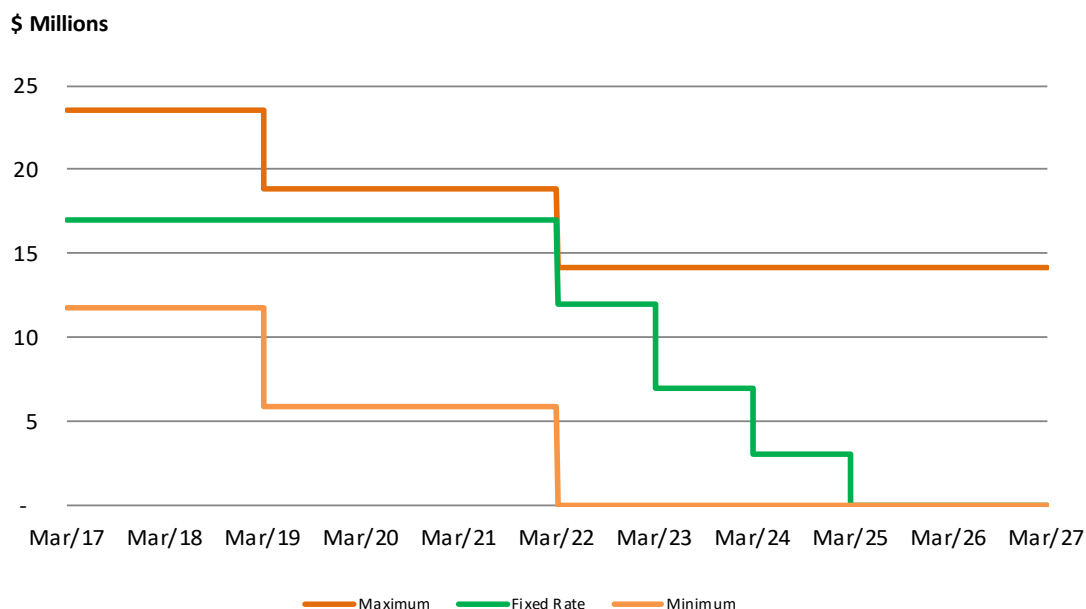
10.2 Gross Debt / Total Income



10.3 Gross Debt per Rateable Property



10.4 Fixed Rate Debt - Compliance with Treasury Policy



Current borrowings are in compliance with the limits specified in Council's Treasury Policy.

Investments are in breach of Council's Treasury Management Policy in respect that there is more than 10% of the portfolio invested in a Building Society. Council ratified this breach via resolution to obtain ongoing sponsorship proceeds for the NBS Theatre.

FINANCE AND AUDIT COMMITTEE

6 DECEMBER 2017

Agenda Item No 6

Prepared by - Lynn Brooks
- Management Accountant

Reveiwed by - Dean Phibbs
- Manager Corporate Services

SIGNIFICANT PROJECTS REPORT

Report Summary

This report summarises significant projects and priorities of Council at 31 October 2017. It records both current and future work streams, and is for discussion and monitoring purposes. It should be read in conjunction with the attached detailed Appendix A.

Draft Recommendation

That the report be received for information.

Issues and Discussion














The report provides a high summary of some projects and priorities of Council by each of the following sectors:

- 1 Mayor, Councillors and Chief Executive
- 2 Community and Environment
- 3 Corporate Services
- 4 Assets and Infrastructure
- 5 Significant Projects

This report does not include every task undertaken, such as low value routine roading contract work or other regular services provided by Council. Instead it highlights the high value projects at an aggregated level, and/or the non-routine projects.

Chief Executive and Council are to advise if there are other projects or priorities to be included in the next monthly report to Council.

The following table shows each section of the report as a high level overview. This is similar to other “traffic light” indicators used in Council documents such as the Annual Plan, Long Term Plan and other reports and is included for consistency with those formats.

Activity	Indicator	Comment
Mayor, Councillors and Chief Executive		Advocacy for a fit-for-purpose IFHC continued on behalf of the community. Shared services and review projects are progressing as planned. Advocacy for the Dolomite Point development is added to the list this month.
		Advocacy for the West Coast Regional Council projects (Westport Flood Protection, Carters Beach & Granity/Ngakawau sea erosion) continues.
Community and Environment		The current tasks are on plan and budget. Attention must be paid to the resources required to complete all bylaw reviews which are required in 2017/2018. Freedom Camping is a topical issue and all West Coast Councils are working on a joint solution toward this issue.
Corporate Services		The Long Term Plan is at service level review phase and collation.
Significant Projects		General Projects: The District Plan Review and Rates Overhaul Project are progressing as planned. The telephony project has been completed ahead of time. Work continues on the Information Management system which is a key project.
Assets and Infrastructure		Roading and Urban Development: District Signage has progressed and billboards have been installed. Roothing contracts are being completed as planned. Advocacy for the Karamea Highway Special Purpose Road designation continues.
		Water Supplies: The Westport water project is progressing with implementation of the repair option commencing. Investigations into the Waimangaroa Water treatment system continues.
		Water Supplies: Punakaiki Water Intake Easement progressing as planned.
		Properties and Amenities: Peel Street Yard, site testing, analysis and risk assessment in progress.
		Properties and Amenities: Carnegie Library earthquake report required, this is necessary work that cannot be delayed and costs will be over budget at end of year.
		District Signage (Seal Loop) installation in progress.
Project on time and budget		
Project delays or budget overruns		

Considerations

1. Strategic impact

The report helps to monitor the outcomes provided for the community against the strategic direction of Council. In particular, it reports on the effectiveness of the “consolidate and hold” position taken in the last Long Term Plan where it was agreed to minimise rates increases and limit new services or capital spending to those things that could be used as a springboard for district economic growth.

2. Significance Assessment

The Significance and Engagement Policy sets out the criteria and framework for a matter or a transaction to be deemed significant. The Significance and Engagement Policy is written in accordance with The Local Government Act 2002 (LGA 2002) section 76AA. This part of the Act sets the general approach to determine if a proposal or decision is significant requiring the Council to make judgements about the likely impact of that proposal or decision on:

The district;

- a) The persons who are likely to be particularly affected by, or interested in, the proposal or decision;
- b) The financial impact of the proposal or decision on the Council’s overall resources; and
- c) The capacity of the Council to perform its role and carry out its activities, now and in the future.

The content included in this report has been consulted on with the community through the Long Term Plan and Annual Plan process.

3. Values assessment

The Buller District Council values are: One Team; Community Driven; We Care; Integrity; and Future Focussed. This report presents the significant projects which are important for the community and the future of the district. Reporting on the significant projects provides an opportunity to review if the areas of focus align with our values.

4. Risk Analysis

Risk is assessed by taking into account the likelihood of an event occurring and the result of that event.

Significant projects are perceived to have some greater than usual potential to place Council at risk as the costs involved can be significant, or the project may have greater technical and legal issues. This risk is mitigated by engaging suitably qualified staff to monitor and regularly report on the projects therefore acting on any issues that arise early on, and to ensure the project progress is well understood by staff and governance.

