

Transparency of financial reporting processes

A review of annual financial reporting processes

May 2014

Rotorua District Council

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Geoff Williams
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6 May 2014

Dear Geoff

Transparency of financial reporting processes

We are pleased to attach our report, which contains the results of our review of financial processes relating to the long term and annual plan reporting processes. This report should be read in conjunction with our Engagement Letter dated 19 February 2014, and the Restrictions in Appendix A.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Craig Rice'.

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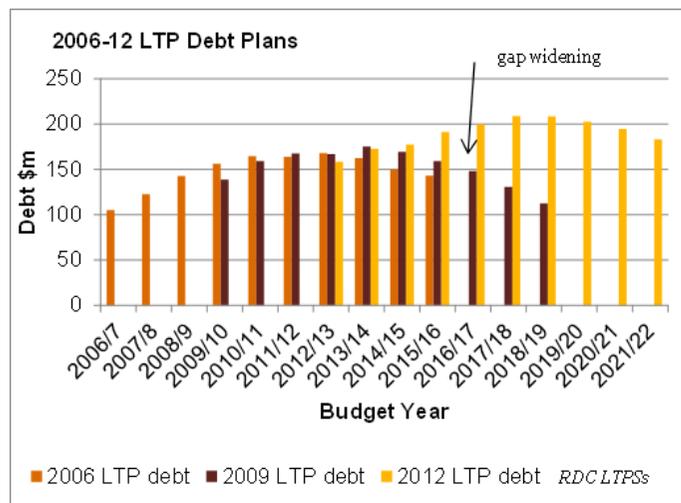
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Executive summary and key findings

Preamble

Following the local government elections and appointment of the new senior management team in late 2013, Rotorua District Council (RDC) called for a re-examination of its financial position and a review of the financial reporting and decision-making process leading to that position.

On 19 December 2013, the Chief Financial Officer (CFO) reported on the projected financial sustainability of the council. This projection highlighted that as a result of differences arising in expenditure and revenues from those planned, the programme of Long Term Plan (LTP) expenditure, if implemented, would lead to unsustainable debt levels from an RDC policy perspective as illustrated by successive LTP projections below.



Steps have subsequently been taken by RDC within the current year and recently published 2014/15 draft Annual Plan to address this position. In parallel, PwC was commissioned to undertake a high level review of financial reporting processes from 2011 to provide a view on the key financial reporting and decision-making process leading to the projected financial outcomes.

This summary captures the key findings and themes arising.

Key findings

1. The annual planning decision-making process and financial strategy followed a suitable structure at a principle level.
2. RDC has debt treasury policy parameters and settings which are appropriate and prudent if adhered to.
3. There was ongoing advice from the organisation to councillors that up to but not including the 2013/14 draft Annual Plan, RDC was operating within its debt parameters. This was reinforced by independent audit reports and was technically correct at that time. However, the lack of trend data masked a worsening longer term profile.
4. Financial reporting was too detailed and lacked appropriate summaries, financial impact assessments and commentary to be meaningful and enable councillors to readily understand the impact of their decision-making. This appears to have reinforced the focus on 'detail' as opposed to the sum of the detail, despite prior management attempts to refocus reporting on summary level information.

5. Management level reporting and the financial ledger structure within RDC replicated the issues identified by council level financial reporting.
6. Prior to the presentation of draft annual plans, there was insufficient presentation by the organisation of policy parameters underlying the draft plans for councillor debate.
7. Budget reforecasting processes appeared to lack structure which allied with the lack of summary level reporting analysis, made the resulting impact difficult to follow.
8. Mayor and councillors in the previous term generally adopted low rates increases below those specified in the LTP. The outgoing Chief Executive advised in mid 2013 that this may lead to longer term consequences but provided no explicit impact reporting or analysis for councillors to fully understand the impact of their rating decision.
9. RDC's adoption of the 2013/14 Annual Plan was by majority vote and not unanimous. Some councillors at that time correctly identified and documented budgeting issues subsequently confirmed by the new executive and finance teams.
10. RDC lacked depth in senior financial expertise which was accentuated by the Finance Manager position being vacant during crucial stages of the 2013/14 draft Annual Plan development. The outgoing Chief Executive had to take greater responsibility for its production, on top of his other accountabilities. Following the Chief Executive's departure and commencement of the financial year in question, significant unfavourable anomalies have been discovered in

both revenue and expenditure which the new finance team have not been able to fully reconcile. It would appear these issues were due to a combination of factors including errors arising during production, issues with underlying record-keeping and the adoption of explicit assumptions that will not crystallise.

11. The discovery in late 2013 that there was an unfavourable imbalance between expenditure and revenue when added to other long-standing unresolved issues such as appropriate funding of debt, led to a realisation that the long term financial position would deteriorate rapidly. The combination of these factors provided a catalyst for the new executive team to immediately develop and implement contingency plans to reduce expenditures so that the long term financial position would remain sustainable.
12. The new finance team has made significant progress over a short period of time to properly understand and report on the long term impact of current financial projections. This has been supported by a comprehensive revision of the underlying financial ledger structure and reporting processes to aid improvements in the transparency of information received by councillors for the purposes of decision-making.
13. Further improvements and issue resolution is being undertaken by RDC which has been complemented by other matters identified by this review.
14. This review has also enabled the identification of further recommendations that could enhance financial reporting and

decision-making processes. These recommendations are detailed in section 7.

15. The development of the 2015-2025 LTP later in 2014 will provide another opportunity for RDC to revisit its financial outlook in detail. Given current projections, this is likely to reinforce the need to retain current financial restraint and accordingly operate at a lower level of activity than RDC was previously able to sustain.

1. Introduction

1.1. Background

Following local government elections in late 2013, RDC began re-examining its projected long term financial sustainability, taking account of pre-election capital project commitments and general strategic direction. This re-examination has been driven in part through community concern with growing debt levels, interrelated operational funding difficulties at Rotorua International Airport Limited (RIAL), allied with potential impact of the previous council's response to the perceived impact of the Global Financial Crisis on the community. The growing community concern occurred in parallel with a period of greater governmental focus on the financial position of council's nationally, as reinforced through the introduction of their Better Local Government Programme¹.

RDC's response included resolutions made through local government statutory decision making processes during the last 2-3 years. Examples being highlighted include the adoption of lower annual rates increases than planned to reduce the impact on ratepayers during the recent financial crisis, while in parallel maintaining the commitment to the programme of major capital project expenditure. There is a perception that some of these decisions may have been made without the benefit of fully disclosed financial impacts and as a result the new council may be faced with higher than expected debt if it continues to deliver these existing expenditure programmes. Following the financial sustainability report of the CFO on 19 December 2013, there was

¹ March 2012

general acknowledgement within RDC that this scenario of reduced revenue allied with maintenance of expenditure would not be sustainable in the long term.

Given this position, council decided it would be prudent, from the perspective of good stewardship, that the financial process and reporting improvement project currently being initiated by the new RDC finance team, and the upcoming 2015-2025 LTP, be complemented by a review of previous financial reporting and decision-making processes that led to this position.

1.2. Scope

This review, in accordance with our engagement brief, examines the financial reporting processes relating to the long term and annual plans over the last three years and provides a view on:

- whether the key financial decisions that were recommended and adopted were transparently supported by appropriate financial impact reporting
- whether assumptions underlying the LTP financial projections were clear
- whether the reporting was well laid out and relatively easy to understand from an elected member perspective
- whether key financial metrics including the level of debt and rates increases were used appropriately
- whether improvements being made to the current financial framework are likely to be effective and mitigate any shortfalls that may have occurred previously, and

- other changes to observed financial processes that would assist council during future financial planning deliberations.

1.3. Approach

Our approach has been to:

- review and document (Appendix B) the flow of the major financial commitments from initial drafting through to decision making
- consider the transparency of reported outcomes as a result of decisions, including the nexus between rate increases and projected debt
- review the subsequent financial reporting to management and council
- understand the financial modelling process and how it was developed to meet the balanced budget requirement of S100 of the Local Government Act 2002 (LGA)
- seek confirmation of a seamless integration between the model and the budgets loaded into the financial ledger
- benchmark the format of the S101 LGA Financial Strategy embedded in the LTP against a recommended local government CFO template
- consider the reporting of financial issues and consequences within the Financial Strategy
- identify how council proposed to meet the requirements of S102 LGA, funding and financial policies incorporating certainty about levels of funding
- model and analyse key elements of financial reporting including debt, revenue and expenditure.

Our document and process review was supplemented with targeted meetings and interviews with senior management and elected members. In addition, we were able to overlay our knowledge of good financial practice and experience of other local government entities.

1.4. Limitations

The review was by necessity high level, focused on financial processes as opposed to financial position and did not constitute an audit. In addition, key staff involved in the development of the 2012-2022 Long Term Plan (LTP) and annual plans during the period in question had left RDC employment prior to the commencement of the review.

The report should be read in conjunction with the Restrictions outlined in Appendix A.

1.5. Reporting

The report has been structured to capture the key elements of the review of RDC's financial reporting incorporating:

- structure of council planning and reporting processes
- layout of financial reporting and information underpinning decision making processes
- key financial metric trends over the period in question
- feedback from RDC councillors and management team
- systems and other issues arising
- recommendations and current RDC response.

