



Notice is given of a Finance Committee Meeting to be held on:

Date: Tuesday, 22 November 2016

Time: Following the Asset and Services Committee meeting

Location: Council Chambers

Fairlie

AGENDA

Finance Committee Meeting

22 November 2016

Wayne Barnett
Chief Executive Officer

Finance Committee Membership:

The purpose of local government:

(1) The purpose of local government is—

- (a) to enable democratic local decision-making and action by, and on behalf of, communities; and
- (b) to meet the current and future needs of communities for good-quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses.

(2) In this Act, good-quality, in relation to local infrastructure, local public services, and performance of regulatory functions, means infrastructure, services, and performance that are—

- (a) efficient; and
- (b) effective; and
- (c) appropriate to present and anticipated future circumstances.

(Local Government Act 2002)

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1 OPENING

2 APOLOGIES

3 DECLARATIONS OF INTEREST

4 CONFIRM MINUTES

Ordinary Meeting - 4 October 2016

5 VISITORS

6 REPORTS**6.1 FINANCE COMMITTEE MINUTES 4 OCTOBER 2016****File Reference:** PAD 4/2**Authoriser:** Wayne Barnett, Chief Executive Officer**Attachments:** 1. Finance Committee Meeting Minutes 4 October 2016**PURPOSE OF REPORT**

That the previous minutes of the meeting of the Finance Committee meeting held on 4 October 2016 be confirmed.

STAFF RECOMMENDATIONS

1. That the report be received.
2. That the minutes of the meeting of the Finance Committee held on 4 October 2016 be confirmed and adopted as a correct record of the meeting.

WAYNE BARNETT
CHIEF EXECUTIVE OFFICER



MINUTES

Finance Committee Meeting

4 October 2016

**MINUTES OF MACKENZIE DISTRICT COUNCIL
FINANCE COMMITTEE MEETING
HELD AT THE COUNCIL CHAMBERS, FAIRLIE
ON TUESDAY, 4 OCTOBER 2016 AT 9:30AM**

PRESENT: Claire Barlow (Mayor), Cr Graham Smith (Deputy Mayor), Cr Murray Cox, Cr Russell Armstrong, Cr James Leslie and Cr Noel Jackson.

IN ATTENDANCE: Wayne Barnett (Chief Executive Officer), Paul Morris (Chief Financial Officer), Tania Hoefsloot (Financial Accountant) and Keri-Ann Little (Committee Administrator).

1 OPENING

The Chairman welcomed everyone to the meeting.

2 APOLOGIES

Resolved: An apology be received from Cr Evan Williams.

Mayor/ Cr Armstrong

3 DECLARATIONS OF INTEREST

There were no declarations of interest.

REPORTS:

ADOPTION OF THE ANNUAL REPORT:

Mr Morris presented the draft Annual Report to 30 June 2016. He said the purpose of this report was for the Committee to recommend to Council that, subject to audit clearance, the Annual Report for the year ended 30 June 2016 be approved and adopted by the new elected members.

Mr Morris spoke to the report.

The Chair noted personnel costs were under and 2.4 million on assets and infrastructure.

Mr Morris said the infrastructure was a result of the Tekapo Development with assets increased regarding Roading infrastructure and stormwater in the Tekapo Township.

Mr Morris said consultancy costs are down which results in employment costs being down.

The Mayor commended the staff for being transparent and noted a pleasing result with nothing hidden for the incoming Council.

The Chair asked for a public benefit entity clarification. Mr Morris said public benefit entities and private entities are different. Mr Morris added the layout of some of the information regarding more detail with the expense break down. He said you have to remember your audience, the Ratepayer requires information in higher detail.

The Chair thanked Mr Morris, his team and the Chief Executive Officer.

Mr Barnett recognised the work that Ms Hoefsloot had completed on the collaboration of the Report.

Resolved:

1. That the report be received.
2. That the Draft Annual Report 30 June 2016, be recommended to Council for approval and adoption subject to final audit clearance.

Mayor/ Cr Armstrong

The Meeting closed at 10:00am.

The minutes of this meeting were confirmed at the Finance Committee Meeting held on 22 November 2016.

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CHAIRPERSON

6.2 FINANCIAL REPORT

File Reference: FIN 1/2/1

Authoriser: Paul Morris, Chief Financial Officer

Attachments: 1. Financial Report

PURPOSE OF REPORT

Attached is the financial report for Council for the period ended September 2016

STAFF RECOMMENDATIONS

1. That the report be received and the information noted.

WAYNE BARNETT

CHIEF EXECUTIVE OFFICER

Mackenzie District Council
Finance Report
For The Period Ended September 2016

LYTD Actual September 2015	GOVERNANCE	YTD Actual September 2016	YTD Budget September 2016	Variance	Full Year Budget 30/06/17
	Income				
98,987	General Rates	103,881	103,881	-	415,525
6,300	Targeted Rates	6,420	6,420	-	25,679
-	Other Income	-	-	-	30,000
105,287	Total Income	110,301	110,301	-	471,204
	Expenses				
14,097	Employment Expenses	13,638	15,957	2,319	63,852
74,869	Members Expenses	118,648	93,816	(24,832)	329,254
-	Consultancy Expenses	8,587	6,747	(1,840)	27,000
17,633	Administration Expenses	11,910	11,442	(468)	45,800
-	Internal Interest Expense	-	39	39	158
1,864	Internal Charges	1,345	1,284	(61)	5,140
108,463	Total Expenses	154,128	129,285	(24,843)	471,204
(3,176)	Operating Surplus/(Deficit)	(43,827)	(18,984)	(24,843)	

Variance Analysis:

Member expenses are over budget as election expenses of \$37,462 have been incurred this year against a total budget of \$35,375. (Election expenses are budgeted over the three year period with \$15,375 budgeted this year, and \$10,000 budgeted in each of the prior years). Councillors salaries increased in July 2016 and this increase was too late to be factored into the 2017 budget.

Consultancy expenses are over budget by \$1,840 due to the CEO's performance review not coinciding with the budget phasing. This will be corrected over time.

Operating and Capital Reserves	
(3,176)	Operating Surplus/(Deficit)
	(18,984)
(3,176)	Total Operating Reserves
	(18,984)
Equity	
(3,945)	Opening Balance
	(4,771)
(3,945)	Total Capital Reserves
	(4,771)

Mackenzie District Council
Finance Report
For The Period Ended September 2016

LYTD Actual September 2015	CORPORATE SERVICES		YTD Actual September 2016	YTD Budget September 2016	Variance	Full year Budget 30/06/17
	Income	Expenses				
546,835			609,249	609,249	9	2,437,030
37,712			51,662	20,568	31,094	128,500
28,710			24,782	29,241	(4,459)	117,013
603			138	351	(213)	1,398
-			-	12,495	(12,495)	50,000
613,859			685,840	671,904	13,936	2,733,941
352,799			419,900	361,542	(58,358)	1,446,752
71,813			55,138	62,232	7,094	249,000
81,341			74,656	113,741	39,085	406,262
70,095			99,848	97,106	(2,742)	364,933
1,823			1,748	1,419	(329)	5,675
38,343			39,097	39,078	(19)	156,386
14,803			12,225	13,104	879	52,436
631,017			702,611	688,222	(14,389)	2,683,444
(17,158)			(16,771)	(16,318)	(453)	52,497

Variance Analysis:

- Other income is currently ahead of budget as rates penalties were up \$35,733 on budget. \$12,495 had been budgeted for a gain on sale of assets, this is in relation to the change of Council fleet of cars. This was budgeted to happen in September, but will now occur in October/November.
- Employment expenditure is over budget as staff appointment costs are \$18,845 more than budgeted as recruitment costs for the Roading Manager and a Building Consent Manager have been incurred. The wages for Asset Management are showing as over budget due to the inclusion of roading costs; a transfer will be made at year end to reallocate this. The CEO's salary is also showing as over budget due to his salary increase arising after the 2017 budget was set. These increases are offset by a deduction in IT wages as Council has now entered into a contract with Hurunui District Council for IT services.
- Consultancy expenses are currently underspent, however legal fees is over budget \$6,651 due to \$1,319 in mediation costs regarding The Reserve stormwater issues, and \$5,000 paid for Council to gain a licence to occupy land for the purposes of roading. This has been offset by under spends to date in engineering costs, consultancy fees and valuation fees.
- Administration expenses are under budget by \$39,085, this mostly relates to the timing of the audit fee invoices which have yet to be received. However, rental expenses have increased this year due to the hire of the Portacom building for \$4,672, this is due to space constraints in the current building. Further hire charges of \$620 per month for the portacom will be incurred for the next three months while the NCS upgrade takes place. Postage and stationery expenses have also increased this year due to the increase in business activity.
- Operational and maintenance costs are slightly higher than budget due to the IT agreement with Hurunui District Council. When the 2017 budget was set the value of the contract with Hurunui District Council was estimated. The contract has come in higher than the original estimate, however there will be savings made in comparison to the previous level of staffing.

Mackenzie District Council
Finance Report
For The Period Ended September 2016

LYTD Actual September 2015	YTD Actual September 2016	YTD Budget September 2016	Variance	Full year Budget 30/06/17
CORPORATE SERVICES				
Operating and Capital Reserves				
(17,158)	(16,771)	(16,318)		52,497
(17,158)	(16,771)	(16,318)		52,497
Equity				
(91,619)	20,989	(52)		(50,222)
38,328	38,776	38,763		155,116
(3,294)	(79,800)	(142,665)		(165,650)
312	467	(61,785)		(62,634)
(56,273)	(19,568)	(165,739)		(123,390)
Capital Expenditure				
Council Building - Fairlie				
-	-	61,500	61,500	61,500
269	373	(373)	(373)	-
1,400	779	750	(29)	3,000
1,669	1,151	62,250	61,099	64,500
Council Building - Twizel				
-	-	501	501	2,000
-	-	501	501	2,000
Information Technology Support				
375	-	2,550	2,550	10,200
-	1,058	-	(1,058)	1
1,875	-	4,611	4,611	18,450
2,250	1,058	7,161	6,103	28,650
Plant Operations				
-	80,189	135,000	57,410	135,000
-	80,189	135,000	57,410	135,000
3,919	82,399	204,912	125,112	230,150

Variance Analysis:

- \$1,058 was for a cellphone booster for home coverage, for the role of the Civil Defence Manager.
- Vehicle purchases are lower than budgeted, with the remainder of the vehicle purchases occurring in October.

