

Mā tō tātou takiwā
For our District

Performance and Monitoring Committee

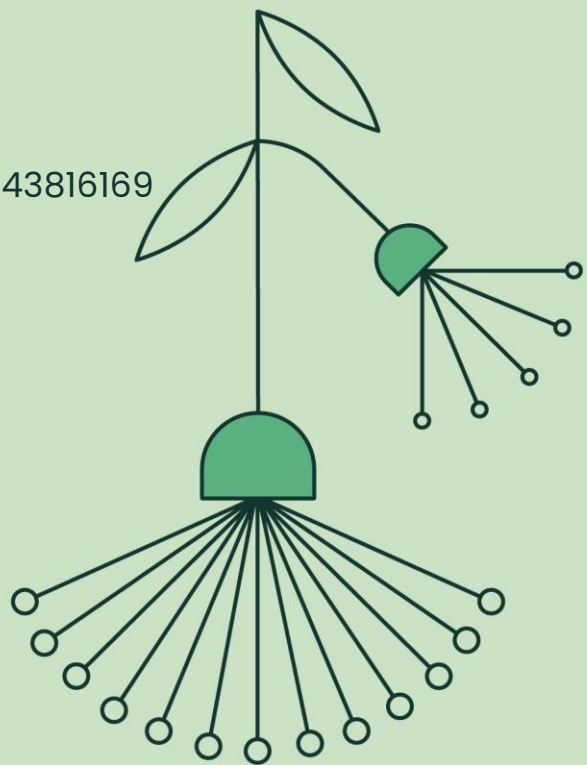
Komiti Whakahaere

PM22-2

Thursday, 31 March 2022, 9.30am

Via Zoom

<https://westernbay-govt-nz.zoom.us/j/82043816169>



Performance and Monitoring Committee

Membership:

Chairperson	Cr Don Thwaites
Deputy Chairperson	Cr Murray Grainger
Members	Cr Grant Dally Cr Mark Dean Cr James Denyer Cr Monique Gray Cr Anne Henry Cr Kevin Marsh Cr Margaret Murray-Benge Deputy Mayor John Scrimgeour Cr Allan Sole Mayor Garry Webber
Quorum	6
Frequency	Six weekly

Role:

- To monitor and review the progress of the Council's activities, projects and services.

Scope:

- To monitor the operational performance of Council's activities and services against approved levels of service.
- To monitor the effectiveness of Council, community and agency service agreements / contracts.
- To monitor the implementation of Council's strategies, plans, policies and projects as contained in the Long-Term Plan or Annual Plan.
- To monitor Community Service Contract performance, set service delivery requirements and receive annual reports from service delivery contractors.
- To review and monitor agreements between Tauranga City Council and Western Bay of Plenty District Council and recommend to the respective Councils any changes to agreements, as appropriate.
- To monitor performance against the Priority One approved contract.
- To monitor performance of Council Controlled Organisations (CCO's) against their Statement of Intent, including Tourism Bay of Plenty's Statement of Intent and make recommendations to Council on matters relating to CCO's.

- To monitor the on-going effectiveness of implemented joint projects, plans, strategies and policies with Tauranga City Council.
- To monitor performance against any Council approved joint contracts with Tauranga City Council and/or other entities.
- To monitor performance and outcomes relating to:
 - seal extensions and unsealed road maintenance
 - community halls and facilities.
- To report to Council financial outcomes and recommend any changes or variations to allocated budgets.

Power to Act:

- Subject to agreed budgets and approved levels of service, to make decisions to enable and enhance service delivery performance.

Power to Recommend:

- To make recommendations to Council and/or any Committee as it deems appropriate.

Power to sub-delegate:

The Committee may delegate any of its functions, duties or powers to a subcommittee, working group or other subordinate decision-making body, subject to the restrictions on its delegations and provided that any sub-delegation includes a statement of purpose and specification of task.

Notice is hereby given that an Performance and Monitoring Meeting
will be held via Zoom on:
Thursday, 31 March 2022 at 9.30am

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1 PRESENT**2 IN ATTENDANCE****3 APOLOGIES****4 CONSIDERATION OF LATE ITEMS****5 DECLARATIONS OF INTEREST**

Members are reminded of the need to be vigilant and to stand aside from decision making when a conflict arises between their role as an elected representative and any private or other external interest that they may have.

