

Pūrongo pūtea ia toru marama
Quarterly Financial Report

Quarter 2, 2023
Six months ended 31 December 2022



**Western
Bay of Plenty**
District Council

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Financial Summary

Financial snapshot



Financial Statements

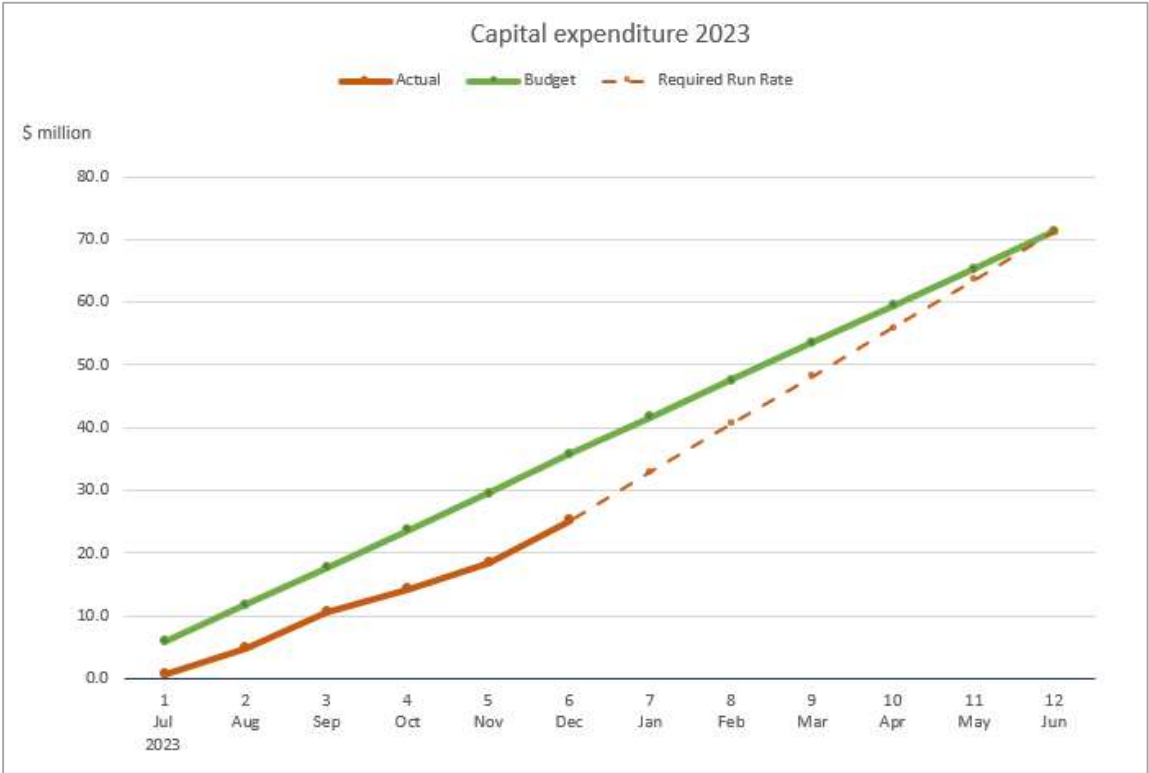
Statement of Comprehensive Revenue and Expense

STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE FOR THE QUARTER ENDED 31 DECEMBER 2022 \$000	2023 Actual Year to date	2023 Budget Year to date	2023 Variance Year to date	2022 Actual Year to date	2023 Actual YTD as % of Budget Full yr	2023 Budget Full year
Revenue						
Rates	44,316	43,659	657	40,608	50%	88,337
Subsidies and grants	5,889	7,616	(1,727)	7,512	37%	15,706
Development and financial contributions	5,940	7,018	(1,077)	5,097	41%	14,345
Fees and charges	4,878	4,229	650	5,529	57%	8,594
Interest revenue	22	129	(107)	37	8%	265
Other revenue	1,730	1,550	180	2,088	55%	3,165
Total revenue	62,776	64,199	(1,424)	60,871	48%	130,411
Expenses						
Personnel costs	13,735	14,324	589	12,305	48%	28,642
Depreciation and amortisation expense	11,936	12,564	628	10,844	47%	25,172
Finance costs	1,732	2,003	271	436	42%	4,144
Other expenses	28,627	27,764	(863)	24,685	51%	55,920
Total expenses	56,031	56,656	625	48,270	49%	113,877
Share of associate's surplus/(deficit)						
Income tax expense						
Surplus/(deficit) after tax	6,745	7,544	(798)	12,601	41%	16,534