Mackenzie District Council
Finance Report
For The Period Ended September 2016

LYTD Actual September 2015	WATER	YTD Actual September 2016		YTD Budget September 2016	Variance	Full year Budget 30/06/17
		September 2016	September 2016			
	Income					
227,932	Targeted Rates	246,190	246,027	163	✓	984,144
-	Investment Income	-	-	-	✓	2,200
(3,901)	Other Income	1,778	276	1,502	✓	161,251
12,632	Financial Contributions	61,768	-	61,768	✓	1
750	Internal Income	779	777	2	✓	3,114
2,256	Internal Interest Income	923	537	386	✓	2,157
-	Vested Assets	-	-	-	✓	90,500
239,670	Total Income	311,437	247,617	63,820		1,243,366
	Expenses					
-	Employment Expenses	-	-	-	✓	11,209
-	Consultancy Expenses	-	2,889	2,889	✓	13,633
47,068	Administration Expenses	44,427	48,565	4,138	✓	83,358
145,666	Operational and Maintenance	158,942	108,348	(50,594)	✗	2 475,247
-	Finance Expense	-	-	-	✓	10,592
6,908	Internal interest Expense	21,470	15,525	(5,945)	✗	3 62,133
123,954	Depreciation	128,670	128,616	(54)	✗	514,681
750	Internal Charges	779	777	(2)	✗	3,114
324,347	Total Expenses	354,288	304,720	(49,568)		1,173,967
(84,677)	Operating Surplus/(Deficit)	(42,851)	(57,103)	14,252		69,399

Variance Analysis:

- Financial Contributions are not budgeted for as they are dependent upon developer activity.
- Operational and maintenance expenses are over budget by \$50,594. This is due to contracting expenditure on the Allandale scheme up \$7,148 resulting from leaks and other water issues. Licences were up \$850 due to a price increase on the Asset Finda licences and timing issues with the budget. There was contract works on the Spur Road line of \$1,396 for a callout due to power failure, with no budget allowed for here. In the Urban water supplies, electricity was up \$12,544 on the Glen Lyon Road line, this cost has been under budgeted for this year. Contractor spend was over budget by \$25,910 due to leaking tobies in Tekapo, replacing meters and on going maintenance issues in Twizel. Licences were over budget \$2,175 due to Asset Finda cost increases and budget timing.
- Internal interest expense is higher than budgeted as the capital reserve balance was lower than anticipated due to higher levels of capital expenditure in the 2016 year than budgeted.

Mackenzie District Council
Finance Report
For The Period Ended September 2016

LYTD Actual September 2015	WATER	YTD Actual September 2016	YTD Budget September 2016	Variance	Full year Budget 30/06/17
(84,677)	Operating Surplus/(Deficit)	(42,851)	(57,103)		69,399
(84,677)	Total Operating Reserves	(42,851)	(57,103)		69,399
236,321	Equity	(1,712,239)	(875,690)		(1,065,949)
1,334	Opening Balance	61,768	-		-
-	Transfer - Financial Contributions	-	-		1,178
116,103	Transfer - from Operating Reserve	113,170	113,121		452,663
(766,699)	Transfer Capital Expenditure from Operating Reserve	(32,450)	(269,639)		(1,169,080)
-	Transfer Vested Assets to Capital	-	-		90,500
2,384	Transfers between Reserves	3,575	3,573		14,302
(410,557)	Total Capital Reserves	(1,566,175)	(1,028,635)		(1,676,386)
-	Capital Expenditure	-	-		-
-	Allandale Water Supply	-	2,595	2,595	10,380
-	0158980. Comm Assets - Water Supply	-	2,595	2,595	10,380
-	Total Allandale Water Supply	-	2,595	2,595	10,380
-	Urban Water Supply	-	-		-
-	0248193. Vested Assets	-	-		90,500
49,957	0248201. Town Reticulation - Renewal	-	243,750	243,750	1 975,000
12,129	0248206. Service Connections - Renewal	9,718	14,994	5,277	60,000
6,691	0248207. Town Reticulation - New	-	-		-
3,280	0248210. Head Works - New	-	-		-
693,561	0248211. Treatment - New	18,294	-	(18,294)	2
1,080	0248215. Plant	6,050	8,300	2,250	33,200
-	0248251. Fire Hydrant Markers	-	-		-
766,699	Total Urban Water Supply	34,061	267,044	232,983	1,158,700
766,699	Total Capital Expenditure	34,061	269,639	235,578	1,169,080

Variance Analysis:

1. Town reticulation of \$243,750 had been budgeted for. The Grey Street project has just started and the others have yet to commence.
2. \$18,294 has been spent on the treatment plant for Twizel, with approximately \$43,000 in costs still to come. This is the completion of a project from the previous year and will be funded from Capital Reserves.

Mackenzie District Council
Finance Report
For The Period Ended September 2016

LYTD Actual September 2015	SEWER	YTD Actual September 2016		YTD Budget September 2016	Variance	Full year Budget 30/06/17
		Actual	Budget			
	Income					
110,856	Targeted Rates	140,698	140,589	109	✓	562,364
843	Other Income	119	1,557	(1,438)	✗	6,228
6,372	Financial Contributions	44,866	-	44,866	✓	1
14,198	Internal Interest Income	9,313	8,829	484	✓	35,328
-	Vested Assets	-	-	-	✓	149,000
132,269	Total Income	194,996	150,975	44,021		752,920
	Expenses					
4,582	Consultancy Expenses	-	2,499	2,499	✓	10,000
32,819	Administration Expenses	32,014	34,810	2,796	✓	40,812
37,628	Operational and Maintenance	51,814	49,701	(2,113)	✗	198,874
-	Internal Interest Expense	-	-	-	✓	5,905
80,844	Depreciation	85,907	85,872	(35)	✗	343,628
155,874	Total Expenses	169,735	172,882	3,147		599,219
(23,605)	Operating Surplus/(Deficit)	25,261	(21,907)	47,168		153,701

Variance Analysis:

1. Financial contributions of \$44,866 were received to date. These are not budgeted for as they are dependent upon developer activity. Operational and maintenance expenses are over budget by \$2,113, this has resulted from overspends in relation to quality monitoring of \$2,959 which is a budget timing issue, contracting costs are over budget by \$10,000 due to blockages in Fairlie and Twizel, repairs to the pump station at the Fairlie camping ground and sucking out fat from the pump station in the Tekapo domain. These overspends were offset by \$10,389 budgeted to date for an internal pipeline inspection which has yet to occur.
- 2.

Mackenzie District Council
 Finance Report
 For The Period Ended September 2016

SEWER		YTD Actual September 2015	YTD Actual September 2016	YTD Budget September 2016	Variance	Full year Budget 30/06/17
Operating and Capital Reserves						
	(23,605)		25,261	(21,907)		153,701
	(23,605)		25,261	(21,907)		153,701
Equity						
	1,622,816	1,784,105	1,746,792			1,746,792
	(6,372)	44,866	-			-
	80,844	85,907	85,872			343,628
	(78,556)	(65,977)	(252,748)			(1,160,000)
	-	-	-			149,000
	1,618,732	1,848,901	1,579,916			1,079,420
Capital Expenditure						
Urban Sewerage						
	-	-	-			149,000
	-	2,555	2,748	193		11,000
	61,543	65,033	250,000	184,967	1	1,000,000
	61,543	67,588	252,748	185,160		1,160,000
	61,543	67,588	252,748	185,160		1,160,000

Variance Analysis:
 1. \$250,000 had been budgeted for Sewer treatment in Tekapo and Twizel, however only \$65,033 has been spent to date.

Mackenzie District Council
 Finance Report
 For The Period Ended September 2016

LYTD Actual September 2015	STORMWATER	YTD Actual September 2016	YTD Budget September 2016	Variance	Full year Budget 30/06/17
	Income				
19,822	Targeted Rates	24,749	24,750	(1)	98,997
-	Financial Contributions	5,995	-	5,995	1
3,651	Internal Interest Income	6,707	3,096	3,611	12,387
-	Vested Assets	-	-	-	231,500
23,473	Total Income	37,451	27,846	9,605	342,884
	Expenses				
-	Consultancy Expenses	-	1,500	1,500	6,000
9,587	Administration Expenses	9,225	10,120	895	10,120
5,133	Operational and Maintenance	11,967	7,134	(4,833)	28,538
15,447	Depreciation	16,682	16,674	(8)	66,726
30,167	Total Expenses	37,874	35,428	(2,446)	111,384
(6,694)	Operating Surplus/(Deficit)	(422)	(7,582)	7,160	231,500

Variance Analysis:

1. Financial contributions of \$5,995 have been received. These have not been budgeted for as these are dependent on developer activity.
2. Internal interest income is greater than budgeted as the Capital Reserve balance is greater than budgeted.
3. Operational and maintenance costs are higher than budget as remedial works were required in The Reserve as per the mediation agreement. Asset finda licences are higher than budgeted as the price increased after the 2017 budget had been adopted. Any over spend at year end will be funded by Capital Reserve funds.