6 PUBLIC EXCLUDED ITEMS**7 PUBLIC FORUM**

A period of up to 30 minutes is set aside for a public forum. Members of the public may attend to address the Board for up to five minutes on items that fall within the delegations of the Board provided the matters are not subject to legal proceedings, or to a process providing for the hearing of submissions. Speakers may be questioned through the Chairperson by members, but questions must be confined to obtaining information or clarification on matters raised by the speaker. The Chairperson has discretion in regard to time extensions.

Such presentations do not form part of the formal business of the meeting, a brief record will be kept of matters raised during any public forum section of the meeting with matters for action to be referred through the customer contact centre request system, while those requiring further investigation will be referred to the Chief Executive.

8 PRESENTATIONS

8.1 WAKA KOTAHI (NZTA) TAKITIMU NORTH LINK STAGES 1 & 2 AND STATE HIGHWAY 2 SAFETY WORKS UPDATE AND PRESENTATION

File Number: A4512734

Author: Tracy Harris, Executive Assistant

Authoriser: Gary Allis, Deputy Chief Executive & Group Manager Infrastructure Services

EXECUTIVE SUMMARY

Waka Kotahi will present to the Performance and Monitoring Committee an overview of the details for Takitimu North Stages 1 & 2 and the State Highway 2 Safety Works.

- Takitimu North Link Stages 1 & 2 Update; and
- State Highway 2 Safety Works Update.

RECOMMENDATION

That the Executive Assistant's report dated 31 March 2022 titled 'Waka Kotahi (NZTA) Takitimu North Link Stages 1 & 2 and State Highway 2 Safety Works Update and Presentation' be received.

9 REPORTS

9.1 GROUP MANAGER CORPORATE SERVICES' REPORT

File Number: A4499861

Author: David Jensen, Finance Manager

Authoriser: James Graham, Acting Group Manager Corporate Services

EXECUTIVE SUMMARY

The purpose of this report is to inform Elected Members on important issues relating to Council's finances.

RECOMMENDATION

That the Finance Manager's report dated 31 March 2022 titled 'Group Manager Corporate Services Report' be received.

KEY FINANCIAL ISSUES REPORT FOR THE EIGHT MONTHS ENDING 28 FEBRUARY 2022

1. **Operating Income**

Total income for the eight months ended 28 February 2022 was \$79.23m. This was \$4.48m lower than the year-to-date year budget of \$83.71m. This is primarily due to timing of subsidy revenue to be received from Waka Kotahi, below budget Financial Contributions and a timing difference in the billing for water by meter revenue. The major variances were Subsidies and Grants of \$9.98m being \$1.61m behind year-to-date budget of \$11.59m and Financial Contributions of \$5.43m, being \$1.86m behind year-to-date budget of \$7.29m.

2. **Operating Expenditure**

Total expenditure of \$66.83m was \$4.74m lower than the year-to-date budget of \$71.57m. The expenditure variance is due to lower than year-to-date budget for additional level of service projects and personnel costs offset by a higher than year to date budget variance for interest expense.

3. **Capital Expenditure**

Capital expenditure of \$22.01m was \$10.02m lower than the year-to-date budget of \$32.04m. The primary variances year-to-date is within the Transport, Water Supply and Stormwater activities.

KEY FINANCIAL PERFORMANCE INDICATOR REPORT FOR THE EIGHT MONTHS ENDING 28 FEBRUARY 2022**4. Debt**

Council's total external debt and net debt balances were \$90.0m and \$39.18m respectively as at 28 February 2022. This represents a \$12.15m decrease from the 31 January 2022 balance of \$51.33m, as Council's second rates instalment fell due within February 2022. Council had a positive cash position of \$50.82m at the end of the reporting period which includes GST payable on the second rates instalment and rates collected on behalf of the Bay of Plenty Regional Council, both of which are payable in March 2022.

5. Interest Rate Swaps

Council's total debt covered by interest rate swaps as at 28 February 2022 was 62%, unchanged from January 2022. This level of coverage is within the required policy range of 50%-95%. Council held interest rate swaps totalling \$86.5m as at 28 February 2022. Council is in compliance with all of its key financial ratios at the end of the reporting period.

