



Finance Committee Meeting Agenda – 15 February 2023

NOTICE OF MEETING

This meeting will be held in the Supper Room, Waihinga Centre, 62 Texas Street, Martinborough and via audio-visual conference, commencing at 10.00am. The meeting will be held in public and will be live-streamed and will be available to view on our [YouTube channel](#).

Open Section

A1. Mihi / Karakia Timatanga - Opening

A2. Apologies

A3. Conflicts of interest

A4. Public participation

As per standing order 14.17 no debate or decisions will be made at the meeting on issues raised during the forum unless related to items already on the agenda.

A5. Actions from public participation

A6. Extraordinary business

A7. Matters arising from previous minutes

Finance, Audit and Risk Committee, 14 September 2022

Pages 1-4

B. Information Reports from Chief Executive and Staff

B1. Finance Report

Pages 5-35

C Chairperson's Report

C1. Report from Finance Committee Chair

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D. Public Excluded

D1. IT Systems and Architecture – Critical Spend and Programme of Work

(distributed separately)

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:

Report/General Subject Matter	Reason for passing this resolution in relation to the matter	Ground(s) under Section 48(1) for the passing of this Resolution
IT Systems and Architecture – Critical Spend and Programme of Work	Good reason to withhold exists under section 7(2)(j)	Section 48(1)(a)

This resolution is made in reliance on Section 48(1) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by section 6 or section 7 of that Act which would be prejudiced by the holding of the whole or relevant part of the proceedings of the meeting in public are as follows:

Reason for passing this resolution in relation to the matter	Ground(s) under Section 48(1) for the passing of this Resolution
The withholding of the information is necessary to prevent the disclosure or use of official information for improper gain or improper advantage.	Section 7(2)(j)

E. Karakia Whakamutunga - Closing



FINANCE, AUDIT AND RISK COMMITTEE

Minutes from 14 September 2022

Present:	Councillors Leigh Hay (Chair), Pam Colenso, Brenda West, Colin Olds, Brian Jephson (via Zoom; until 11:23am), Mayor Alex Beijen.
In Attendance:	Harry Wilson (Chief Executive), Amanda Bradley (General Manager Policy and Governance), Paul Gardner (General Manager HR & Corporate Services), Karon Ashforth (General Manager Finance), Charly Clarke (Finance Manager) and Amy Andersen (Committee Advisor).
Conduct of Business:	<p>This meeting was held in the Supper Room, Waihinga Centre, 62 Texas Street, Martinborough and via audio-visual conference, commencing at 10.00am. All members participating via audio-visual conference counted for the purpose of the meeting quorum in accordance with clause 25B of Schedule 7 to the Local Government Act 2002. This meeting was live-streamed and is available to view on our YouTube channel.</p> <p>The meeting was held in public under the above provisions from 10.01am to 12:02pm except where expressly noted.</p>

On behalf of the committee, Cr Hay expressed condolences to Cr Garrick Emms and his family following the passing of his sister-in-law, Rachael Davin this week.

Open Section

A1. Apologies

FINANCE AUDIT AND RISK COMMITTEE RESOLVED (FAR2022/37) to accept apologies from Cr Emms and Independent Member, Kit Nixon.

(Moved Cr Colin Olds/Seconded Mayor Alex Beijen)

Carried

A2. Conflicts of Interest

There were no conflicts of interest declared.

A3. Public Participation

There was no public participation.

A4. Actions from Public Participation

There were no actions from public participation.

A5. Extraordinary Business

There was no extraordinary business.

A6. Minutes for Confirmation

FINANCE AUDIT AND RISK COMMITTEE RESOLVED (FAR2022/38) that the minutes of the Finance, Audit and Risk Committee meeting held on 3 August 2022 are a true and correct record.

(Moved Cr Colenso/Seconded Cr Olds)

Carried

B Decision Reports

There were no decision reports.

C Information and Verbal Reports from Chief Executive and Staff

C1. Finance Report

Ms Ashforth spoke to matters outlined in the report.

Ms Ashforth responded to questions from members regarding surplus; community reserves for a project in Featherston (sale of Fitzherbert Street land, 2019); Annual Report preparation and communication with auditors, and how to prepare new Council; assessment of infrastructure assets for market value; and rates arrears and collections, including the recovery process.

Ms Ashforth thanked Ms Clarke for her recent work preparing for the audit.

Members thanked the Finance Team for all their hard work over the course of the triennium.

FINANCE AUDIT AND RISK COMMITTEE RESOLVED (FAR2022/39) to receive the Finance Report.

(Moved Cr Colenso/Seconded Cr Olds)

Carried

C1. Policy and Governance Report

Ms Bradley spoke to matters outlined in the report and thanked members for their recent feedback on the Policy and Governance team's performance over the course of the triennium.

Ms Bradley responded to questions from members on the significant risk register review; approval of annual report by new council; induction processes and ongoing training for elected members; the representation review; the residents perception survey review; emergency management following the election; and policy framework development.

Members thanked the Policy and Governance for all their hard work over the course of the triennium.

FINANCE AUDIT AND RISK COMMITTEE RESOLVED (FAR2022/40) to receive the Policy and Governance Report.

(Moved Cr West/Seconded Cr Colenso)

Carried

C2. Action Items Report

Members discussed and updated Action 375, noted ongoing work is required. Action 55 closed.

FINANCE AUDIT AND RISK COMMITTEE RESOLVED (FAR2022/41) to receive the Action Items Report.

(Moved Cr Olds /Seconded Cr Colenso)

Carried

D Chairperson's Report

D1. Report from Finance, Audit and Risk Committee Chair

Cr Hay spoke to matters in the report.

On behalf of the CEO, Mayor and the FAR committee, Cr Hay expressed gratitude for Mr Nixon's presence on the committee and his service over the course of the triennium, noting he had gone to great lengths to provide support and advice in his capacity as an independent member. Cr Hay noted she would be writing a letter to Mr Nixon.

Cr Hay responded to questions regarding remuneration for independent members.

FINANCE AUDIT AND RISK COMMITTEE RESOLVED (FAR2022/42) to:

1. Receive the Chairperson's Report.

(Moved Cr Hay/Seconded Cr Colenso)

Carried

2. Recommend that the Independent Committee Member Future Recommendations Report (Appendix 2) be provided to the incoming Mayor for information for when committees are being established.

(Moved Cr West/Seconded Cr Colenso)

Carried

E. Public Excluded Business

E1. Public Excluded Minutes for Confirmation

distributed separately

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:

Report/General Subject Matter	Reason for passing this resolution in relation to the matter	Ground(s) under Section 48(1) for the passing of this Resolution
Finance, Audit and Risk Committee Public Excluded Minutes 3 August 2022. Reports discussed – Risks to Council IT Systems and Architecture Report; Outstanding Water Debtor's Report.	Good reason to withhold exists under section 7(2)(a), 7(2)(b)(ii) and 7(2)(j)	Section 48(1)(a)

This resolution (FAR2022/43) is made in reliance on Section 48(1) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by section 6 or section 7 of that Act which would be prejudiced by the holding of the whole or relevant part of the proceedings of the meeting in public are as follows:

Reason for passing this resolution in relation to the matter	Ground(s) under Section 48(1) for the passing of this Resolution
The withholding of the information is necessary to protect the privacy of natural persons, including that of deceased natural persons.	Section 7(2)(a)
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.	Section 7(2)(b)(ii)

The withholding of the information is necessary to prevent the disclosure or use of official information for improper gain or improper advantage.	Section 7(2)(j)
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(Moved Cr Colenso/Seconded Mayor Beijen)

Carried

The meeting was adjourned at 11:23am.
 Cr Jephson left the meeting at 11:23am.
 The meeting was reconvened at 11:38am.

The meeting closed at 12:02pm.

Confirmed as a true and correct record

.....(Chair)

.....(Date)

Finance Report

Purpose

To inform Council of the Financial Results YTD December 2022 and other relevant financial updates on Audit, Annual Report 2021/22, Annual Plan/Budgets 2023/24, the Three Waters Reform and other matters.

Recommendations

Officers recommend that the Finance Committee:

1. Receive the Finance Report as of 31 December 2022.
 2. Receive an update on the Annual Report 2021/22 and final audit progress.
 3. Inform and receive Three Waters Reform Reports for the Finance and Commercial workstream.
 4. Annual Plan/Budgets 2023/24 update.
 5. Receive an update on the rating review process as part of the Revenue and Financing Policy.
 6. Receive an update on the Long-Term Plan (LTP) project.
 7. Receive update on Waka Kotahi Audit conducted January 2023.
 8. Receive an update on Insurance renewal strategy report.
 9. LGOIMA's register.
 10. Financial Delegations Policy.
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Items for Consideration

1. Finance Report as at 31 December 2022.

Full report in Appendix 1.

2. Annual Report 2021/22 update and Final Audit Report – January 2023

AuditNZ continue to experience staff shortages further impacted by covid and the holiday season. They have mandated to be back in cycle this year, however this may not be feasible due to the backlog of audits outstanding, about 20%. Whilst they continue to recruit staff from overseas, the new recruits have no sector specific knowledge which causes issues for both parties, as SWDC have

experienced this year. There are about 30 councils in the same position as SWDC, around 20%.

