Northland Regional Council – Audit and Finance Working Party

2017/18 Annual Report

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Like in the last couple of years I have had meetings with Simon Crabb and members of the audit team throughout the preparation and audit of the 2018 report. I make the following observations and comments in relation to this year's Annual Report and about the continuous improvements being achieved in the associated processes and due to the positive relationship between Deloitte and NRC staff:

1. Like 2017 this year's result is significantly ahead of annual plan – NRC has posted a $4Million surplus of which $3.85Million results from non-cash revaluation gains on investments and surpluses tagged for special reserves; councillors will note that last year we posted a $8.9Million surplus of which $6.88Million resulted from similar revaluations and a further $2.97 was because of the revaluation (again non-cash) of infrastructure assets. Paring the 2016, 2017 and 2018 results back to operating cashflows is presented in the table below;

NRC 2016 -2018 Trends from Statement of cashflows (council only)					
Operating cashflows (NZ$000s)		**2016**	**2017**	**2018**	**Average change**
	NRC controlled inflows (rates etc)	30,181	30,786	32,452	**3.71%**
	MMH Dividends	2,712	3,100	3,432	**12.51%**
	Total	32,893	33,886	35,884	
	Operating costs	(30,733)	(33,755)	(35,047)	**6.83%**
	Reported operating cash inflow	2,160	131	837	
	Total decrease in cash	(3,834)	(453)	(224)	**-69.4%**

The impact of shifting dependence onto investment and dividend income and off the ratepayer to fund council operations is now emerging from the numbers. The cash inflows under our control are increasing at half the rate of increases to operating costs. The key trend is:

- we are consuming cash as a result of operations and through purchasing income producing assets and increasing our reliance on those assets. This strategy increases risk. We have developed crude but useful models which view our balance sheet as a portfolio and which can monitor the increasing value at risk (in terms of risk of loss) attached to NRC's entire balance sheet. I recommend council continue the development of risk models to review balance sheet level risk and have implantable plans to de-risk the balance sheet if circumstances require it.

2. In 2018 NRC further strengthened the balance sheet but not to the same extent as in 2017. In 2018 net assets grew by $4millions, in 2017 by $9millions.

3. Note 21 to the accounts highlights the increase in borrowings in the period to June 2018

Year	2016	2017	2018
Total borrowings NZ$Millions	13	13	18.5

NRC has borrowed from LGFA to fund projects and for other purposes and plans to increase the levels of borrowings over time. These liabilities are partially matched by financial assets and their repayment is well planned and will be from repayments of loans and income from targeted rates. Interest rate risk is minimal and occurs in a period of time where funds will be held from when they are collected through to the fixed repayment date of the borrowings – council through Dave Tam's team and its Investment Subcommittee should keep abreast of the outlook for interest rates as this period approaches and consider hedging to mitigate those risks.

4. There has been no improvement to the dollar value of aged (past 120 days) debt which now stands at $3.4 Million; we have provided $2.7 Million for non-collection and once again I recommend reviewing arrangements with the TAs who collect our rates with a view to incentivising collection of cash rather than invoicing of rates in the future and investigate if any options exist with central government to provide relief for the loss of cash income the historic debts represent. Note that in the period FNDC/NRC wrote off $112K of NRC rates arrears relating to mid north transport where properties outside the area benefiting had been charged rates over 2 years.

5. The relationship with our auditors has gone from strength to strength. With Peter Gulliver's help and advice and while remaining fully compliant with reporting requirements we have trimmed much superfluous material from the Annual Report. This improves the readability of the report and reduces the work required for Simon and Deloitte. There are further improvements planned for next year's audit; we are hoping to have quarterly catch up sessions with Deloitte to discuss and confirm treatment of any significant new items in the accounts and thereby take further pressure off the audit process at year-end (Deloitte have referred to this initiative in their report to council). As I have said before councillors should not underestimate the benefit to NRC our Chair and Deputy Chair have secured for us by 'taking on' the Office of the Auditor General in switching auditor nor the ongoing and future benefits Dave Tams and Simon Crabb are securing by maintaining such a frank, open and professional relationship with the Deloitte team.