Council Capital Expenditure

	2023 Actual Year to date	2023 Budget Year to date	2023 Variance Year to date	2022 Actual Year to date	2023 Actual YTD as % of Budget Full yr	2023 Budget Full year
Total Capital Expenditure	25,225	35,790	(10,565)	15,967	36%	70,861

Capital expenditure trend chart



Financial performance variances commentary

Revenue

- Rates Income of \$44.32m is higher than year to date budget by \$0.65m predominantly due to higher than expected Water Meter Charges.
- Subsidies and Grants of \$5.89m being \$1.73m below year-to-date budget. This is due to timing of the Waka Kotahi subsidy claims and budget phasing.
- Financial Contributions of \$5.94m being \$1.08m below year-to-date budget. This is due to lower than expected Reserves activities and also timing differences with budget phasing.
- Fees and Charges are \$0.65m ahead of year to date budget which reflects the increased activity in the building and consent areas.
- Other Revenue of \$1.73m are higher than year to date budget by \$0.18m due to unbudgeted Insurance Recoveries of \$0.2m.

Expenses

- Personnel Costs of \$13.74m are lower than year to date budget by \$0.59m due to unfilled vacancies.
- Depreciation expense of \$11.94m is lower than year to date budget due to timing issues and budget phasing.
- Finance Costs of \$1.73m are lower than year to date budget due to lower than planned borrowings.
- Other Expenses of \$28.63m are higher than year to date budget by \$0.86m, largely driven by higher than planned use of external consultants (\$1.94m Actual YTD vs \$1.16m Budget YTD).

Statement of Financial Position

STATEMENT OF FINANCIAL POSITION					
AS AT 31 DECEMBER 2022					
\$000					
		2023	2023	2022	2022
		Actual	Budget	Actual	Actual
		Year to date	Full year	Year to date	Year to date
Current assets					
Cash and cash equivalents		22,063	29,978	40,617	
Receivables		1,016	11,548	(1,310)	
Prepayments		182	724	1,215	
Non-current assets held for resale			3,495		
Total current assets		23,262	45,745	40,523	
Non-current assets					
Other financial assets		12,542	11,519	12,380	
Investment in associates		3,316	4,008	3,253	
Property, plant and equipment		1,673,774	1,596,787	1,526,130	
Intangible assets		4,751	6,442	4,163	
Forestry assets		8,938	11,244	10,490	
Total non-current assets		1,703,322	1,630,001	1,556,423	
Total assets		1,726,583	1,675,746	1,596,946	
Current liabilities					
Payables and deferred revenue		15,487	17,811	16,452	
Derivative financial instruments		795	363	422	
Borrowings and other financial liabilities		15,000	15,000	20,000	
Employee entitlements		2,619	2,837	2,803	
Provisions		313	313	313	
Total current liabilities		34,213	36,344	39,996	
Non-current liabilities					
Borrowings and other financial liabilities		65,000	65,000	70,000	
Employee entitlements		19	13	20	
Provisions		6,743	12,927	7,424	
Total non-current liabilities		71,763	77,945	77,444	
Total liabilities		105,976	114,288	117,440	
Net assets		1,620,607	1,561,458	1,479,506	
Equity					
Accumulated Funds		931,122	362,245	942,334	
Reserves		659,485	599,213	536,972	
Total equity		1,620,607	1,561,458	1,479,506	