A stocktake of the SWDC audit has shown they have not progressed as well as intended and SWDC are about 70% complete, the remaining 30% of the final audit commenced 25th January 2023 and is progressing slowly.

The final date agreed internally by AuditNZ for audit opinions on all outstanding audits is 31 March 2023. Assuming this goes to plan Council can anticipate an extraordinary meeting in April 2023 to adopt the Annual Report for 2021/22.

3. Three Waters Reform-Finance Finance & Commercial workstream update, including:

Finance and Commercial Workstream 90-Day Plan Dec 2022-Mar 2023.

The Draft Settlement Accounts meeting is to be held on 20 March 2023 with the National Transition Unit (NTU) and the SWDC finance teams to determine tasks for items such as valuation, audit, debt settlement, wash up etc.

Accounting Considerations for Councils' draft report DIA/pwc.

Councils should derecognise their transferring of assets and liabilities on 30 June 2024 and recognise any considerations received/receivable including any water services entity (WSE) shares and cash considerations. The gain or loss resulting is recognised in surplus or deficit.

Councils' accounting for their interest in the WSE is to be determined and will likely be quantitatively immaterial and the shareholding will have no value.

Three Waters Debt Validation Approach.

This process is required by the NTU to understand the level of Three Waters debt that is currently held by each Council. It will inform the level of payment by WSE for water service infrastructure debt when the water assets are to be transferred to the WSE 1 July 2024.

Three Waters Legal Transfer Questionnaire.

This extensive report is due 31 March 2023 and ensures the commercial and legal elements required for the establishment of the new WSE are successfully delivered. This will be a combined effort with SWDC and WWL over the next two months.

As SWDC progresses through this transition, SWDC staff will keep Council members informed of progress and which will result in Council being required to authorise the transfer and approval of this single biggest transaction that Councillors will be asked to sign off.

The draft annual plan for 2023/24 will include Three Waters assets and liabilities. The final document will have these removed with additional disclosures due to the complexity and further information required around the calculations.

4. Annual Plan (AP)/Budget 2023/24

The purposes of an annual report are—

- to compare the actual activities and the actual performance of the local authority in the year with the intended activities and the intended level of performance as set out in respect of the year in the long-term plan and the annual plan including budgets, significant activities, policies; and
- to promote the local authority's accountability to the community for the decisions made throughout the year by the local authority.

The first workshop for the AP/budget review with staff and Council is scheduled for 23 February 2023. This workshop will review all operational budgets and capital work programmes by business group.

5. Revenue and Financing Policy – rating review

The revenue and financing policy is a statutory requirement for inclusion in the Council's LTP and is one of the foundations for Council to set rates.

In undertaking the rates review consideration will be given to how the setting of rates can align to and support the Council's strategic priorities and outcomes.

A rating review is a process for elected members and the community to decide on what is a reasonable and appropriate allocation of rates.

A key objective in completing the rates review is to provide a rates process and policy that is aligned to and supports Council's strategic priorities and outcomes. Therefore, the principles that the rates policy is based on will align to the Council's financial and infrastructure strategies.

All rating review workshops are facilitated by the independent Local Government advisor Phillip Jones. Workshop one was held in June and July 2022 with the previous elected members.

Workshop two was held with newly elected members on 2 February. The current timeframe listed below:

Step	Dates	
	Start	Finish
1. New Council to confirm the step one assessment	31-Oct-22	28-Nov-22
2. Model & assess the initial rates impact on the funding needs analysis (Step 1)	01-Feb-23	28-Feb-23
3. Modify and update the funding needs analysis based on the step two principles	01-Mar-23	31-Mar-23
4. Consider the use of remission and or postponement policies	01-Apr-23	30-Apr-23
5. Model and confirm the preferred rates allocation option	01-Apr-23	30-Apr-23
6. Draft Revenue & financing policy and supporting rating policies	01-Apr-23	31-May-23
7. Draft the proposal and supporting information for consultation	01-Jun-23	30-Jun-23
8. Carry out community consultation	01-Jul-23	01-Aug-23
9. Hear submissions	15-Aug-23	31-Aug-23
10. Update rates and amend policies after considering submissions	01-Sep-23	30-Sep-23
11. Adopt new policies	01-Oct-23	30-Oct-23
12. Set the rates	01-Jun-24	30-Jun-24
13. Implement new rating system	01-Jul-24	

6. Long Term Plan (LTP) 2024-2034 project

6.1 Introduction

The Long-Term Plan (LTP) is a key planning document of Council and also a key mechanism for engaging with the community about the future of the city and council services. The purpose of an LTP is to:

- describe the activities of the local authority; and
- describe the community outcomes of the local authority's district or region; and
- provide integrated decision-making and co-ordination of the resources of the local authority; and
- provide a long-term focus for the decisions and activities of the local authority; and
- provide a basis for accountability of the local authority to the community.

An LTP draws upon a wide array of information, both about the current state of affairs within the community, the Council and its assets and future expectations/intentions. Therefore, the preparation of an LTP is a complex task and will

require additional resourcing of staff to provide project management and final delivery.

6.2 Programme Management

Programme structure, ownership and decision making will be required through a 2024 LTP Governance, Programme Management and Delivery framework.

Key roles and responsibilities include:

Role	Responsibilities	Approving /adopting LTP products	Directing programme content	Effective programme delivery / operation
Council	Final approval of all LTP components and the formal adoption of the LTP consultation document and final LTP	✓		
LTP/AP Committee	Review key LTP components and recommend to Council decisions on the final shape of the LTP consultation document, LTP and its adoption	✓	✓	
CEO & ELT	CEO is the internal owner of the LTP and through ELT provides collective direction and guidance on critical components, and at critical decision points.		✓	
LTP steering group	Co-ordinates the delivery of the agreed work programme, direct resources to the completion of necessary tasks within members' respective areas of operation and provide guidance on the resolution of operational matters that may arise during the course of the project.		✓	✓
Workstream leads	To assist the LTP steering group through the management of delivery of workstream deliverables and provide regular project status reports to the LTP steering group.			✓

There are significant legislative requirements in preparing and presenting an LTP and its associated consultation document, including the audit of both documents.

The LTP is also the main legacy of a Council's term in office and therefore grounded in the needs, aspirations of the community and ability to pay.

The LTP must be adopted before the commencement of the first year to which it relates and continues in force until the close of the third consecutive year to which it relates to.

7. Waka Kotahi (WK) Audit - 16th-20th January 2023

The recent audit from 1 July 2018 to 30 June 2022 was conducted by WK auditor on site in Greytown. The audit reviews Councils financial reporting, procurement process, emergency events and funding requests.

A recent close out meeting was held with no material matters raised.

A draft report is due in 6 weeks to provide Council with the opportunity to comment on findings. The final report issued to CEO after consideration of Council responses.

8. Insurance Strategy Report – Above ground and underground

SWDC is a member of the Marsh Insurance broker group for the Wairarapa Council Collective that includes Masterton and Carterton District Councils. This collective provides benefits from shared policies and competitive premium rates brokered through Marsh & McLennan which offers insurance cover for the Councils' above ground assets, excluding roads which no provider insurers.

SWDC's advisor from Marsh, Darren Williamson will be presenting to Council on current market and economic conditions at the Risk and Assurance Committee meeting in February.

SWDC underground water and infrastructure assets are insured through Local Authority Protection Programme (LAPP) with insurers AON and Civic, subsidised by Central Government at 60% with a minimum threshold claim to be considered of \$400k with deductibles i.e., excess amounts.

Insurance premiums are set to increase for 2023/24 due to the economic environment and revaluations of assets.

9. LGOIMA's Register

Current list of Official Information requests from December 2022.

Official Information Requests (LGOIMA) 2022-23					
No.	Date Received	Date Due	Date Sent	Request	Officer
038	2-Dec-22	24-Jan-23	23-Dec-22	Pain Farm Accounts	Karon and Amanda
039	2-Dec-22	24-Jan-23	9-Dec-22	Noise Complaint	Rick
040	7-Dec-22	27-Jan-23	31-Jan-23	Living Wage/ Contractor details	Paul/Stefan
041	14-Dec-22	2-Feb-23	20-Dec-22	Rates split rural vs urban	Karon and Amanda
042	28-Dec-22	8-Feb-23	8-Feb-23	Pool consents	Sara Edney
043	11-Jan-23	9-Feb-23	16-Jan-22	Sale and Supply of Alcohol	Rick/Hazel
044	23-Jan-23	21-Feb-23		Lighting	Stefan
045	25-Jan-23	25-Feb-23		Solar Farms	Russell
046	30-Jan-23	28-Feb-23		Citizenship Ceremonies	Paul
047	31-Jan-23	1-Mar-23		Rates, Personel, Consultants	Karon
048	2-Feb-23	3-Mar-23		Residents Survey	Amanda

10. Financial Delegations Policy

This policy provides Council guidance to enable effective Local Government, by delegating financial authority and powers to the Chief Executive and Staff.

[Financial Delegations Policy](#) current can be found on the Council's website.

The current policy requires unbudgeted operating expenditure over \$20k to be presented to the finance committee for recommendation to Council.