2. Financial reporting and planning structure and process

Given the criticality and long term nature of council services and infrastructure, it is crucial that RDC has an appropriate financial planning and reporting structure to match. This structure needs to incorporate different levels of financial reporting and allow for appropriate review and monitoring processes. Overall, the structure should ensure that the council has confidence in the financial information that it prepares, reviews and releases to the public.

Additionally, an appropriate structure should be accompanied by transparent information plans. From a process perspective financial information should flow between the various organisation layers in a way that facilitates understanding and usage of the information. The content that is communicated through the process should be consistently reported, easily interpreted, appropriate for its target audience and fundamentally useful for decision-making.

2.1. Annual planning structure and process

A review of the documentation that constitutes financial planning revealed that RDC had in principle a suitable structure for its financial planning and reporting functions. This process is similar to other council approaches and does not appear to be a root cause of any transparency or decision making issues. In particular, the financial strategy, funding tools and financial projections are laid out appropriately in the 2012-2022 Long Term Plan

(LTP). Figure 1 outlines the general annual planning process structure followed.

Figure 1. RDC annual plan development adoption and reporting process



Source: Document flow analysis Appendix B

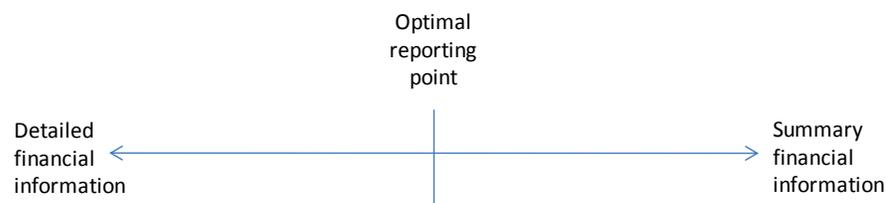
2.2. Financial strategy

Development of the 2012 LTP required by legislation the drafting of a new “financial strategy.” For assessment purposes we have reviewed the document against a best practice standard outlined in Appendix C. This indicates that RDC substantially complied with all key components required.

In doing so, at least at the statutory document level, RDC transparently reported on financial strategy, level of services and financial impact.

2.3. Focus of planning and reporting

Within the context of an appropriate financial planning process a key challenge of both reporting and planning is to strike the optimal balance on the reporting continuum between summary strategic level information and the detailed activity revenue and expenditure.



Reviewing RDC financial reporting presented to both management and councillors during the review period highlights a very strong focus on the detailed end of this continuum. This was exemplified by the readily available line by line information contained in quarterly reports contrasted by minimal summary level information.

This detailed information focus appeared to be consistently applied across all financial planning and reporting processes. It is also reflected in the general ledger account structure which we refer to later in the report.

Summary level information by contrast appeared to be very light, with a number of gaps observed including:

- no balance sheet/cashflow reporting to accompany detailed group reports in the quarterly financial report issued to both management and the council
- minimal summary or meaningful commentary in the same report
- no progressive financial impact reporting which examines the ongoing effect of annual plan and/or LTP implementation by the organisation
- minimal introductory policy/positioning papers presented to council at the commencement of annual plan/LTP processes.

By way of illustration to this latter point, on 25 February 2013 the Corporate and Customer Services Committee received the detailed budgets for the draft 2013/14 Annual Plan. The material was appropriately preceded by an introductory Chief Executive's report. However, the report was largely a very short general introduction with a much larger appended national statistics and projections report which was not customised or analysed from an RDC perspective. There was no attempt in the report to highlight the key financial and policy considerations. In addition, the detailed financial material appended did not include any overall council financial summary reports making it difficult for readers to link the impact of detailed activity at a council-wide level.

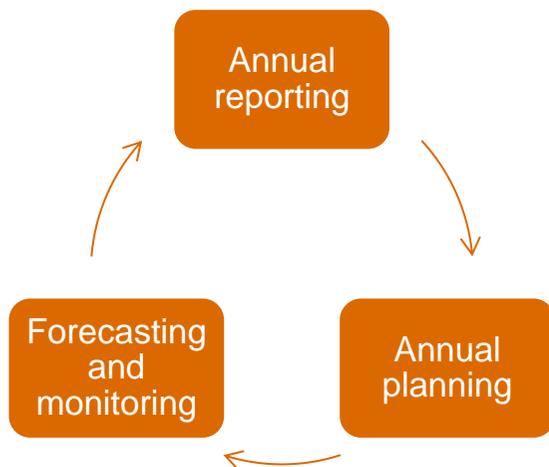
Ordinarily it would be expected that any budget preamble would cover a number of areas including:

- major changes from LTP projections
- debt levels

- capital works projections
- non-financial performance metrics
- rating and revenue approach and changes
- efficiency savings
- other relevant policy considerations.

Arguably, these matters were subsequently covered by the final draft annual plans produced and approved by council, but there appears to have been minimal preliminary discussion or consideration of the matters. This consideration is critical to inform the key policy parameters that should inform the shape and form of the draft annual plan before it is drafted.

The process linkage between key council reporting phases also appears to have been weak. Effectively there should be a strong linkage and flow between annual planning, forecasting and annual reporting as follows:



This appears to manifest itself in the lack of reconciliation between projected year-end financial results and the starting position of the next annual plan. This particularly relates to key metrics of debt and capital expenditure levels which we comment on further in the report.

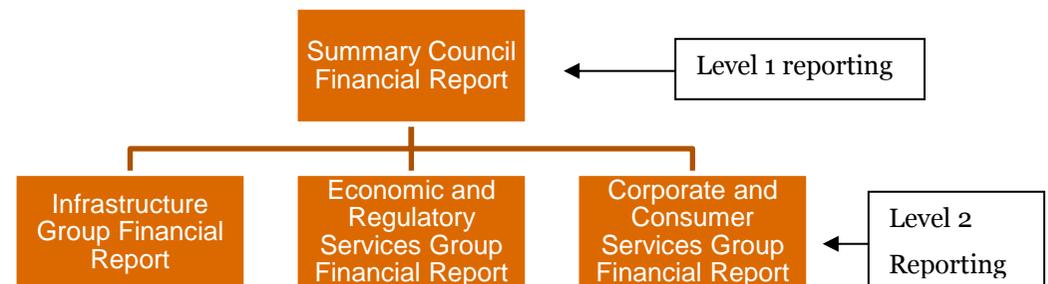
2.4. Content

The RDC financial planning and reporting process essentially contains two components:

- council group level reporting
- council summary reporting.

This framework underpinned RDC’s entire management and council financial report incorporating quarterly reports, annual reports, annual budgeting and long term planning. Figure 2 demonstrates the two levels of this reporting process.

Figure 2. Levels of council financial reporting



This review has examined the content of the presentations and reports considered at both levels since the 2011 draft annual plan. Analysis of these documents reveals:

- the content of the reports is potentially inappropriate for some users of the information
- level two reporting contained a lot of detail, insufficient summary level data and no explanatory commentary
- level one reporting was too summarised, and generally contained little or no explanatory commentary and financial impact analysis
- both reporting levels did not contain very much analysis, in particular in regard to using financial metrics to outline the effects of key decision making
- the structures of the reports are not always consistent
- the underlying general ledger management accounting structure is detailed and complex.

We also understand some of these deficiencies had to be supplemented by presentation and explanation at council and committee meetings.

Summary and analysis

Historically, both management and the general council had to rely on the two levels of reporting. Elected members for instance used this reporting to approve council budgets and to assess council's financial performance and future direction. However, given the lack of summary level reporting, there appears to have been a culture or practice for councillors to rely on detailed

financial reporting, rather than the summary level information that should be the foundation for effective decision making.

An example of this is the quarterly reporting. Analysis of a 2013 quarterly report for instance, found it contained a single page financial summary, but was accompanied by a 300 page detailed document. These quarterly reports include a financial activity summary but no balance sheet, detailed operating statement or cash flow statement. Most importantly the quarterly reports did not provide any significant analysis of the financial performance. We note that up until November 2012 council had a 5 page budget variance analysis section embedded in the quarterly reports and while this was better than a one page summary, it still did not provide the sort of appropriate high level information that would enhance decision making. We are not aware of the specific reason for this variance analysis being deleted from subsequent reports but discussions with previous management indicated councillors had a general lack of interest in summary level reporting.

However, overloading reports with detail while at the same time not providing good quality summary and analysis would not have encouraged readership and engagement let alone providing an understanding of overall financial position, trends arising and consideration of any required intervention. This view regarding the detailed focus was supported by council members that we interviewed and would have been a contributing factor to a 'collective' lack of focus on the longer term picture.

It appears that executive management also used the quarterly and budget planning reports as the tool to oversee the operational performance of the various council groups. This approach incorporated detailed quarterly reviews facilitated by the Chief Executive with second and third tier

managers. Review of expenditure and revenue at a very detailed level is definitely an appropriate practice in the right context. However, feedback indicated these reviews also had little focus on summary level trends and reporting. In addition, it would have been appropriate for the Chief Executive and his senior management team to focus on the trends arising, even though mitigations may have required responses at the detailed level.

Adding more summary financial analysis to council reports and plans would have improved the ease of monitoring, decision-making and enhanced the transparency of the reporting process.