Mackenzie District Council
 Finance Report
 For The Period Ended September 2016

LYTD Actual September 2015	STORMWATER	YTD Actual September 2016	YTD Budget September 2016	Variance	Full year Budget 30/06/17
Operating and Capital Reserves					
(6,694)	Operating Surplus/(Deficit)	(422)	(7,582)		231,500
(6,694)	Total Operating Reserves	(422)	(7,582)		231,500
Equity					
402,334	Opening Balance	476,428	115,482		462,114
-	Transfer - Financial Contributions	5,995	-		-
15,447	Transfer Funded Depreciation from Operating Reserve	16,682	16,674		66,726
-	Transfer Capital Expenditure from Operating Reserve	(2,140)	-		(231,500)
-	Transfer Vested Assets to Capital	-	-		231,500
417,781	Total Capital Reserves	496,964	132,156		528,840
Capital Expenditure					
-	Urban Stormwater	-	-	✓	231,500
-	0598193, Vested Assets	-	-	✓	231,500
-	Total Urban Stormwater	-	-		231,500
-	Total Capital Expenditure	-	-		231,500

Mackenzie District Council
Finance Report
For The Period Ended September 2016

LYTD Actual September 2015	ROADING	YTD Actual September 2016	YTD Budget September 2016	Variance	Full year Budget 30/06/17
	Income				
238,024	Targeted Rates	288,395	288,561	(166)	1,154,242
296,297	Subsidies and Grants	225,104	388,068	(162,964)	1,552,900
4,717	Other Income	4,176	6,498	(2,322)	26,000
-	Vested Assets	-	-	-	2,673,000
539,038	Total Income	517,674	683,127	(165,453)	5,406,142
	Expenses				
33,724	Employment Expenses	16,988	42,969	25,981	171,940
30,358	Consultancy Expenses	35,869	24,864	(11,005)	99,500
3,373	Administration Expenses	204	-	(204)	-
-	Finance Expense	-	9,096	9,096	36,400
2,568	Internal Interest Expense	5,781	4,992	(789)	19,982
260,839	Roadings	285,687	298,128	12,441	1,193,000
470,253	Depreciation	498,834	498,636	(198)	1,995,337
3,325	Internal Charges	2,352	4,683	2,331	18,737
804,442	Total Expenses	845,715	883,368	37,653	3,534,896
(265,404)	Operating Surplus/(Deficit)	(328,041)	(200,241)	(127,800)	1,871,246

Variance Analysis:

- Subsidies and grants is showing as less than budgeted as the Capital subsidy from LTNZ is down \$187,681 on budget due to the timing of the capital expenditure projects. The operational grant received from NZTA is however \$67,000 higher than budget and \$17,103 was received from Petrol tax which was not budgeted for. Notification has been received that the distribution of petrol tax funds would cease in 2015/16. This is likely to be the last allocation.
- Employment expenses are currently under budget as the Roading Manager position was vacant for three months.
 - Consultancy expenses are over budget by \$11,005 as the RAMM expenses were over by \$15,253 due to the Rating and roughness survey carried out by Opus. Other consultancy expenses were over budget by \$5,249 due to extra costs incurred in preparing the transportation strategy.
 - Roadings - more detailed variance explanation is provided with the detailed roadings expenses report.
 - Internal charges are slightly under budget year to date, as with no Roading Manager for three months, less motor vehicle expenses were incurred.

Mackenzie District Council
Finance Report
For The Period Ended September 2016

LYTD Actual September 2015	ROADING	YTD Actual September 2016	YTD Budget September 2016	Variance	Full year Budget 30/06/17
Operating and Capital Reserves					
(265,404)	Operating Surplus/(Deficit)	(328,041)	(200,241)		1,871,246
(265,404)	Total Operating Reserves	(328,041)	(200,241)		1,871,246
Equity					
141,469	Opening Balance	(407,515)	(98,931)		(335,203)
470,253	Transfer Funded Depreciation from Operating Reserve	980	981		3,920
-	Transfer NZTA Capital Subsidy	-	213,768		855,420
-	Transfer Vested Asset from Op reserve	-	-		2,673,000
(89,740)	Transfer Capital Expenditure from Operating Reserve	(36,881)	(359,915)		(4,797,000)
-	Transfers between Reserves	-	985,562		1,263,580
521,983	Total Capital Reserves	(443,416)	741,465		(336,283)
Capital Expenditure					
District Roading					
-	2548193. Vested Assets	-	-		2,673,000
68,747	2548211. Unsealed Road Metalling	164	149,000	148,836	596,000
-	2548212. Sealed Road Resurfacing	-	-	-	684,000
12,755	2548213. Drainage Renewal	23,465	26,238	2,773	105,000
-	2548214. Sealed Road Pavement Rehabilitation	-	43,983	43,983	176,000
-	2548215. Structures Component replacements bridges	-	4,998	4,998	20,000
-	25482151. Structures Component replacements cattlest	-	1,500	1,500	6,000
6,192	2548222. Traffic Services Renewals	12,854	9,996	(2,858)	40,000
-	2548310. Footpaths - Surfacing	-	60,477	60,477	242,000
100	2548341. Minor Improvements	-	62,475	62,475	250,000
87,793	Total District Roading	36,484	358,667	322,183	4,792,000
Roading Professional Services					
1,069	0868001. Computers	397	-	(397)	-
-	0868925. Plant and Equipment	-	1,248	1,248	5,000
1,069	Total Roding Professional Services	397	1,248	851	5,000
88,862	Total Capital Expenditure	36,881	359,915	323,034	4,797,000

Variance Analysis:

- Traffic services recent inspection has identified a number of defective signs needing replacement.
- Capital expenditure has been minimal to date as the Roading Manager position was vacant for the first three months of this year, therefore capital projects were not progressed.

Mackenzie District Council
Detailed Roding Activity
For The Year Ended September 2016

LYTD Actual September 2015		YTD		Variance	Notes	Full Year Budget 30/06/17
		Actual September 2016	Budget September 2016			
16,137	2546111. Sealed Pavement Mtce	34,663	49,230	14,567	✓	197,000
67,167	2546112. Unsealed Pavement Mtce	58,927	85,215	26,288	✓	341,000
14,070	2546113. Routine Drainage Mtce	52,449	23,991	(28,458)	✗	96,000
6,274	25461131. Drainage Mtce - St Cleaning	1,992	6,498	4,506	✓	26,000
15,837	2546114. Structures Maintenance Bridges	31,622	26,238	(5,384)	✗	105,000
490	25461141. Structures Maintenance Cattlestops	-	1,998	1,998	✓	8,000
37,075	2546121. Environmental Mtce	57,121	32,736	(24,385)	✗	131,000
7,474	2546122. Traffic Services Mtce	5,145	11,496	6,351	✓	46,000
26,285	25461221. Street Lighting - Maintenance	22,497	10,245	(12,252)	✗	41,000
15,275	25461222. Street Lighting - Electricity	12,948	12,744	(204)	✗	51,000
-	2546140. Minor Events	-	12,495	12,495	✓	50,000
36,849	2546288. Emergency Reinstatement	-	-	-	✓	-
3,053	2546301. Street Lights - Mtce - Transit	259	1,500	1,241	✓	6,000
2,478	2546302. Street Lights-Elect - Transit	2,867	3,000	133	✓	12,000
5,820	2546303. Drainage Mtce - St Cleaning Transit	1,992	1,998	6	✓	8,000
6,556	2546304. Footpaths	551	8,997	8,446	✓	36,000
-	2546305. New Year Road Sweep	2,655	9,747	7,092	✓	39,000
260,839		285,687	298,128	12,441		1,193,000

Variance Analysis:

1. The routine drainage maintenance was flanking and reshaping surface water channels prior to reseals.
2. Bridge maintenance work has come in slightly over budget, this is due to budget timing.
3. Environmental maintenance is also over budget year to date. This is work related to snow clearance, frost gritting and wind damage.
4. Street lighting maintenance has come in \$12,000 over budget year to date, resulting from some LED change out and replacement of vandalised bollards in Boundary Terrace.

Mackenzie District Council
Finance Report
For The Period Ended September 2016

SOLID WASTE		YTD Actual September 2015	YTD Actual September 2016	YTD Budget September 2016	Variance	Full year Budget 30/06/17
Income						
	General Rates	41,773	42,928	42,927	1	171,712
	Targeted Rates	147,566	151,237	148,977	2,260	595,907
	Other Income	39,301	47,380	64,135	(16,755)	181,600
	Internal Interest Income	149	240	-	240	-
	Total Income	228,789	241,785	256,039	(14,254)	949,219
Expenses						
	Employment Expenses	13,860	9,685	8,493	(1,192)	33,982
	Consultancy Expenses	410	674	5,874	5,200	28,500
	Administration Expenses	5,463	4,770	6,109	1,339	11,273
	Operational and Maintenance	209,782	168,383	180,473	12,090	806,916
	Internal Interest Expense	9,445	6,326	7,203	877	28,821
	Depreciation	4,863	4,916	4,914	(2)	19,663
	Internal Charges	1,330	1,004	2,007	1,003	8,031
	Total Expenses	245,152	195,758	215,073	19,315	937,186
	(16,363) Operating Surplus/(Deficit)		46,027	40,966	5,061	12,033

Variance Analysis:

1. Targeted rates are slightly higher than budget as extra income has been received from bin collections.
2. Other income is currently showing as under budget, RRP Gate sales are \$10,000 over the budgeted income, while the recoverable services and TA levy income have yet to be received.
3. Employment expenses are over budget year to date due to overtime arising from the Waste Audit.
4. Operational and maintenance expenses are currently under budget as the \$6,246 budgeted to date for the glass project will not be spent as this project happened in the prior year which was earlier than anticipated.

Operating and Capital Reserves		YTD Actual September 2015	YTD Actual September 2016	YTD Budget September 2016	Variance	Full year Budget 30/06/17
	Operating Surplus/(Deficit)	(16,363)	46,027	40,966	5,061	12,033
	Total Operating Reserves	(16,363)	46,027	40,966	5,061	12,033
Equity						
	Opening Balance	(431,927)	(699,329)	(736,365)		(736,365)
	Transfer Funded Depreciation from Operating Reserve	3,867	-	-		-
	Transfers between Reserves	(341,410)	7,924	7,920		31,696
	Total Capital Reserves	(769,471)	(691,405)	(728,445)		(704,669)

Mackenzie District Council
Finance Report
For The Period Ended September 2016

LYTD Actual September 2015	PLANNING	YTD Budget		Variance	Full year Budget 30/06/17
		Actual September 2016	September 2016		
	Income				
98,429	General Rates	101,043	101,043	-	404,169
25,992	Other Income	112,439	35,985	76,454	144,000
7,200	Reserve Contributions	51,182	30,000	21,182	120,000
-	Internal Interest Income	-	-	-	-
131,621	Total Income	264,664	167,028	97,636	668,169
	Expenses				
69,452	Employment Expenses	82,375	93,825	11,450	375,450
91,107	Consultancy Expenses	173,423	115,581	(57,842)	462,500
913	Administration Expenses	3,760	4,224	464	16,913
355	Operational and Maintenance	1,506	9,246	7,741	37,000
17,063	Internal interest Expense	12,205	17,481	5,276	69,957
9	Depreciation	8	6	(2)	30
1,196	Internal Charges	753	1,911	1,158	7,645
180,095	Total Expenses	274,030	242,274	(31,756)	969,495
(48,474)	Operating Surplus/(Deficit)	(9,366)	(75,246)	65,880	(301,326)

Variance Analysis:

- Other income is higher than budget by \$76,454. \$82,080 was received from resource consent recoverables against the budget amount of \$16,242, \$10,000 extra received from LIMs and an extra \$1,500 received from resource consents.
- Reserve contributions are \$21,182 more than budgeted as developers are completing subdivisions quicker than forecast.
- Employment expenses are under budget as there is currently a vacancy for a planner.
- Consultancy expenses are over budget by \$57,842 due to the resource consent recoverables. These are oncharged with income showing above under other income. Planning fees are just slightly over budget to date, due to consultants preparing evidence for the Plan Change 13 hearing.

