

Agenda for a meeting of the Strategy & Finance Committee to be held in the Council Chambers, District Office, 15 Galileo Street, Ngaruawahia on **WEDNESDAY 22 MARCH 2017** commencing at **9.00am**.

Information and recommendations are included in the reports to assist the committee in the decision making process and may not constitute Council's decision or policy until considered by the committee.

1. APOLOGIES AND LEAVE OF ABSENCE

2. CONFIRMATION OF STATUS OF AGENDA

3. DISCLOSURES OF INTEREST

4. CONFIRMATION OF MINUTES

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Gj Ion

CHIEF EXECUTIVE

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Open Meeting

| | |
|---------------------------------|---|
| To | Strategy & Finance Committee |
| From | Gavin Ion Chief Executive |
| Date | 24 February 2017 |
| Prepared by | Lynette Wainwright Committee Secretary |
| Chief Executive Approved | Y |
| Reference # | GOV1301 |
| Report Title | Confirmation of Minutes |

1. EXECUTIVE SUMMARY

To confirm the minutes of the Strategy & Finance Committee meeting held on Wednesday 22 February 2017.

2. RECOMMENDATION

THAT the minutes of the meeting of the Strategy & Finance Committee held on Wednesday 22 February 2017 be confirmed as a true and correct record of that meeting.

3. ATTACHMENTS

S&F Minutes 22 February 2017

MINUTES for a meeting of the Strategy & Finance Committee of the Waikato District Council held in the Council Chambers, District Office, 15 Galileo Street, Ngaruawahia on **WEDNESDAY 22 FEBRUARY 2017** commencing at **9.06am**.

Present:

Cr JM Gibb (Chairperson)
His Worship the Mayor Mr AM Sanson [until 9.15am and from 9.20am]
Cr A Bech
Cr JA Church
Cr DW Fulton
Cr S Henderson
Cr SD Lynch
Cr RC McGuire
Cr FM McNally
Cr BL Main
Cr EM Patterson
Cr JD Sedgwick
Cr NMD Smith [until 9.32am and from 9.45am until 9.50am and from 9.58am]
Cr LR Thomson [from 9.08am]

Attending:

Mr T Whittaker (General Manager Strategy & Support)
Ms S Duignan (General Manager Customer Support)
Mrs LM Wainwright (Committee Secretary)
Ms K Bredenbeck (Huntly i-Site)
Ms D Dalbeth (Business Analyst)
Mr G Boundy (Senior Environmental Planner)
Ms A Diaz (Finance Manager)
Mr C Morgan (Economic Development Manager)

APOLOGIES AND LEAVE OF ABSENCE

Resolved: (Crs Church/Bech)

THAT an apology for lateness be received from Cr Thomson.

CARRIED on the voices

S&F1702/01

CONFIRMATION OF STATUS OF AGENDA ITEMS

Resolved: (Crs Sedgwick/Patterson)

THAT the agenda for a meeting of the Strategy & Finance Committee held on Wednesday 22 February 2017 be confirmed and all items therein be considered in open meeting with the exception of those items detailed at agenda item 7 which shall be considered with the public excluded.

CARRIED on the voices

S&F1702/02

DISCLOSURES OF INTEREST

There were no disclosures of interest.

CONFIRMATION OF MINUTES

Resolved: (Crs Sedgwick/McGuire)

THAT the minutes of a meeting of the Strategy & Finance Committee held on Tuesday 22 November 2016 be confirmed as a true and correct record of that meeting.

CARRIED on the voices

S&F1702/03

RECEIPT OF SUBCOMMITTEE MINUTES

Resolved: (His Worship the Mayor/Cr Sedgwick)

THAT the minutes of a meeting of the Audit & Risk Subcommittee held on Monday 19 December 2016 be received and that the following resolutions be adopted by the Strategy & Finance Committee:

Internal Audit Programme - A&R1612/04/6

THAT the Strategy & Finance Committee support focus on resolving existing audit recommendations rather than progressing additional internal audit activity at this stage;

AND THAT an allocation of internal audit funding be used to progress the recommendations from the Risk Maturity Assessment;

AND FURTHER THAT the updated Strategic Risk Register be used to formulate a new list of internal audit activity.