The monitoring process also needs to forecast what the effects of the decisions might be and requires management to analyse possible impacts of current trends and policies. This forward looking analysis is particularly important in the budgeting process. Examination of the respective agendas for the 2012 long term plan reveals that there is less financial impact reporting than would typically be expected for local government long term planning. High level decision making, involving long term financial planning, is very difficult without the commensurate background information and analysis of the potential effects.

Legislative requirements

The controller and auditor general² outlined the annual reporting requirements in a recent discussion paper. The legislation³ applying to annual planning and reporting outlines various financial and non-financial measurement requirements and includes the need to comply with New

² Local Government: Improving the usefulness of annual reports, Controller and Auditor General, September 2011

³ Part 3, Schedule 10, Local Government Act 2002

Zealand Institute of Chartered Accountants financial reporting requirements. RDC, from an annual reporting perspective, and as evidenced by annual audit statements, complied with these standards. In doing so the discussion paper also outlines the need⁴ for activity service performance information communicating meaningful performance to the reader. This should incorporate links being drawn between activities, the cost of activities, and the outcomes. Although not technically applying to monthly or quarterly reporting, the same principles apply. Analysis of quarterly reporting discussed within this section indicates that inadequate summaries would have not provided very meaningful reporting, let alone containing the recommended linkages.

Section 3.14 of the discussion paper also identified four key areas for improvement in reporting across the sector including:

- trend analysis
- capturing outcome progress
- analysing cost effectiveness
- providing greater explanation and commentary.

These equally apply to management, financial and non-financial reporting and were largely absent from RDC quarterly reporting. The absence of this type of information would have made it difficult at both a manager and elected member level to determine whether RDC was trending in the right direction during any financial year.

⁴ Paragraph 2.22

The content of the ongoing financial reporting should provide commentary and explanation for the material changes to either planning or performance. There have been a number of instances over the review time frame where significant and potentially contentious decisions appear to have been made and inadequate explanations have been given. Section 3 of this report outlines some specific decisions that fall into this category. A detailed explanation of material change is important to:

1. facilitate continuous review of performance and decision making effectiveness.
2. ensure decisions and performance are made in as transparent a way as possible.

Both these elements can only be achieved if rationale and justification are provided to both explain why current decisions are being made and to explain what the effects of past decisions have been.

Consistency and flows

Financial reporting and budget planning should be consistent to facilitate the end users ease of processing the information, and any structural changes should be accompanied by explanation. The RDC reporting content structure has not always been consistent and appears to have changed without explanation or given reason. An example of this is the budget variance analysis section contained within the quarterly report summary, which ceased in November 2012 without written explanation or subsequent explanation during this review. Additionally the same report contained a one page capital summary which had not been used before and was not used

again. A lack of consistency only serves to cloud transparency and make review and evaluation more difficult from a governance perspective.

The nature of the Level One reporting created the possibility for significant decisions to be made without the key assumptions and rationale being adequately explained both internally and externally, let alone reported and captured in the minutes of key meetings.

Financial information ownership and accountability

At a management level, the ongoing focus on detailed line by line operations although important, appeared to lack ownership when brought back up to a Group or council level. This level appears to have been seen as the Chief Executive and Finance Manager's responsibility and reinforced through their direct control and management.

Value added decision support that could have been provided to council management was instead focused on detailed expenditure line variations. We were advised this culture of finance owning the council's financial information led to reduced accountability, particularly in cases such as reforecasting revenue and expenditure, which appeared loose given the lack of summary level impact information capturing the outcome of changes.

Feedback from elected members

To complement the review of documentation and consultation with managers, meetings were held with senior councillors⁵ who had been involved in financial decision-making processes for a number of terms of

⁵ Councillors Searancke, McVicker, Sturt, Wepa

council. Feedback from these meetings provided a high degree of consistent feedback.

From an overall perspective, the combination of the key points highlighted from these discussions, culminated to a point whereby RDC is now having to make significant adjustments to ensure it lives within agreed long term financial parameters. Councillors advised that they were not always happy with elements of financial reporting processes but received regular assurances from the Chief Executive that RDC was operating within its financial parameters, which on a year by year basis arguably was the case until 2013/14. The feedback has been grouped into five theme areas:

1. *Council financial expertise* – the realisation in late 2013 that RDC's financial position based on LTP programmes was unlikely to be sustainable allied with the change of staff, highlighted that RDC was light on senior financial expertise. This issue was accentuated during the critical stages of the development of the 2013/14 Annual Plan when the Financial Manager position was vacant. The outgoing Chief Executive led the annual plan process without this critical resource whilst trying to manage the ongoing Chief Executive responsibilities. Potentially this might have been a contributing factor to some of the unexplained assumptions subsequently discovered during the current financial year.
2. *Reporting* – a number of generic issues were highlighted including:
 - reporting was too detailed
 - reporting was often rushed and late, eg there was frequently little preliminary discussion about key policy parameters and

projections before the draft annual plan was presented for approval each February/March

- the ongoing reforecasting was confusing and meant the financial outlook was often very difficult to assess
 - some councillors correctly identified during the 2013/14 Annual Plan development that some projections and assumptions were problematic. Examples included the overstatement of income, understatement of expenditure and unexplained differences between the increased movement in staff numbers accompanied by reducing salary and wage budgets. These issues which in some instances were formally documented⁶, were not adequately explained from the councillors' perspective.
3. *Financial impact analysis* – this type of financial reporting and analysis was generally lacking, not only for operational budgets but feedback received indicated that project business cases tended to be also under-done and over-simplistic. Given Rotorua's unique position nationally as a visitor destination with a heavy emphasis on economic enabling projects generally, this was identified as another area of weakness in financial planning terms.
 4. *Levels of rates and debt* – all councillors reinforced that the outgoing Chief Executive did advise council that in adopting the lower rate increase of 0.99% in the 2013/14 Annual Plan, there would likely be

⁶ Councillor McVicker, 2013/14 draft Annual Plan submission, 4 June 2014

future consequences given that the existing LTP required higher levels of rates to fund service levels and project requirements.

However, we would note that:

- the Chief Executive did not outline what these consequences would be by way of future debt levels in any level of specificity
- councillors could have tested the potential consequences further with the Chief Executive
- as a group, the councillors and Executive were focussed on maintaining community satisfaction which was accentuated by the upcoming election without tempering this with the reality of the financials
- there was not unanimous support for the lower rates increase.

Discussions with the elected representatives also highlighted that there was not a great recollection of the treasury policy metrics paper presented by the Chief Executive on 4 June 2013, which potentially reinforces the lack of overall governance emphasis on financials at that point. There also appeared to be differing understanding of one of the key metrics being net debt to revenue. This metric was increased from 160% to <200%, but there appeared to be an understanding that councillors restricted the increase to 180%.

5. *2014 financial reporting changes* – although changes are only just being made, there was broad endorsement of the current change in

reporting directions implemented by the new management team. This included acknowledgement of greater confidence in the level of transparency being reported, albeit it is early days and still subject to the revision of the Long Term Financial Plan during 2014 and early 2015. There was also a view that the revised monthly reporting was easier to understand and is accompanied by quality commentary. Pre-committee run-throughs which did occur under the previous executive, have also been changed to be more formal and in-depth, which was a positive evolution. councillors did highlight however that they would like to see the proactivity continue and there was a general desire to see the improvement in financial reporting complemented by a similar move with non-financial reporting on council activities.

Suggested changes or recommendations arising from this engagement with elected members indicated that:

- the formalisation of financial reporting should continue to be enhanced
- non-financial reporting should be considered over the coming year
- reporting summary of council level input costs eg salary and wages, may be a useful addendum and reconciliation point with the broader based activity level reporting that has been put in place
- future business case requirements should be reviewed to ensure they are run through a robust process

- guidelines on new projects and/or expenditure eg the new portfolio funding initiative, should be put in place before expenditures are initiated.

3. Decision-making analysis

Introduction

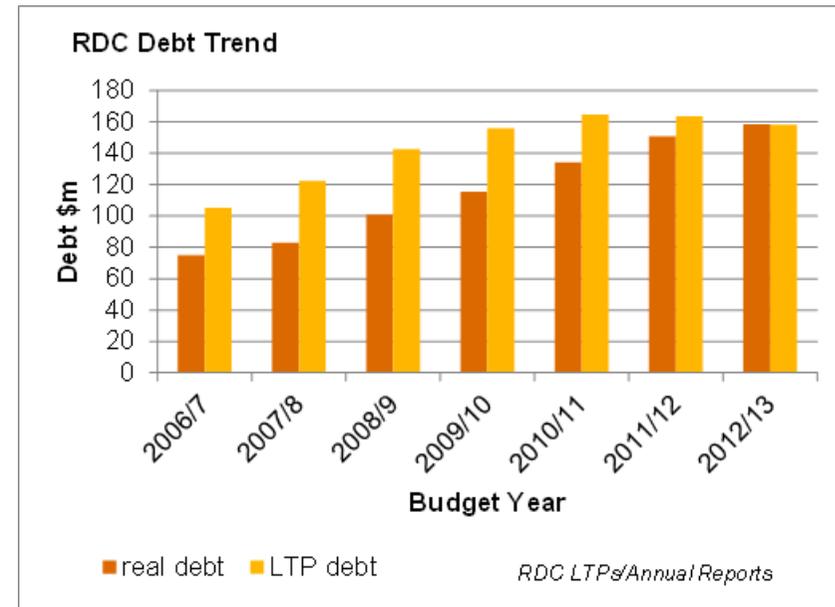
The prior sections offered a broad overview of how the structure and content of internal financial reporting affected the council's decision making at both a management and governance level. It is also important to review key financial metrics during this period to further understand the degree of transparency afforded to councillors making decisions based on the financial reporting process.