Operating and Capital Reserves				
(48,474)	Operating Surplus/(Deficit)	(9,366)	(75,246)	(301,326)
(48,474)	Total Operating Reserves	(9,366)	(75,246)	(301,326)
	Equity			
-	Opening Balance	(1,725,365)	(443,232)	(1,773,636)
(1,425,165)	Transfer Funded Depreciation from Operating Reserve	-	-	-
	Transfers between Reserves	12,361	12,357	49,444
(1,425,156)	Total Capital Reserves	(1,713,005)	(430,875)	(1,724,192)

Mackenzie District Council
 Finance Report
 For The Period Ended September 2016

LYTD Actual September 2015	REGULATORY	YTD		Variance	Full year Budget 30/06/17
		Actual September 2016	Budget September 2016		
	Income				
6,729	General Rates	11,015	11,016	(1)	44,059
41,278	Targeted Rates	41,887	41,886	1	167,549
84,857	Other Income	201,575	168,190	33,385	641,874
167	Internal Interest Income	107	-	107	-
133,031	Total Income	254,584	221,092	33,492	853,482
	Expenses				
73,919	Employment Expenses	85,551	91,254	5,703	365,164
2,709	Consultancy Expenses	21,161	10,623	(10,538)	42,500
4,255	Administration Expenses	6,857	16,310	9,453	62,176
(20,775)	Operational and Maintenance	36,317	46,051	9,734	311,250
1,305	Internal Interest Expense	926	756	(170)	3,031
10,383	Depreciation	11,084	11,079	(5)	44,337
6,192	Internal Charges	7,104	6,255	(849)	25,024
77,988	Total Expenses	169,002	182,328	13,326	853,482
55,043	Operating Surplus/(Deficit)	85,582	38,764	46,818	-

Variance Analysis:

1. Other Income is above budget as the number of building consents received and being processed is higher than forecast.
2. Consultancy expenses are \$10,538 over budget. \$5,789 of expenses have been incurred in relation to external processing of building consents (which is recovered). Other consultancy services is over budget approximately \$7,000 due to consultant support to the building team in relation to supervision required.

Mackenzie District Council
 Finance Report
 For The Period Ended September 2016

LYTD Actual September 2015	REGULATORY	YTD Actual September 2016	YTD Budget September 2016	Variance	Full year Budget 30/06/17
Operating and Capital Reserves					
55,043	Operating Surplus/(Deficit)	85,582	38,764		-
55,043	Total Operating Reserves	85,582	38,764		-
Equity					
(51,967)	Opening Balance	(51,067)	(24,477)		(97,942)
10,383	Transfer Funded Depreciation from Operating Reserve	10,741	10,737		42,966
(62,500)	Transfer Capital Expenditure from Operating Reserve	(8,000)	-		-
228	Transfers between Reserves	343	342		1,371
(103,856)	Total Capital Reserves	(47,983)	(13,398)		(53,605)
Capital Expenditure					
Rural Fire					
7,500	0838925. Plant and Equipment	8,000	8,000		8,000
55,000	0838930. Vehicles	-	-		-
62,500	Total Rural Fire	8,000	8,000		8,000
62,500	Total Capital Expenditure	8,000	8,000		8,000

Mackenzie District Council
 Finance Report
 For The Period Ended September 2016

LYTD Actual September 2015	COMMUNITY FACILITIES	YTD Actual September 2016	YTD Budget September 2016	Variance	Full year Budget 30/06/17
	Income				
78,175	General Rates	77,933	77,931	2	311,731
29,707	Other Income	23,511	30,726	(7,215)	122,958
1,246	Internal Interest Income	799	891	(92)	3,569
109,128	Total Income	102,242	109,548	(7,306)	438,258
	Expenses				
21,501	Administration Expenses	21,505	17,108	(4,397)	20,314
72,473	Operational and Maintenance	77,995	84,983	6,988	346,608
5,242	Internal Interest Expense	4,260	6,399	2,139	25,611
15,207	Depreciation	16,052	16,047	(5)	64,209
187,615	Loss On Sale and Assets Written Off	-	-	-	-
302,038	Total Expenses	119,812	124,537	4,725	456,742
(192,910)	Operating Surplus/(Deficit)	(17,570)	(14,989)	(2,581)	(18,484)

Variance Analysis:

- Other income is under budget with less income from plot and burial fees than forecast.
- Administration expenses are over budget due to an increase in insurance costs of \$2,058 and rates for the Twizel Medical Centre of \$2,543 were unbudgeted.

Mackenzie District Council
Finance Report
For The Period Ended September 2016

LYTD Actual September 2015	COMMUNITY FACILITIES	YTD Actual September 2016	YTD Budget September 2016	Variance	Full year Budget 30/06/17
	Operating and Capital Reserves				
(192,910)	Operating Surplus/(Deficit)	(17,570)	(14,989)		(18,484)
(192,910)	Total Operating Reserves	(17,570)	(14,989)		(18,484)
	Equity				
(303,939)	Opening Balance	21,995	(76,230)		(305,040)
10,247	Transfer Funded Depreciation from Operating Reserve	11,431	11,427		45,725
(29,889)	Transfer Capital Expenditure from Operating Reserve	(173,024)	(7,680)		(430,720)
(323,582)	Total Capital Reserves	(139,598)	(72,483)		(690,035)
	Capital Expenditure				
-	Cemeteries	-	33,000	33,000	100,000
-	1718905. Land	-	33,000	33,000	100,000
	Total Cemeteries				
-	Fairlie Pensioner Housing	-	5,376	5,376	21,504
-	1908925. Plant and Equipment	-	5,376	5,376	21,504
	Total Fairlie Pensioner Housing				
29,889	Public Toilets	173,024	-	(173,024)	400,000
29,889	1518916. Buildings	173,024	-	(173,024)	400,000
	Total Public Toilets				
-	Twizel Pensioner Housing	-	2,304	2,304	9,216
-	1918925. Plant and Equipment	-	2,304	2,304	9,216
	Total Twizel Pensioner Housing				
29,889	Total Capital Expenditure	173,024	40,680	(132,344)	530,720

Variance Analysis:

- \$173,024 has been spent on public toilets to date, being payments for the following: a progress payment of \$3,791 has been made for the urinal and sensor in the Twizel Toilets and \$1,660 for alterations to the Twizel toilet block. Progress payments have been made for Exeloo toilets at the Tekapo Bridge and Tekapo Carpark of \$167,572. A further \$502,718 is required to complete the Exeloo toilet blocks and these additional payments will be made on delivery in November/December. The total spend on public toilets this year will be approximately \$800,000, with the balance over and above the Council budget funded from the Government tourism grant.

Mackenzie District Council
Finance Report
For The Period Ended September 2016

LYTD Actual September 2015	RECREATIONAL FACILITIES		YTD Actual September 2016	YTD Budget September 2016	Variance	Full year Budget 30/06/17
	Income	Expenses				
37,039			12,464	12,732	(268)	50,929
321,823	General Rates		317,402	317,470	(68)	1,269,902
4,455	Targeted Rates		4,456	4,456	-	18,411
109,787	Subsidies and Grants		99,614	24,422	75,192	134,510
2,843	Other Income		1,176	1,821	(645)	7,295
	Internal Interest Income					
475,947	Total Income		435,113	360,901	74,212	1,481,047
3,883	Employment Expenses	2,041	5,526	3,485	2,041	104,768
-	Consultancy Expenses	-	876	876	-	3,500
73,112	Administration Expenses	90,259	93,878	3,619	3,619	191,859
162,904	Operational and Maintenance	246,653	231,059	(18,193)	(18,193)	1,016,568
8,864	Internal Interest Expense	5,091	5,124	33	33	20,505
62,505	Depreciation	65,640	65,610	(30)	(30)	262,561
311,269	Total Expenses	409,685	409,685	402,073	(10,211)	1,599,761
	164,679 Operating Surplus/(Deficit)		25,429	(41,172)	64,002	(118,714)

Variance Analysis:

- Other income is up on budget by \$75,192. \$73,064 was received from the lake Alexandrina hut rentals which were not budgeted for. The rental for the Twizel Community Centre is up \$4,824 on budget.
- Employment expenses are under budget as wages have been budgeted for the Twizel Community Centre, however these services have been contracted out and the expenditure now shows under the Operational and Maintenance section.
- Operational and maintenance expenses are over budget by \$18,193. This is due to spends in Twizel township projects for carpark \$15,000, paths \$14,100, removing old paths \$2,800, digging plinths for signage \$2,963 and installing the statue \$3,807. Green path reinstatement has been over spent by \$19,288 being the completion of the Twizel projects from the previous year, this will be funded out of the capital reserve. Tekapo township projects is underspent \$16,439 to date. Repairs to the Lake Tekapo Community Hall were over budget by \$5,805 which was for fencing and bollard lighting. These overspends were offset by under spends to date on gardening and lawnmowing.