Financial delegation	Council	CEO	ELT	Managers	Other
Capital expenditure – emergency works* up to \$50,000		√			
Capital expenditure – emergency works* over \$50,000	√				
Other unbudgeted work up to \$20,000		√			
Other unbudgeted work from \$20,000 to \$100,000	√				Finance Audit and Risk Committee
All unbudgeted work over \$100,000	√				
Unbudgeted use of Reserves					
Unbudgeted use of Reserves up to \$75,000		√			
Unbudgeted use of Reserves from \$75,000 to \$100,000	√				Finance Audit and Risk Committee. The Committee will take into consideration if the use of the reserve will result in a credit balance and how long this is likely to remain.
Unbudgeted use of Reserves over \$100,000	√				Council will take into consideration if use of the reserve will result in a credit balance and how long this is likely to remain.

11. Appendices

Appendix 1 – Finance Report as at 31 December 2022

Three Waters Reform Reports:

Appendix 2 – Finance & Commercial Workstream 90-Day Plan-December 2022-March 2023; and

Appendix 3 – DIA Accounting considerations for Councils - draft

Contact Officer: Karon Ashforth, General Manager Finance

Appendix 1 – Finance Report as at 31 December 2022



**SOUTH WAIRARAPA
DISTRICT COUNCIL**

Kia Reretahi Tātau

Monthly Financial Statements

For the period ended

31 December 2022

Contents

1. Executive Summary - Financial Report
2. Statement of Financial Performance
3. Statement of Financial Position
4. Investment and Borrowing Summary
5. Balance Of Reserves
6. Capital Expenditure - Significant Projects
7. Rates Arrears

Executive Summary - Financial Report YTD December 2022

Statement of Comprehensive Revenue and Expenses
for the Period Ended 31 December 2022

Actual 2021/2022 \$000		Actual YTD 2022/2023 \$000	Budget YTD 2022/2023 \$000	Variance YTD 2022/2023 \$000	Full Year Budget 2022/2023 \$000
Operating Revenue					
19,980	Rates	10,674	10,659	15	21,388
4,061	Grants, subsidies, and donations	600	19	581	55
3,288	Waka Kotahi subsidy	2,072	1,544	528	3,089
2,505	Fees, licences, charges	1,347	1,386	(39)	2,802
2,769	Development, and financial contributions	775	709	66	1,378
746	Rental income	417	355	62	790
324	Miscellaneous revenue	182	130	52	254
238	Finance revenue	158	126	32	252
33,911	Total operating revenue	16,226	14,928	1,298	30,009
Operating Costs					
8,710	Community facilities & services	4,645	3,705	(939)	7,530
5,896	Land transport	3,700	2,933	(767)	6,152
4,671	Water supply	2,157	1,994	(163)	4,342
3,147	Wastewater	1,922	1,156	(766)	2,952
3,052	Planning & regulatory services	1,748	1,602	(146)	3,185
1,732	Governance	1,062	1,205	143	2,221
822	Stormwater drainage	367	305	(62)	615
13	Bad debts	7	-	(7)	
28,044	Total operating costs	15,609	12,901	(2,708)	26,998
5,867	Total Operating Surplus/(Deficit)	617	2,028	(1,410)	3,011
2,435	Assets vesting in Council	3	-	3	
1,542	Other gains and losses	77	413	(336)	413
4. Investment a	Total Surplus/(Deficit)	697	2,441	(1,744)	3,423
Comprehensive Revenue and Expense					
48,083	Increase/(decrease) in revaluation reserv	(53)	-	(53)	
57,927	Total other comprehensive revenue and ex	643	2,441	(1,797)	0
Note: Operating costs include the following expenses:					
4,927	Depreciation & amortisation	2,757	2,706	(51)	5,412
707	Finance costs	466	722	255	722

Executive Summary

The purpose of this report is to provide Council with a commentary on the year to date results.

The financial statements and annual report for 2021/22 have not been audited by Audit NZ, therefore these results may be subject to change.

Operating Surplus

The December YTD actuals to budgets results in an overall surplus of \$617k, which is below the budgeted surplus of \$1.410k, largely due to timing.

Operating revenue

Operating revenue actual is \$16.2m vs budget of \$14.9m, \$1.3m above budget.

Rates income comprises 70% of total income and is tracking at budget YTD and full year.

The increase in revenue is due to unbudgeted subsidies received, and additional funding from Waka Kotahi due to emergency works claims.

Operating Expenditure

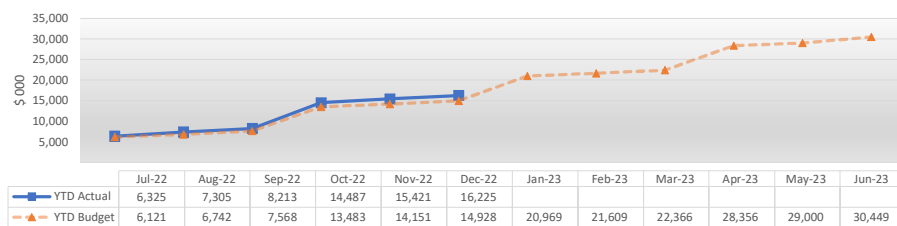
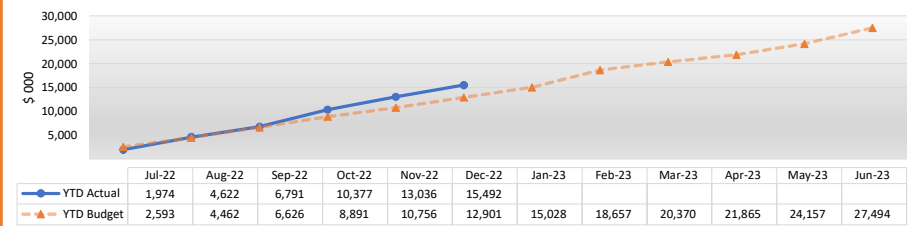
Operating costs are \$15.6m vs budget of \$12.9m, \$2.7m above budget.

This includes expenditure relating to the unbudgeted subsidies received as detailed below.

Further commentary on revenue and expenditure is included in this report on the following pages.

Budgets have been phased based on last year's actual spend and this will create variances where actuals vs budgets are not aligned; this is referred to as timing differences.

Summary of Unbudgeted Items	Total grant YTD	Act YTD	Balance sheet	Comments
Mayor's Taskforce	243,087	83,000	160,087	
Provincial Growth Fund (Tauherenikau Bridge)	350,000	234,421	115,579	Prior year adjustment
Three Waters Reform transition assistance	175,000	96,676	78,324	
Hinekura hall Lottery Grant	30,000	10,330	19,670	
NZTA unbudgeted	552,442	748,033	-	subsidised by 100%, 72% or 52%
	1,350,529	1,172,460	178,069	

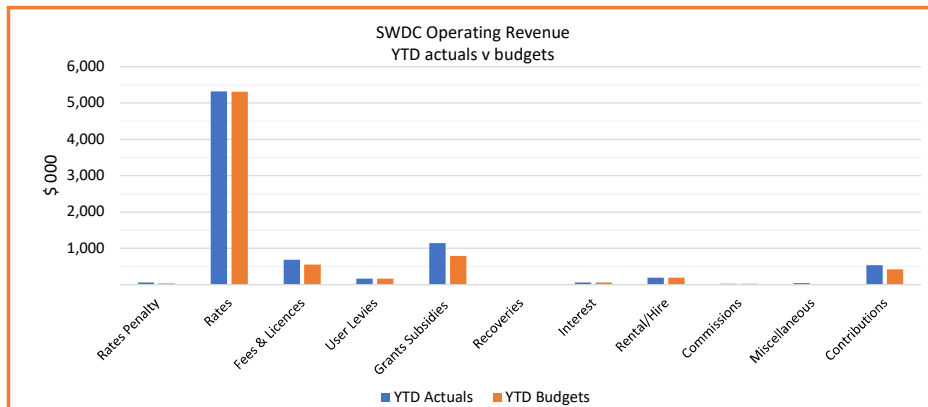
SWDC Operating Revenue
YTD Actual V BudgetSWDC Operating Expenses
YTD Actual v Budget

Statement of Financial Performance

Operating Income YTD December 2022

Income	2022/23 YTD Actuals December \$000	2022/23 YTD Budgets December \$000	2022/23 YTD \$ Variance December \$000	2022/23 YTD % Variance December	2022/23 Full Year Budget \$000
Grand Total	16,306	14,928	1,377	9.2%	30,421
Rates Penalty	76	61	15	25.5%	104
Rates	10,628	10,604	23	0.2%	21,210
Fees & Licences	1,036	1,044	(8)	(0.8%)	2,123
User Levies	322	355	(33)	(9.2%)	809
Grants Subsidies & Donations	2,711	1,590	1,121	70.5%	3,180
Recoveries	15	22	(8)	(34.7%)	45
Interest	158	126	32	25.3%	252
Rental/Hire	381	355	26	7.4%	790
Commissions	40	43	(2)	(5.0%)	85
Miscellaneous	84	19	65	345.7%	32
Investment	79	(0)	79	100.0%	413
Contributions	775	709	66	9.4%	1,378

*Reclassification - Investment shown in "other gains and losses" line separately on executive summary



Income Summary

Operating Income YTD is favourable to budget by \$1,377k or 9%.

Rates

Rates are on track YTD and full year. Instalment 3 is due in January 2023.

Rates income comprises 70% of total income and is tracking at budget YTD and full year.

Fees & Licences

On track YTD and full year, however a small economic decline in building and resource consents, partly due to delays with Wellington Water and roading consents may continue.