Strategic Risk Update - A&R1612/04/10

THAT the revised Strategic Risk Register be provided to Council for information.

CARRIED on the voices

S&F1702/04

Cr Thomson entered the meeting at 9.08am during discussion on the above item and was present when voting took place.

REPORTSWaikato Enterprise Agency
Agenda Item 6.1

This item was further considered later in the meeting.

Resolved: (Crs Lynch/Sedgwick)

THAT the report from the General Manager Strategy & Support be received.

CARRIED on the voices

S&F1702/05

2016-2017 Second Quarter Non-Financial Performance Report
Agenda Item 6.2

Resolved: (Crs Sedgwick/Thomson)

THAT the report from the General Manager Strategy & Support be received.

CARRIED on the voices

S&F1702/06

His Worship the Mayor withdrew from the meeting at 9.15am during discussion on the above item and re-entered the meeting at 9.20am and was present when voting took place.

Cr Smith withdrew from the meeting at 9.32am during discussion on the above item and was not present when voting took place.

Waikato Enterprise Agency
Agenda Item 6.1

This item was previously considered in the meeting (*Res.S&F1702/05 refers*). Ms Bredenbeck presented a powerpoint presentation and answered questions of the committee.

Cr Smith re-entered the meeting at 9.45am during the presentation.

Cr Smith withdrew from the meeting at 9.50am during the presentation.

Hauraki Gulf Forum Minutes
Agenda Item 6.3

Resolved: (Crs McGuire/Church)

THAT the report from the General Manager Strategy & Support be received.

CARRIED on the voices

S&F1702/07

Cr Smith re-entered the meeting at 9.58am during discussion on the above item and was present when voting took place.

Hauraki Gulf Marine Spatial Plan – Sea Change - Tai Pari Tai Timu
Agenda Item 6.4

Resolved: (Crs Fulton/McGuire)

THAT the report from the General Manager Strategy & Support be received.

CARRIED on the voices

S&F1702/08

Financial Review of Key Projects
Agenda Item 6.5

Resolved: (Crs Bech/Lynch)

THAT the report from the Chief Executive be received.

CARRIED on the voices

S&F1702/09

Update on the budget expenditure for the Tuakau and the Ngaruawahia & Surrounds Structure Plan Projects
Agenda Item 6.6

Resolved: (Crs Church/Patterson)

THAT the report from the General Manager Strategy & Support be received.

CARRIED on the voices S&F1702/10

Lake Hakanoa Motor Caravan Park Six Month Report
Agenda Item 6.7

Resolved: (Crs Lynch/Sedgwick)

THAT the report from the General Manager Strategy & Support be received.

CARRIED on the voices S&F1702/11

Waikato District Community Wellbeing Trust Draft Statement of Intent for the year ended 30 June 2018
Agenda Item 6.8

Resolved: (Crs McGuire/Lynch)

THAT the report from the General Manager Strategy & Support be received;

AND THAT the Strategy & Finance Committee provides support or suggested changes to the trustees.

CARRIED on the voices S&F1702/12

His Worship the Mayor and Cr Church requested their abstentions be recorded.

Waikato District Council Community Wellbeing Trust – Interim Performance Report for the 6 months ended 31 December 2016
Agenda Item 6.9

Resolved: (Crs Main/McInally)

THAT the report from the General Manager Strategy & Support be received;

AND THAT the financial statements be received in accordance with the Local Government Act.

CARRIED on the voices S&F1702/13

Cr Church requested her abstention be recorded.

Treasury Report at 31 December 2016
Agenda Item 6.10

Resolved: (Crs Thomson/Patterson)

THAT the report from the General Manager Strategy & Support be received.

CARRIED on the voices

S&F1702/14

Summary of Movements in Discretionary Funds to 13 February 2017
Agenda Item 6.11

Resolved: (Crs Sedgwick/Lynch)

THAT the report from the General Manager Strategy & Support be received.

CARRIED on the voices

S&F1702/15

The meeting adjourned at 10.29am and resumed at 10.57am.

Economic Development Update
Agenda Item 6.12

Resolved: (Crs Sedgwick/Church)

THAT the report from the General Manager Strategy & Support be received.