Mackenzie District Council
Finance Report
For The Period Ended September 2016

LYTD Actual September 2015	RECREATIONAL FACILITIES	YTD Actual September 2016	YTD Budget September 2016	Variance	Full year Budget 30/06/17
Operating and Capital Reserves					
164,679	Operating Surplus/(Deficit)	25,429	(41,172)		(118,714)
164,679	Total Operating Reserves	25,429	(41,172)		(118,714)
Equity					
(470,451)	Opening Balance	(275,104)	(48,929)		(305,276)
18,522	Transfer Funded Depreciation from Operating Reserve	19,463	19,455		77,850
-	Transfer - Interest Earned	-	-		912
-	Transfer Capital Expenditure from Operating Reserve	(5,570)	-		-
15,182	Transfers between Reserves	22,772	22,764		91,087
(436,747)	Total Capital Reserves	(238,439)	(6,710)		(135,427)
Capital Expenditure					
Fairlie Domain					
6,392	0958940. Furniture & Fittings - Other	-	-	✓	-
6,392	Total Fairlie Domain	-	-	✓	-
Fairlie Township					
12,785	0528965. Comm Asset - Public Amenities	-	-	✓	-
12,785	Total Fairlie Township	-	-	✓	-
Mackenzie Community Centre					
-	1228925. Plant and Equipment	2,000	-	(2,000) ✗	1
-	Total Mackenzie Community Centre	2,000	-	(2,000) ✗	-
Twizel Community Centre					
-	1268925. Plant and Equipment	3,570	-	(3,570) ✗	2
-	Total Twizel Community Centre	3,570	-	(3,570) ✗	-
Twizel Reserves					
-	1068192. Other Projects	-	5,118	5,118 ✓	20,480
-	Total Twizel Reserves	-	5,118	5,118 ✓	20,480
19,177	Total Capital Expenditure	5,570	5,118	(452)	20,480

Variance Analysis:

- \$2,000 was spent on a display fridge for the Mackenzie Community Centre. This was not budgeted for and will be paid for out of the capital reserve.
- \$3,570 was spent on a heatpump for the Twizel Community Centre. This was not budgeted for and will be paid for out of the capital reserve.

Mackenzie District Council
Finance Report
For The Period Ended September 2016

LYTD Actual September 2015	COMMERCIAL		YTD Actual September 2016	YTD Budget September 2016	Variance	Full year Budget 30/06/17
	Income	Expenses				
(207,627)	(232,954)	(232,947)	(7)		(931,798)	
103,657	90,138	90,252	(114)		361,000	
128,745	144,855	171,289	(26,434)		768,500	
41,207	43,025	53,046	(10,021)		212,254	
45,460	78,643	251,023	(172,380)		1,449,009	
65,876	94,391	50,856	43,535		203,505	
-	-	18,492	(18,492)		74,000	
177,317	218,097	402,011	(183,914)		2,136,470	
Expenses						
9,330	15,410	11,001	(4,409)		44,025	
5,077	3,846	4,998	1,152		20,000	
30,786	36,371	19,644	(16,727)		78,600	
82,274	58,297	62,953	4,656		108,570	
145,059	156,152	156,713	561		477,025	
37,769	55,985	9,636	(46,349)		38,566	
20,430	21,066	21,057	(9)		84,265	
330,725	347,128	286,002	(61,126)		851,051	
(153,409)	(129,030)	116,009	(245,039)		1,285,419	

Variance Analysis:

- Investment income is currently less than budgeted; interest income is down \$35,478 on budget due to the timing of receipts from land sales. Dividend income from Alpine Energy was \$9,044 higher than budget due to a change in the dividend payout.
- Other income is under budget due to reduced income than forecast from the visitor centre in Twizel.
- Other Gains and Losses budget was for section sales on the Lake Tekapo lakefront development. This is showing as under budget due to delays in getting titles out of LINZ. The Tekapo section sale settled in October, while we expect the Twizel property sales to settle in November. \$85,000 was received from the sale of the Fox View Road sections in Fairlie.
- Internal interest income is higher this quarter than budgeted due to a higher capital reserve balance for Forestry than was forecast. Consultancy expenses are \$16,727 over budget this quarter as extra legal costs have been incurred in regards to the development of lots 4-7 in Lake Tekapo, and the final legal expenses on settlement of the land sold to Meridian in Twizel.
- Internal interest expense is \$46,349 higher than budgeted due to interest on the real estate reserve deficit which is larger than forecast, as further section sales in Lake Tekapo had been budgeted for but yet to occur due to the timing of settlements. Urban water supply also has a higher capital reserve balance from the higher capital expenditure in the 2016 year.

Mackenzie District Council
Finance Report
For The Period Ended September 2016

LYTD Actual September 2015	COMMERCIAL		YTD Actual September 2016	YTD Budget September 2016	Variance	Full year Budget 30/06/17
	Operating and Capital Reserves					
(153,409)	Operating Surplus/(Deficit)		(129,030)	116,009		1,285,419
(153,409)	Total Operating Reserves		(129,030)	116,009		1,285,419
(1,327,145)	Equity					
-	Opening Balance		2,483,877	182,124		728,790
609,360	Transfer - from Operating Reserve		-	95,532		382,277
	Transfer from Operating reserves		-	-		-
(717,785)	Total Capital Reserves		2,483,877	277,656		1,111,067
Capital Expenditure						
1,851	Rental					
	0668920. Building - Renewal		-	-	✓	-
1,851	Total Rental		-	-	✓	-
	Real Estate					
193,998	0818905. Land - Administrative, Operato		24,486	-	✗	1
3,060	0818906. Twizel Industrial Subdivision		9,378	-	✗	2
197,058	Total Real Estate		33,864	-	✗	✗
198,908	Total Capital Expenditure		33,864	-	✗	✗

Variance Analysis:

- Costs incurred for Lakeside Drive and the 2nd stage of the Lake Tekapo lakefront development. These costs have not been budgeted but will be paid for out of the Real Estate Capital Reserve.
- Costs incurred for the Glen Lyon Road subdivision. These costs have not been budgeted for and will be paid for out of the Real Estate Capital Reserve.

6.3 QUARTERLY PORTFOLIO REPORT BANCORP TREASURY SERVICES LTD**File Reference:** FIN 9/1/9**Authoriser:** Paul Morris, Chief Financial Officer**Attachments:** 1. Quarterly report from Bancorp Treasury Services to 30 September 2016**STAFF RECOMMENDATIONS**

1. That the report be received and the information noted.

PURPOSE OF REPORT

To inform the Committee of the performance and Council's bond market investment.

PARTICULAR POINTS TO NOTE:**Comparison with the Benchmark**

The Council's portfolio increased in value by 1.49%, whereas the benchmark portfolio increased in value by 1.30% over the quarter, therefore the Council's Portfolio outperformed compared to the benchmark.

The main reason why Council's portfolio outperformed the benchmark index is as follows;

Even though the Council's portfolio had a shorter duration of 2.18 years compared to the benchmark portfolio of 2.46 years (it is usually expected longer duration investments will outperform shorter duration investments). Council's specific portfolio makeup (at an individual level) outperformed similar duration bonds in the benchmark portfolio.

For example Council's BNZ (subordinated debt) December 2020 bond increased in value by 3.83% during the quarter. However the benchmark's BNZ (Senior Debt) June 2020 bond only increased by 1.12%.

Movements in the Portfolio

The portfolio stands at \$3.498 Million. There were no movements in the portfolio.

At the end of September the weighted average running yield of Council's bond portfolio remained at 5.41%.

Policy Adherence

- All financial market investments comply with the counterparty exposure limits as outlined in the Treasury Policy.
- All investments are readily tradable (liquid) on the secondary market.
- The duration of MDC's portfolio at 2.18 years is within the 25% allowable fluctuation band of the benchmark portfolio's duration of 2.46 years.
- Assets category percentages are as follows (excluding the call deposit):

- Registered Banks 76.53%
- Local Authorities 15.14%
- State Owned Enterprises 8.33%

Financial Market Movements

The Official Cash Rate fell 0.25% to 2.00% during the period. A further reduction on 10 November reduced the OCR to 1.75%.

CONCLUSION

Not applicable.

WAYNE BARNETT

CHIEF EXECUTIVE OFFICER

QUARTERLY PORTFOLIO REPORT

FOR



For the quarter ended 30 September 2016

PREPARED BY **BANCORP TREASURY SERVICES LIMITED**



BANCORP

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1. FINANCIAL MARKETS OVERVIEW

1.1 Global Overview

The September quarter ended in a much more stable fashion than the June quarter did. The shockwaves from the Brexit vote reverberated throughout July and into August, but inevitably subsided, with an air of normality and relative calm (before the next storm?) descending over the markets.

In relation to central bank policy the Federal Reserve ("Fed") continues to be the outlier with increasing rhetoric preparing for an interest rate rise in December. The Fed's Open Market Committee ("FOMC") held the Fed Funds rate in its 0.25%-0.50% target range at its meeting in September but signalled a likely rise in December.

The FOMC members' consensus projection for the Fed Funds rate is now for one Fed rate rise of 25 basis points in 2016 and two in 2017 (down from three in the June forecasts). This is still more aggressive than what the markets continue to price in. At the end of September, markets priced in a full 25 basis point Fed rate rise by June 2017, and less than 50 basis points of Fed rate rises by the end of 2017.

US data in the September quarter remained solid, particularly in the employment sector, however did little to shift markets closer to the Fed's forecasts. There were only 151,000 non-farm jobs added in August, short of market expectation and well down on July's 275,000 increase (revised higher from 255,000 originally announced).

Upward pressure on US Treasuries yields due to positioning for a December Fed rate rise was offset by flight to safety flows as worries about the European banking system increased. Banca Monte dei Paschi di Siena, Italy's third biggest bank is rumoured to be looking to raise EUR5 billion of capital and to sell (unload) EUR28 billion of underperforming loans. Deutsche Bank has also been in the spotlight with the US Justice Department suggesting a \$14.5 billion fine for mortgage irregularities. While this will be negotiated down investors were unimpressed, dropping the Deutsche Bank share price to all-time lows below EUR10. This renewed focus on the weakened state of the European banking system looks set to dominate the next few months, along with Brexit and the US election. The yield on the benchmark US 10 year Treasuries bond ended September at 1.60%, up from 1.44% at the start of the quarter.

At the other end of the central bank scale, the Bank of Japan ("BoJ") pulled a new tool out of its monetary policy tool box saying it would keep the 10 year Japanese Government Bond yield at zero until inflation was back at 2.0% (-0.5% currently).. At its September meeting, the BoJ surprised markets by unveiling 'Quantitative and Qualitative Monetary Easing with Yield Curve Control'. The framework has two components - control of short term and long term

interest rates (“yield curve control”) and “an inflation-overshooting commitment in which the Bank commits itself to expanding the monetary base”.