User levies

Small decline in LIM reports and water fees.

Grants, Donations & Subsidies

Favourable by \$1,121k. Please refer to the "Summary of unbudgeted items" table on Executive summary page.

Waka Kotahi operating subsidies \$324k and capex subsidies \$204k due to Emergency works claims and increased maintenance for general wet weather.

Miscellaneous Income

Favourable due to contributions from Greater Wellington Regional Council (GWRC) funding for Hinekura Rd offset to expenses.

There is also a Insurance claim received for Pain farm shed of \$36k which will be offset with any related expenses for demolition and rebuild/container.

Contributions

Higher than expected contributions from Featherston road/footpath contributions (\$53k), Greytown road/footpath contributions including rural (\$74k). Overall subdivision contributions are unfavourable by \$50k.

Investment

Gain on sale assets

Interest income

Interest income improving due to interest rates on term deposits

Statement of Financial Performance

YTD December 2022

Operating Expenditure

Expenditure	2022/23 YTD Actuals December	2022/23 YTD Budgets December	2022/23 YTD \$ Variance December	2022/23 YTD % Variance December	2022/23 Full Year Budget
	\$000	\$000	\$000		\$000
	15,609	12,901	(2,708)	(21.0%)	26,997
Finance & Corporate Support	1,909	1,760	(149)	(8.5%)	3,494
Governance	619	797	178	22.3%	1,406
Planning & Regulatory Services	1,430	1,318	(113)	(8.6%)	2,617
Community Facilities & Services	4,101	3,285	(816)	(24.8%)	6,690
Land Transport	3,428	2,727	(701)	(25.7%)	5,750
Water Supply	1,991	1,876	(115)	(6.1%)	4,112
Wastewater	1,786	1,086	(700)	(64.4%)	2,817
Stormwater Drainage	344	286	(58)	(20.4%)	578

Expenditure Summary

Operating expenditure YTD is unfavourable to budget by \$2.7m, 21.5%.

Expenditure is reported by Significant activities as set out in the Annual Plan and LTP.

Due to economic conditions, costs are rising above the current inflation rate of 7.2% and most suppliers are indicating double digit increases on costs for next year.

Capital goods price index as at June 2022 forecasted double digit increases up to 15%

Finance & Corporate Support

Due to recent changes in information technology (IT) support and accounting standards, the cost of software and hardware has significantly changed in this year.

Previously most IT support including hardware and software was capital expenditure. With the introduction of nearly all software 'on the cloud', this is referred to as 'Software as a Service' (Saas) and is classified as part of operating expenses. This was not budgeted in the current financial year.

As a result of urgent work are being carried out to improve the current IT platforms and systems of Council, this is causing a significant overspend that has been previously advised to Council.

At the same time, significant staff shortages in the finance services have increased support costs.

Governance

The current underspend in Governance costs are largely due to elected members awaiting confirmation of backpay from the remuneration authority.

Community Facilities & Services

Part of the overspend, \$300k is offset by income for grants for Tauerenikau Bridge and Mayor's task force. Work costs have increased for housing and toilets (Citycare) and the current year's budget not aligning with the contract, variance \$80k.

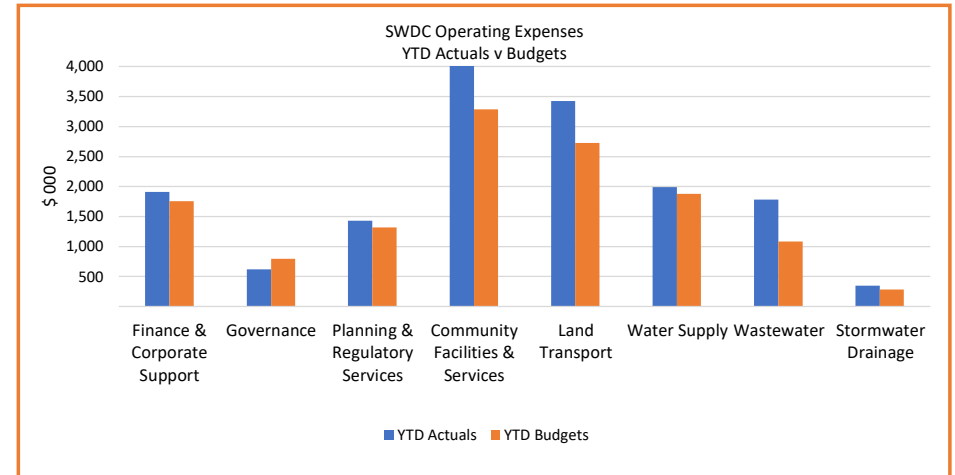
Community wellbeing youth/community grants paid out ahead of budget, variance \$64k, timing issue to correct at year end.

Economic development paid out ahead of budget Wairarapa Economic Strategy (WEDS) shared services, variance \$56k, timing issue to correct at year end.

Libraries currently overspent due to staff shortages, however this will be recovered in part from NZLPP

Refuse and recycling is overspent partially due to higher volumes of landfill/recycling in the summer months, particularly in coastal areas and Martinborough, variance \$80k.

Overall only 51% of the full year budget has been spent.



Land Transport

The overspend is largely attributable to emergency works for swell and flooding and weather events. Council will be advised on emergency funding requirements in Q3.

Planning & Regulatory Services

There has been an overspend in building contractors and this is likely to reduce for the remainder of the financial year with increased staff and less outsourcing for consent Resource management for operating costs which is overspent partially due to delayed commencement of the digitisation project from the previous financial year. Total costs will be reviewed in

Three Waters & Wellington Water Ltd (WWL)

Three Waters includes water supply, wastewater and stormwater drainage.

There was no YTD budget phasing entered into the system for work costs for WWL, however the work has been done.

Due to this phasing, the YTD budgets do not reflect the work completed in the financial statements.

Wellington Water Ltd actual costs are 50% of the full year budget which are on track as below on their dashboard.

WWL Operating Expense Summary

Works costs	YTD Actuals	FY Budget	Percentage spent
Water Supply	1,011	2,208	46%
Wastewater	753	1,223	62%
Stormwater	131	358	37%
	1,896	3,789	50%
Management Fee	YTD Actuals	FY Budget	Percentage spent
Water Supply	47	93	50%
Wastewater	86	171	50%
Stormwater	23	47	50%
	156	312	50%

Statement of Financial Position

Statement of Financial Position as at 31 December 2022	
Actual 2021/2022 \$000	Actual YTD 2022/2023 \$000
ASSETS	
Current assets	
4,128 Cash and cash equivalents	5,038
4,566 Investments	4,566
2,614 Debtors and other receivables	2,519
42 Inventories	39
66 Non-current assets held for sale	-
11,415 Total current assets	12,162
Non-current assets	
4,614 Investments	3,101
Other financial assets:	
131 Investments in CCOs and other similar entities	131
227 Investments in other entities	227
359 Total other financial assets	359
15,757 Investment properties	15,757
84 Intangible assets	253
564,268 Property, plant, and equipment	565,421
585,081 Total non-current assets	584,891
596,497 TOTAL ASSETS	597,053
LIABILITIES AND EQUITY	
Current liabilities	
4,029 Creditors and other payables	3,804
519 Employee entitlements	604
34 Provisions - current portion	34
3,300 Borrowings - current portion	3,300
7,881 Total current liabilities	7,741
Non-current liabilities	
315 Provisions - non-current portion	315
23,100 Borrowings - non-current portion	23,100
23,415 Total non-current liabilities	23,415
Equity	
168,083 Public equity	168,833
28,245 Restricted reserves and trust funds	28,245
368,873 Asset revaluation reserve	368,819
0 Other reserves	0
565,200 Total equity	565,897
596,497 TOTAL LIABILITIES AND EQUITY	597,053

Financial Statement Summary

Working Capital

Working Capital (current assets less current liabilities) which expresses the ability of council to meet its short-term obligations is acceptable with a ratio of 1.6 times.

Assets

Debtors and other Receivables

Prepayments and receivables total \$2,519k, key components are :

- General Debtors \$710k, current due 60%
- Rates total YTD are \$528k (total due \$-418k, Rates in advance \$940k)
- NZTA & Fuel Tax Receivable \$588k
- GST Receivable \$425k

Investments

SWDC's investment policy provides that financial investments should be spread over several financial institutions to reduce the potential risk of loss to Council.

These investments are spread over our bankers BNZ, and other banks Westpac, ANZ, ASB and Wairarapa Building Society (WBS) (see investment schedule next page)

The maximum amount to be invested with anyone approved institution is 50% of Council's total investments.

Liabilities

Payables and Accruals

Payables and accruals total \$3,804k, key components are :

- Sundry creditors \$857k
- SWDC rates in advance \$669k
- GWRC rates payable & in advance \$279k
- Accrued expenses not yet invoiced \$316k
- Income in advance (MTFJ, NZLPP and Three water transition) \$416k
- Levies, bonds currently outstanding \$1,209k

Total Debt

Total public debt stands at \$26,400k. The average fixed interest rate on borrowings is 2.81%. (see debt breakdown on the next page)

Debt benchmark

Finance costs YTD remain low at 4.4% of rates revenue, maximum 12%.