Increased debt

In 2004 RDC total debt was approximately \$57 million but that number has steadily increased in order to fund council projects and activities. Figure 3 demonstrates that:

- debt approved by RDC through LTP processes was forecasted to increase significantly
- RDC capital projects have lagged the plan, leading to lower actual debt funding requirement
- from 2011/12, project delivery has improved, fully committing council's debt funding envelopes.

Figure 3. Actual debt and LTP debt trend comparison



Although the debt at 30 June 2013 was approximately \$160m, the 2012 LTP estimated that total debt would grow to over \$200 million by 2018. The size of this increase led to a focus on debt levels during the development of the 2013/14 Annual Plan in early 2013.

However, it should be noted that the decision by RDC to increase debt in this manner is based on two key assumptions described in the 2012 LTP.

- 1) The intention and ability of council to reduce debt in the latter stages of its ten year plan.

- 2) Total debt remaining well within both the council’s government and self-mandated treasury policy limits confirming it was financially appropriate and sustainable.

Long term debt profile

Analysis of RDC’s various LTP iterations highlight a projected debt profile similar to many sector organisations, peaking in the middle of the decade and then falling away toward Year 10.

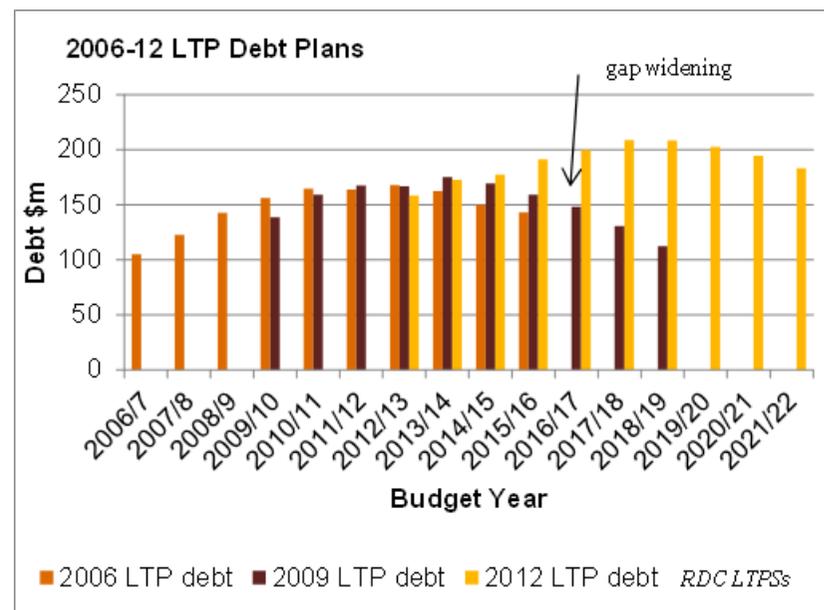
However, there are both general and specific reasons that make the assumption that debt will reduce in the latter years of the LTP unrealistic. There is a historical tendency sector-wide in long term planning to defer major capital projects considered unaffordable beyond the ten year planning cycle. Although relatively common practice, it projects unrealistic debt profiles which typically forecast reduced debt in the latter stages of its planning cycle. RDC historically has adapted this approach and debt profile.

Figure 4 depicts the ‘bow shaped’ nature of LTP debt forecasts which demonstrates that in each of the past three LTPs, RDC has forecast debt reductions in the latter years of its long term plan which have yet to be achieved. Additionally, the gap between subsequent LTP debt forecasts has widened, reflecting that council assumptions about future debt pose increased risk. Despite this trend council remained within its mandated treasury policy limits albeit we note that it had to increase its self-imposed debt to revenue limit from 160% to not exceeding 200% in June 2013.

Migrating or deferring debt beyond the outer years of the LTP is arguably a valid approach to manage known infrastructure funding ‘humps’ sitting outside the ten year horizon of the LTP. However, councils adopting this

approach should do so explicitly and transparently to avoid future ‘surprises’. In fact, this position is one of the drivers for central government’s planned introduction of 30 year infrastructure plans within the 2015 LTPs. This will require councils to explicitly and transparently report on future capital or renewed expenditure items beyond the ten year funding envelope.

Figure 4. Previous long term plan debt forecasts trend



The general ‘bow shaped’ trend highlighted in Figure 4 would suggest that 2012 LTP assumptions might be optimistic and there is further specific evidence to suggest that this is the case. For instance, RDC is committed to upgrading and improving its water and waste water infrastructure through the implementation of major development projects that are projected to cost \$50 million. This cost is not reflected in its current LTP budget and is a prime

example of delayed infrastructure spending. We understand the previous council was reassured that debt would reduce over the latter years of the council's LTP. This was not challenged until 2013 when it appeared debt was progressively moving toward its agreed ceiling limits.

As a result, the new executive team have re-evaluated the position and are putting in place transparent mitigations and options to manage the government mandated 30 year infrastructure plan due for production in 2015. This will also provide council with an opportunity to develop a relative debt forecast.

Managing debt to treasury policy guidelines

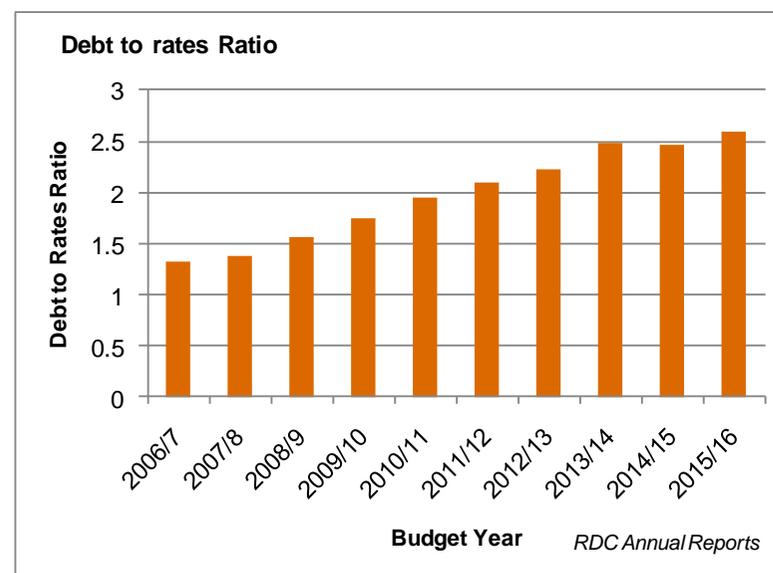
Within the statutory reporting documents, RDC has been in the practice of regularly quoting its treasury policy guidelines (outlined in appendix D) when explaining or justifying its debt levels. Indeed RDC has a <200% debt to total revenue policy which arguably compares favourably with other councils such as Auckland Council which has a 275% limit. Although it is clearly good practice (and now legislatively mandated⁷) to manage debt within treasury policy guidelines, this does not provide council with a complete argument that debt is appropriately managed. Pure guideline adherence can potentially overstate the importance of being within a finite measure at the expense of analysis of performance and change over time. In addition it fails to capture or explain the relationship between debt and other key financial factors, which can be critical for examining and forecasting future outcomes.

For instance, RDC's 2012 LTP financial strategy states the goal that "ten year debt will remain below policy level." This objective, while appropriate in

⁷ Local Government (Financial Reporting and Prudence) Regulations 2014

itself, provides no guidance around the future path of the council's financial position and provides little guidance on how debt should be managed. Examination of RDC's debt level reveals that it has been within its treasury guideline and thus satisfying its goal. However, key debt metrics have worsened, with Figure 5 highlighting that the most straight-forward solvency metric of debt to rates has nearly doubled over the past ten year period. Until 2013, there appears to have been a lack of communication around this trend.

Figure 5. Relationship of RDC debt to rates



For instance, the June 2011 draft annual plan raised no concern around debt and estimated it would peak at \$170 million. A short time later in the February 2012 draft LTP, debt was forecast to peak at \$200 million. This significant increase in such a short period does not appear to have been accompanied by analysis and explanation except to the extent that the

existing treasury policy limits were used as a finite explanation of the appropriateness of debt decision making. The first report where there was explicit acknowledgement of debt concerns appears to be 2013/14 annual plan. The Chief Executive quoted that “there has some concern in the community around the debt situation but it is in control and within the policy limits⁸”. Unfortunately, there was no elaboration around what these concerns were or explanation and analysis regarding the current or future debt situation and performance.

Given that RDC’s debt profile had been increasing for a number of years it should be expected that choices and decisions concerning debt would be thoroughly analysed, using appropriate financial metrics in the reporting and decision-making processes. The lack of financial analysis in RDC quarterly reports and budget planning presentations highlighted previously would have been particularly relevant to understanding the assumptions and directions surrounding debt. Additionally, it would have enabled the debt situation to be communicated with clarity and consistency both within council and to the public. Such an approach should have also reflected:

- where debt was at in regard to policy limits
- how solvency was trending
- the impact of current decisions on the trend
- other potential debt issues facing council in the future.