The European Central Bank (“ECB”) left its interest rates and stimulus programme unchanged in September, as expected, and noted that “the Governing Council continue to expect the key ECB interest rates to remain at present or lower levels for an extended period of time, and well past the horizon of the net asset purchases”. The benchmark German 10 year bund yield was -0.122% at the end of September, relatively unchanged over the quarter reflecting Europe’s continuing environment of low growth, weak inflation and the ECB’s persistent easy policy settings.

The Bank of England’s (“BoE”) Monetary Policy Committee cut its Bank Rate from 0.50% to 0.25% in August in response to the Brexit vote, and also increased its bond buying programme. The BoE at its September meeting expressed concern that “some parts of the economy would be more sensitive than others to heightened uncertainty.” At the end of September, UK Prime Minister Theresa May said that the UK would trigger the formal process to leave the EU by the end of March 2017. The pound continued to weaken over the quarter, with the GBP/USD ending the month at 1.2979.

1.2 New Zealand Overview

	OCR	90 day	2 year swap	3 year swap	5 year swap	7 year swap	10 year swap
30 Jun 16	2.25%	2.41%	2.23%	2.24%	2.33%	2.47%	2.66%
30 Sep 16	2.00%	2.20%	2.00%	2.01%	2.12%	2.26%	2.34%
Change	-0.25%	-0.21%	-0.23%	-0.23%	-0.21%	-0.21%	-0.22%

The Reserve Bank of New Zealand (“RBNZ”) cut the Official Cash Rate (“OCR”) by 25 basis points in August from 2.25% to 2.00%, a move which was widely expected by the market. In its *Monetary Policy Statement* (“MPS”), the RBNZ cited weak inflation as its primary concern, although the “overvalued” currency rated an honourable mention. The RBNZ said it hoped that a lower OCR would limit the pressure that the higher exchange rate was putting on tradable inflation. It also reduced its 90 day interest rate projections to 1.80% by mid-2017, signalling that another OCR cut is coming.

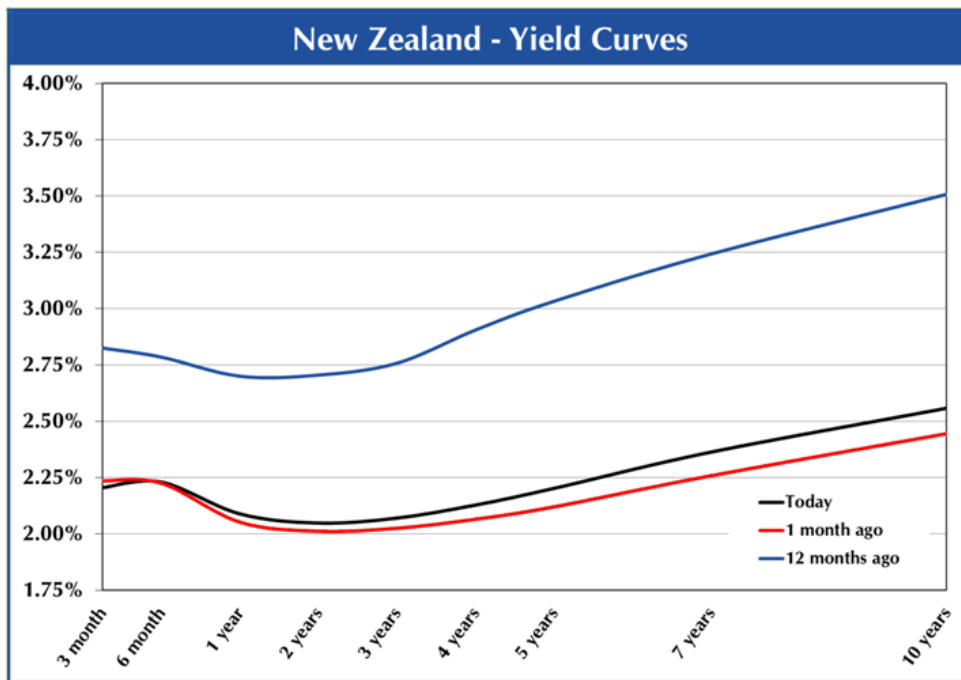
In an expected if relatively bland statement, the RBNZ left the Official Cash Rate (“OCR”) at 2.00% at its *OCR Review* in September but made it clear another rate cut will happen. Financial markets are now biased towards a 0.25% cut in November. Supporting its easing bias it referred to the “moderating influence” on house prices from “recent macro-prudential measures and tighter credit conditions in recent weeks.”

New Zealand economic data releases in the September quarter were strong. GDP grew by 0.9% over the June quarter. Although this was below consensus forecasts, the quarter's GDP rise was higher than the RBNZ forecast in its August MPS. Any market disappointment was offset by a revision to the previous quarter's rise from 0.7% to 0.9%, making it three consecutive quarters of 0.9% growth. The end result was that GDP was up 3.6% over the twelve months to June which makes New Zealand's growth a standout amongst OECD peers. In addition, GDP growth per capita was 0.5% in the June quarter and the March quarter's GDP per capita gain was revised higher to 0.3%.

An improving dairy outlook reinforced the general upbeat tone of economic releases. The last four GlobalDairyTrade ("GDT") auctions in the quarter recorded solid rises of 6.6%, 12.7%, 7.7% and 1.7% respectively. In response to rising dairy prices, reduced global milk production and stable demand, Fonterra raised its forecast payout to \$5.25 per kg/MS from the \$4.75 level set in August. Fonterra's total forecast payout this season which includes dividends is now expected at \$5.75-\$5.85, comfortably above the average break-even payout of \$5.05 as estimated by DairyNZ.

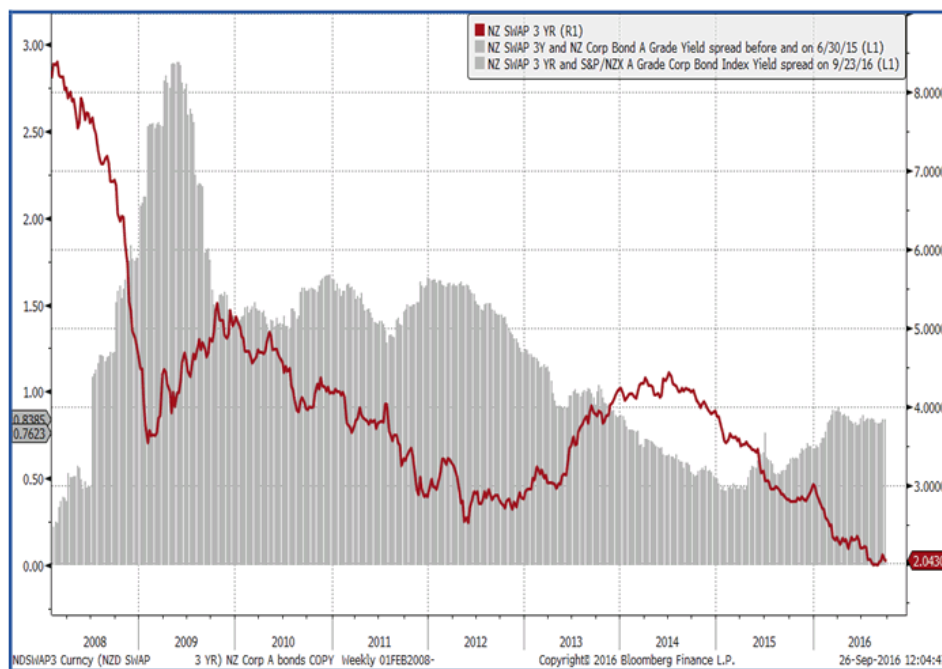
Markets have interpreted recent RBNZ's comments and data releases as being consistent with an OCR cut sooner than was implied in the RBNZ's August MPS. At the end of September, market pricing implied a 76% chance of a 25 basis points OCR cut at the November MPS with a 25 basis points OCR cut in February a certainty if no cut in November occurs. Furthermore, market pricing implies a better than 50% chance of a further OCR cut, to 1.50%, in 2017.

During the September quarter medium and long term bond and swap rates in New Zealand followed the lead of offshore markets. Rates fell in July and August, initially in response to the fallout from Brexit, and then on concerns about global growth and inflation. The first three weeks in September saw local interest rates rise courtesy of a less 'dovish' ECB and an increasing belief that the Fed would hike in September. However rates fell again late in the month after the 'no hike' decision from the Fed, along with increased concerns about a number of European banks, especially Deutsche Bank. The chart on the following page shows the changing shape of the New Zealand yield curve over the past twelve months, highlighting the much lower outright rates compared to a year ago.



1.3 Bond Market Credit Spreads

The chart below shows credit spreads for the S&P/NZX Corporate ‘A’ Grade Bond index (the grey shaded area) and the three year swap rate (red line) dating back to 2008. At the end of June 2016, the average credit spread of the index was 86 basis points., It fell slightly over the quarter to end September at 83 basis points with some upward pressure appearing as investors increasingly suffered ‘sticker shock’ because of much lower base rates..



2. INVESTMENT MANAGEMENT

2.1 Portfolio Summary

Below is a summary of the performance of Mackenzie District Council's ("MDC") Long Term Funds Portfolio ("LTFP") and the benchmark portfolio for the quarter ended 30 September 2016.

- The LTFP portfolio outperformed the benchmark index, increasing in value by 1.49% compared to the benchmark portfolio's increase of 1.30%.
- The running yield of the portfolio as at 30 September 2016 was 5.41%.
- The nominal value of the portfolio remained constant at \$3.3 million during the quarter. There were no investments in bank Term Deposits ("TD") as at 30 September 2016.