9.2 LOCAL GOVERNMENT FUNDING AGENCY LIMITED - QUARTERLY REPORT TO SHAREHOLDERS DECEMBER 2021

File Number: A4474940

Author: David Jensen, Finance Manager

Authoriser: James Graham, Acting Group Manager Corporate Services

EXECUTIVE SUMMARY

The purpose of this report is to provide Elected Members with New Zealand Local Government Funding Agency Limited's (LGFA) quarterly report (Q2) for the period ended 31 December. Please refer to **(Attachment 1)**.

RECOMMENDATION

That the Finance Manager's report dated 31 March 2022 titled 'Local Government Funding Agency Limited – Quarterly Report to Shareholders December 2021' be received.

KEY POINTS AND HIGHLIGHTS

1. Key points and highlights include:
 - (a) LGFA issued \$1.4 billion of bonds during the quarter across seven bond maturities and two tenders. Two new bond maturities of May 2028 and May 2035 were successfully launched by syndication. The average term of issuance during the quarter of 5.18 years, shorter than normal.
 - (b) LGFA has estimated market share of 78.8% of total council borrowing for the rolling twelve-month period to December 2021 (compared to a historical average since 2012 of 75%).
 - (c) LGFA Net Operating Gain (unaudited) for the six-month period to 31 December 2021 was \$5.94 million or \$381k above budget with total operating income at \$293k above budget and expenses \$88k below budget.
 - (d) The company is currently meeting or, is on track to meet, eight out of ten performance targets with Council visit and market share targets the only objectives currently tracking behind. Covid-19 lockdowns has impacted on the company's ability to travel, although some meetings were held virtually over the quarter.
2. Short-term lending to councils has decreased by \$30 million with loans outstanding of \$384 million on 31 December 2021 to thirty councils and one CCO.

3. No new councils joined the LGFA during the quarter with the number of councils at seventy-four. Another two councils are expected to join within the next six months. There were sixty-five council guarantors as at 31 December 2021.

ATTACHMENTS

1. **LGFA Quarterly Report – December 2021** 



LGFA Quarterly Report to Shareholders

December Quarter 2021

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A. December quarter highlights

Quarter	Total	Bespoke Maturity	April 2022	April 2023	April 2024	April 2025	April 2026	April 2027	May 2028	April 2029	May 2031	April 2033	May 2035	April 2037
Bonds issued \$m	1,400	N/A	-	-	70	50	50	100	700	-	-	-	400	30
Term Loans to councils \$m	809.2	442.1	10	10	56.1	84	88	36.5	4	45.1	25	-	8.4	-
Term Loans to councils #	57	24	1	1	5	4	8	3	1	5	4	-	1	-

Year to date	Total	Bespoke Maturity	April 2022	April 2023	April 2024	April 2025	April 2026	April 2027	May 2028	April 2029	May 2031	April 2033	May 2035	April 2037
Bonds issued \$m	2,055	N/A	-	90	120	150	150	145	700	100	80	90	400	30
Term Loans to councils \$m	1642.3	719.7	10	17.7	135.1	111	98.3	98	43	235.1	166	-	8.4	-
Term Loans to councils #	125	48	1	3	11	6	12	12	6	16	9	-	1	-

Key points and highlights for the December quarter:

- The LGFA bond yield curve rose and flattened over the quarter as markets reacted to the RBNZ commencing the tightening of monetary policy through increasing the OCR by 0.50 bps to 0.75%. LGFA 2024 bond yields rose 66 bps while the 2037 yields rose 32 bps.
- LGFA issued a near record \$1.4 billion of bonds during the quarter through two tenders and a syndication of new May 2028 and May 2035 bonds in a testing issuance environment. The average term of issuance during the quarter was a shorter than normal 5.18 years.
- LGFA borrowing margins were mixed with spreads to swap narrower by 7 bps on maturities out to 2027 but wider by 2 bps to 12 bps on the longer dated bond maturities during the quarter. LGFA spreads to NZGB also narrowed on the front-end maturities but widened on the longer dated bonds.
- Long dated lending to councils during the quarter of \$809.2 million was in line with the previous quarter but higher than the long run averages. The average term of lending at 4.88 years was very short compared to the prior financial year average of 6.65 years. We think this reflects higher interest rates and council borrowing into the expected transition date of June 2024 for the Three Waters Reform programme.
- LGFA has an estimated market share of 78.8% of total council borrowing for the rolling twelve-month period to December 2021 compared to a historical average of 75% since 2012.
- Short-term lending to councils has decreased by \$30 million to \$384 million of loans outstanding on 31 December 2021 to thirty councils and one CCO.
- LGFA Net Operating Gain (unaudited management estimate) for the six-month period to 31 December 2021 was \$5.94 million which was \$381k above budget, comprising total operating income at \$293k above budget and expenses at \$88k below budget.
- We have achieved or on track to achieve eight out of our ten performance objectives over the financial year with our market share and the number of council visits tracking below our target.
- There were no new council members during the quarter. We currently have seventy-four councils and one CCO as members and are expecting another two councils to join in the next six months.
- We made our first green, social and sustainable loans to Wellington City and Greater Wellington Regional Councils in December 2021 at a discounted borrowing margin.