Financial position commentary

Assets

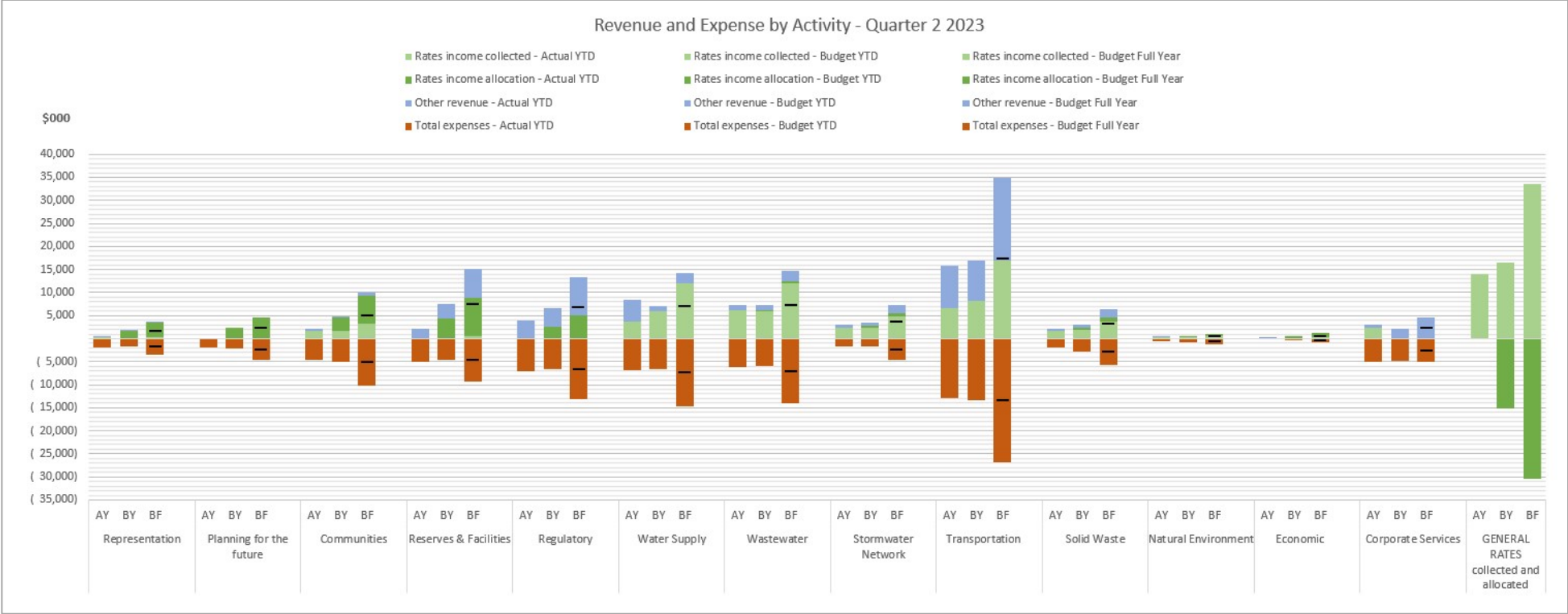
- Total Assets of \$1,727m is currently 103% of the planned Full Year Budget largely driven Equipment.

Liabilities

- Total Liabilities of \$105m is currently 94% of the planned Full Year Budget largely driven by payables being lower than budget as well as the timing of provisions which are tracking to meet budget at year end.