5. Policy/Legal Considerations

The Local Government Act 2002 governs the activities of Council and sets out the requirement for consultation on the Annual Plan and Long Term Plan to agree the budgets and activities to be funded.

This report assists with two key purposes of that Act (refer to section 3) stating the purpose of the Act is to promote the accountability of local authorities to their communities; and provide for local authorities to play a broad role in meeting the current and future needs of their communities for good-quality local infrastructure, local public services, and performance of regulatory functions.

6. Tangata Whenua Consultation Considerations

The contents of the report are not a matter requiring consultation with tangata whenua or community groups.

7. Views of those affected

There is no need to consult with the public or affected parties due to the information being previously consulted upon through Annual Plan processes.

The community will have interest in the progress of the projects and priorities included in the report because new spending affects annual rates charges, and the effectiveness of advocacy has the potential to improve community wellbeing.

8. Costs

There are no extraordinary costs for the items included in this report, as these projects have been budgeted for in the annual plan. Some of the significant projects have no monetary cost to council as they are for advocacy.

9. Benefits

The benefits of reporting on reviewing the significant projects and priorities are understanding the timelines, budgets, resourcing and opportunities that exist for Council.

Reporting on the significant projects and priorities allows Council to compare the activities of Council against the core strategy of Council.

10. Media/Publicity

There are many media or publicity opportunities with the content of this report.

Indicator	Project Description	Project Manager	Carry Over (over)/under	2017/18 Budget	Total Budget	Actual Cost to 31 October 2017	Project status	Scope, Design, etc	Quote, Tender, etc	Planned Start Date	Planned Completion	Date of completion	Comments / Issues
	MAYOR, COUNCILLORS & CEO												
●	Little Wanganui/ Tapawera/ Wangapeka Road Advocacy	GH + CEO	0	0	0		In progress			Nov-15			August Council resolution - ongoing.
●	Ultra Fast Broadband Advocacy	GH + CEO	0	0	0		In progress			Nov-15			Government Announcement with WC Projects 2019. Delivery by Chorus. Progressing with MDC, Creative Developments and BEL.
●	Integrated Family Health Centre Advocacy	GH + CEO	0	0	0					Nov-16	Nov-17		Advocacy for a fit for purpose build is ongoing, on behalf of the community.
●	Housing for Elderly - Advocacy	GH	0	0	0					Jun-16	Jun-18		Housing stock & ownership structure i.e. Trust to be investigated.
●	Carters Beach Sea Erosion Advocacy	GH + CEO	0	0	0					Aug-17			Community Meetings Held. Advocacy role only. Responsibility is with WCRC.
●	Ngakawau/Granthy Sea Erosion Advocacy	GH	0	0	0					Aug-17			Community Meetings Held. Advocacy role only. Responsibility is with WCRC.
●	Westport Flood Mitigation Advocacy	GH	0	0	0		ongoing						WCRC project, BBC role is advocacy. WCRC Submissions on this issue closed 17 February 2017.
●	Future of Westport Port	CEO, DP & CEO BHL	0	0	0		under continual review			Dec-15	Jun-18		AP, LTP Strategy, CCTO Committee and BHL as per August 2017 resolution.
●	Holcim Exit	GH	0	0	0		ongoing			Apr-17			Exit Plan.
●	17A Review - Local Government Act 2002	CEO	0	0	0		ongoing						Required to review cost effectiveness of current arrangements for meeting community needs.
●	Representation Review	CEO	0	0	0		ongoing						Work underway.
●	Shared Services Projects with Other Coast Councils	CEO	0	0	0		ongoing						Ongoing - Reading, Various IT Projects, Internal Audits, Civil Defence & Local Govt Commission, Economic Development, One (District) Plan, Policy Development.
●	Charleston/Cape Foulwind Cycleway	GH	0	0	0		near complete			May-16	Dec-17		MOU completed. Continue advocacy.
●	Kawatiri Sculpture Symposium	GH + PH	0	0	0					Dec-17			Sculptures installed and near completed.
●	Reefton Historic Power Generation Project	GH	0	0	0		in progress			Nov-15	Dec-17		Advocacy with Greg Topp. Active discussions continuing.
●	Westport Gateway Sign	GH	0	0	0		In progress						Lighting yet to be completed.
●	Dolomite Point Advocacy	GH CEO	0	0	0								
			0	0	0	0							
	COMMUNITY & ENVIRONMENT												
●	Local Alcohol Policy	CS + RT	0	0	0		in progress						Awaiting evidence from stakeholder groups to feed into policy development & legal outcomes. Recommended this be put in the priority list for the Risk and Policy committee.
●	By-Law Reviews (all require review)	RT	0	0	0								Planned this year: Livestock, Liquor, Water. Remainder due to be completed in 2018. NOTE this will be a large workload. Public Libraries Bylaw and Livestock Movements at consultation stage in October 2017.
●	Freedom Camping	CEO	0	0	0		in progress			Feb-17	Oct-18		Joint compliance and monitoring between all West Coast Councils. This must be completed by 30/08/19 or the bylaw will lapse.
●	Other Community & Environment Projects	CS	0	0	0								
			0	0	0	0							

Indicator	Project Description	Project Manager	Carry Over (over)/under	2017/18 Budget	Total Budget	Actual Cost to 31 October 2017	Project Status	Scope, Design, etc	Quote, Tender, etc	Planned Start Date	Planned Completion	Date of completion	Comments / Issues
	CORPORATE SERVICES												
●	Fire & Emergency NZ Transition	DP	0	0	0	0	In progress			Apr-16	Dec-17		Information sharing with NZ Fire Service underway and decisions for rural fire asset transfers to be completed.
●	Long Term Plan 2018-2028	DP	0	0	0	0	Workshop and Formation Stage			May-17	Jun-18		Strategic & Level of Service Workshops continue in Nov and Dec 2017.
●	Other Corporate Services Projects	DP	0	0	0	0							
			0	0	0	0							
	SIGNIFICANT PROJECTS												
●	District Plan Review	RT	0	20,000	20,000	0	In progress			Nov-14	TBA		Hearings Committee has heard submissions. Are deliberating on those and will report to Council, who may accept or reject the proposed plan changes.
●	Rates Review Project Phase II	DP	0	0	0	0	In progress			Apr-16	Jun-18		At consultation phase during Nov-Dec 2017. Costs fall due in Nov 2017.
●	IT/Information Technology Projects (inhouse)	HS	284,616	201,460	486,076	111,583	In progress				Jun-18		IM Project at implementation stage. Telephony upgrade completed. Hardware updates continuing.
●	Other Significant Projects		284,616	221,460	506,076	111,583							