MDC portfolio value at 30 June 2016	\$3,446,997
MDC portfolio value at 30 Sept 2016	\$3,454,690
Add coupon payments	\$43,835
Net – purchases/sales/maturities	Nil
Total	\$3,498,524
Percentage change in effective cash value	1.49%

Benchmark portfolio value at 30 June 2016	\$11,837,523
Benchmark portfolio value at 30 Sept 2016	\$11,770,019
Add coupon payments	\$221,250
Total	\$11,991,269
Percentage change in effective cash value	1.30%

2.2 Portfolio Activity

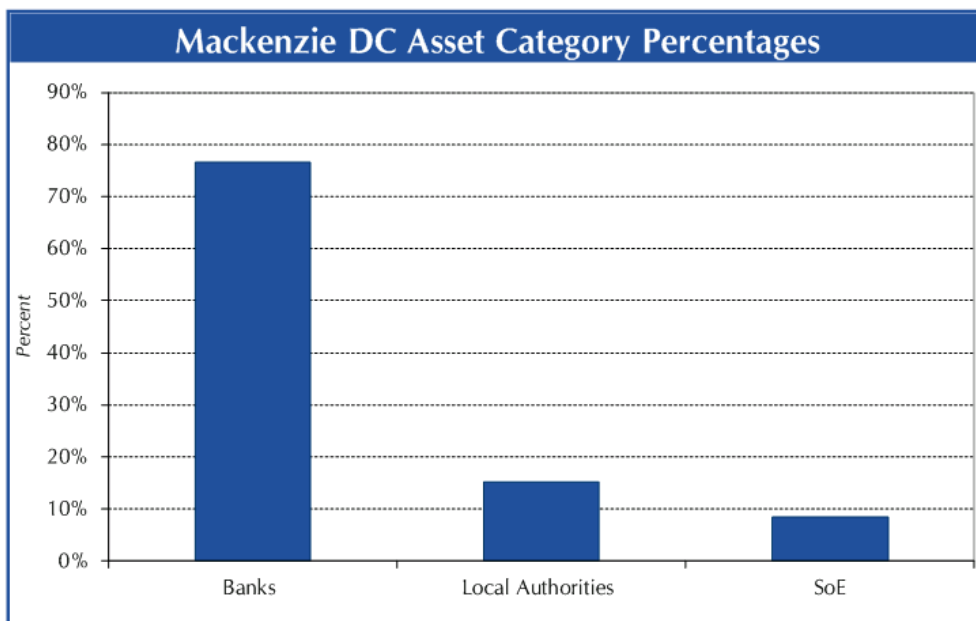
The LTFP was able to outperform the benchmark portfolio despite the fact that it had a shorter duration (2.18 years) compared to the benchmark's duration (2.46 years). Normally over a period of declining interest rates a portfolio with a shorter duration will underperform a portfolio with a longer duration. However the LTFP was able to outperform the benchmark due to the specific makeup of its portfolio. At a 'micro' level individual bonds in the LTFP delivered a superior performance compared to bonds of a similar duration in the benchmark portfolio.

For example the LTFP's BNZ (Subordinated Debt) December 2020 bond increased in value (not yield) by 3.83% during the quarter, this figure includes the coupon received on 15 September. However the benchmark's BNZ (Senior Debt) June 2020 bond only increased in value by 1.12% over the same period. Given the small number of bonds in the LTFP a performance variance such as the example detailed above will be increasingly common.

There were no maturities in the LTFP during the quarter and there were no additional funds to invest.

2.3 Policy Adherence

- As at 30 September 2016, MDC was compliant with the investment parameters contained in its Treasury Policy.
- The duration of the LTFP at 2.18 years is within the 25% allowable fluctuation band of the benchmark portfolio’s duration of 2.46 years.
- In terms of liquidity, all of the bonds in the portfolio have been traded regularly on the secondary market during the September 2016 quarter. We are confident that the portfolio would be able to be sold at short notice if required.
- As at 30 September 2016, the asset category percentages complied with the Treasury Policy. These are detailed below and are illustrated in the graph below.
 - Banks 76.53%
 - Local Authorities 15.14%
 - State Owned Enterprises 8.33%



3. INVESTMENT STRATEGY

While MDC had no funds invested in TD's on 30 September it has invested in these (in preference to corporate bonds) when funds have permitted over the past two years. This is because TD's have provided a yield advantage over corporate bonds. For example back in September 2014 MDC was obtaining rates for 90 day–120 day term deposits that were similar to the yields applying to 2¼ year corporate bonds.

If MDC has additional funds to invest we will compare the rates for TD's against the yields for corporate bonds and recommend which investment is preferable. We include for reference purposes the yields on various corporate bonds rated 'BBB' or better as at 30 September 2016 in which MDC would be able to invest under its existing Treasury Policy.

Security	Maturity	Coupon	Rating	Yield
NZ Post	15-11-16	5.23%	A+	2.89%
Meridian Energy	15-03-17	7.55%	BBB+	3.16%
ASB Bank	08-06-17	6.06%	AA-	2.63%
Dunedin City	15-10-17	7.81%	AA	2.47%
Contact Energy	24-05-18	4.80%	BBB	3.23%
Transpower	30-11-18	5.14%	AA-	2.59%
BNZ	20-12-18	6.10%	AA-	2.81%
ANZ	13-03-19	6.25%	AA-	2.88%
Rabobank	19-03-19	6.10%	A+	3.08%
ASB (sub debt)	15-06-19	6.65%	BBB+	4.60%
ANZ	22-03-21	4.00%	AA-	3.15%
Wellington Airport	15-05-21	6.25%	BBB+	3.44%
Auckland Airport	28-05-21	5.52%	A-	2.95%
Spark Finance	25-02-22	4.50%	A-	3.30%

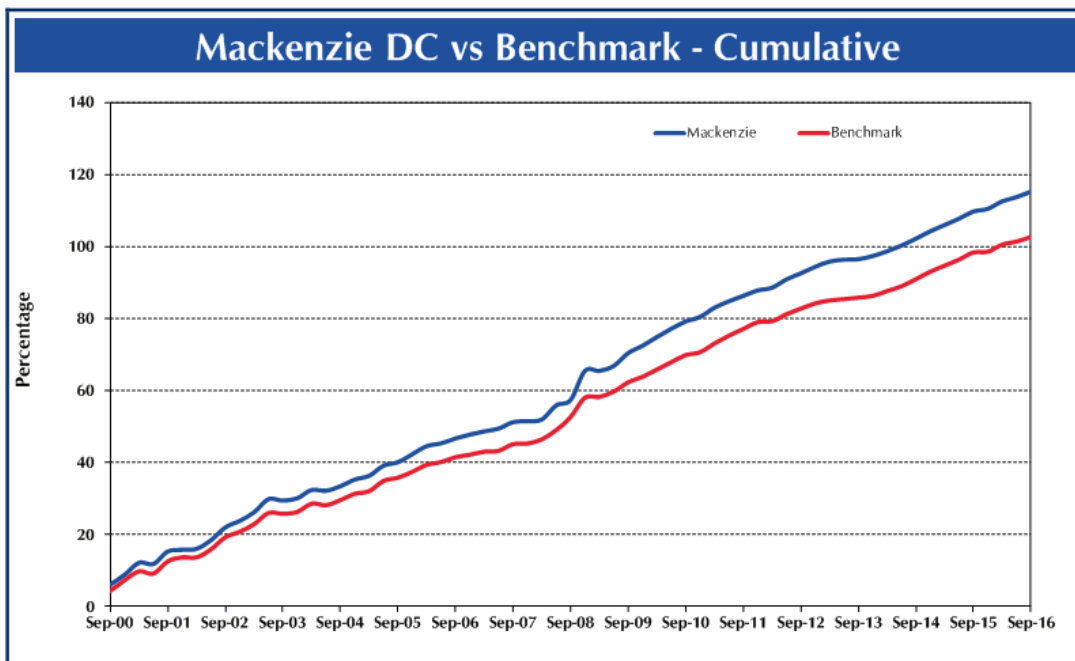
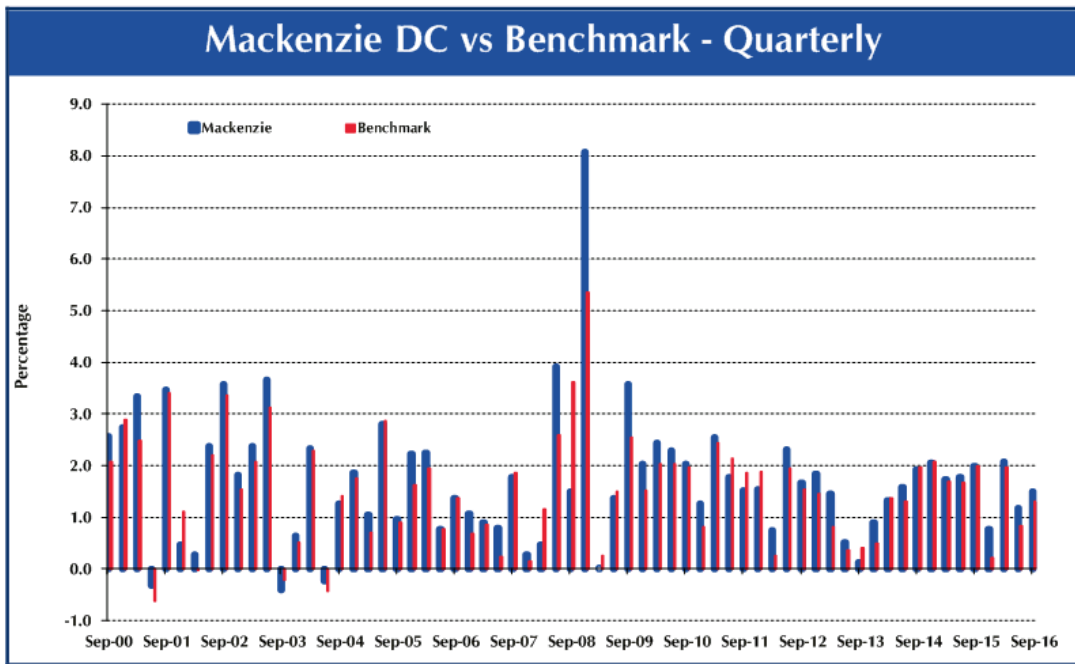
When comparing the rates for TD's with corporate bonds and which instrument to invest in, we have to take into account the restriction placed on the percentage of the LTFP that can be invested in either 'BBB' or 'BBB+' bonds.

Despite the downward bias for the OCR, term deposit rates are actually moving higher as local banks remain under pressure from regulators here and in Australia to replace offshore sourced short-term funding, including parent company advances, with domestic sourced debt. Currently some of the 'big four' banks are offering rates of 3.50% for term deposits of between four and six months. This is higher than the longest dated bond (Spark Finance) contained in the table above which has a February 2022 maturity and a lower credit rating of 'A-'. compared to AA- for 'big four' banks.

A strategy that we may consider for the LTFP is to carry out a 'switch' whereby a short dated bond is sold and replaced with a longer dated maturity in order to gain a yield advantage. This would also increase the duration of the LTFP and keep it more in line with the benchmark's duration. We will submit details of such a strategy to MDC for approval as opportunities arise.