CARRIED on the voices

S&F1702/16

The meeting adjourned at 11.20am and resumed at 11.46am.

EXCLUSION OF THE PUBLIC

Agenda Item 7

Resolved: (Crs Thomson/Henderson)

THAT the report of the Chief Executive be received;

AND THAT the public be excluded from the meeting to enable the Strategy & Finance Committee to deliberate and make decisions on the following items of business:

Confirmation of Minutes dated Tuesday 22 November 2016

Receipt of Minutes:

- **Audit & Risk Committee dated Monday 19 December 2016**

REPORTS**a. Economic Development Update**

This resolution is made in reliance on section 48(1)(a) and 48(2)(a) of the Local Government Official Information and Meetings Act 1987 and the particular interest or interests protected by sections 6 or 7 of that Act which would be prejudiced by the holding of the whole or the relevant part(s) of the proceedings of the meeting in public are as follows:

Reason for passing this resolution to withhold exists under: **Ground(s) under section 48(1) for the passing of this resolution is:**

Section 7(2)(f)(h)(i)(j)

Section 48(1)(a)(d)

CARRIED on the voices

S&F1702/17

Resolutions S&F1702/18 – S&F1702/21 are contained in the public excluded section of these minutes.

Having resumed open meeting and there being no further business the meeting was declared closed at 12.01pm.

Minutes approved and confirmed this day of 2017.

JM Gibb
CHAIRPERSON

Open Meeting

| | |
|---------------------------------|--|
| To | Strategy & Finance Committee |
| From | Tony Whittaker General Manager Strategy & Support |
| Date | 9 March 2017 |
| Prepared by | Alison Diaz Finance Manager |
| Chief Executive Approved | Y |
| Reference # | GOV1318 |
| Report Title | Local Government Funding Agency six monthly report |

1. EXECUTIVE SUMMARY

The attached interim report for the Local Government Funding Agency provides an update on the agencies performance over the past six months and summarises key outputs for the period.

2. RECOMMENDATION

THAT the report from the General Manager Strategy & Support be received.

3. ATTACHMENTS

New Zealand Local Government Funding Agency half year report



NEW ZEALAND
LOCAL GOVERNMENT
FUNDING AGENCY



HALF YEAR REPORT

31
DECEMBER
2016



| | |
|---|----|
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Cover: Opening Day, Ashley Bridge (Cones Rd, Rangiora). The old bridge which has since been deconstructed is in the foreground. The bridge connects the Township of Rangiora directly with Ashley and Loburn. Waimakariri District Council. Photo: Aaron Campbell.

Left: A family ride along the new Matai Street cycleway, part of the Uni–Cycle Major Cycle Route which links the University to the city. Christchurch City Council.

CHAIRMAN'S REPORT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

“LGFA continues to provide attractive borrowing terms to council members while providing a highly rated, liquid NZD fixed income instrument for investors.”

Craig Stobo, Chairman LGFA Board



Directors would like to highlight the following developments at LGFA for the six-month period to December 2016:

Strong Financial and Operational Performance in line with the Statement of Intent (SOI) forecasts

LGFA total interest income for the six-month period of \$155.711 million was a 16.0% increase over the 2015-16 comparable period of \$134.217 million while Net Operating Profit of \$5.312 million was a 11.4% increase on the 2015-16 comparable period of \$4.769 million.

The financial strength of LGFA was reaffirmed by credit rating agencies Standard & Poor's and Fitch Ratings who maintained our credit rating at AA+. Our credit rating is the same as the NZ Government.

In October 2016, LGFA announced a bond lending programme where it would lend bonds to bank pricemakers assisting with deepening secondary market liquidity by facilitating tighter bid/offer spreads in LGFA bonds. In the first two months of this facility, LGFA has lent bonds on twelve transactions.

Borrowing activity

Over the past six months, LGFA has issued \$595 million of long-dated bonds. While this is in line with SOI forecast, it is one of the lowest issuance amounts over a six-month period, reflecting reduced borrowing demand from our council members.

LGFA has now issued \$6.815 billion of bonds on behalf of its council members across seven maturities from 2017 to 2027. LGFA is one of the largest issuers of NZD securities after the NZ Government and our bonds are amongst the largest and most liquid NZD debt instruments available for investors.