Indicator	Project Description	Project Manager	Carry Over (over)/under	2017/18 Budget	Total Budget	Actual Cost to 31 October 2017	Project Status	Scope, Design, etc	Quote, Tender, etc	Planned Start Date	Planned Completion	Date of completion	Comments / Issues
	ASSETS & INFRASTRUCTURE												
	Three Waters												
●	Punakaiki Water Intake Easement	MD	0	0	0	13,794	In Progress						Situation under further review. Progressing.
●	Punakaiki Water Supply Advocacy	GH + MD	0	0	0					Nov-17	Feb-18		Explore funding options for new water supply
●	South Granity Tank Supply Water Administration	CEO	0	0	0								Situation under further review.
●	Westport Tunnel Piping/Bracing	MD	621,199	2,350,000	2,971,199	148,670	In Progress						Method, cost, and schedule of work for repair option developing. Water restrictions reviewed.
●	Replacement of Westport Water Mains from Treatment Plant to Town	MD	0	0	0	0	In Progress						The sectional mains replacement continues in line with annual budget and work plan to replace a certain number of lengths per annum.
●	Waimangaroa Water Treatment System	MD	0	473,692	473,692	40,496	In Progress						Bore site has been identified, preparations for test drilling underway. Communications update provided.
●	Ngakawau Hector Water Treatment System	MD	0	0	0	4,681	In Progress						Situation under further review.
●	Costing Water Schemes including assessment of depreciation funding	MD	0	0	0	0							Ongoing as required
●	Little Wanganui Water and Sewerage Easements	MD	0	0	0	0	In Progress				Jun-17		Work underway to resolve this
	Roading												
●	Rural Wards Maintenance Programme - to be Communicated	MD	0	0	0	0				Jul-17			Communication on road and stormwater maintenance for rural wards requested as part of 2017/18 Annual Plan.
●	Kareake Highway Special Purpose Road Advocacy	MD, GH	0	0	0	0	In Progress						Business case being prepared in conjunction with NZTA. Progressing.
●	Roading - Local Roads Capital Works	TM	31,672	1,246,367	1,278,039	124,964	ongoing				Jun-18		Works program set out for the year ahead.
●	Roading - Special Purpose Road Capital Works	TR	0	369,821	369,821	1,469	ongoing				Jun-18		All works underway.
●	Earthquake Strengthening of Buildings	RB	0	0	0	0					Jun-18		Carnegie Library engineer assessment work ongoing in 2017-2018. Essential work required.
●	Footpaths- Urban Development	TR	84,791	202,080	286,871	128,606	ongoing				Jun-18		Footpath work plan for 2017/18 FY established.
	Property, Amenities & Reserves												
●	Punakaiki Dickson Parade Status and Freedom Camping Issues	MD	0	0	0	0	In Progress						Temporary Road Closure following WCRC completion of new seawall. Detailed risk assessment before reopening.
●	Peel Street Yard	MD	0	60,000	60,000	9,329	In Progress						Site testing analysis and risk assessment currently in progress. Concept study for options to follow in 2017/18 FY.
●	Riverside Development and Waterfront Project	MD + GH	0	60,000	60,000	5,998							Resource Consent application approved. Installation in progress.
●	District Signage (Seal Loop)	MD + GH	125,000	0	125,000	85,533	In Progress						Draft Community Needs Assessment report received by BDC. Copy referred to DOC for consideration in the Dolomite Point spatial planning. On hold until DOC confirm whether Community Facility will be incorporated in their planning work.
●	Punakaiki Building Project		100,000	0	100,000	4,777	On Hold						
	Other												
●	Other Assets & Infrastructure Projects	MD	0	0	0	0							

962,662 4,761,960 5,724,622 568,317

1,247,278 4,983,420 6,230,698 679,900

TOTAL SIGNIFICANT PROJECTS

FINANCE AND AUDIT COMMITTEE

6 DECEMBER 2017

Agenda Item No 7

Prepared by - Dean Phibbs
- Manager Corporate Services

REVIEW OF 2018-2028 LTP FINANCIAL STRATEGY

Report Summary

Council is required to include a Financial Strategy as part of its 2018-2028 Long Term Plan.

Draft Recommendation

That the report be received for information purposes and the attached current financial strategy be reviewed by the Finance and Audit committee for inclusion in the 2018-2028 Long Term Plan.

Issues and Discussions

A financial strategy is required to be included in Councils Long Term Plan. The Financial Strategy should take into account the issues affecting the region and its communities and articulate this into financial terms. It should tie into the overall strategy and the Infrastructure Strategy for Council. The financial strategy should demonstrate financial prudence and be affordable to the community. Rates levels, debt levels, inflation predictions and investment, including investments in wholly owned subsidiaries must also be considered and articulated clearly. There will be a focus by Audit New Zealand on the Financial Strategy in this LTP therefore it is important as a Council that this is given due consideration.

Considerations

- 1. Strategic impact**
Development of a Long Term Plan is one of the key strategic processes and living documents that Council produces. Development of a Financial Strategy is an integral part of that process.
- 2. Significance assessment**
The matter is not considered significant as set out in the Significance and Engagement Policy adopted by Council in the 2015–2025 Long Term Plan.
- 3. Risk analysis**
If the agreements are not signed then there is a risk that the audit would not commence or be completed to enable Council to adopt the 2017 Annual Report within the statutory deadline.

4. Policy / legal considerations

The Local Government Act 2002 sets out Council obligations with regard to the production of an LTP and an LTP Consultation Document and its adoption.

5. Tangata whenua considerations

There is no need to consult with iwi on this matter.

6. Views of those affected

There is no need to consult with or notify the community or the ratepayer regarding this issue. The Financial Strategy will ultimately be included and adopted in the LTP and LTP Consultation Document.

7. Costs

Costs of the Financial Strategy are included in estimates for the LTP

8. Benefits

Development of an LTP provides assurance to ratepayers and the community that Council planned use of ratepayer's funds is appropriate and prudent. Development of a financial strategy is a key component in this process and ensures that Councils plans are affordable to the community and does not expose the community to undue financial risk.

9. Media / publicity

There are no media or publicity opportunities.

Financial Strategy

The **Financial Strategy** sets out where we are heading over the next 10 years, and the financial limits we are committed to working within. The core elements of the Financial Strategy can be summarised as follows:

1. Produce a balanced budget.
2. Expenditure policy: No more than minimum to maintain services in short term but enough to at least maintain quality and avoid deterioration of assets and capacity. Providing for new services or upgrades only if these will provide spring board for growth.
3. Prudently managing debt and finance costs: We have set a net debt ceiling at \$20m.
4. Allowing for Rates increases if this attracts new economic activity and retains the loyalty of existing economic activity. Borrowing for new development if this provides a strategic advantage.
5. Affordability: Keeping rate increases within long range Local Government Cost index.

Growth in Rateable Property Numbers

Years	Properties
2015/2016	7,532
2016/2017	7,530
2017/2018	7,400 *
2018/2019	7,410
2019/2020	7,420
2020/2021	7,430
2021/2022	7,440
2022/2023	7,450
2023/2024	7,460
2024/2025	7,470

* The Valuer-General has instructed the valuation service providers such as Quotable Value to amalgamate separated farm lands (by title) back into single assessments during the next revaluation (which is planned for September 2016 and which comes into effect from 2017). It is estimated that there would be about 130-150 titles affected, and thereafter, the growth rate would be due to on-going subdivisions.