⁸ CEO message: page 6 2013/14 Annual Plan

This contrasts with what we have observed in official reporting which is an incomplete analysis of the debt situation and incomplete communication regarding the debt situation.

Confidence, from a councillor perspective, in RDC’s debt profile was also not impacted by audit results. By way of example we note that the RDC September 2012 audit reported that “opening debt is not excessive and that council remains within its debt policy limits.”⁹ Although strictly true, this compounded the inconsistent message relating to the long term debt profile which was trending unfavourably.

Remedial intervention by the new finance team means RDC is now in a position, and a response has been initiated, to address the debt trend. However the review demonstrates that previous reporting regarding debt lacked meaningful forecast analysis and explanation in both its internal and external communication and thus contributed negatively to the overall transparency of the financial reporting process.

In making these observations, we have reviewed RDC’s longstanding treasury policy limit metrics adopted by council and note that they are generally appropriate, but should have been utilised for long term forecasting outside LTP development periods.

⁹ RDC September 2012 Audit Report

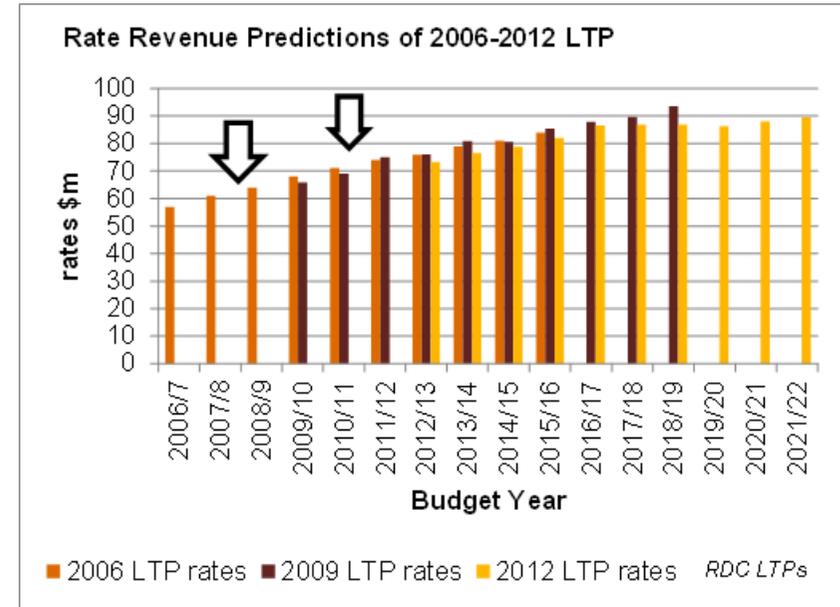
Rate increases

The 2012 LTP pledged to limit the increase in rates to no more than 3.5%¹⁰ for years 1-3, and no more than 2% above CPI in years 4-10. This decision was based on two key assumptions:

1. “Limiting rate increases will limit the extent to which the council can undertake new or increased services and projects unless savings can be found elsewhere.”
2. The rates increases adopted in the LTP will generally be followed to maintain a balance budget required by legislation.

The 2012 LTP outlines rates increases of 2.9%, 3.1% and 3.1% for the first 3 years of the ten year planning cycle. Although 2.9% was the actual rate increase adopted by council for the first year of the plan, year two was reduced with no material change in expenditure. This decision is consistent with council overestimating future rate revenue compared to actual rate revenue, forcing future LTPs to make up the difference. Figure 6 demonstrates how long term plans reduce rate revenue forecasts, compared to previous plans.

Figure 6. Rate revenue predictions in LTPs



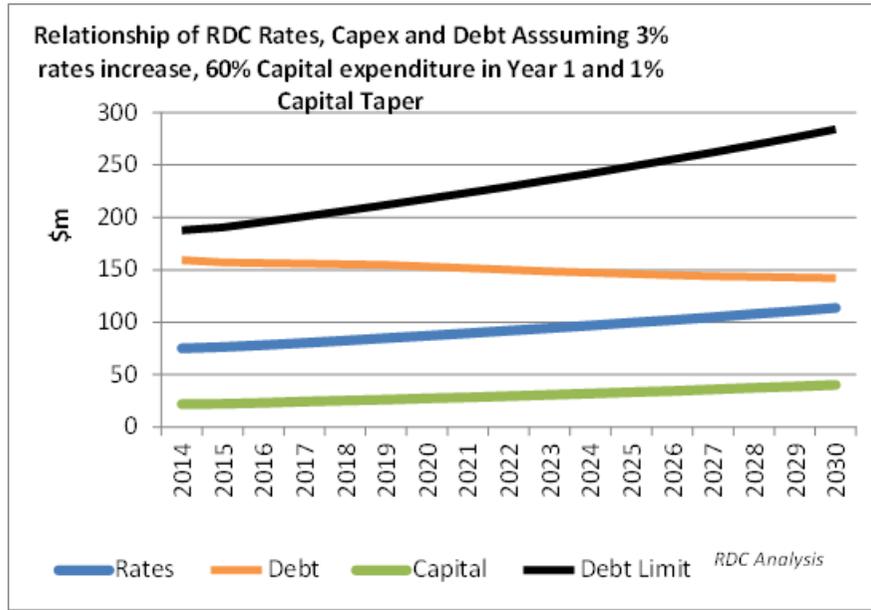
From our review of the documentation, the impact of this decision and earlier ones relating to key financial metrics, was not formally reported. This has subsequently been addressed with the development of the ‘flipper’ chart.

Figure 7, known as the ‘flipper’ chart, introduced by the CFO in late 2013, demonstrates the relationship between rates increases, expenditure increases and debt based on assumed future annual rates.

It highlights that by maintaining a 3% rates increase over time, debt can largely be managed within limits with reduced operational expenditure and capital projects.

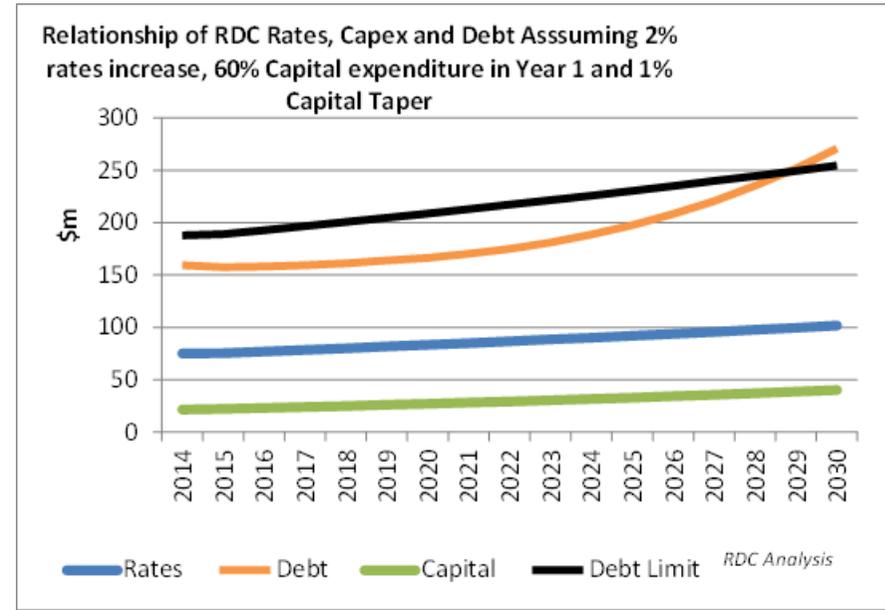
¹⁰ 2012-22 LTP, Financial Strategy Section, page 35

Figure 7. Relationship of RDC rates, capex, debt and rates



However, figure 8 graphically demonstrates the impact and sensitivity of debt projections if rates increases are restricted to lower levels. This example shows a dramatic uplift in debt in the longer term in the event that rates increases are reduced by 1%. This example also restricts capex projects to a minimal 1% growth or ‘capital taper’.

Figure 8. Relationship of RDC rates, capex, debt and rates



This chart provides a visual picture of RDC’s financial strategy outcomes and is a very effective means of understanding the inter-relationship of the key financial levers and what the impact of decisions will be going forward. This approach is used by a number of councils, is recommended by the Controller and Auditor General and illustrates the type of critical information previously not readily available for transparent decision-making.

Our review of the 2012 LTP reveals that the effect of limited rates increases was not well analysed or explained. It should have been expected that the effect of the change in planned rate increase from 2.9% to 0.99% would have been analysed, forecasted and communicated to both councillors and the

public. Use of the ‘flipper’ chart would have provided an informative basis for debate on the impact of this change.

Review of council documentation shows that at no point in the financial reporting process was this analysis or explanation put forward. As a result it would have been difficult for councillors to transparently understand the longer term impact of change to the rates policy.