B. LGFA bond issuance over quarter

Syndication – 13 October 2021	15 May 2028	15 May 2035
Total Amount Allocated (\$million)	700	400
Weighted Average Accepted Yield (%)	2.359	2.929
NZGB Spread at Issue (bps)	49.00	57.00
Swap Spread at Issue (bps)	25.00	46.00
Swap Spread: AA council (bps)	40.5	63.7
Swap Spread: AA- council (bps)	45.5	68.7
Swap Spread: A+ council (bps)	50.5	73.7
Swap Spread: Unrated council (bps)	60.5	83.7

Given our large borrowing requirement for the 2021-22 financial year of \$2.9 billion we are forecast to undertake a combination of monthly tenders of \$150 million to \$200 million each and then one if not two syndications per year. A syndication is a placement to investors arranged by banks and is typically for a new LGFA bond maturity and achieves a larger amount offered than in a tender. We seek to achieve a wider distribution of investors than in a tender and aim to get as much volume issued so that the new LGFA bond has sufficient liquidity in the secondary market.

We issued two new maturities via BNZ, ANZ, CBA and Westpac. The May 2028 bond filled the gap between the existing 2027 and 2029 LGFA bond maturities while the May 2035 bond is the midpoint between the 2033 and 2037 bond maturities. The May 2028 bond also reduced our council borrowing mismatch in the 2027 to 2029 part of the curve.

Offshore investors were supportive of the two issues and took 28% of the 2028s and 39% of the 2035s.

While we issued \$1.1 billion of LGFA bonds we on-lent \$292 million to fourteen councils with the balance of proceeds being held in our Liquid Assets Portfolio ahead of the April 2022 bond refinancing. The average term of lending to councils was 5.25 years compared to our average issuance term of 9.14 years so our issuance term continued to be longer than the term of our lending.

Tender 85 – 10 November 2021	15 Apr 2024	15 Apr 2027	15 Apr 2037
Total Amount Offered (\$million)	70	50	30
Total Amount Allocated (\$million)	70	50	30
Total Number of Bids Received	16	14	9
Total Amount of Bids Received (\$million)	194.28	150	53
Total Number of Successful Bids	1	6	6
Highest Yield Accepted (%)	2.350	2.805	3.410
Lowest Yield Accepted (%)	2.350	2.790	3.355
Highest Yield Rejected (%)	2.410	2.865	3.470
Lowest Yield Rejected (%)	2.355	2.805	3.410
Weighted Average Accepted Yield (%)	2.350	2.798	3.388
Weighted Average Rejected Yield (%)	2.375	2.816	3.425
Amount Allotted at Highest Accepted Yield as Percentage of Amount Bid at that Yield*	100	30	20
Coverage Ratio	2.78	3.00	1.77
NZGB Spread at Issue (bps)	36.00	49.00	63.00
Swap Spread at Issue (bps)	4.90	21.00	66.00
Swap Spread: AA council (bps)	20.25	39	76.25
Swap Spread: AA- council (bps)	25.25	44	81.25
Swap Spread: A+ council (bps)	30.25	49	86.25
Swap Spread: Unrated council (bps)	40.25	59	96.25

Issuance conditions had deteriorated going into the tender as the RBNZ had commenced increasing the OCR and there had been a substantial amount of borrowing by corporates and other high-grade borrowers in the two-month period leading up to the tender.

The tender size of \$150 million was the smallest amount tendered since June 2018 and we have typically tendered \$200 million per tender over recent years. We tendered three tranches with a high degree of confidence in demand for the shorter dated bonds following the recent sharp rise in front end yields. Price support was strong for the 2024s (2 bps through market mid rates) and the 2027s (3 bps through mid-market rates) but the 2037s were 10 bps above mid-market rates despite tendering only \$30 million.