Major Factors affecting the Buller District and the Financial Strategy

- Coal mining activity in the District has contracted.
- The planned exit of Holcim and its cement making activity will be a major blow to the district's economy. Not only will direct jobs be lost but also many indirect jobs in businesses that have supplied Holcim with services.
- Westport Harbour will lose its major customer but Council has made a strategic decision to retain the Kawatiri and Bob Gower vessels without impacting the subvention payment to Council in 2016/2017. Westport Harbour management will continue to seek other dredging opportunities.
- Dairy farming will remain strong and as prices recover the industry should continue to expand.
- Tourism remains the most likely industry to achieve growth. The district abounds in natural attractions, historical features, ecological wonders and walking, climbing and mountain biking opportunities.
- Council will advocate for high speed broadband and extended mobile coverage. It is believed that these modern services offer potential economic development opportunities.
- The depressed economy will result in a short term decline in population but the Council's strategy to focus on District economic diversification it is anticipated that there will be a recovery in population to 12,044 by 2030.
- Our Council has focussed on tight cost control and has indicated it will work with other West Coast Councils wherever it can to bring about service enhancement or savings.
- Council will continue its past investment in infrastructure and in the plan our Council is forecasted to invest \$62 million in capital projects and upgrades.
- The main priority of the Council is to provide clean safe drinking water and as such Drinking Water Upgrades across the district are significant capital projects within this plan.

Financial Overview

We have to do more than just limit spending. We still need to make sure that our infrastructure assets are meeting our Communities' needs and that they also meet the various legal requirements they operate under. That costs money.

This makes for a challenging environment. On one hand we need to make sure our assets, such as pipes, roads, and treatment plants, meet new environmental and health standards (such as the water quality standards). On the other hand, asset renewals and replacements are expensive and we need to make sure that any increases in Council's income (which primarily comes from rates and fees and charges) are affordable for our Community, while meeting our overall goal of "a balanced budget".

	AP 2014/2015 \$000	LTP 2015/2016 \$000	LTP 2016/2017 \$000	LTP 2017/2018 \$000	LTP 2018/2019 \$000	LTP 2019/2020 \$000	LTP 2020/2021 \$000	LTP 2021/2022 \$000	LTP 2022/2023 \$000	LTP 2023/2024 \$000	LTP 2024/2025 \$000
Operating Revenue	25,104	24,040	24,556	24,013	24,486	25,049	25,860	26,336	26,515	27,603	29,605
Operating Expenditure	23,478	22,507	23,287	23,908	24,426	25,076	25,581	25,715	26,719	27,496	28,312
* Surplus/(Deficit)	1,627	1,534	1,269	105	60	(27)	279	622	(204)	107	1,292

The only year that Council has an operating deficit in 2019/2020 and 2022/2023. The deficit in 2022/2023 is due to lower financial assistance associated with capital expenditure. For all other years Council runs at small surpluses.

* This is an accounting surplus/deficit as the revenues include income of a capital nature.

* Council meets the balanced budget benchmark for a year if its revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments and revaluations of property, plant or equipment) for the year, exceeds its operating expenses (excluding losses on derivative financial instruments and revaluations of property, plant or equipment).

Statement concerning balancing the budget

Council has a budget under this Plan that does not balance in all years (a balanced budget is considered one where each year's projected operating revenues are set at a level sufficient to meet that year's project operating expenses). Over the 10 years of the Plan, Council achieves a balanced budget benchmark of 99.99%. Over the 10 years of the Plan revenues (excluding capital funding sources) total \$252.9m, while operating expenses total \$253m. Effectively Council is operating a balanced budget over the life of the Plan.

Council is not fully funding the depreciation expense for all activities where we have assumed assets will not be replaced or will be funded from external sources. For this Plan Council has set its revenue to cover all the actual money needed to be spent to provide the levels of service as detailed throughout the plan. This includes the replacement and renewal of assets where required.

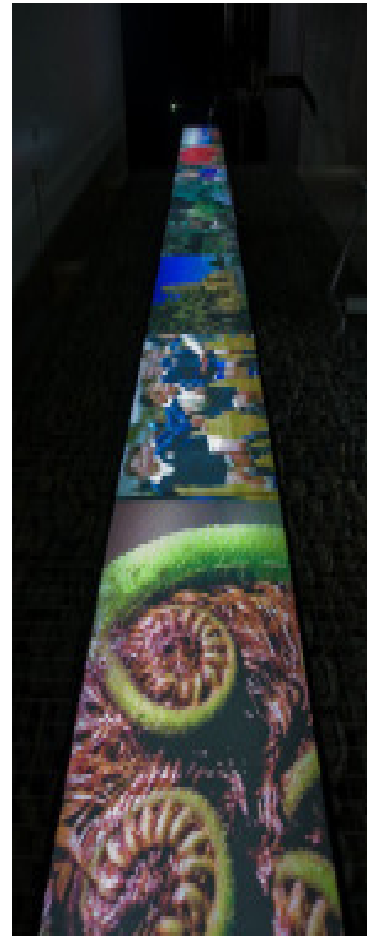
Capital Expenditure

When considering its capital works schedule Council took into account the current economic climate and the debt levels forecast over the next 10 years. Council decided it was prudent to give priority to critical projects affecting drinking water. Other projects such as deferring the rationalisation of Council property and creation of vibrant town hubs were deferred until the drinking water projects are complete.

Spending on Assets

Council has taken a prudent approach when considering asset performance and held maintenance and replacements to ensure asset performance would not be compromised in the delivery of key services.

Some of our assets are getting old, and need to have repairs or replacements in the near future. There is more spending on assets predicted in the first few years of this Long Term Plan period. If we do not spend this money now then it is likely that we would end up spending more later on as we run the risk of infrastructure failing. The spending on assets is considered necessary to maintain our current levels of service. We only borrow to invest in long term assets. We never borrow for operating purposes.



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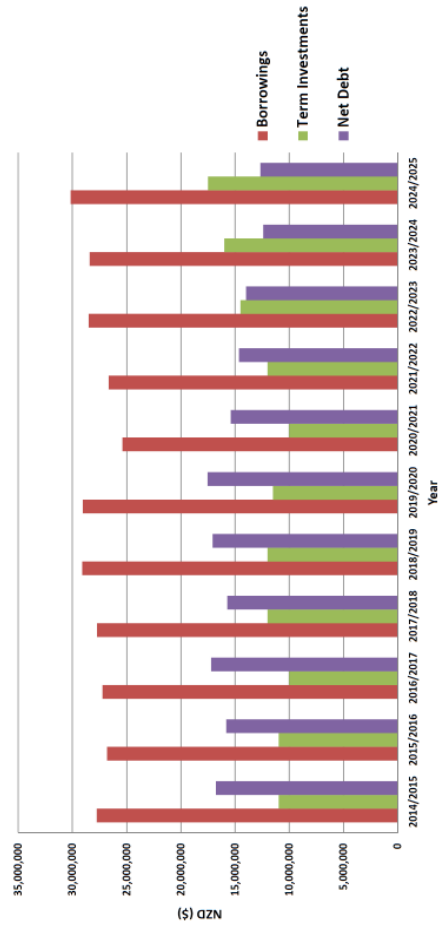
Council's Debt

It is crucial that debt levels are within affordable and sustainable levels. Council set its net debt cap at \$20m within the 10 Year Plan.