Financial Performance by Activity

Revenue and expense by Activity chart



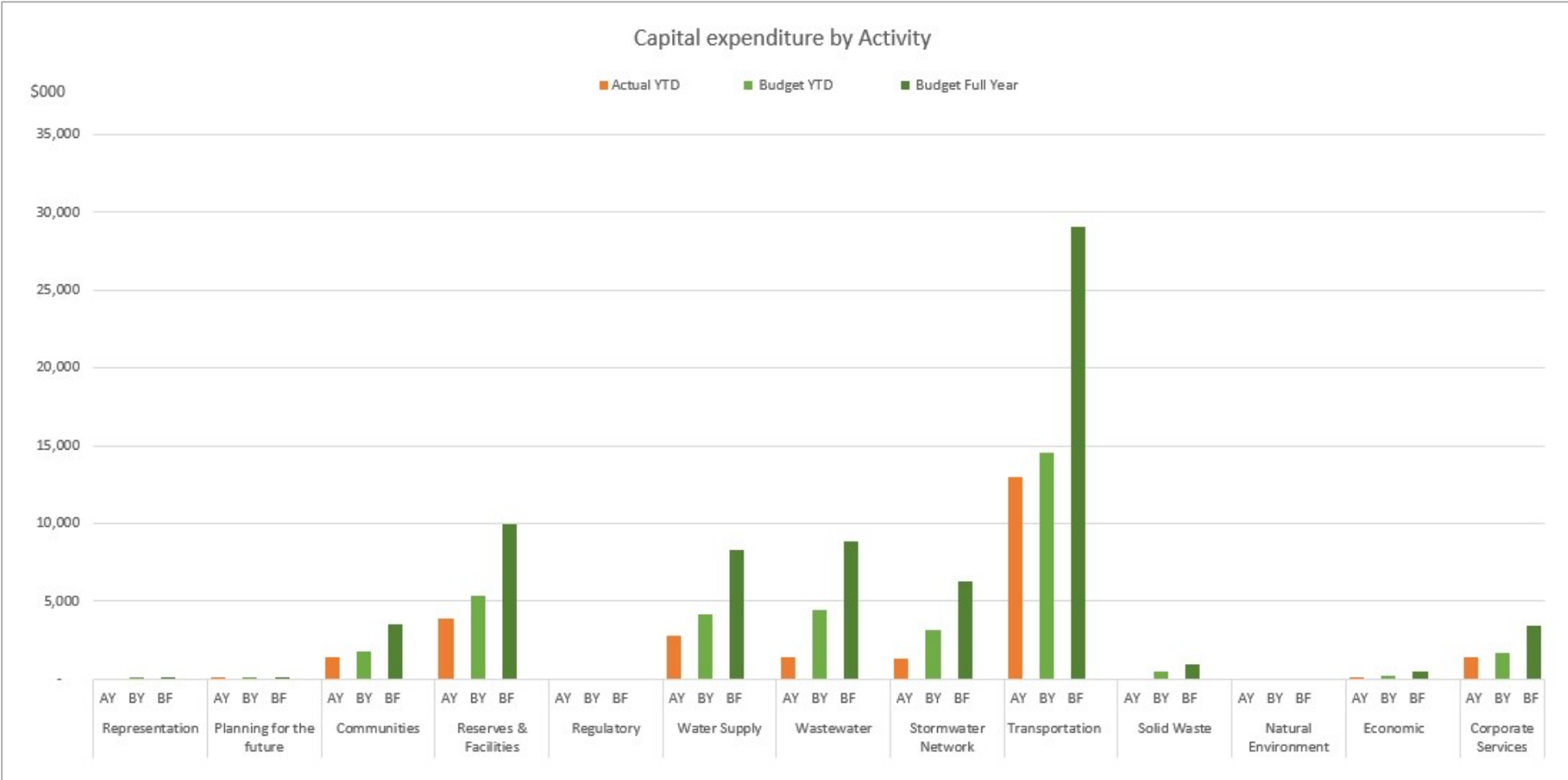
Council Performance – Revenue and Expense by Activity

STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE FOR THE QUARTER ENDED 31 DECEMBER 2022 \$000's	2023 Actual Year to date	2023 Budget Year to date	2023 Variance Year to date	2022 Actual Year to date	2023 Actual YTD as % of Budget FY	2023 Budget Full year
Revenue						
Communities	2,160	4,918	(2,758)	4,978	22%	9,937
Reserves & Facilities	2,156	7,458	(5,302)	6,413	14%	15,032
Regulatory	3,893	6,606	(2,713)	6,889	29%	13,279
Water Supply	8,468	7,081	1,387	6,344	59%	14,233
Wastewater	7,334	7,277	57	7,409	50%	14,621
Stormwater	2,948	3,580	(632)	2,486	41%	7,215
Transport	15,864	16,973	(1,108)	16,721	45%	34,957
Solid Waste	2,105	3,085	(980)	2,643	33%	6,328
Natural Environment	407	484	(77)	558	41%	997
Representation	236	1,769	(1,534)	1,545	7%	3,570
Planning for the future		2,239	(2,239)	1,950	0%	4,544
Economic	163	580	(417)	530	14%	1,190
Corporate Services	17,043	2,149	14,894	2,404	378%	4,511
Total revenue	62,776	64,199	(1,424)	60,871	48%	130,411

	2023	2023	2023	2022	2023	2023
	Actual	Budget	Variance	Actual	Actual YTD as	Budget
	Year to date	Year to date	Year to date	Year to date	% of Budget FY	Full year
Expenses						
Communities	4,608	5,068	(460)	3,946	45%	10,281
Reserves & Facilities	5,136	4,688	447	4,051	55%	9,410
Regulatory	7,144	6,551	593	5,753	54%	13,166
Water Supply	6,949	6,730	219	6,600	47%	14,698
Wastewater	6,232	6,004	228	6,062	44%	14,115
Stormwater	1,781	1,603	178	1,923	40%	4,505
Transport	12,950	13,246	(297)	10,266	48%	26,911
Solid Waste	1,838	2,744	(905)	2,031	33%	5,626
Natural Environment	527	793	(266)	517	41%	1,301
Representation	1,814	1,755	59	1,534	51%	3,533
Planning for the future	1,905	2,233	(328)	1,400	42%	4,513
Economic	195	423	(228)	294	23%	829
Corporate Services	4,952	4,816	135	3,895	99%	4,987
Total expenses	56,031	56,656	(625)	48,269	49%	113,877
Surplus/(deficit) after tax	6,745	7,544	(798)	12,602	41%	16,534