Balanced budget issues

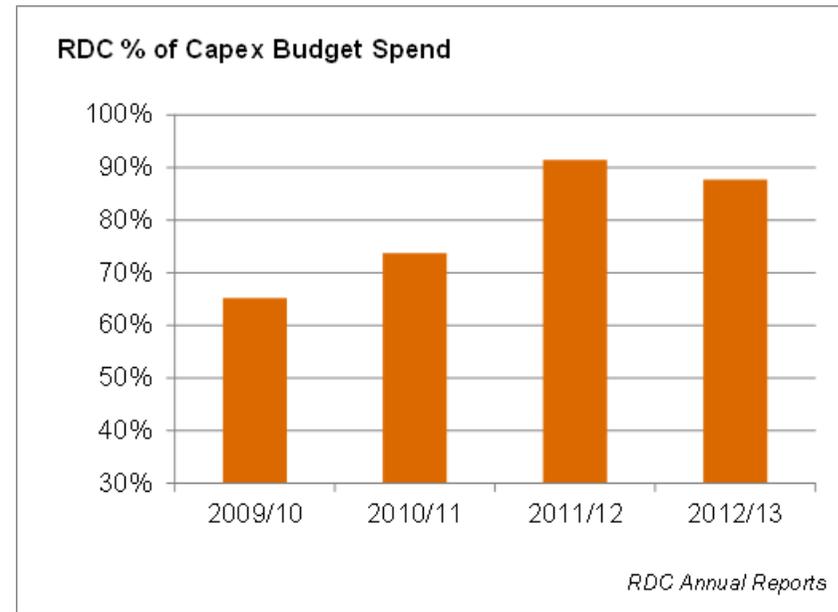
The Local Government Act 2002, section 100 subpart 3 states that “a local authority must ensure that each year’s projected revenues are set at a level sufficient to meet that year’s projected operating expenses.” Over the past two financial years RDC has followed that guideline in its annual plan. However, these formally reported balanced budgets appear to have been underlined by questionable assumptions regarding revenue, operating expense and capital expenditure, and have ultimately resulted in significant operating deficits.

This position is particularly evident in the 2013/14 Annual Plan and documented in section 5 of this report.

CAPEX and cash flow from operations management

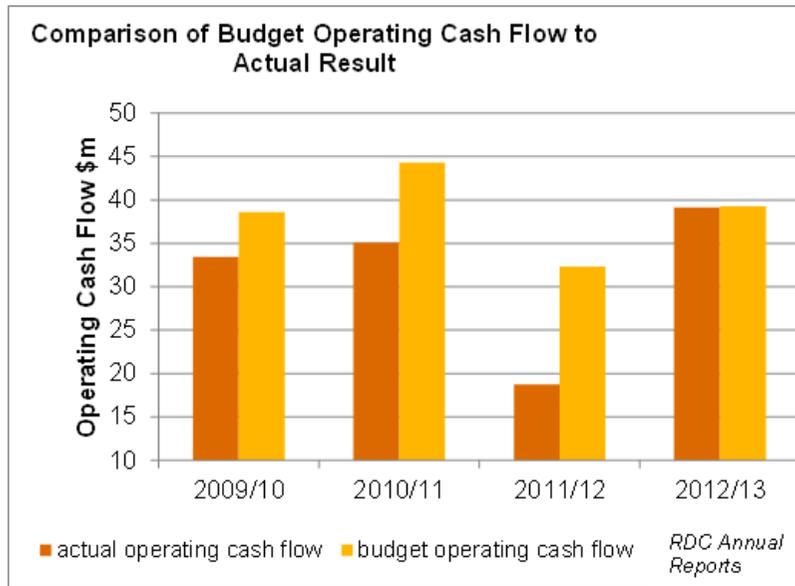
RDC has not historically achieved its annual projected capital spend which is not an uncommon issue across the sector. Figure 9 shows that RDC’s percentage of capex spend has been consistently below 100% over the past four budget years. This chart is compiled from CFI cash outflow for PPE capex actual vs budget spend.

Figure 9. RDC comparison of capex expenditure to budget



The lower capex spend over time leads to an understatement of the year end debt profile. The chart overleaf shows how cash flow from operations up to the 2012/13 financial year, has consistently underperformed budget forecasts, leading to a lower year end debt profile.

Figure 10. RDC comparison of operations to budget



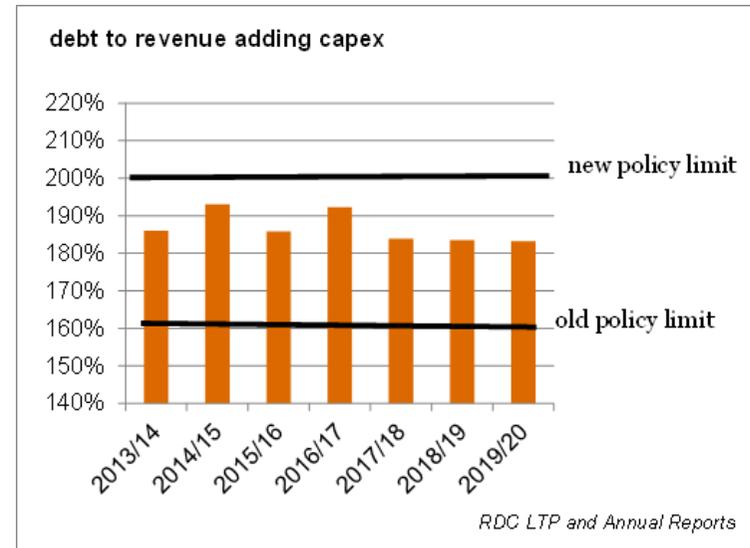
Under-spending on capex was not paralleled in operating expenditure (Figure 10). The financial impact of overspending on operations whilst under-spending on capital projects should have been reported and analysed. From a good management perspective, a full understanding of whether the unspent capex is due to projects no longer being required or simply a delay of projects is critical to a realistic projection of long term debt.

To illustrate the effect of variable capex performance on financial projections, over the past four budgets RDC has underspent its Capex forecast by a total of \$53million¹¹. Figure 11 demonstrates that if the \$53 million which is unspent but essentially committed to capex over the past four years is added to total

¹¹ 24 million in 2009/10, 20 million in 2010/11, 4 million in 2011/12, 5 million in 2012/13

debt forecasts in the 2012 LTP, then debt to revenue will trend to the treasury policy limit of <200%.

Figure 11. RDC debt to revenue with capex adjustment



Delivering opex and capex expenditure effectively to plan, is a significant contributor to an organisation’s solvency position. Accordingly the transparency of the council’s financial performance and position necessitates significant analysis and explanation to prudently manage financial operating performance and capital expenditure. In this regard we note that the revised financial monthly report also contains a section of capital project expenditure, supplemented by cash flow impact reporting in the associated presentation¹² pack.

¹² Financial Performance for the eight months ended 28 February 2014

4. Financial impact reporting

Sections 2 and 3 have highlighted that RDC has the opportunity to substantially improve the transparency of its financial planning and reporting process by utilising additional financial impact reporting. This would aid understanding and decision making both within management and the council. Financial reporting should include comprehensive summary level reporting analysis and financial metrics. This should be applied from annual group reporting, through to presentations and reports to councillors for monitoring, planning and budgeting purposes.

Table 12 shows a list of key financial metrics that could be used in council reporting compared to what has been used. This list is by no means exhaustive or mandated, however it serves as a general guideline. The list was compiled by analysing reporting from other councils as a benchmark of good practice for comparison.

Table 12. Recommended local government financial metrics

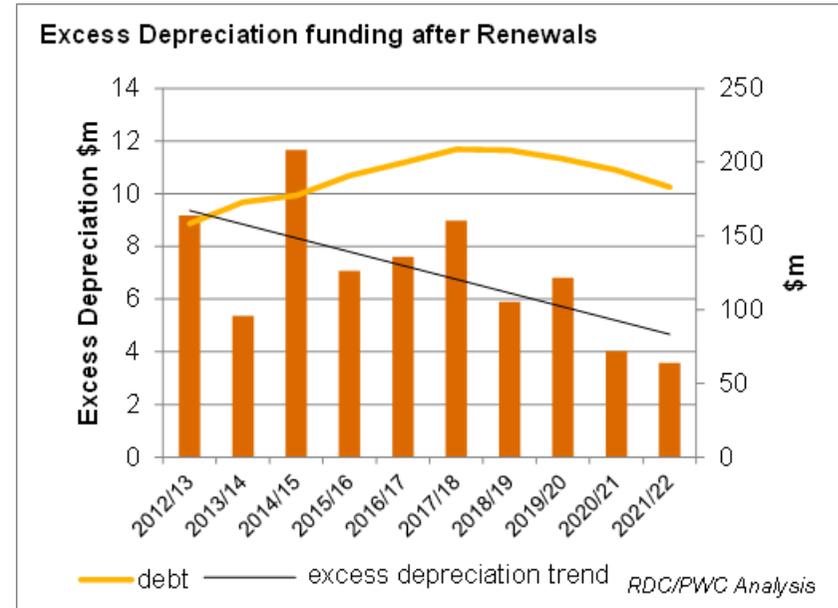
Metric	Quarterly Report	Annual Plans	Annual Reports
Financial Performance			
Activity performance per council group	yes	yes	yes
Capex Summary by activity	no	yes	no
Operating surplus margin	no	no	no

Metric	Quarterly Report	Annual Plans	Annual Reports
Net surplus margin	no	yes	yes
Rates to Total Revenue	no	yes	yes
Capex Analysis			
Return on assets	no	no	no
Capex to depreciation	no	no	no
Capex to operating surplus	no	no	no
Capex to total cash payments	no	no	no
Financial Sustainability			
Net debt as a percentage of total revenue	no	no	no
Net interest as a percentage of total revenue	no	no	yes
Net interest as a percentage of rates revenue	no	no	no
Debt per rateable unit	no	no	no
Debt maturity profile	no	no	no
Financing costs to total revenue	no	no	no
Cash position	no	yes	yes

On reviewing table 12 it is evident that RDC does not currently use many financial metrics to aid monitoring, decision making and planning. Some metrics are utilised in annual reporting but not in previous quarterly reporting where council is arguably in the best position to influence annual expenditures where needed.