Page 20 and 21 explains what we plan to spend on community assets for the next 10 years. We will also outline what impact this would have on our debt levels and overall income requirements from rates, user fees and charges, and other sources of income.

Council has produced a plan which demonstrates sustainable external debt levels. Net debt (being gross external debt) is anticipated to start at \$15.8m in 2015/2016 and is projected to be at \$12.7m in 2024/2025. Council at the same time is committed to a major capital expenditure program totalling \$62m, which it is to be funded from a mix of depreciation reserves, external and internal borrowings.

Debt, Investment, Net Debt: 2013/2014 to 2024/2025



Gross debt increases over the 10 years of the plan from \$27.7m in 2014/2015 to \$30m. Term investments grow from \$11m to \$17.5m at end of plan. Net debt at the end of the 10 years is \$12.7m.

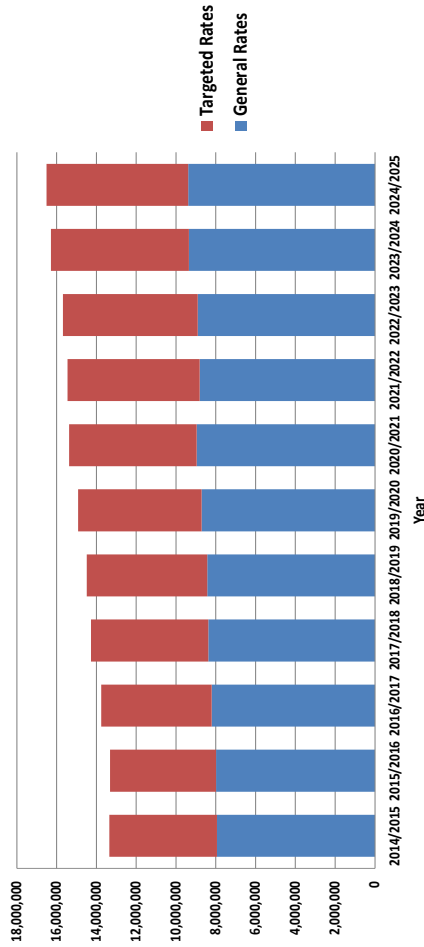
Forecasted Total Rate Increases across the 10 Year Plan

Gross rates have decreased from \$13.35m in 2014/2015 to \$13.3m in 2015/2016. However, the total rates take increases to \$16.5m by the end of the Long Term Plan. This is due to inflationary pressures, however, the increases in rates are lower than the predicted rate of increase in the BERL Local Government Cost Index.

In 2015/2016 there is a decline in total rates of 0.3% resultant from lower operating expenditure.

The only years which are higher than the long term average are 2016/2017, 2017/2018 and 2023/2024. Increase in 2016/2017 are higher due to acceleration of the repair of the Westport trunk main and associated costs. 2017/2018 and 2023/2024 increases are driven by cyclical compliance costs and increases in repairs and maintenance.

Total Rates: 2015 to 2025



These increases are as a result of:

- Price increases – the price adjustors used for Local Government are higher than predicted inflation and this means that it will cost more to provide services
- Service level changes. Water is the major activity where Council will be increasing their level of service by improving the quality of the water through capital upgrades to enable current water supplies to meet the latest Drinking Water Standards.
- Depreciation and interest payments – the increased capital expenditure programme means corresponding increases in costs in these areas, depreciation is also affected by inflation.

What is a reasonable rates level?

In setting rates at the appropriate level, Council must balance what is affordable for both the Council and the community. This is a balancing act which needs to take into account the services that Council delivers and whether the current or future ratepayers should pay for them. This is sometimes referred to as intergenerational equity. This is important for the Council given that many of its assets have long service lives and the benefits that these assets provide are over a long period of time. The main tool is the use of debt and then rating ratepayers to service that debt.

In assessing the right funding level Council has to consider the following:

- Have we set revenues at a level to cover all of our expenses?
- Have we set revenue at a level so that we can afford an ongoing asset renewal and replacement programme?
- Is the number of projects and the total cost of the asset development programme affordable?
- Have we considered the needs of current and future ratepayers?

Forecasted Total Rate Increases across the 10 Year Plan

	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023	2023/2024	2024/2025
General Rates	7,982,170	8,205,157	8,374,113	8,432,527	8,712,241	8,956,199	8,806,707	8,911,578	9,348,842	9,388,979
Targeted Rates	5,332,456	5,550,639	5,894,490	6,051,957	6,202,371	6,415,300	6,646,852	6,771,012	6,933,366	7,116,431
Total Rates	13,314,626	13,755,795	14,268,604	14,484,484	14,914,612	15,371,499	15,453,559	15,682,590	16,282,208	16,505,410
Increase %	-0.26%	3.31%	3.73%	1.51%	2.97%	3.69%	0.53%	1.48%	3.82%	1.37%

What are the quantified limits on rates, rates increases and borrowings?

Council will endeavour to keep the income required from rates steady as well as creating predictability in the level of rates required. This will include taking a multi-pronged approach of managing the cost to the ratepayer (through efficiency gains and/or service reductions), increasing other revenue sources (to reduce dependency on rates revenue) and/or disposing of surplus assets. The Council is required by legislation to include a statement on quantified limits on rates. Currently, the Council draws about 50-55% from Rates because it does not have alternative revenue streams for example, significant financial investment funds or investments in corporate enterprises, and has taken a fairly low risk approach to borrowing.

Limit on Rates Collected

While the Council will continue its approach of allocating rates as a funding proportion based on who causes and benefits from its activities, it plans to limit the rates collected each year to a maximum of 65% of total Council revenue. We believe this would represent an equitable and prudent upper limit.

Council's Revenue and Financing Policy sets out the sources of funding to be used, and how they will be applied to each activity - with a view to achieving this objective.

	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023	2023/2024	2024/2025
General Rates	7,942,291	7,982,170	8,205,157	8,374,113	8,432,527	8,712,241	8,956,199	8,806,707	8,911,578	9,348,842	9,388,979
Targeted Rates	5,407,328	5,332,456	5,550,639	5,894,490	6,051,957	6,202,371	6,415,300	6,646,852	6,771,012	6,933,366	7,116,431
Total Rates	13,349,619	13,314,626	13,755,795	14,268,604	14,484,484	14,914,612	15,371,499	15,453,559	15,682,590	16,282,208	16,505,410
Total Revenue	25,104,184	24,040,390	24,556,300	24,012,858	24,486,416	25,048,931	25,860,368	26,336,389	26,514,710	27,603,095	29,604,535
Rates as % of Total Revenue	53.18%	55.38%	56.02%	59.42%	59.15%	59.54%	59.44%	58.68%	59.15%	58.99%	55.75%

(*) Rates exclude water meter rate

Limits on Rate Increases

While the Council will continue to consider affordability issues when setting rate levels each year, Council is required by legislation to include a statement on quantified limits on rates increases. Limiting the increase to the Rates forecasted in the Long Term Plan reflects the realities of higher local government costs, ie, the cost of doing Council business. It also recognises that from time to time Council will need to increase the level of service that it is providing to meet, for example, community needs and new resource consent requirements. Individual properties may experience smaller or larger increases depending on movements in property values, the services that they receive and their location. Council would like to set the quantified limits on rates at the past 20 year average of the Local Government Cost Index, which is 3.06% this being based on current range of services provided.