Lending to the sector

LGFA was established in late 2011 to provide long-dated borrowing, certainty of access to markets and to reduce the borrowing costs for the local government sector. It is pleasing to note the following achievements over the past six months:

- We admitted Central Hawkes Bay District Council as a new member, bringing total membership to fifty-one councils.

- Bespoke lending continues to be popular for councils in that it provides flexibility as to maturity dates of borrowing and the date of drawdown. LGFA lent \$190 million on a bespoke basis for the six-month period. This was approximately 36% of our total lending over that period. Bespoke loans outstanding are now \$676 million or 10% of our total loan book.
- Short-dated lending (less than 365 day terms) to councils, introduced in November 2015, has been very successful with outstandings now at \$240 million lent to seventeen councils. This compares to \$44 million lent to three councils as at December 2015.
- Credit quality of the sector continues to improve with all councils remaining compliant with the LGFA lending covenants and three councils in 2016 either receiving an upgrade to their credit ratings or a positive outlook change to their rating.

Finally, at this time I would like to acknowledge the support of Local Government New Zealand (LGNZ) and its chief executive Malcolm Alexander who has helped LGFA continue to provide highly valued services to the sector despite our Wellington offices being closed as a result of the Kaikoura earthquakes in November 2016. The LGFA Wellington based team are currently working from the LGNZ offices until we can safely return to our previous location.

On behalf of my fellow directors I am pleased to be part of the continued success of this organisation and wish to thank our council shareholders, guarantors and borrowers as well as our financial intermediaries and investors for their continued support.

Craig Stobo
Chairman, LGFA Board

Rauparaha Street Pump Station upgrade. Kapiti Coast District Council.





STATEMENT OF SERVICE PERFORMANCE

A stormwater mixing chamber is lowered into place as part of a comprehensive upgrade on the Little Go Stream. Nelson City Council.

Performance Against Objectives and Performance Targets

1 PRIMARY OBJECTIVES

LGFA operates with two primary objectives

1. Optimising the debt funding terms and conditions for participating local authorities.
2. LGFA will monitor the quality of the asset book so that it remains of a high standard by ensuring it understands each participating local authority's financial position and the general issues confronting the Local Government sector:

1.1 Optimising the debt funding terms and conditions for participating local authorities

(i) Providing savings in annual interest costs for all participating local authority's on a relative basis to other sources of financing

LGFA measures the pricing performance of bond tenders against two key benchmarks:

- LGFA aims to reduce its margin over New Zealand Government bonds (NZGBs)
- LGFA aims to minimise its margin over swap rates to provide cost effective funding to councils.

The LGFA margin to swap and NZGB will depend upon a number of factors including the relative demand and supply of high grade bonds, general credit market conditions, performance of NZGBs and swap rates, investor perceptions of LGFA and the issuance volume and tenor of LGFA bonds.

Given that LGFA tends to match fund its on-lending to councils, ie. tends to issue bonds in the same tenor and volume as its on-lending, then LGFA only has influence over investor perception amongst the above factors that determine LGFA spreads to NZGB and swap.

There will be periods within the interest rate and credit market cycles when LGFA bonds will outperform its benchmarks (spread narrowing) and there will be periods of time when LGFA bonds underperform (spreads widening).

LGFA spreads to its benchmarks have consistently narrowed since it first began issuing bonds in February 2012, but these spreads have widened from the historical lows over the past twelve months.

Over the course of the six-month period to 31 December 2016:

- LGFA margins to NZGB widened between 1 basis points (bps) (2021s) and 4 bps (2017s) but also narrowed between 10 bps (2023s) and 17 bps (2027s).
- LGFA margins to swap widened 2 bps on all LGFA maturities except for 2019s (unchanged) and 2017s (3 bps tighter).