Capital expenditure by Activity

Capital expenditure by Activity chart

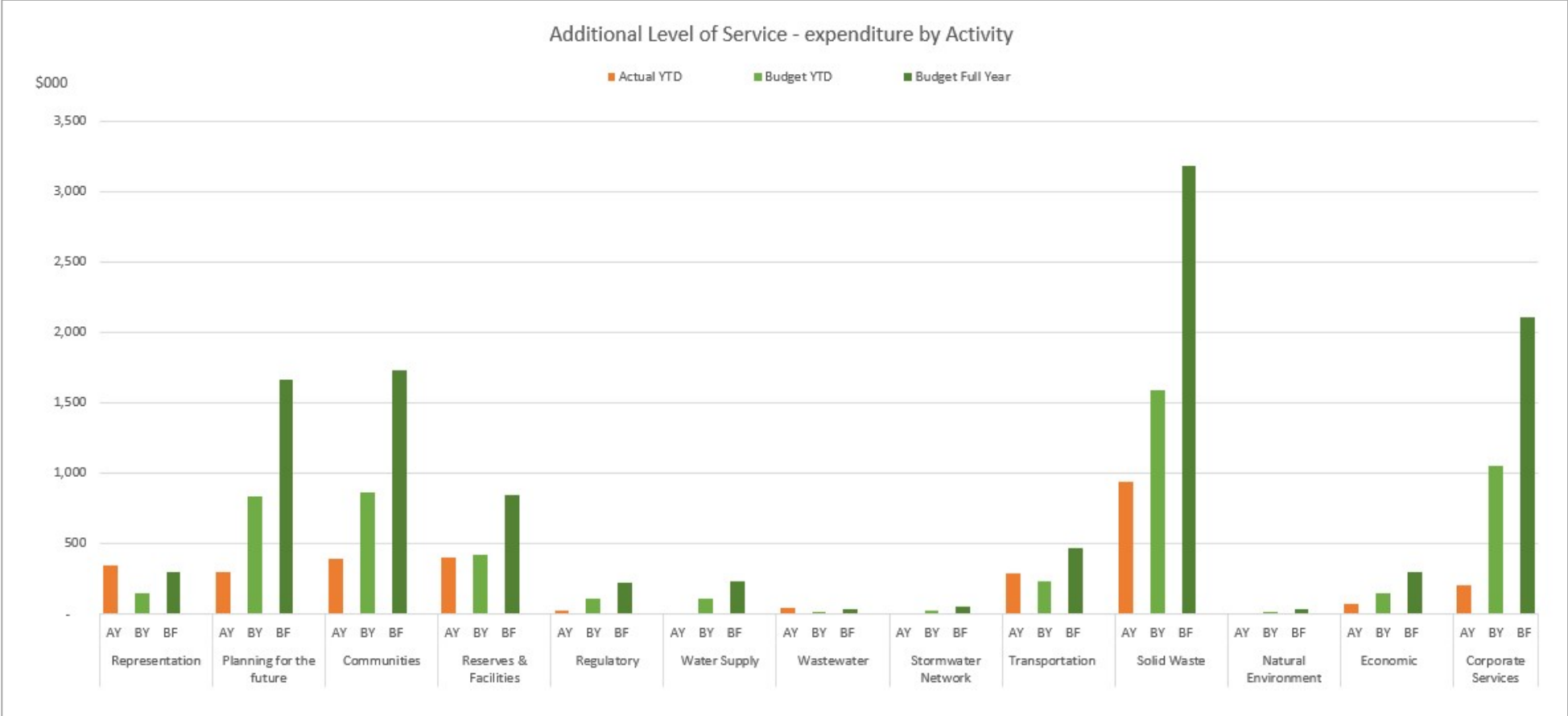


Capital expenditure by Activity table

\$000	2023	2023	2023	2022	2023	2023
	Actual Year to date	Budget Year to date	Variance Year to date	Actual Year to date	Actual YTD as % of Budget Full yr	Budget Full year
Representation	-	18	(18)	-	0%	36
Planning for the future	37	7	30	-	0%	15
Communities	1,440	1,757	(317)	140	2%	3,515
Reserves & Facilities	3,903	5,343	(1,439)	2,977	6%	9,966
Regulatory	-	-	-	-	0%	-
Water Supply	2,745	4,161	(1,416)	1,709	4%	8,321
Wastewater	1,369	4,426	(3,057)	1,936	2%	8,852
Stormwater Network	1,268	3,131	(1,863)	701	2%	6,262