Capital Expenditure and Depreciation Funding

The Council currently has infrastructural assets worth close to \$379m and during the next 10 years Council is planning to undertake additional capital works of \$62m. Asset development expenditure is for purchasing, building, replacing or developing Buller District assets (eg, roads, water supplies, properties etc). For each asset category asset management plans are in place which are the key planning tool for the maintenance, future renewal and additional assets required to meet the demand and levels of service in the district. These are prepared on the basis of a 30 year outlook. These asset management plans also inform how the planned expenditure will be paid for.

'Renewals' are the replacement programme for the existing assets. 'Level of service improvements' relate to where Council believes the current assets do not provide an adequate level of service. Renewals of assets are generally funded from depreciation as over the Long Term Plan the level of renewals should be in line with depreciation. Improvements in Level of Service are generally funded from external borrowings, capital subsidy or from capital contributions.

Council's policy is to mainly fund increases in service levels through borrowings, normally over 20 years, but shorter or longer terms may be used for some assets depending on how long they are expected to last before being replaced.

Council funds depreciation for all activities except roading and stormwater, and uses depreciation reserves to fund asset renewals and to replace assets as they wear out. There are exceptions where depreciation is not funded and these are where Council has received financial assistance in the past and expects finance assistance to be available in the future to fund asset replacements (eg, pensioner housing upgrades, rural fire vehicles).

This method provides for intergenerational equity and means that those people that receive the benefit of the asset generally pay for the asset.

Council has agreed to fund \$5.2m for Buller Recreation Ltd capital expenditure over the term of the Plan, in exchange for shares in Buller Holdings Ltd.

Breakdown of major capital expenditure:

2020/2021	\$1.5m	- Turf surface and fitout
2022/2023	\$1.4m	- Fitout and mechanical services for the aquatic centre
2023/2024	\$0.8m	- Fitout and plumbing for the aquatic centre

Debt and Interest Borrowings Table

Under section 100 of the Local Government Act 2002, Council considered its financial management responsibilities, where it must manage its revenues, expenses, assets, liabilities, investments and general financial dealings prudently and in a manner that promotes the current and future interests of the community. The Council has also considered whether it is sustainable to undertake the level of capital works planned in the 10 Year Plan together with the increased operating costs associated with the higher debt level. If the Council has too much debt then future ratepayers will subsidise current ratepayers. Conversely, too little and the reverse situation applies. The Council has considered the timing of this programme and the associated borrowings required to ensure that this best meets the needs of current and future generations.

2015-2025 Long Term Plan

In doing so the Council noted the following quote from the Local Government Rating Inquiry 2007 (Shand Report):

Impact of additional borrowing on rates:

10.76 - "Greater use of borrowing for long-life assets can enable rates to be held at a lower level over a considerable period of time, even allowing for interest costs. There is some aversion amongst ratepayers to the taking on of debt, which is seen by some as financially unsound. Reflecting this, some Councils perceive being debt-free as a virtue. This ignores the benefits of being able to undertake expenditures earlier than would otherwise be the case. It also ignores the interest cost that ratepayers bear by paying the rates earlier to fund the capital expenditures than would otherwise have been the case."

Overview of Debt, Investments and Net Debt over the 10 Year Plan

	Gross Debt \$000	Term Deposits \$000	Net Debt \$000
2015/2016	26,786	10,972	15,814
2016/2017	27,207	10,000	17,207
2017/2018	27,713	12,000	15,713
2018/2019	29,079	12,000	17,079
2019/2020	29,032	11,500	17,532
2020/2021	25,400	10,000	15,400
2021/2022	26,636	12,000	14,636
2022/2023	28,483	14,500	13,983
2023/2024	28,395	16,000	12,395
2024/2025	30,155	17,500	12,655

Council's gross debt is predicted at the end of the 10 years to be \$30.2m – when offset against Council's investments of \$17.5. While the gross debt has increased, it is the net debt being \$12.7m which is most relevant.

Our Treasury Management Policy is well within our Banking Covenant which states that finance costs as a percentage of total Operating revenue must not exceed 15%. Council is in compliance with all other limits specified in the Treasury Management Policy.

The main increase in gross debt is to fund the asset development and programme planned within this Long Term Plan. Note that gross term debt is off-set by term deposits. The true net debt is the difference between the two.

Interest rates are historically very low. Council has taken external advice and has assumed that the average interest rate paid on its loans will increase over the 10 years of the Long Term Plan to be 6%.

Policy on giving Securities for Borrowings

Council plans to continue to secure its borrowings and interest rate risk management instruments against rates and rates revenue.

Limits on Gross Borrowings

The limits for gross borrowings are based on debt servicing costs remaining below 10% of Total Operating Revenue. Gross debt is \$26.7m in 2015/2016 and increases to \$30.2m in 2024/2025. Council is in compliance with all limits specified in the Treasury Management Policy and Financial Prudence Benchmarks.

The Treasury Management Policy has been aligned with external banking covenants. We are comfortable that debt levels are prudent and that debt servicing costs remain affordable across the Long Term Plan. It should be noted that Council's investments grow considerably across the Long Term Plan, so the net debt (being external borrowings, less term deposits), at the end of the plan Long Term Plan be \$12.6m. In 2015/2016 the net debt is forecasted to be \$15.8m. Council has set our net debt limit at \$20m.

Investments

Council currently has term deposit investments of \$10.9m and over the term of the Plan these term deposits are planned to increase to \$17.5m. This situation is kept under constant review and the balance of the gross debt to investment could change if relative interest rates change. It is also considered prudent to grow the term deposits to cater for any natural disasters.

Council will continue to monitor gross debt and the level of term deposits looking to minimise interest costs while maintaining prudent reserves. Bearing in mind there is a core amount of debt related to the acquisition of shares in Buller Recreation Limited where it is tax effective to not repay this debt.

Council has a portfolio of other investments comprising:

- Term investments - over the duration of the Long Term Plan, short term investments are set to increase to \$17.5m due to receipts from internal loans and sale of investment properties
- Equity investments - investments in Buller Holdings Limited remain fairly static over the duration of the Long Term Plan. In 2014/2015 investments total \$19.8m and increase to \$24.2m in 2024/2025 reflecting operating losses in Buller Recreation Limited and shares issued to Council in exchange for the funding of capital expenditure for Buller Recreation Limited which will increase the investment accordingly
- Asset investments
- Associated organisations
- Investment property - investment properties are forecasted to be \$10.3m in 2015/2016 and are planned to increase to \$11.5m in 2024/2025 as a result of revaluation gains offset by sales of investment properties.