Financial metrics are useful to highlight possible future issues, including the effect of capital expenditure movements. For example, analysis of the 2012 LTP reveals that there was a disconnect between debt, depreciation and capital renewals. RDC funds depreciation and uses this funding for capital renewals and debt repayment. This is possible because depreciation is a non-cash expense. Where funded depreciation exceeds renewals there is the option to use that funding for debt repayment. As a result debt repayment is likely to increase and total debt is likely to reduce if there is an increase in the excess of depreciation funding over renewal. Figure 13 shows that over the latter half of the 2012 LTP this excess is actually forecast to reduce significantly. As a result we would expect that funds available for debt repayment should fall. Figure 13 also shows that during the time when we would expect to see less debt repayment (at least in regard to depreciation and renewals), council forecasts significant debt reduction.

Figure 13. RDC depreciation, renewal and debt link



The financial strategy section of the LTP does not address this potential issue. It would have been useful for council to use some of the Capex financial metrics to examine and explain this issue.

5. Other issues

Further examination of key source documentation and consultation with council members reveals that there are other systemic issues within the council's financial process that are causing concern. These include:

- culture of reforecasting
- focus on expenses and not revenue
- construction of the General Ledger
- final quarterly report not matching annual report
- internal recharges policy
- depreciation/renewal expenditure balance
- airport deficit funding
- budget assumption anomalies – 2013/14 Annual Plan.

Budget reforecasting

Over the review period it was noted that managers within RDC were allowed to continuously reforecast budgets. While reforecasting is inevitable, necessary and common place in local government, this reforecasting is undertaken within a structured process and at important juncture points during the year. These junctures are usually limited to the start of the fiscal year (because the budget was constructed in December the year before), the mid-year point and in February when the annual plan process begins.

The issues with continuous reforecasting include:

1. Continuous reforecasting promotes excessive detail and makes it hard to keep track of budgetary changes. It is essential that when budgets are altered, accurate and understandable records are kept to document the variations and explanations. Earlier sections of this report have revealed that there have been instances in the planning and reporting process where significant variances from budget have occurred and inadequate impact and rationale have been provided for these variances.
2. Excessive reforecasting can negatively affect accountability around financial management. If a budget does not have to be adhered to in a disciplined way then it is easy for costs to expand beyond appropriate levels. Document review supports feedback provided in the consultation process, that RDC's past budgeting culture appears to have contained an element of lack of accountability over financial performance. Specifically individual budget units within the organisation were not held to maintaining a close alignment to budget at a summary level as they could reforecast within the detail without repercussion.

We understand that the new finance team's intention is to change this continuous reforecasting method and impose a maximum of three budget re forecasts per year, to improve discipline around this practice.

In doing so, we note that in council's statement of financial performance in its quarterly report, it uses a reforecasted budget column for its 'year to date' performance section. It would be appropriate for comparison and transparency purposes to use an additional column showing the original year to date budget in addition to the reforecasted budget to ensure all figures reported are transparent and understood.

Focus on expenses rather than revenue

Our review of council documentation, public reporting and feedback from interviews reveals that council focus is weighted and prioritised too much toward expense, when it is common practice to equally focus on revenue. Prudent financial management dictates that an organisation should only spend what it can earn so revenue confirmation is essential.

Construction of general ledger

Our discussion with the finance team reinforces the view that council accounting processes are too complex. Most notably the council currently has 800 posting codes which makes the reconciliation of the general ledger very unwieldy. We note that the finance team has made its intentions known to reduce the amount of cost centres for the coming financial year. Additionally over the review period there were instances where the final quarterly reporting did not match the annual report or combined small errors of miscalculation such as 2013 depreciation. These errors are also symptomatic of financial processes that are too complex and which are prone to error or miscalculation. The council finance team are aware of this issue and are attempting to fix it.

Internal recharges policy

Over the review period it was noted that Castlecorp staff and material costs were directly budgeted in the activity receiving these services. Consultation with management suggests that this complexity made budget management difficult for line managers. This complexity makes it difficult to accurately assess the performance of the entity and produce appropriate financial metrics to support the assessment. Common practice would be to leave costs

of staff and materials within Castlecorp activity reporting and then show a recharge from council. We note that council has adopted this recommended policy change.

Airport deficit funding

The position of airport and 'deficit' funding is strongly connected to policy decisions of RDC:

- agreement that RDC would fund the subsidy required to buy/retain the international service
- endorsement by RDC of a policy since 2008 to borrow additional funds to cover debt servicing costs, accentuating the overall council debt provision.

In addition we understand there was a 'collective' expectation between elected members and management for a number of years that capital funding grants would be received from the Bay of Plenty Regional Council which never crystallised.

The combination of these policies along with expectations of third party funding which could never be realised was ultimately unsustainable and should have been addressed earlier by council than appears to have been the case.

Depreciation/renewal expenditure balance

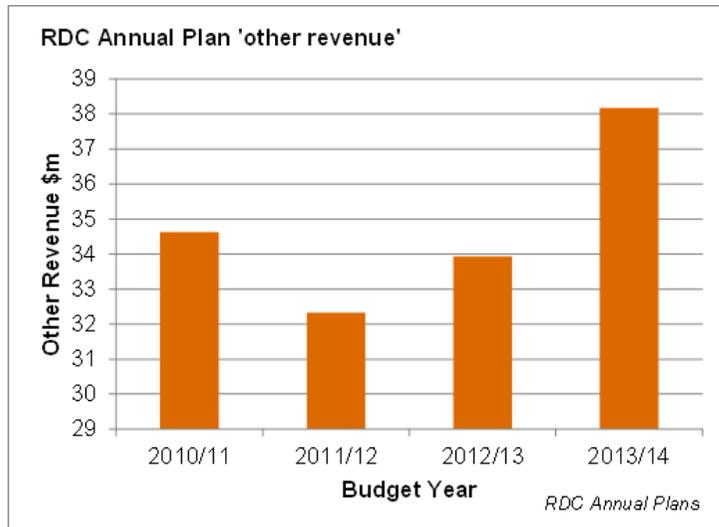
The CFO in his report to council dated 19 December 2013, correctly identified a large difference between depreciation and renewal expenditure of \$13.5m. Ideally there should be a closer correlation of these numbers over the medium to long term. We have been advised that work is currently underway

to better understand this potential mismatch between funding and expenditure.

Operating assumptions

Our review of council’s operating performance by examining internal and external documentation has revealed a number of questions regarding some of the significant financial planning assumptions that have been made over the review period. By way of example, figure 14 shows how the 2013/14 council budget projected a significant increase in other revenue which is made up of subsidies, grants, fees and other revenue. This level of increase should have been accompanied by significant explanation. The 2013/14 annual plan does not contain this explanation.

Figure 14. RDC trend of other revenue



Similarly RDC in recent years has placed significant importance on cost cutting and achieving ‘lean thinking’. While ‘lean’ is certainly a positive initiative, any cost reductions embedded within formal financial plans should be realistic and well explained. In this regard there was an ongoing assumption of a \$1m saving per annum over the life of the LTP ascribed to ‘lean’, without any specific certainty of achievement.

Assumption anomalies – 2013/14 Annual Plan

Reviews undertaken by the new finance team have identified significant anomalies between what has been assumed in the Annual Plan compared to ongoing organisation operations. The team has also advised that there appears to be limited documentation justifying or laying out the specific actions to achieve the following:

- 2% reduction in the annual salary bill
- revenue set at \$28m per annum when long run historical trends indicated it achieved levels in the \$21-23m range excluding one off events such as subsidies
- a favourable difference of approximately \$700,000 between the actual rates ledger receivables and rates revenue forecast in the annual plan
- ongoing ‘lean’ budget efficiency target of \$1m.

The change of key staff during 2013/14 Annual Plan production would not have been helpful, but to date neither the finance team nor operational management have been able to fully reconcile these assumptions put forward by the previous executive. We have also been advised that there were errors in record-keeping across a number of other budgetary building blocks including reserve accounts.

The new executive team has had to rapidly develop mitigation plans to address the overall net negative effect of these budget shortfalls.

6. Council response

To complement the budget mitigation plans required to address the negative financial outlook, RDC has made or is in the process of making a number of changes to its financial reporting processes. These have been captured in the Financial Sustainability Report presented to council by the CFO on 19 December 2013, and the Financial Performance Report presented to the Operations and Monitory Committee on 12 March 2014. This has resulted in the construction of a sustainable financial framework given the explicit acknowledgement of a revenue/cost imbalance outlined. From a financial reporting and process perspective, this has resulted in:

- introduction of monthly financial reporting across both the organisation and to the council
- an increase in the analysis section of its monthly report to add additional explanation
- summarisation of council group activity performance into a more streamlined and manageable document
- addition of balance sheet and cash flow statements
- a commitment to further develop analysis and explanation for financial issues including depreciation, understanding staff cost reduction, rate increase stability and debt reduction
- an intention to simplify some of the council's accounting procedures
- explicit incorporation of a sustainable financial framework within the 2014/15 draft Annual Plan, currently issued for public consultation

- formalisation of pre-committee/council financial reporting 'run-throughs' between the Executive and councillors.