Summary Of Investments and Lending

Summary Of Investments as at 31 December 2022			
	Total Invested	Interest Rate	Maturity date
ASB Bank			
Call Account	131,580		
Term deposit	1,000,000	3.00%	21/05/2023
Term deposit	1,000,000	2.83%	13/01/2023
Term deposit	1,000,000	3.90%	15/04/2023
Term deposit	1,000,000	5.20%	5/12/2023
ANZ Bank			
Term deposit	1,000,000	5.20%	9/12/2023
BNZ Bank			
Call Account	2,504,354		
Term deposit	2,000,000	3.10%	4/03/2023
Term deposit	1,057,783	4.50%	25/11/2023
Wairarapa Building Society			
Term deposit	500,000	4.30%	5/09/2023
Term deposit	209,946	4.60%	21/11/2023
Term deposit	203,724	4.60%	24/11/2023
Term deposit	165,051	5.50%	20/12/2023
TOTAL	11,772,439		
BONDS			
LGFA Borrower Bonds	567,300		
FORESTRY			
Plantation - Hurupi Stock	9,305		
SHARES			
Farmlands	1,159		
NZ Local Government Insurance	81,434		
Wellington Water Limited	50,000		
TOTAL INVESTMENTS	12,481,638		

Note: Call Account is considered cash in the balance sheet as it is under 90days.

Summary Of Borrowing as at 31 December 2022				
Loan	Rate	Matures	Principal	Total Loan
3 Waters	3.89%	1/07/2024	2,000,000	2,000,000
3 Waters	3.42%	15/04/2023	678,802	
Land Transport	3.42%	15/04/2023	1,081,706	
Additional funding	3.42%	15/04/2023	39,492	1,800,000
Community Buildings	3.49%	15/04/2023	1,500,000	1,500,000
3 Waters	1.49%	15/04/2024	2,000,000	2,000,000
3 Waters	1.69%	15/04/2025	4,942,813	
Additional funding	1.69%	15/04/2025	57,187	5,000,000
Smoothing Loan AP 20-21	1.78%	15/04/2026	1,500,000	1,500,000
3 Waters	2.72%	15/05/2031	5,700,000	
Community Buildings	2.72%	15/05/2031	1,000,000	6,700,000
3 Waters	4.20%	1/07/2024	3,999,419	
Community Buildings	4.20%	1/07/2024	300,581	
Additional Funding	4.20%	1/07/2024	200,000	4,500,000
3 Waters	2.75%	1/07/2024	1,400,000	1,400,000
Total Lending				26,400,000
Lending Summary				
3 Waters	20,721,034			
Land Transport	1,081,706			
Community Buildings	2,800,581			
Smoothing Loan AP 20-21	1,500,000			
Additional Funding	296,680			
				26,400,000

Balance of Reserves (updated quarterly)

Statement of Special and Separate Funds for the Year Ended 31 December 2022

	Activities to which reserve relates	Opening Balance \$000	Transfers In \$000	Transfers Out \$000	Closing Balance \$000
District Property					
To be used for Town Centre Development	All activities	134	142	115	160
Asset Realisation					
Capital gains from the sale of Council Assets that have been realised over time.	All activities	298	-	-	298
Plantation Reserve					
For road protection schemes and seal extensions in the future.	All activities	(117)	-	13	(129)
Community Board Reserves					
Community Board funds carried over:					
Featherston	Governance	5	5	3	6
Greytown	Governance	10	5	0	15
Martinborough	Governance	5	5	5	5
Māori Standing Committee	Governance	31	-	1	30
Featherston Beautification	Governance	26	12	10	28
	Governance	17	12	3	25
Greytown Beautification					
Martinborough Beautification	Governance	13	12	-	25
Martinborough Swimming Pool	Governance	15	-	-	15
Restricted Reserves					
To provide for the acquisition and development of reserves and open spaces in response to the needs arising from subdivision and development, to protect conservation values.	All activities	2,754	240	-	2,994
To provide opportunities for public access to and along water bodies, to provide recreational opportunities near water bodies					
Water Race Reserves					
Featherston/Longwood Water race	Water	9	42	25	26
Moroa	Water	284	45	13	316

Statement of Special and Separate Funds for the Year Ended 31 December 2022

	Activities to which reserve relates	Opening Balance \$000	Transfers In \$000	Transfers Out \$000	Closing Balance \$000
Trusts					
Campground Memorial:	Amenities	7	-	-	7
Pain Farm					-
Maintaining and improving the Borough's parks, sports grounds, camping ground, swimming baths, providing and maintaining sports facilities and a children's playground.	Amenities	103	48	46	105
Infrastructure Contributions					
To provide a potable water supply, to safeguard the health of inhabitants and protect the natural environment for inappropriate disposal of sewage, to prevent damage to property or amenity from the indiscriminate and uncontrolled runoff of Stormwater, to ensure sufficient water is available for fire fighting purposes.	All activities	3,423	535	-	3,958
To provide for the safe and convenient movement on roads of vehicular, bicycles and pedestrians within and through the Wairarapa.					
Planning Reserves					
To spread the costs of the Combined District Plan over the life of the plan	Resource Management	(118)	60	134	(192)
To spread the costs of the Spatial Plan over the life of the plan	Resource Management	13	133	93	53
Loan Redemption Reserve					
To cover loan principal repayments	All activities	8,513	2,333	-	10,846
Depreciation Reserves					
To fund new capital projects	All activities	11,591	2,570	2,834	11,327
Disaster Recovery					
To fund disaster recovery IT upgrades	All activities	10	10	-	20
Martinborough Town Hall Reserve					
Waihinga Centre Project	Amenities	22	-	11	11
Rural Roding Reserve					
Rural Roding	Roding	1,453	300	484	1,269
Housing Reserve					
Housing	Amenities	(226)	166	220	(280)
Maintenance Reserve					
To cover maintenance to buildings	Amenities	(21)	33	30	(18)
Total Special and Separate Funds		28,255	6,705	4,040	30,920

Capital Expenditure - Significant Projects

SOUTH WAIRARAPA DISTRICT COUNCIL							
SCHEDULE OF CAPITAL EXPENDITURE			For the period ended 31 December 2022				
Activity	Category	Funding Source	YTD Actual Spent	Carried Forward 2022	New Budget	Total Budget	% of Budget
Project/Cost Centre			\$000's	(provisional) \$000's	Annual Plan 22/23 \$000's	Available \$000's	Spent YTD (%)
Finance & Corporate Services							
Council offices	Renew	Loan	28,722	300,000	5,105	305,105	9%
Furniture	Renew	Reserves - Depreciation	-	-	12,252	12,252	0%
GIS	Renew	Reserves - Depreciation	-	-	10,210	10,210	0%
Intangibles	Improve	Reserves - Depreciation	-	20,000	9,189	29,189	0%
IT hardware	Renew	Reserves - Depreciation	58,390	-	101,050	101,050	58%
IT software	Renew	Reserves - Depreciation	51,508	78,000	51,050	129,050	40%
Motor vehicles	Renew	Reserves - Depreciation	43,043	140,000	61,260	201,260	21%
Office equipment	Renew	Reserves - Depreciation	-	-	10,210	10,210	0%
			181,664	538,000	260,326	798,326	23%
Community Facilities & Services							
Purchase of land for new open spaces	Grow	Loan	-	-	1,531,500	1,531,500	0%
Greytown wheels park	Grow	Reserves - Restricted	-	300,000	-	300,000	0%
Featherston sports stadium	Improve	Reserves - Restricted	29,609	50,000	-	50,000	59%
Greytown sports facility	Improve	Loan	8,642	989,245	-	989,245	1%
Gateway to the Wairarapa	Improve	Reserves - Depreciation	-	-	61,260	61,260	0%
Campgrounds	Renew	Reserves - Depreciation	10,715	15,000	15,315	30,315	35%
Cemeteries	Renew	Reserves - Depreciation	-	232,422	35,735	268,157	0%
Community buildings	Renew	Reserves - Depreciation	20,646	408,200	20,420	428,620	5%
Housing	Renew	Reserves - Housing	-	136,000	61,260	197,260	0%
Library collection	Renew	Reserves - Depreciation	48,137	-26,019	112,310	86,291	56%
Parks & reserves	Renew	Reserves - Depreciation	23,022	150,000	20,420	170,420	14%
Playgrounds	Renew	Reserves - Depreciation	-	-	51,050	51,050	0%
Rental properties	Renew	Reserves - Maintenance	29,630	-	20,420	20,420	145%
Swimming pools	Renew	Reserves - Depreciation	-	190,000	51,050	241,050	0%
Toilets	Renew	Reserves - Depreciation	-	-	51,050	51,050	0%
Transfer stations	Renew	Reserves - Depreciation	-	-	10,210	10,210	0%
			170,400	2,444,848	2,042,000	4,486,848	4%