Transportation	13,000	14,517	(1,517)	8,864	18%	29,035
Solid Waste	-	491	(491)	-	0%	981
Natural Environment	-	-	-	-	0%	-
Economic	47	239	(192)	2	0%	479
Corporate Services	1,416	1,700	(284)	(362)	2%	3,400
TOTAL	25,225	35,790	(10,565)	15,967	36%	70,861

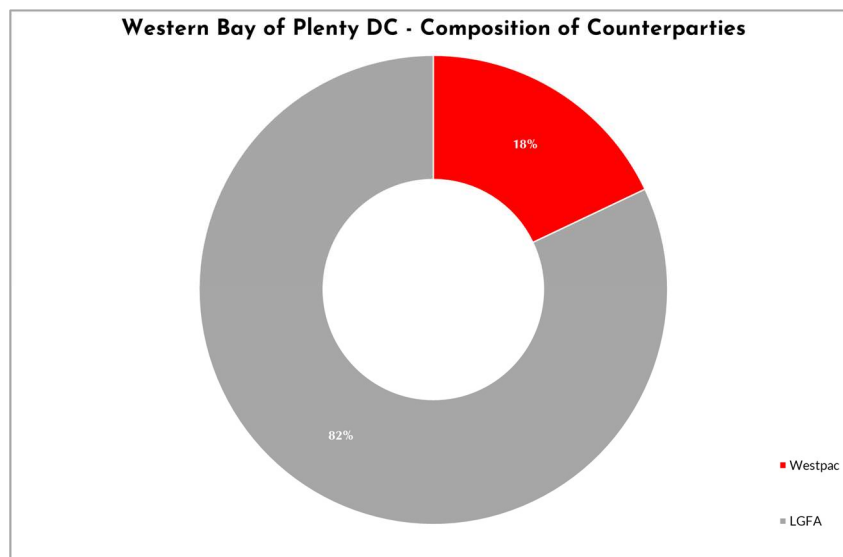
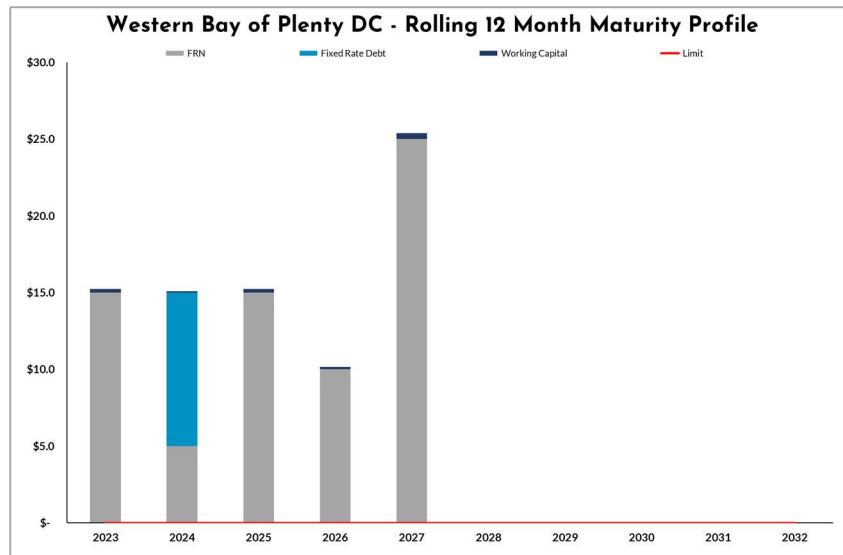
Additional Level Of Service expenditure

Additional levels of service by Activity chart



Treasury

Treasury Dashboard – Funding



Debt \$80.0m Total Drawn Debt	Weighted Average Margin 0.71% Margin on Facilities
Headroom \$30m Undrawn Bank Facilities	Liquidity \$22m Cash + Deposits