These measures are in line with the findings of this report and should all have a positive effect upon future transparency and decision making. In this regard, table 15 highlights the key contrasting differences between the previous quarterly report and the new monthly report format.

Table 15. Quarterly/monthly report summary content comparison

	<i>November 2011</i>	<i>March 2014</i>
Income statement order	Expense first	Revenue first
Balance Sheet	No	Yes
Cash Flow Statement	No	Yes
Summary analysis	No	Yes
Capex Summary	No	Yes
Detailed financial impact/metric analysis	No	No

7. *Recommendations and next steps*

During the course of the review we identified a number of recommendations and next steps. Some of these were already in progress or have now been addressed. Others can be implemented as part of subsequent annual planning or LTP processes.

Recommendations

Recommendations adopted or in progress:

- monthly reporting to succeed quarterly reporting
- adding balance sheet/cash flow information to monthly reports
- increasing the analysis and explanation regarding key financial decisions in public reporting
- ensuring consistency in the content and set up of monthly reporting and annual plan budget presentations
- applying more stringent analysis to LTP assumptions, in particular regarding capital expenditure, rates and debt
- fully explaining any major variances from budget and analysing the implications of the variance.

Recommendations for subsequent consideration:

- create smart financial summaries and trend data that facilitates greater governance focus on the overall position of RDC as opposed to individual portfolios and projects

- broaden the analysis of debt levels to expand treasury policy reporting and regularly examine the links between debt, rates, revenue and capital expenditure
- increase the use of financial metrics both as a tool for analysis and as a transparent means of communication
- address the systemic issues relating to budget reforecasting, accounting process simplification and expense focus outlined in section 4
- initiate preliminary reporting of financial performance benchmarks¹³ required by statute to be reported within the upcoming 2013/14 Annual Report
- investigate the merits of seeking a credit agency rating given the potential to reduce finance charges below the annual cost of rating
- review the merits of further enhancing monthly reporting to better meet the needs of reader segments (operational, executive, elected member) including non-financial and trend reporting
- consider pre-planning the LTP programme in detail and report through to council before implementing
- consider the opportunity for elected members to attend the Local Government New Zealand financial governance know-how programme in parallel with the LTP programme
- review existing capital project business case processes with reference to Treasury's Better Business Cases (BBC) Guidelines

¹³ Local Government (Financial Reporting Prudence) Regulations 2014

- utilise the compulsory development of 30 year infrastructure plans as part of the 2015-25 LTP, as an opportunity to test RDC financial sustainability beyond the required 10 year financial strategy outlook
- build on the current proposed organisation structural changes to improve financial awareness and capability in the wider management group while continuing to enhance financial information that meets business needs.

Finally, we would recommend following management's review of these recommendations, that they develop a programme to implement those adopted over the next 1-2 years.

Appendix A: Restrictions

This report has been prepared solely for the purposes stated herein and should not be relied upon for any other purpose. We accept no liability to any party should it be used for any purpose other than that for which it was prepared.

This report is strictly confidential and (save to the extent required by applicable law and/or regulation) must not be released to any third party without our express written consent which is at our sole discretion.

To the fullest extent permitted by law, PwC accepts no duty of care to any third party in connection with the provision of this Report and/or any related information or explanation (together, the “Information”). Accordingly, regardless of the form of action, whether in contract, tort (including without limitation, negligence) or otherwise, and to the extent permitted by applicable law, PwC accepts no liability of any kind to any third party and disclaims all responsibility for the consequences of any third party acting or refraining to act in reliance on the Information.

We have not independently verified the accuracy of information provided to us, and have not conducted any form of audit. Accordingly, we express no opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied.

The statements and opinions expressed herein have been made in good faith, and on the basis that all information relied upon is true and accurate in all material respects, and not misleading by reason of omission or otherwise.

The statements and opinions expressed in this report are based on information available as at the date of the report.

We reserve the right, but will be under no obligation, to review or amend our Report, if any additional information, which was in existence on the date of this report, was not brought to our attention, or subsequently comes to light.

This report is issued pursuant to the terms and conditions set out in our terms of engagement dated 19 February 2014.

Appendix B: Financial decision-making and reporting chronology 2011-2014

Dates	Council/Committee	Description
15-17 February 2011	Corporate and Customer Services Committee	First cut 2011/12 Annual Plan.
22 February 2011	Corporate and Customer Services Committee	Quarterly six monthly financial and operating report to 31 December 2010 including supplementaries covering the three key groups: <ul style="list-style-type: none"> • corporate and customer services • economic and regulatory services • infrastructure services
16 March 2011	Corporate and Customer Services Committee	Adoption of the Draft Annual Plan 2011/12.
30 March 2011	Council	Draft annual plan 2011/12 for approval
24 May 2011	Corporate and Customer Services Committee	Quarterly nine monthly report to 31 March 2011
30 June 2011	Council	Borrowing programme 2011/12
15 September 2011	Corporate and Customer Services Committee	Financial strategy background
20 September 2011	Corporate and Customer Services Committee	Quarterly report to 30 June 2011
27 October 2011	Corporate and Customer Services Committee	Direction setting update for the 2012-22 Long Term Plan
29 November 2011	Corporate and Customer Services Committee	Quarterly report to 30 September being the first quarter of 2011/12
14 February 2012	Corporate and Customer Services Committee	First cut Annual Plan
28 February 2012	Corporate and Customer Services Committee	Quarterly report to 31 st December 2011
1 March 2012	Corporate and Customer Services Committee	Report on final 2012/13 draft annual plan
29 March 2012	Council	Adoption of Draft Annual Plan
22 May 2012	Corporate and Customer Services Committee	Quarterly report to 31 st March 2012
9 October 2012	Corporate and Customer Services Committee	Quarterly report to 30 June 2012
17 October 2012	Audit Committee	Audit New Zealand report

<i>Dates</i>	<i>Council/Committee</i>	<i>Description</i>
27 November 2012	Corporate and Customer Services Committee	Quarterly report to 30 September 2012
13 February 2013	Corporate and Customer Services Committee	Quarterly report to 31 December 2012
25-27 February 2013	Corporate and Customer Services Committee	Draft 2013/14 Annual Plan consideration
20 March 2013	Corporate and Customer Services Committee	Final budget changes report for draft 2013/14 Annual Plan
28 March 2013	Council	Draft 2013/14 Annual Plan
8 May 2013	Corporate and Customer Services Committee	Quarterly report to 31 March 2013
14-16 May 2013	Corporate and Customer Services Committee	Submissions to draft 2013/14 Annual Plan
4-6 June 2013	Corporate and Customer Services Committee	Long term debt and its management report from the Chief Executive
17 June 2013	Audit Committee	Audit NZ report regarding Long Term Plan
28 June 2013	Council	Adoption of the 2013/14 Annual Plan
24 September 2013	Corporate and Customer Services Committee	Quarterly report to 30 June 2013
10 October 2013	Corporate and Customer Services Committee	2012/13 Annual Report
30 October 2013	Council	Adoption of 2012/13 Annual Report
19 December 2013	Council	Financial sustainability report
12 March 2014	Operations and Monitoring Committee	Financial performance report for the seven months ended 31 January 2014 – new and revised format

Appendix C: Financial strategy best practice template comparison

<i>Financial Strategy - council best practice template comparison table</i>	<i>Regional 2012 LTP</i>	<i>RDC 2012 LTP</i>
1. Introduction	√	√
Outline	√	√
Format	√	√
2. Context		
Scene setter/economic backdrop	-	√
Other issues facing the council	√	√
Current financial situation	√	√
High level assumptions	√	√
3. Strategic Objectives	√	√
4. Levels of Service	√	√
5. Financial Strategy	√	√
Expenditure requirements	√	√

<i>Financial Strategy - council best practice template comparison table</i>	<i>Regional 2012 LTP</i>	<i>RDC 2012 LTP</i>
Income – implications on how you would fund	√	√
Risks, issues and mitigations	√	√
Linkages to other policies and their relevance	√	-
Limits and ratios	√	√
6. Impacts	√	√

Appendix D: Treasury policy guidelines

Revised Treasury policy limits – all within limits (as approved by council 13 December 2012):

- (a) Net debt as a percentage of equity to be less than 20%
- (b) Net debt as a percentage of income to be less than 200%
- (c) Net interest as a percentage of income to be less than 15%
- (d) Liquidity (external debt + cash or near cash financial investments + committed loan facilities, to existing external debt) to be greater than 100%
- (e) No more than \$60 million or 50% of existing external borrowing (whichever is the greater) is subject to refinancing in any one year

Other control limits (as per previous Treasury policy):

- (f) Net cashflows from operating activities are to exceed gross annual interest expenses by a multiple of at least 2
- (g) Maximum debt not to exceed 20% of total assets