Council will continue to review any investment opportunities that may continue to generate long term benefits for the community.

Council has breached its current investment policy which states that no more than \$1m may be deposited with a Building Society. Currently Council has exceeded this. The reason for this breach is that the respective Building Society has provided sponsorship towards the Performing Arts Theatre. This will be re-assessed by Council when the sponsorship agreement ends in 2015.

The full Treasury Management policy is included in Volume 2 and includes the rationale for holding these investments.

General Policy

Council has a conservative approach to investments with surplus funds generally being used for debt repayment rather than financial investment. It does not intend to undertake financial investments for the purpose of generating significant returns, now or in the future. Equity is held for strategic purposes such as holding equity in subsidiaries which enable councils to provide services more efficiently.

Council's main investment is the shareholding in Buller Holdings. The targets for their subsidiaries (WestReef Services Limited, Westport Harbour Limited and Buller Recreation Limited) are set out below.

Investment	Target Return
WestReef Services Ltd	To achieve a pre-tax operating profit of at least 10% on gross revenues, before any subvention payments.
Westport Harbour Ltd	To achieve a post tax operating profit of 9% on BHL investment, before any subvention payments in years 2015/2016. To be reviewed post Holcim.
Buller Recreation Ltd	Achieve budget and expenditure.
Buller Holdings Ltd	To return the minimum forecasted distribution/dividend to Council.

Financial Prudence Benchmarks

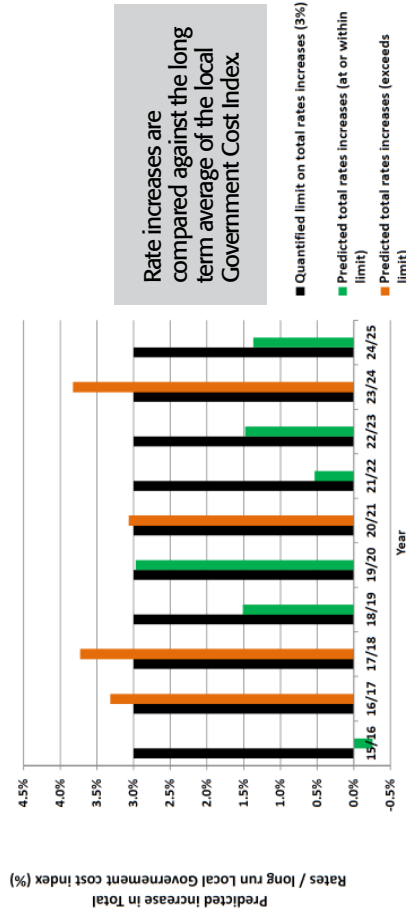
On 1 May 2014 the Local Government (Financial Reporting and Prudence) Regulations 2014 were introduced. These regulations seeks to:

- assist in identifying local authorities where further enquiry is warranted in relation to their financial management; and
 - promote prudent financial management by local authorities.
- The regulations prescribe how Councils must report these benchmarks and indicators in their Annual Plans, Annual Reports and Long Term Plans.

The following benchmarks were introduced:

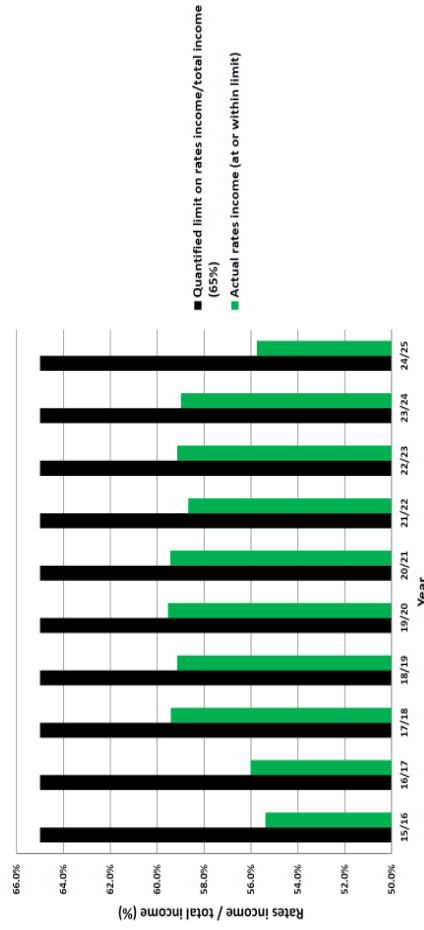
Affordability benchmarks	Rates affordability and rates increases benchmark	Rates revenue and rates increases complies with the limits set in Council's financial strategy.
Sustainability benchmarks	Debt affordability benchmark	Debt complies with the limits set in Council's financial strategy.
	Balanced budget benchmark	Operating revenue, excluding development and financial contributions and revenue from revaluations, exceeds operating expenditure.
	Essential services benchmark	Capital expenditure on the five network infrastructure services exceeds depreciation on those five services.
	Debt servicing benchmark	Interest expense is less than 10% of operating revenue, as defined in the balanced budget benchmark.

Rate Increases Affordability Benchmark



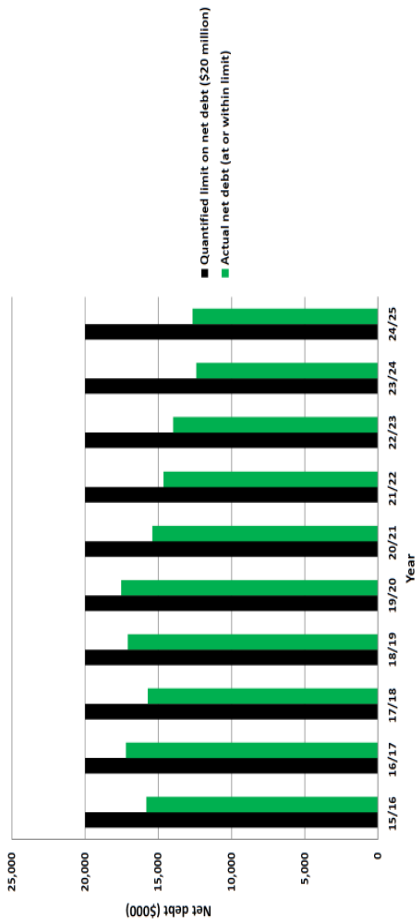
The increase above the benchmark in 2016/2017 is due to capital costs associated with piping of the tunnels and replacement of the trunk main. Rate increases are higher than the 20 year Long Term LGCI average in 2017/2018, 2020/2021 and 2023/2024 due to cyclical compliance costs and painting. The average rate increase over the 10 years is 2.15%.