These secondary market pricing movements are summarised in the following tables:

| MARGINS – 15 DECEMBER 2017 | As at 30 June 2016 (bps) | As at 31 Dec 2016 (bps) | Pricing movement |
|------------------------------------|--------------------------|-------------------------|------------------|
| LGFA margin to NZ Government Bonds | 40 | 44 | 4 |
| NZGB margin to swap | (19) | (26) | (7) |
| LGFA margin to swap | 21 | 18 | (3) |

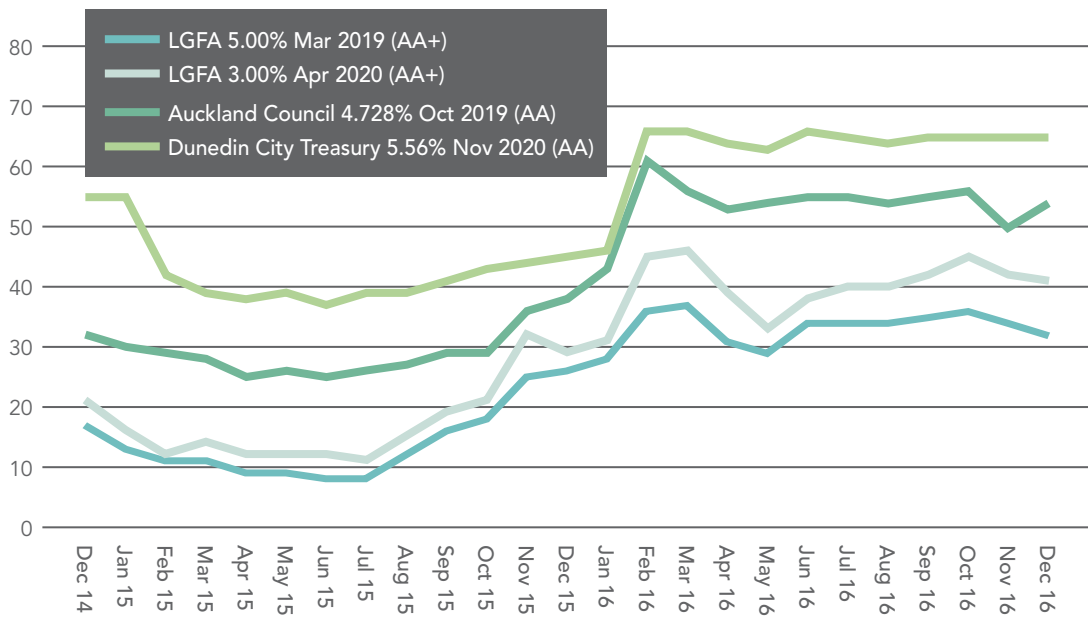
| MARGINS – 15 MARCH 2019 | As at 30 June 2016 (bps) | As at 31 Dec 2016 (bps) | Pricing movement |
|------------------------------------|--------------------------|-------------------------|------------------|
| LGFA margin to NZ Government Bonds | 54 | 58 | 4 |
| NZGB margin to swap | (21) | (25) | (4) |
| LGFA margin to swap | 33 | 33 | - |
| MARGINS – 15 APRIL 2020 | As at 30 June 2016 (bps) | As at 31 Dec 2016 (bps) | Pricing movement |
| LGFA margin to NZ Government Bonds | 61 | 69 | 8 |
| NZGB margin to swap | (23) | (29) | (6) |
| LGFA margin to swap | 38 | 40 | 2 |
| MARGINS – 15 MAY 2021 | As at 30 June 2016 (bps) | As at 31 Dec 2016 (bps) | Pricing movement |
| LGFA margin to NZ Government Bonds | 72 | 73 | 1 |
| NZGB margin to swap | (29) | (28) | 1 |
| LGFA margin to swap | 43 | 45 | 2 |
| MARGINS – 15 APRIL 2023 | As at 30 June 2016 (bps) | As at 31 Dec 2016 (bps) | Pricing movement |
| LGFA margin to NZ Government Bonds | 89 | 79 | (10) |
| NZGB margin to swap | (39) | (27) | 12 |
| LGFA margin to swap | 50 | 52 | 2 |
| MARGINS – 15 APRIL 2025 | As at 30 June 2016 (bps) | As at 31 Dec 2016 (bps) | Pricing movement |
| LGFA margin to NZ Government Bonds | 94 | 81 | (13) |
| NZGB margin to swap | (37) | (15) | 22 |
| LGFA margin to swap | 57 | 66 | 9 |
| MARGINS – 15 APRIL 2027 | As at 30 June 2016 (bps) | As at 31 Dec 2016 (bps) | Pricing movement |
| LGFA margin to NZ Government Bonds | 106 | 89 | (17) |
| NZGB margin to swap | (36) | (17) | 19 |
| LGFA margin to swap | 70 | 72 | 2 |