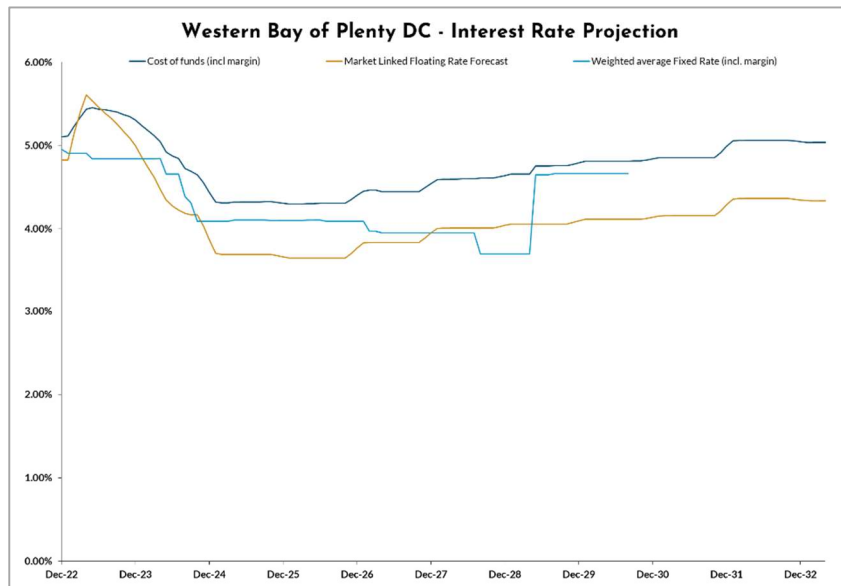
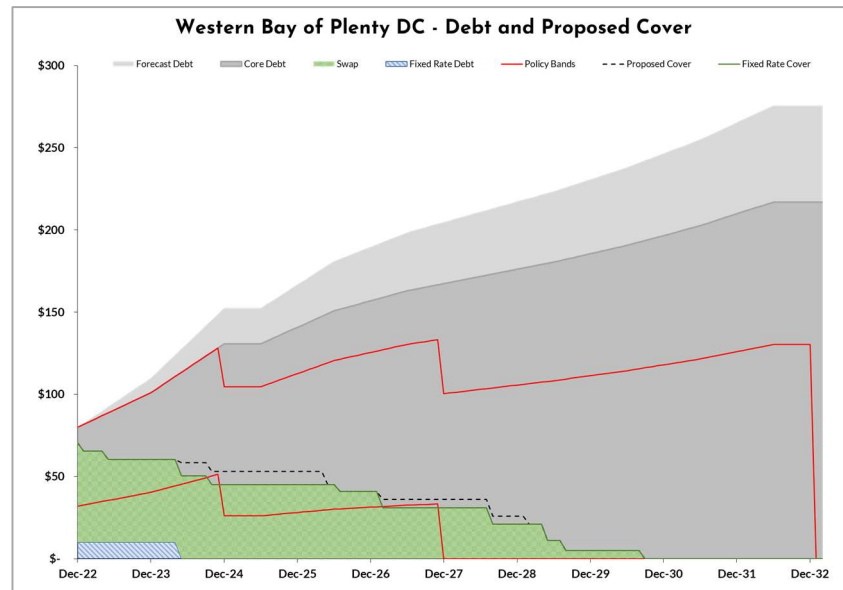
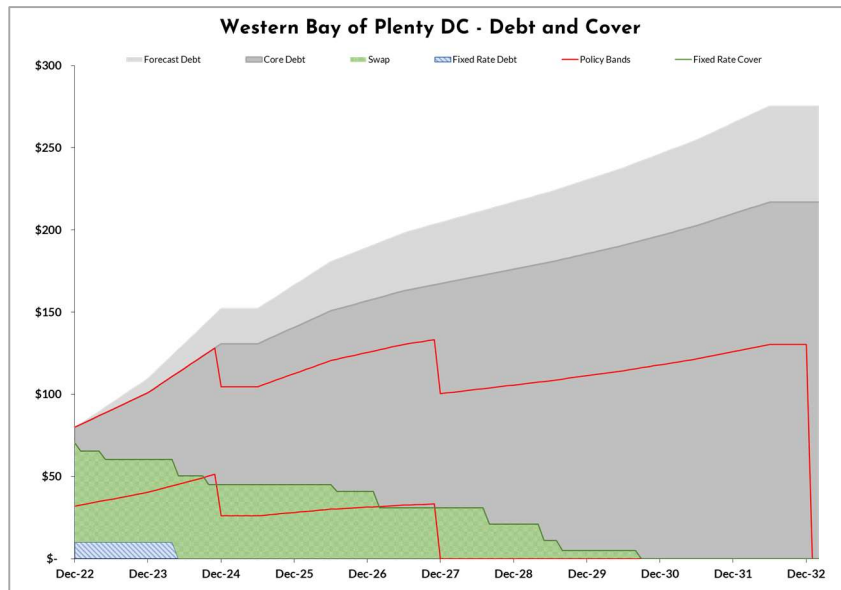
Key Metrics