SOUTH WAIRARAPA DISTRICT COUNCIL**SCHEDULE OF CAPITAL EXPENDITURE**

For the period ended 31 December 2022

Activity	Category	Funding Source	YTD Actual Spent	Carried Forward 2022 (provisional)	New Budget Annual Plan 22/23	Total Budget Available	% of Budget Spent YTD
Land Transport							
Hinekura - emergency works	Renew	Waka Kotahi & Depreciation Reserve	244,051			-	0%
Hinekura - access works	Renew	Reserves - Rural Roding	163,561			-	0%
Hinekura - Admiral Hill	Improve	Reserves - Rural Roding	69,980			-	0%
Hinekura - Phase 1 alignment & design	Improve	Loan	39,270			-	0%
Bridges	Renew	Reserves - Depreciation	-	-	-	-	0%
Drainage	Renew	Waka Kotahi & Depreciation Reserve	36,642	-	171,049	171,049	21%
Footpath additions	Grow	Rates	181,808	400,000	409,600	809,600	22%
Footpath renewals	Renew	Waka Kotahi & Depreciation Reserve	14,081	-	130,492	130,492	11%
Other minor works	Improve	Waka Kotahi & Depreciation Reserve	306,789	-	704,256	704,256	44%
Rehabilitation	Renew	Waka Kotahi & Depreciation Reserve	29,797	-	250,948	250,948	12%
Reseals	Renew	Waka Kotahi & Depreciation Reserve	772,123	-	805,053	805,053	96%
Road metalling	Renew	Waka Kotahi & Depreciation Reserve	162,783	-	414,720	414,720	39%
Seal extentions	Improve	Waka Kotahi & Depreciation Reserve	-	-	-	-	0%
Signs, guardrails, & safety	Improve	Waka Kotahi & Depreciation Reserve	-	-	283,680	283,680	0%
Structures	Renew	Waka Kotahi & Depreciation Reserve	2,205	-	131,503	131,503	2%
Traffic services	Renew	Waka Kotahi & Depreciation Reserve	21,855	-	53,186	53,186	41%
			1,528,082	400,000	3,354,487	3,754,487	41%
Planning & Regulatory Services							
Dog pound	Renew	Loan	257,554	340,000	-	340,000	76%
IT hardware - Planning & Regularatory Services	Renew	Reserves - Depreciation	-	10,000	4,084	14,084	0%
IT software - Planning & Regularatory Services	Renew	Reserves - Depreciation	-	15,000	1,000	16,000	0%
Liquifaction modelling for building regulations	Improve	Loan	703	127,362	-	127,362	1%
Combined District Plan	Renew	Reserves - Depreciation	116,249	27,119	122,640	149,759	78%
Spatial Plan	Improve	Reserves - Depreciation	51,847	163,564	204,400	367,964	14%
			426,353	683,045	332,124	1,015,169	42%

SOUTH WAIRARAPA DISTRICT COUNCIL

SCHEDULE OF CAPITAL EXPENDITURE

For the period ended 31 December 2022

Activity	Category		Funding Source	YTD Actual Spent	Carried Forward 2022 (provisional)	New Budget Annual Plan 22/23	Total Budget Available	% of Budget Spent YTD
Water Supply								
Consents, models, & plans	Improve	Reserves - Depreciation		-	-	51,350	51,350	0%
Infrastructure upgrades - Water Supply	Improve			-	-	-	-	0%
Infrastructure renewals - Water Supply	Renew	Reserves - Depreciation		131,240	-	375,882	375,882	35%
Smart meters	Improve	Loan		-	-	1,027,000	1,027,000	0%
Water supply & treatment - Featherston	Improve	Reserves - Depreciation		-	-	99,824	99,824	0%
Water supply & treatment - Greytown	Renew	Reserves - Depreciation		20,073	-	-	-	0%
Water supply & treatment - Martinborough	Grow	Loan		-	-	443,664	443,664	0%
				151,313	-	1,997,720	1,997,720	8%
Wastewater								
Consents, models, & plans	Renew			-	-	-	-	0%
Health & safety upgrades	Improve	Reserves - Depreciation		-	-	110,916	110,916	0%
Infrastructure upgrades - Wastewater	Improve			-	-	-	-	0%
Infrastructure renewals - Wastewater	Renew	Reserves - Depreciation		198,904	-	346,099	346,099	57%
Wastewater treatment & disposal - Featherston	Improve	Loan		722,112	-	2,327,000	2,327,000	31%
Wastewater treatment & disposal - Greytown	Grow	Reserves - Depreciation		-	-	266,198	266,198	0%
Wastewater treatment & disposal - Martinborough	Improve	Reserves - Depreciation		-	-	277,290	277,290	0%
				921,016	-	3,327,503	3,327,503	28%
Stormwater								
Consents, models, & plans	Renew			-	-	-	-	0%
Stormwater upgrades	Improve			-	-	-	-	0%
Stormwater renewals	Renew	Reserves - Depreciation		13,493	-	-	-	0%
Water races	Renew	Reserves - Water Races		-	-	-	-	0%
				13,493	-	-	-	0%
Total Capital Expenditure				3,909,182	4,065,893	11,314,160	15,380,053	25%
Comparison To Wellington Water Dashboard								
Reconciliation		SWDC YTD Act	SWDC FY Budget	% Spent	WW YTD	WW FY Budget	WW FY	% Spent YTD
Water Supply		151,313	1,997,720	8%	151,260	3,235,000	1,454,037	5%
Wastewater		921,016	3,327,503	28%	914,317	1,985,000	3,791,887	46%
Stormwater		13,493	-		13,493	120,000	94,076	11%
		1,085,822	5,325,223	20%	1,079,070	5,340,000	5,340,000	20%

Rates Review

YTD December 2022

Rates 2022/23		Quarterly Instalments as at Nov	Current Rates Outstanding	Overdue rates	% Overdue of outstanding rates
SWDC	24,473,617				
GWRC	5,432,154				
	29,905,771	14,952,886	-	516,405	3%

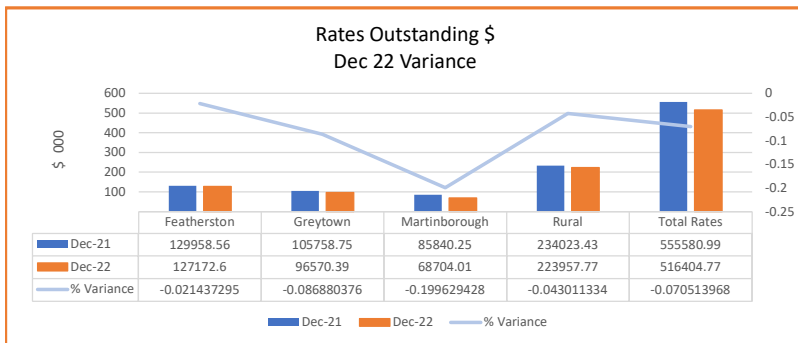
Total Rates Overdue (GST Incl)

Area	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22
Featherston	278,562	144,786	106,059	305,875	127,173
Greytown	274,206	151,726	94,492	261,981	96,570
Martinborough	208,726	100,972	63,469	205,276	68,704
Rural	442,916	272,288	213,030	495,968	223,958
Total Rates	1,204,409	669,772	477,051	1,269,100	516,405

A last rates instalment was sent out in October. Total overdue rates are current 3% of all instalments sent. The next instalment was sent in January.

The total rates overdue is \$516k. Of this \$406k (79%) is current year and \$110k is arrears from previous years.

Rates Owing - Dec YTD Comparison

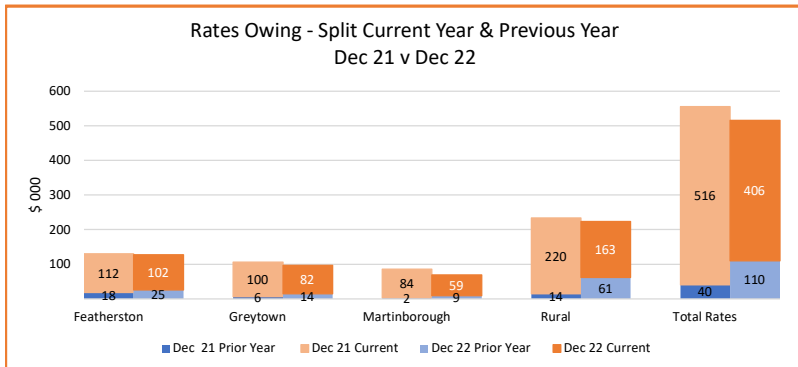


As the arrears are affected by the quarterly invoicing, a clearer comparison is a YTD comparison

There has been a decrease in rates outstanding of \$39k compared to December the previous year. This is a 7% decrease in outstanding rates, compared 40% increase end of last quarter.

Although there is an overall decrease in rates, the in amount of arrears that are owing from the previous year has increased, from \$40k in Dec 2021 to \$110k in Dec 2022

This is most evident in the Rural Rates, with a increase of \$14k in 2021 to \$61k owing in 2022.



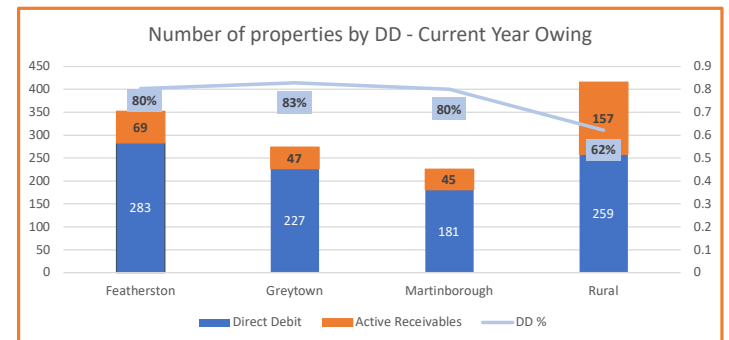
Rates in Arrears by Number of Rating Units

Rating units in arrears	#Owing			Ave Debt	
	Dec-21	Dec-22	% Variance	Dec-21	Dec-22
Featherston	66	50	-24%	1,969	2,543
Greytown	64	36	-44%	1,652	2,683
Martinborough	54	20	-63%	1,590	3,435
Rural	197	119	-40%	1,188	1,882
Total Rates	381	225	-41%	1,458	2,295

The average debt owing in Dec 22 is 57% higher than in 2021. The number of rating units owing rates has reduced by 41% (from 381 to 225)

Direct Debits

	Dec-21	Dec-22
Total rating units	7171	7295
#Direct Debit	2786	2960
Total % of Direct Debits	39%	41%



The number of rate payers using Direct Debit is steadily increasing – now 40.6% for Dec 2022.