Overall bidding volume was good at 2.65x coverage but should have been reasonable given the smaller amount on offer. The coverage ratio compared favourably to the 2.3x average for the past two year while the number of successful bids ranged between one (2024s) and six (2027s and 2037s).

The average maturity of the LGFA bonds issued was 6.0 years compared to the average for the previous 2020-21 financial year of 8.67 years and this financial year to date of 7.84 years (including the syndication of 2028s and 2035s)

We issued \$150 million of LGFA bonds and on-lent \$170.6 million to nine councils. The average term of lending to councils was an incredibly short 3 years. This was the shortest average loan term of any tender since we commenced tendering with the next shortest term of 4.4 years in November 2013 and an average lending term across the past 85 tenders of 7.2 years. This probably reflects that some councils are borrowing to 2024 to align with the expected transition date for three water assets.

Tender 86 – 15 December 2021	15 Apr 2025	15 Apr 2026	15 Apr 2027
Total Amount Offered (\$million)	50	50	50
Total Amount Allocated (\$million)	50	50	50
Total Number of Bids Received	12	15	14
Total Amount of Bids Received (\$million)	154.788	111.38	190
Total Number of Successful Bids	2	5	2
Highest Yield Accepted (%)	2.485	2.615	2.645
Lowest Yield Accepted (%)	2.480	2.595	2.640
Highest Yield Rejected (%)	2.550	2.665	2.710
Lowest Yield Rejected (%)	2.495	2.615	2.650
Weighted Average Accepted Yield (%)	2.483	2.610	2.643
Weighted Average Rejected Yield (%)	2.507	2.632	2.656
Amount Allotted at Highest Accepted Yield as Percentage of Amount Bid at that Yield*	100	63.6	100
Coverage Ratio	3.10	2.23	3.80
NZGB Spread at Issue (bps)	37.00	41.50	47.00
Swap Spread at Issue (bps)	2.00	9.00	12.00
Swap Spread: AA council (bps)	17	24	28.5
Swap Spread: AA- council (bps)	22	29	33.5
Swap Spread: A+ council (bps)	27	34	38.5
Swap Spread: Unrated council (bps)	37	44	48.5

This was a strong tender result to finish the calendar year with tighter spreads, high coverage ratio and improved pricing relative to previous tenders.

We issued a smaller tender size of \$150 million across tranches of 2025s, 2026s and 2027s and expected strong demand for all three tranches given the shorter dated maturity profile, recent offshore buying of these maturities that had left the trader market short and attractive running yield. Price support was strong for all maturities with yields between 3 bps (2026s) and 5 bps (2025s) below prevailing market mid rates at the time of the tender.

Issuance spreads on an implied basis to NZGB and swap compared to the November tender tightened by 8 bps and outright yields were approximately 15 bps lower so on all metrics a much-improved outcome. The number of successful bids ranged between two (2025s and 2027s) and five (2026s).

10 INFORMATION FOR RECEIPT

11 RESOLUTION TO EXCLUDE THE PUBLIC

RESOLUTION TO EXCLUDE THE PUBLIC**RECOMMENDATION**

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

The general subject matter 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 of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are as follows:

General subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under section 48 for the passing of this resolution
11.1 - Chief Executive Officer Operations Update Report	<p>s7(2)(b)(ii) - the withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information</p> <p>s7(2)(c)(ii) - the withholding of the information is necessary to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely otherwise to damage the public interest</p> <p>s7(2)(h) - the withholding of the information is necessary to enable Council to carry out, without prejudice or</p>	<p>s48(1)(a)(i) - the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist under section 6 or section 7</p>

	disadvantage, commercial activities	
11.2 - Proposal for Access Easement Over 22 Wilson Road, Waihi Beach	s7(2)(i) - the withholding of the information is necessary to enable Council to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)	s48(1)(a)(i) - the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist under section 6 or section 7
11.3 - Council Contracts Awarded or Renegotiated for the months of January 2022 and February 2022	s7(2)(b)(ii) - the withholding of the information is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information s7(2)(h) - the withholding of the information is necessary to enable Council to carry out, without prejudice or disadvantage, commercial activities	s48(1)(a)(i) - the public conduct of the relevant part of the proceedings of the meeting would be likely to result in the disclosure of information for which good reason for withholding would exist under section 6 or section 7