Current % of Debt Fixed	88.1%
Current % of Debt Floating	11.9%
Value of Fixed Rate (m)	\$70.5
Weighted Average Cost of Fixed Rate Instruments	4.35%
Weighted Average Cost of Fixed Rate Instruments (incl margin)	4.95%
Value of Forward Starting Cover	\$21.0
Weighted Average Cost of Forward Starting Cover	3.87%
Value of Floating Rate (m)	\$9.5
Current Floating Rate	5.04%
Current Floating Rate (incl margin)	5.75%
All Up Weighted Average Cost of Funds Including Margin	5.05%
Total Facilities In Place	\$81.1

POLICY BANDS

Period	Minimum Cover	Maximum Cover	Weighted Average Cover %	Within Policy?
0 to 2 years	40%	100%	71.0%	BREACH
2 to 5 years	20%	80%	34.4%	BREACH
5 - 10 years	0%	60%	18.4%	OK

Treasury Dashboard – Interest Rate Hedging



Strategy

- › Western Bay is below the minimum of interest rate hedging policy at the end of the 0-2, and 2-5 year buckets due to debt being higher than expected over 2022, and swaps naturally decaying. No cover was added during the quarter as swap rates reached multi decade highs, making them highly unattractive for hedging. As a result, there is requirement to add to portion of fixed rate hedging to bring cover levels back above minimums.
- › **Our recommendation is to enter into the following interest rate swaps:**
 - › **\$8m starting May 2024 and maturing May 2026 (indicative rate: 4.50%)**
 - › **\$5m starting Feb 2027 and maturing Feb 2029 (indicative rate: 4.00%)**
- › With short-term swap rates supported by the elevated OCR outlook, swaps for immediate start remain expensive, however, with the curve inverted, forward starting swaps provide value further out along the curve. With this in mind, we recommend targeting cover by placing orders for these swaps at rates closer to 3.50% to take advantage of any further inversion in the yield curve. In the past month swaps starting in 2 years for 1 to 5 years have been trading in the 3.60% to 3.80% range. This highlights how swap curve inversion can add value to forward start swaps once the hiking cycle ends.
- › We will continue to monitor the market and Western Bay's forecast exposures for opportunities to increase fixed rate hedging levels further if we see a material pull back in forward starting interest rate swaps.

Treasury interest and liquidity risk

1. Interest Rate Risk

- (a) 'Interest Rate Risk' is the risk that either investment returns will fall materially short of forecast, or, that financing costs will exceed projections due to adverse movements in interest rates.
- (b) New Zealand's headline CPI prints for December marginally exceeded expectations at 1.4% on the quarter and 7.2% for the year. Financial markets are now pricing in a slightly lower peak from the RBNZ with a 0.50% OCR hike expected on 22 February peaking at 5.25% in mid-2023. This implies another 1.00% of hikes over the first half of 2023.
- (c) Western Bay is below the minimum of interest rate hedging policy at the end of the 0-2, and 2-5 year buckets. It is recommended by Bancorp that we enter into new forward dating swaps in order to bring interest rate risk back within policy.

2. Liquidity Risk

- (a) 'Liquidity Risk' is the risk that Council may not have enough liquid cash or committed facilities on hand to fund operations. This is because Council's cash flow is dependent on the maturity of cash investments and loans.
- (b) Western Bay remains within its debt, interest, and liquidity ratio policy limits.

	As at 31 Dec 22	Council Max Policy Limits	Policy
Net Debt as a % of Total Revenue	91%	<200%	OK
Net Interest as a % of Total Revenue	3%	<20%	OK
Net Interest as a % of Annual Rates Income	5%	<25%	OK
Liquidity (external term debt + committed loan facilities + available liquid short-term financial investments to existing external debt)	165%	>110%	OK