Total current year owing is \$406k for 1268 rating units - of this 75% rating units are paying by direct debit.

The rates arrears are on the decline with some payments being received in December. Follow-ups are being sent to the remaining ones. Repayment plans remain steady.

**Appendix 2– Three Waters Reform
Reports: Finance & Commercial
Workstream 90-Day Plan-December
2022-March 2023**

Finance & Commercial Workstream

90-Day Plan

December 2022 – March 2023

Note that tasks in:

Bold Red require significant work from councils;

Bold Black are smaller tasks for optional review, feedback or noting; and

Blue do not require any council input and are FYI only.

Workstream	Tasks	Timeline
Financial & Settlement	Review Settlement Accounts Version 1 & Agree Plan <ul style="list-style-type: none"> ▪ Draft Settlement Accounts: The team are using the RFI data to compile (i) Version 1 of each council's Settlement Accounts, and (ii) a list of the material issues to be resolved in order to reach a fair set of settlement accounts as at 30 June 2024. ▪ Review Meeting: The team is planning to meet councils face-to-face from mid-February to end of March 2023. A member of the team will contact you this side of Christmas to schedule a suitable time. The goal is to review Version 1 of the Settlement Accounts and agree a joint plan for working through and resolving material issues by 30 June 2024. ▪ Approach: Team will send CFO set of Settlement Accounts to be discussed 2-3 weeks prior. On the day, we envisage the process will work along the following lines: <ul style="list-style-type: none"> ○ ~1 hour jointly review Settlement Accounts and Issues. Resolve items where able and agree action plan to close items that cannot be immediately resolved ○ ~ 1 hour break for NTU team to write up plan ○ ~ 1 hour reconvene to review and confirm plan 	Feb/Mar 2023
	Review & Provide Feedback on Draft Settlement Process <ul style="list-style-type: none"> ▪ First version of settlement process to be shared in December. ▪ The process will outline the timeline and tasks for items such as valuation, audit, debt settlement, wash up, etc. with a strong focus on the 1 Jan-30 Sep 2024 timeline – i.e., leading up to, and following, the transition date. 	To be issued by 23 Dec Due end Feb 2023

	Note Recommendations on Accounting Issues <ul style="list-style-type: none"> Recommendations are supported by OAG. Hopefully, these help to remove some uncertainty and provide clarity for all of us. However, happy to discuss any major issues with the recommendations. 	Emailed 15 Dec
Planning, Pricing & Funding	Review Funding & Pricing Plan (FPP) <ul style="list-style-type: none"> The team has a handful of clarifications relating to the Opex numbers provided, e.g., impact of inflation, how Opex changes as new assets come on stream, etc., as it compiles the consolidated FPPs for each Water Service Entity (WSE). The team would value some Teams meetings with CFOs or be referred to finance teams to quickly run through the questions; no background work should be needed from councils. 	End Jan/Feb 2023
	FYI only: Funding & Pricing Plan Template for WSEs <ul style="list-style-type: none"> The team have completed the financial model and have agreed a template for the plans. The next task is to populate a prototype plan for Entity A by 10 Feb. 	Feb 2023
Capital Structure	Identify Transferring Debt – Tranches & SWAPS <ul style="list-style-type: none"> Once we have agreed a debt figure with each council, we will work with councils to determine the specific tranches of debt and swaps which “transfer”. Our starting point is likely to be, if X% of a council’s debt is attributable to 3W, then X% of each debt tranche and swap will be attributed to 3W. However, we recognise that the “devil is in the detail” and will need to work through this with councils. 	Mar/Apr 2023
	FYI only: Debt Settlement Funding Strategy & Options <ul style="list-style-type: none"> The proposed strategy for funding the settlement and the first three years of the WSE’s operations has been approved by the Minister of Finance. The proposed option will be shared with CFOs via email in January. 	Summary to be emailed in Jan 2023
Legal & Insurance	Complete Transfer Questionnaire & Principles <ul style="list-style-type: none"> This questionnaire asks councils for information to populate each WSE’s Allocation Schedule, which will then be shared in draft with councils. A draft of the Transfer Principles will be disseminated with the Transfer Questionnaire, along with a request for comment. 	Emailed 19 Dec DUE Mar 2023
	Note Oversight and Monitoring Process <ul style="list-style-type: none"> The draft guidance has been released for comment. It was reviewed with the Finance Reference Group in November and feedback has been actioned. You can now seek confirmation of significant water-related decisions, and notify other water-related decisions, via the process set out in the draft guidance. 	Emailed 16 Dec

Review Draft Relationship & Master Service Agreement Term Sheets

~ Mar 2023

- The team are working on the drafts for these two agreements. We expect to have the drafts ready for feedback in March.

FYI only: Status of Bills 1 & 2

Dec 2022

- The Water Services Entities Act (previously referred to as Bill 1) passed its third reading on 8 December. It establishes four publicly owned water service entities and sets out their representation, governance and accountability arrangements, some powers for the transition period and arrangements about employment provisions. The Act should receive Royal assent in the week ending 16 December.
- The Water Services Legislation Bill (Bill 2) was introduced on 8 December and builds on the WSE Act. It sets out detailed functions and powers of the new entities, what they are required to do, the tools they need for their work and arrangements for the transition to the new system.
- It establishes relationships between entities and consumers to enable greater transparency around pricing and charging, and sets out protection measures for vulnerable consumers, including an extension of the current rates rebates scheme to cover water charges.
- The Bill has now been referred to the Finance & Expenditure Committee for submissions. More information can be found on the [Parliament website](#).

FYI only: Insurance Strategy

Feb 2023

- Team currently working on the insurance strategy for the WSEs.

Requests from other NTU teams that potentially may arrive on CFO's desk

Asset Management & Ops Team

Jan – Mar 2023

- Operations stocktake – have completed with circa 50% of councils. Covers key operational matters e.g., contracts, suppliers, development agreements.

People Team

Feb/Mar 2023

- Possibly may be requests for payroll “dump” from sample of councils.

Digital Team

Feb/Mar 2023

- Team is working with CIOs/IT managers to identify the best person with whom to have a readiness conversation. This conversation, taking less than 30 minutes, is to understand:
 - whether your teams are ready to start the asset data migration activity,
 - what you would need in place prior to starting,
 - what support you need from the
 - NTU, and
 - an indication of planned start dates.

Appendix 3 - Three Waters Reform Reports: DIA Accounting considerations for Councils - draft

Department of Internal Affairs

Three Waters Reform - Accounting considerations for Councils

DRAFT



Important message to any party other than the DIA who have access to this report

We hereby acknowledge that the Department of Internal Affairs (DIA) intends to release this report to New Zealand's local authorities (Councils).

Our report was prepared in accordance with Generally Accepted Accounting Practice for the DIA's sole purposes based primarily upon discussions with management of DIA, the draft Water Services Entities Bill (WSE Bill) and assumptions provided to us by DIA.

The Councils shall not allow access to our accounting advice, or give information contained in our accounting advice or from representations made by PricewaterhouseCoopers in relation thereto, to any other party except to their professional advisers for the purpose of obtaining professional advice.

The Councils shall also show this message to any such professional advisers who have been given a copy of this report and hereby undertake to take all reasonable steps to secure their compliance with this statement as if the obligations stated therein extended to those other professional advisers.

We will accept no liability or responsibility to any other person including the Councils or their professional advisers. The report must not be made available or copied in whole or in part to any other person without our express written consent.

DRAFT



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Dave Foster
Finance Accounting / Settlement
National Transition Unit
Department of Internal Affairs

[date] 2022

Dear Dave

The Department of Internal Affairs (DIA) has asked PwC New Zealand to provide accounting assistance in relation to specific accounting considerations related to the Three Waters Reform (Reform). This report outlines the specific accounting considerations relevant for Councils. Our advice will be provided in accordance with Generally Accepted Accounting Practice (GAAP) as outlined in more detail in Appendix B.

Structure of our advice

Our advice is structured into the following chapters:

- **Background:** includes a short summary of the proposed Three Water Reform (reform). The key sections of the Water Services Entities Bill (Bill) are included in Appendix A to this report. We note that our advice is based on the terms of the Bill that was introduced to Parliament in June 2022 and we are yet to consider if any changes to the legislation that passed the third reading in Parliament on 7 December 2022 might impact our advice. Appendix A also includes additional information from the DIA not covered by the Bill, for example a description of the better off / no worse off funding that the Councils will receive.
- **Key assumptions:** Includes the key assumptions underpinning our advice.
- **Applicable accounting standards:** We have concluded in this section that PBE Accounting Standards will apply to the parties (Crown, WSEs and the Councils).
- **Councils' accounting:** this section contains the detailed analysis of the relevant accounting considerations for Councils. This section has two main parts:
 - Chapter 1: Accounting for the transferring assets and liabilities; and
 - Chapter 2: Accounting for the Councils' interest in the WSE.