The movement in LGFA bond spreads to NZGB has been largely driven by the movements in swap spreads to NZGB. Swap spreads to NZGB have been volatile and influenced by the amount of corporate fixed rate hedging and bank hedging of mortgage books over the past six months. Short-dated swap spreads have widened as banks hedge their mortgage books while the absence of corporate borrowing in the long end combined with ongoing long-dated NZ Government bond issuance has led to a contraction in long-dated swap spreads. LGFA bonds have outperformed NZGBs in the longer end of the curve and underperformed in the shorter end.

LGFA bonds have slightly widened to swap as credit spreads in general have moved slightly wider over the past six months.

LGFA continues to provide savings in borrowing cost for councils relative to other sources of borrowing. We compare our secondary market spreads on LGFA bonds to those of Auckland Council and Dunedin City Treasury. The implied pricing advantage of LGFA based upon this measure has reduced by between 1 bps (2017s) and 11 bps (2025s) over the past six months. This measure can be volatile given that it is based upon secondary market pricing estimates and LGFA is a regular issuer of bonds in the primary market whereas both Auckland and Dunedin Councils are infrequent borrowers.

LGFA March 2019 and April 2020 secondary market credit margin over swap (bps)



Source PwC and LGFA

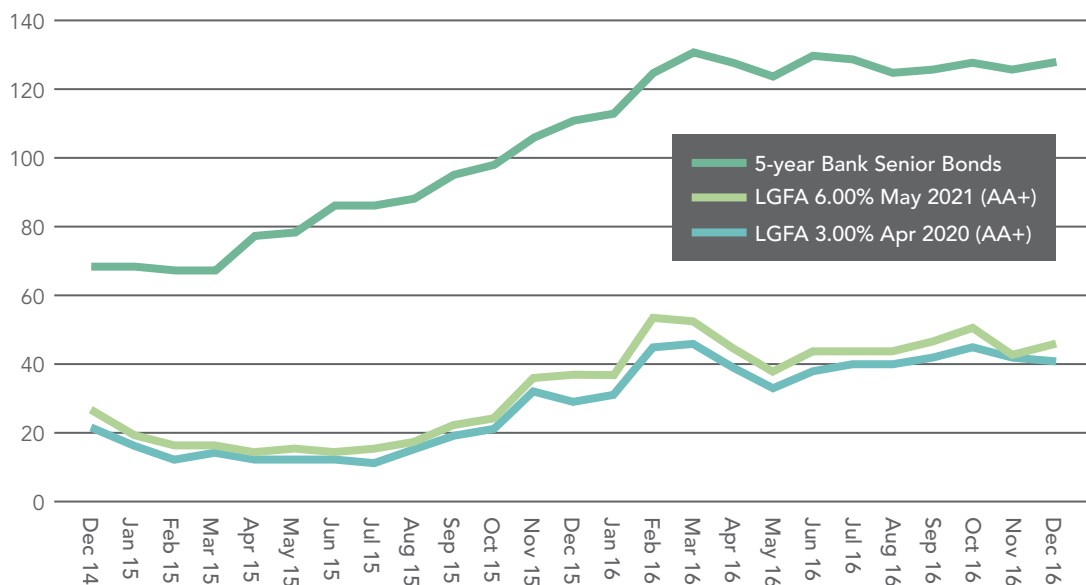
From the table below we estimate that as at 31 December 2016, LGFA was saving AA-rated councils between 15 bps for a 2019 (two and half year) maturity and 25 bps for a 2021 (five year) maturity.