Benchmark											
Security	Issue Date	Maturity Date	Coupon	30-Jun-16 Nominal \$	Yield	Value \$	30-Sep-16 Nominal \$	Coupons 01/07 to 30/09 \$	Yield	Value \$	Effective cash 30/09/2016 \$
NZ Post	15-Nov-11	15-Nov-16	5.22	1,000,000	2.88	1,015,156	1,000,000		2.89	1,022,426	1,022,426
90 Day Bank Bill	30-Sep-16	31-Dec-16		1,000,000	2.41	994,029	1,000,000		2.20	994,545	994,545
Telstra	15-Jul-12	11-Jul-17	7.51	1,000,000	3.03	1,080,370	1,000,000	\$37,550	2.62	1,053,977	1,091,527
Auckland Council	20-Apr-04	20-Sep-17	6.52	1,000,000	2.63	1,063,850	1,000,000	\$32,600	2.46	1,040,566	1,073,166
ANZ/National Bank	16-Feb-11	16-Feb-18	6.85	1,000,000	3.06	1,085,140	1,000,000	\$34,250	2.86	1,061,859	1,096,109
Rabobank NZ	19-Mar-12	19-Mar-19	6.10	1,000,000	3.31	1,089,019	1,000,000	\$30,500	3.08	1,073,130	1,103,630
ASB	19-Jul-12	25-Feb-20	4.42	1,000,000	3.34	1,052,121	1,000,000	\$22,100	3.07	1,047,595	1,069,695
BNZ	25-Jun-14	18-Jun-20	4.42	1,000,000	3.19	1,046,934	1,000,000		3.09	1,058,870	1,058,870
LGFA	15-May-12	15-May-21	6.00	1,000,000	2.75	1,154,794	1,000,000		2.57	1,171,139	1,171,139
Fonterra	25-Feb-15	25-Feb-22	5.90	1,000,000	3.82	1,125,236	1,000,000	\$29,500	3.59	1,118,253	1,147,753
Transpower	10-Jun-12	15-Mar-23	5.44	1,000,000	3.50	1,130,875	1,000,000	\$34,750	3.27	1,127,659	1,162,409
				<u>\$11,000,000</u>		<u>\$11,837,523</u>	<u>\$11,000,000</u>	<u>\$221,250</u>		<u>\$11,770,019</u>	<u>\$11,991,269</u>
Value as at 30/06/2016						\$11,837,523			30/09/2016		11,770,019
									Coupons		221,250
									Net Purchases/Sales		Nil
									Total		11,991,269
									Effective change in cash		\$153,746
									% change		1.30%
									Duration-years		2.46

Mackenzie District Council											
Security	Issue Date	Maturity Date	Coupon	30-Jun-16 Nominal \$	Yield	Value \$	30-Sep-16 Nominal \$	Coupons 01/07 to 30/09	Yield	Value \$	Effective Cash 30/09/2016
AUCKLAND COUNCIL	27-Sep-10	27-Sep-17	6.52	500,000	2.63	532,001	500,000	16,300	2.46	520,037	536,337
ANZNATIONAL	18-Apr-08	18-Apr-18	5.28	500,000	4.72	510,008	500,000		4.85	515,059	515,059
CHINA CONSTRCTN	18-Jun-15	18-Jun-18	4.32	500,000	3.76	505,935	500,000		3.70	511,193	511,193
ANZNATIONAL	20-Sep-11	20-Sep-18	6.08	500,000	3.10	540,165	500,000	15,200	2.84	531,696	546,896
BNZ	20-Dec-11	20-Dec-18	6.10	527,000	3.09	565,356	527,000		2.78	573,369	573,369
BNZ SUB DEBT	17-Dec-15	17-Dec-20	5.31	500,000	4.99	507,345	500,000	6,643	4.65	520,156	526,799
GENESIS	15-Mar-16	15-Mar-22	4.14	275,000	3.58	286,186	275,000	5,692	3.57	283,180	288,872
				<u>3,302,000</u>		<u>3,446,997</u>	<u>3,302,000</u>	<u>43,835</u>		<u>3,454,690</u>	<u>3,498,524</u>
Value 30/06/2016						<u>\$3,446,997</u>			Value 30/09/2016		3,454,690
									Coupons		43,835
									Net maturities and adjustments		Nil
											<u>3,498,524</u>
									Effective change in cash		\$51,527
									% change		1.49%
									Duration-Years		2.18



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6.4 ANNUAL PLAN 2017/18**File Reference:** PAD 10/1 2017/18**Authoriser:** Toni Morrison, Projects & Administration Manager**Attachments:** Nil**PURPOSE OF REPORT**

To provide background information to the Committee on the upcoming annual plan process.

STAFF RECOMMENDATIONS

1. That the report be received and the information noted.

BACKGROUND**Annual Plan Process – Exceptions Approach**

Under the Local Government Act 2002 (LGA) the Council is required to prepare and adopt an annual plan for each financial year. The annual plan is the statutory link between the Long Term Plan (LTP) and the annual setting of rates.

The purpose of an annual plan is to—

- (a) present the annual budget and funding impact statement for the year to which the annual plan relates; and
- (b) identify any variation from the financial statements and funding impact statement included in the Council's LTP in respect of the year;
- (c) provide integrated decision making and co-ordination of the resources of the Council; and
- (d) contribute to the accountability of the Council to the community.

In 2014 the LGA was amended to reduce the statutory requirements relating to annual plans, in an attempt to streamline the process and to remove unnecessary duplication with LTPs.

One of the key changes was the removal of the requirement to prepare information that duplicates LTP content, if that content is unchanged from the LTP. This means that only information that is different from the LTP is contained in the annual plan (the 'exceptions' approach).

The other key change was the removal of the requirement to undertake consultation on the annual plan, unless the differences from the LTP are 'significant' or 'material', or if the Council chooses to consult. The Council adopted this approach and did not undertake public consultation on its current annual plan 2016/17, because the plan largely reflected Year 2 of the LTP and consultation on the LTP had been extensive.

The proposed process for the upcoming annual plan reflects these legislative amendments. Once the budgets are developed by managers, where there are any differences from that outlined in Year 3 of the LTP there is an additional internal process undertaken to analyse whether those differences are 'significant' or 'material'.

The Council's Significance and Engagement Policy is used as a basis for determining whether any changes are 'significant'. S95A of the LGA notes that a difference, variation, or departure is 'material' *"if it could, itself or in conjunction with other differences, influence the decisions or assessments of those reading or responding to the consultation document"*.

This is a two pronged approach. Where a variation in itself may not be material, like variations across the business when accumulated may trigger a significant variation.

If there are 'significant' or 'material' differences from Year 3 of the LTP, the Council must undertake consultation, but only on those differences. As with the LTP process, the Council is required to produce a Consultation Document, but unlike that process, there is no requirement for the Consultation Document for an annual plan to be audited.

The proposed approach is to treat year 3 of the LTP 2015-2025 as the starting point for Council and report/workshop variances from this position (refer timeframe table below).

This approach is suggested due to the significant amount of work that went into the Long Term Plan and the level of comfort Council may have with the first three years of the LTP along with its supporting documentation (30 year Infrastructure Strategy and 10 year Activity Management Plans).

The LGA also now provides flexibility as to how and who is consulted. It is no longer mandatory to use the Special Consultative Procedure. The nature of the consultation will depend on the nature of the variances and who is affected.

Amendments to the LTP

Depending on the nature of any variances identified above, an amendment to the LTP itself may be required.

Circumstances in which this may arise include:

- significant alterations to a level of service for a significant activity that is not already provided for in the LTP
- the transfer of ownership or control of a strategic asset not already provided for in the LTP
- changes to the rating system or amendments to the Revenue & Financing Policy or the Financial Strategy in the LTP

In making any amendment to the LTP the Council must follow the Special Consultative Procedure, and a Consultation Document is required for the matter/s being amended. Auditing of the CD and review of the initial audit report is required.

If an amendment to the LTP is required, as well as consultation on the annual plan, these processes can be run concurrently and a single Consultation Document can be adopted which addresses the requirements for consultation on both.

Approximate Timeframe

22 November 2016	Committee meeting outlining exception-type annual plan and process.
7 November – 2 December	Staff compilation of Year 3 and draft budgets and assessment of variances. Consultation with Community Boards on the process and their budgets.
6 December	Council workshop – annual plan budgets and variances & confirmation as to whether any LTP amendment required. Agree issues and options for consultation.
December 2016 - January 2017	Draft Consultation Document. Workshop/s with Council.
February 2017	Audit of any LTP amendments (if required).
Btw 1-14 March 2017	Council meeting to adopt Consultation Document.
15 March – 28 April 2017	Consultation period/submissions.
May 2017	Hearing of submissions, Council deliberations and decisions.
June 2017	Adopt annual plan/LTP amendment.

Council Workshop

The Committee will note from the above table that staff propose a workshop on the 6th December 2016 to go through the budgets, confirm exceptions, and identify the issues and options for consultation.

Financial Strategy: Borrowing and Rating Limits

The Council's Financial Strategy sets limits on rates, rates increases and borrowing. These limits may be breached but any breach must form part of the CEO's pre-election report. Also an amendment to the LTP would need to be undertaken.

Council has set the following limit on rates increases:

2017/2018 - 6%

2018/2019 - 6%

2019/2020 - 6%

Council has the following limits in relation to debt:

	Maximum Debt \$M	LTP Proposed Debt \$M

2017/2018	14.762	1.907
2018/2019	13.557	2.770
2019/2020	14.929	3.509

POLICY STATUS

As described above, the Financial Strategy sets limits on rates, rates increases and borrowing. If these limits were to be exceeded then an amendment to the LTP would be required.

SIGNIFICANCE OF DECISION

The decision to receive information on the annual plan process is not considered significant.

OPTIONS

N/a.

CONSIDERATIONS**Legal**

The statutory process to develop an annual plan for the 2017/18 year is set down in the Local Government Act 2002.

Financial

There are no financial implications from noting this information.

Other

N/a.

CONCLUSION

The above paper outlines the requirements and a proposed process and timeline for developing the 2017/18 Annual Plan.

WAYNE BARNETT

CHIEF EXECUTIVE OFFICER

7 ADJOURNMENTS