We have included a summary of our detailed analysis at the beginning of each chapter.

Executive summary

Councils' accounting for the transferring assets and liabilities

The appropriate accounting for the transfer of the three water assets and liabilities by Councils depends on the classification of these assets before the transfer. In particular, whether they are classified as "held for sale" in accordance with PBE IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

In our view, this is a matter of significant judgement for the Councils and arguments can be made for and against classification of these assets and liabilities as held for sale. It is however desirable that all transferring Councils apply the same judgement so that consistent information is provided to the users of the financial statements of Councils.

The key judgement relates to whether:

1. **PBE IFRS 5** applies only to commercial arm's length asset sales, in which case it **is not applicable** to this transaction (**View 1**); or
2. whether **PBE IFRS 5** can also apply to non arm's length legislated transfers of assets in which case it **is applicable** to this transaction and the transferring assets and liabilities should be classified as held for sale (**View 2**).

We consider that View 1 (the assets are not classified as held for sale) provides more faithful information to the users of the Council financial statements. One of the key reasons for this is that although the service potential of the asset will not be realised by the Council through use of the assets, it will be realised by the WSEs to provide the same services to the same ratepayers before and after the transfer. Although legal ownership of the assets changes, the beneficiaries of the assets remain the same.

In our opinion, under View 1:

- Councils will continue to revalue their water assets under their existing accounting policies.
- The fair value measurement of the water assets is based on the assets' highest and best use and therefore is not impacted by the transfer of the assets for a consideration that is expected to be less than the assets' carrying value.
- The impending transfer of the assets to the WSEs is not in itself an indicator of impairment and the Councils' assets should not be tested for impairment unless there are other factors present such as evidence of physical damage or obsolescence.
- The assets' depreciation should not be accelerated.
- The transferring liabilities also continue to be accounted for under the Councils' existing accounting policies.
- The Councils should derecognise their transferring assets and liabilities on 30 June 2024 and recognise any consideration received / receivable (including any WSE shares and any cash consideration). The gain or loss resulting is recognised in surplus or deficit.
- Any revaluation surplus included in net assets/equity in respect of the water assets being transferred may be transferred directly to accumulated comprehensive revenue and expense when the assets are derecognised. Transfers from revaluation surplus to accumulated comprehensive revenue and expense are not made through surplus or deficit.
- The water assets will meet the definition of a discontinued operation once they have already been disposed of and Councils will have to apply the presentation and disclosure requirements of PBE IFRS 5 from the date of transfer.

The key differences between View 1 above and View 2 (where the assets are classified as held for sale) are as follows:

- Under View 2, depreciation of assets that meet the definition of held for sale ceases at the date of reclassification.
- Under View 2, the water assets will meet the definition of a discontinued operation once they meet the held for sale criteria and Councils will have to apply the presentation and disclosure requirements of PBE IFRS 5 from that date (rather than from the date they are disposed of).

Councils' accounting for their interest in the WSEs

To determine the appropriate accounting treatment of the Councils' interest in the WSE, the Councils have to determine the nature of their relationship with the WSE. The nature of an accounting relationship can be control, joint control, significant influence or less than significant influence (accounted for as a financial asset).

In our view:

- It is unlikely that any individual Councils will control a WSE and would have to consolidate it.
- Given that there is no requirement for the Regional Representative Groups (RRG) to make unanimous decisions in relation to the relevant activities of a WSE, a WSE will not be jointly controlled by its Council owners.
- Our initial view is that Councils will not account for their interest in a WSE as an associate: This is on the following basis:
 - **PBE IPSAS 36 does not apply:** PBE IPSAS 36 applies only to quantifiable ownership interests. Based on our reading of the first Bill, it appears that even though the Councils will have an interest in the formal equity structure of a WSE in the form of shares, those shares will not provide an ownership interest to the Councils in the WSEs. If that is the case, PBE IPSAS 36 does not apply and therefore Councils will not account for their interest in a WSE applying the equity method.
 - **If it is argued that PBE IPSAS 36 does apply:** A counter argument could be that each Council will hold shares in a WSE and therefore PBE IPSAS 36 does apply. In which case the Councils will have to analyse whether they have significant influence over the WSE they hold shares in. The RRG of each WSE will consist of between 12 and 14 members, with half of its members appointed from mana whenua within its region, and half from territorial authorities. Shares will be allocated to Councils based on the population in their territory. However, we understand that regardless of the number of shares, each Council will only have one vote at the RRG. PBE IPSAS 36 p.11 explains that if an entity holds less than 20 per cent of the voting power of the investee, it is presumed that the entity does not have significant influence, unless such influence can be clearly demonstrated. Therefore, it is likely that individual Councils will not have significant influence over the WSE.
- Based on the above, Councils' shares in the WSEs will be accounted for as a financial asset under PBE IPSAS 41 *Financial Instruments*. However, the shares will not provide an ownership interest in the WSE to the Councils. Therefore, the value of such shares on the Councils' balance sheet will likely be insignificant.
- Although Councils' investment in the WSE will likely be quantitatively immaterial, Councils should consider whether the investment is qualitatively material and whether therefore they should provide disclosures related to their investment in a WSE. As a minimum, Councils may want to disclose information that enables users of its financial statements to understand the nature and extent of the Councils interests in the WSEs.

Responsibility and Restrictions

The ultimate responsibility for the decision on the appropriate application of generally accepted accounting practice for the matters described above rests with management of the Department of Internal Affairs.

Our advice has been provided on the basis that management of the Department of Internal Affairs acknowledge and understand that they have the responsibility to provide us with access to all information of which they are aware that is relevant to our advice such as records, documentation and other matters, including any additional information that we may request from you for the purposes of forming our view.

Our advice has been based solely on the documentation, assumptions and representations provided to us as set out in this report. Should any of these alter, the legal documents entered into between the parties change from the terms advised to us, or if there are any other arrangements between the parties pertinent to the accounting treatment of which we haven't been advised, our conclusions may change.



Our advice could be affected by the issue of future applicable financial reporting standards, or by future legislation or regulations. We do not take responsibility for advising you of changes in our views as a result of such developments subsequent to the date of this report.

Except as explained below, our engagement has been conducted in accordance with Advisory Engagement Standard No. 1 Opinions on Accounting and Reporting Matters issued by the Institute of Chartered Accountants of New Zealand. We note that we have not discussed this matter or confirmed the facts with the Councils, Crown and the Water Services Entities (the WSEs do not exist at the time of writing this advice) nor their respective auditors. If we had done so, it is possible other facts would have come to our attention that would have caused us to arrive at a different opinion.

In our view, apart from revisions, if any, which we might have determined to be necessary had we discussed the matter and confirmed the facts with the Councils and Crown and their auditors, the appropriate accounting treatment to be applied to the transaction described above is as outlined in this report.

This report has been prepared for the management of the Department of Internal Affairs for their sole purposes. It should not be used or relied upon by any other person for any purpose, and we specifically disclaim responsibility to any other party for reliance on the contents thereof.

Under the terms of our engagement our report may be provided on a confidential basis to Audit New Zealand and the Office of Auditor General in their capacity as the auditors of the parties (Councils and the Crown) involved in the transaction. We do not accept or assume a duty of care or other legal responsibility to Audit New Zealand and the OAG. Our opinion was not prepared in contemplation of Audit New Zealand's and OAG's use thereof as part of their audits and should not be considered as a substitute for any enquiries or procedures that would otherwise be necessary or required for their audits. If Audit New Zealand or OAG chooses to use or rely on our opinion as part of their audits, they do so entirely at their own risk.

The report should not be released to any other third party, without our prior written consent.

Should you wish to discuss the contents of this report, please do not hesitate to contact Mariann on +64 21 062 1812 or me on +64 21 734 021.

Yours sincerely

Stephen Hogg
Partner
Auckland

Chairperson's Report

1. Purpose

To update the Finance Committee on activities and issues which have arisen prior to the first meeting of this triennium.

2. Recommendation

The Chairperson recommends that the Finance Committee receives the Chairperson's Report.

3. Discussion

As this is my first report to you as a Finance Committee, forgive me if this report does not contain too much detail.

Having been tasked with the role as Chairman, I have embraced this position. This would be one of the most important jobs I have undertaken in my political career.

As a committee we met informally on the 26th of January. This provided an opportunity for committee members to get to know each other. Our discussion centred around TORs, our role during the rating review process along with general guidance on process.

I was grateful that Karon Ashforth (General Manager Finance) could make this meeting along with Amy Andersen (Committee Advisor), recording the important bits that needed to be noted.

I met with Ms Ashforth on the 31 January 2023 to discuss agenda items for our upcoming formal meeting. This meeting also enabled me to get a better understanding of the important role of our senior managers with their budget setting and expenditure.

There are many things that are going to influence our decisions in the coming months. I would like to think that you, as Councillors, challenge yourselves by asking questions, drilling down on the detail from time to time but overall, working alongside Council staff creating a team mentality.

Prepared By: Councillor Colin Olds – Chairperson, Finance Committee