Rates Income Affordability Benchmark



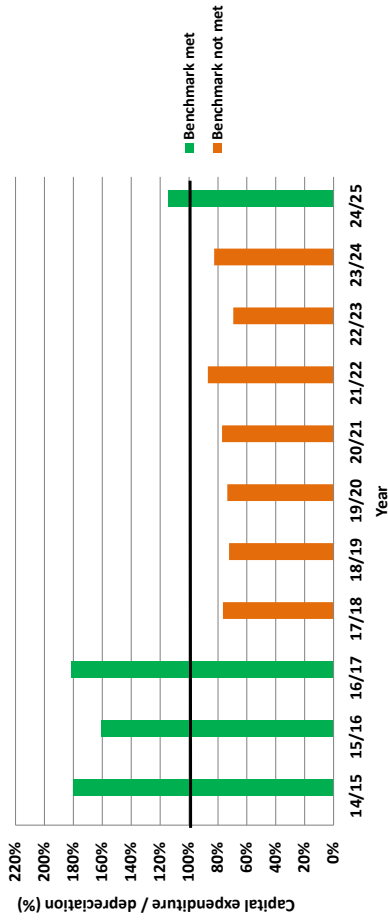
Council will not take more than 65% of Total Revenue from rates.

Debt Affordability Benchmark



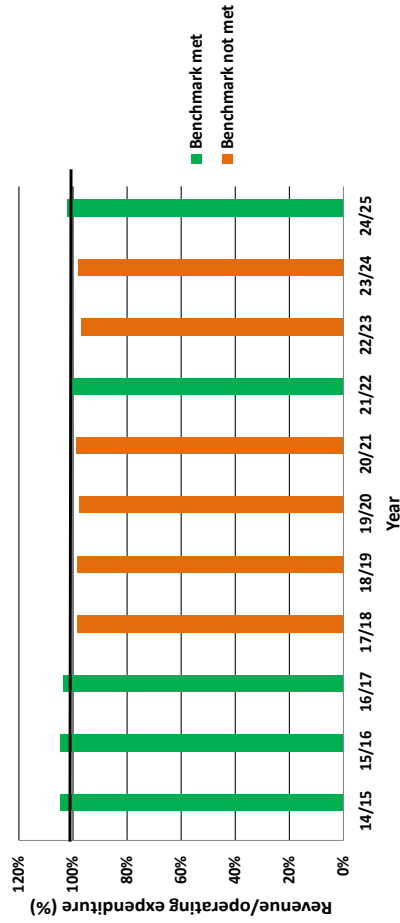
Council is operating well within the net debt limit of \$20m. Net debt tracks down to \$12.7m at the end of the 10 year Long Term Plan.

Essential Services Benchmark



Council is maintaining and renewing its assets as they wear out. There are years where the benchmark is not met but there are also years where Council has provided for more.

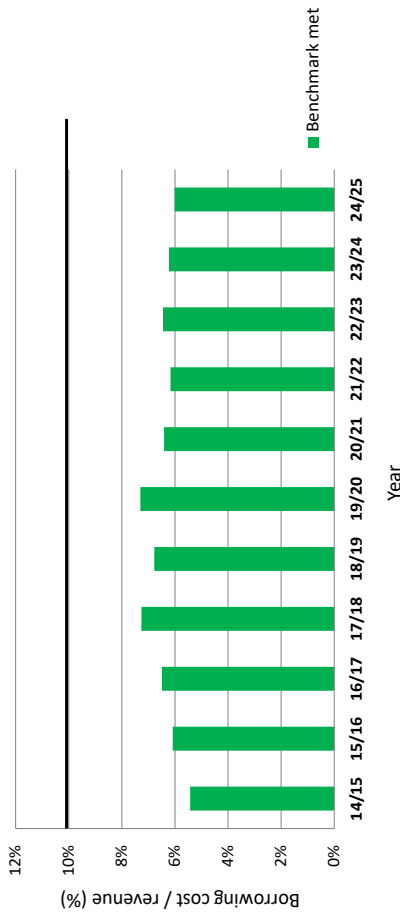
Balanced Budget Benchmark



Council is operating a balanced budget over the course of the Long Term Plan. Differences where we do not meet the 100% benchmark are marginal.

Council meets the balanced budget benchmark for a year if its revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments and revaluations of property, plant or equipment) for the year exceeds its operating expenses (excluding losses on derivative financial instruments and revaluations of property, plant or equipment).

Debt Servicing Benchmark



Council is operating well below the benchmark. This means Council can service the interest costs associated with debt. Prudence use of debt keeps rates down and spreads the costs over generations that benefit.

* This benchmark is calculated on the gross finance costs. It should be noted that Council does earn interest on term deposits and this will offset gross finance costs.

FINANCE AND AUDIT COMMITTEE

6 DECEMBER 2017

Agenda Item No 8

**Prepared by - Dean Phibbs
- Manager Corporate Services**

AUDIT MANAGEMENT ACTION POINTS

RECOMMENDATION/DRAFT RESOLUTION:

That the report be received for information and discussion.

OUTSTANDING AUDIT MANAGEMENT ACTION POINTS: 2015

No.	Subject	Detail	Responsible	Status	Comments	Planned Completion Date
1	Infrastructure asset valuations.	Improve quality of Roading data in RAMM use for next valuation. Recommendations in GHD report used.	Management Accountant	In progress	Asset data condition and performance processes were identified in the AMP as an improvement plan item. Council will assess options to effect an appropriate regime during 2015/16. This process will strengthen lifecycle management and asset valuations.	June 2017
6	Rates review.	Complete a review of Council's rates. Wholesale changes are needed in rates as there are antiquated differentials and many fixed amount targeted rates.	Manager Corporate Services	In progress	Confirmed this is still in progress. The new system will not be implemented until 2018/2019 at the earliest.	February 2018

FINANCE AND AUDIT COMMITTEE

6 DECEMBER 2017

Agenda Item No 9

Prepared by - Dean Phibbs
- Manager Corporate Services

PUBLIC EXCLUDED

Section 48, Local Government Official Information and Meetings Act 1987.

Draft Recommendation

That the public be excluded from the following parts of the proceedings of this meeting.

Item No	Minutes/Report of:	General Subject	Reason for Passing Resolution
1.	Lynn Brooks - Management Accountant	Leasehold property	Section 2 (a) to protect the privacy of natural persons, including that of deceased natural persons.
2.	Lynn Brooks - Management Accountant	Aged debt	Section 7 (f) i maintain the effective conduct of public affairs through the free and frank expression of opinions.

FINANCE WORK PLAN

	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18
Internal Reporting									
F&A Reports									
- BDC Quarterly Financials		Quarterly			Half yearly			Three quarterly	
- BDC Operational									
- BDC Treasury									
- BDC Debtors									
- BDC Capital									
- BDC Significant Projects									
- BHL Quarterly Financials									
Council Reports									
- Budget Carry Overs									
Rates Overhaul Project									
- Rates Overhaul		Consultation	Consultation	Deliberations	Amendments to rating model	Finalise & adopt for inclusion in LTP			
2018-2028 Long Term Plan									
- Long Term Plan		Workshop	Workshop	Workshop	Workshop	Workshop + Adopt Draft LTP	Consultation	Roadshows + Hearings	Adopt Final Plan
2016/17 Annual Report									
- BDC Annual Report	Adopt	Publish Summary & report				Systems Audit			
- BHL Annual Report	Annual Report								
Other Operational Projects									
- Insurance								Negotiations	Finalise