| 30 June 2016 | Auckland 2019 | Dunedin 2020 | Dunedin 2021 | Auckland 2022 | Auckland 2025 |
|----------------------------------|---------------|---------------|---------------|-----------------|---------------|
| AA rated councils margin to swap | 47 | 60 | 70 | 74 | 87 |
| Less LGFA margin to swap | (33) | (40) | (45) | (49) | (66) |
| LGFA Gross Funding Advantage | 14 | 20 | 25 | 25 | 21 |
| Less LGFA Base Margin | (9) | (10) | (10) | (10.5) | (11) |
| LGFA Net Funding Advantage | 5 | 10 | 15 | 14.5 | 10 |
| Add 'LGFA Effect' * | 10 | 10 | 10 | 10 | 10 |
| Total Saving | 15 bps | 20 bps | 25 bps | 24.5 bps | 20 bps |

* The 'LGFA effect' represents the estimated conservative reduction in AA-rated councils' margin to swap as a result of LGFA operations. From May to June 2012, the margin to swap for AA-rated councils' fell by 10 bps, with no corresponding move in swap spreads for other borrowers. This suggests that potential access to cost-effective LGFA funding has enabled these councils to reduce their borrowing margin by around 10 bps.

LGFA remains the cheapest source of borrowing for the sector as illustrated in the chart below which shows the widening borrowing cost for banks

LGFA and bank secondary market margins over swap



Source PwC and LGFA

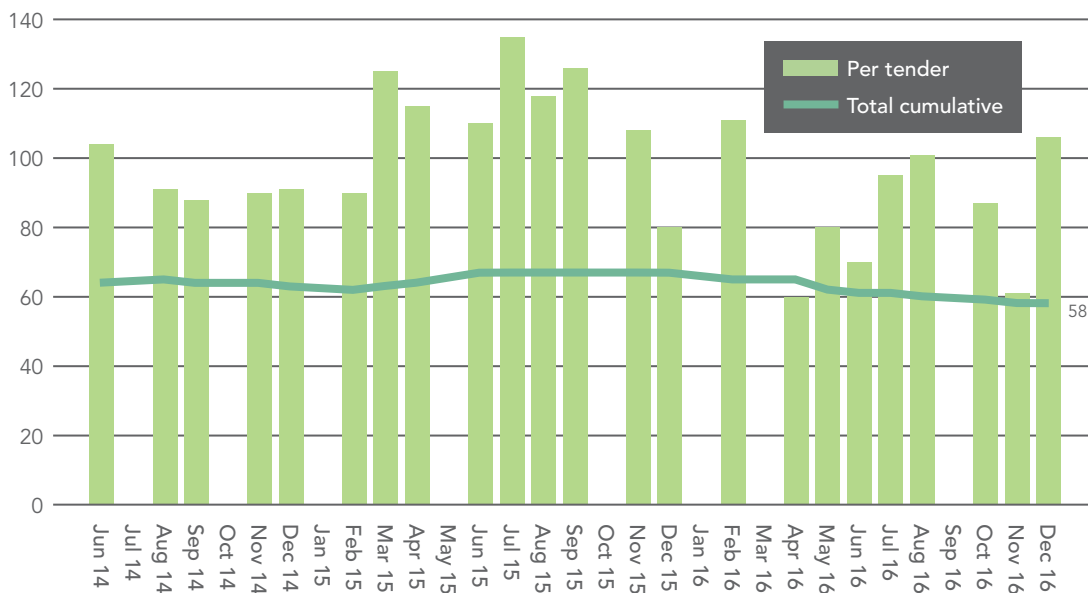
(ii) **Making longer-term borrowings available to participating local authorities**

Over the past six months, LGFA offered three existing maturity dates for borrowing in excess of six years to participating councils:

- 15 April 2023 bond (six and half years) and this maturity has comprised 7.6% of total issuance in the six-month period to 31 December 2016
- 15 April 2025 bond (seven and half years) and this maturity has comprised 54.6% of total issuance in the six-month period to 31 December 2016, and
- 15 April 2027 (nine and half years) and this maturity comprised 17.6% of our issuance in the six-month period to 31 December 2016.

The following chart shows the average term of lending to councils by LGFA at each tender, and the average term for all LGFA long-dated lending at each tender date. Over the past six months the average term of council lending has shortened by three months to 58 months but this must be considered in the context of a natural six month shortening in time over that period.

Average total months to maturity – On-lending to councils

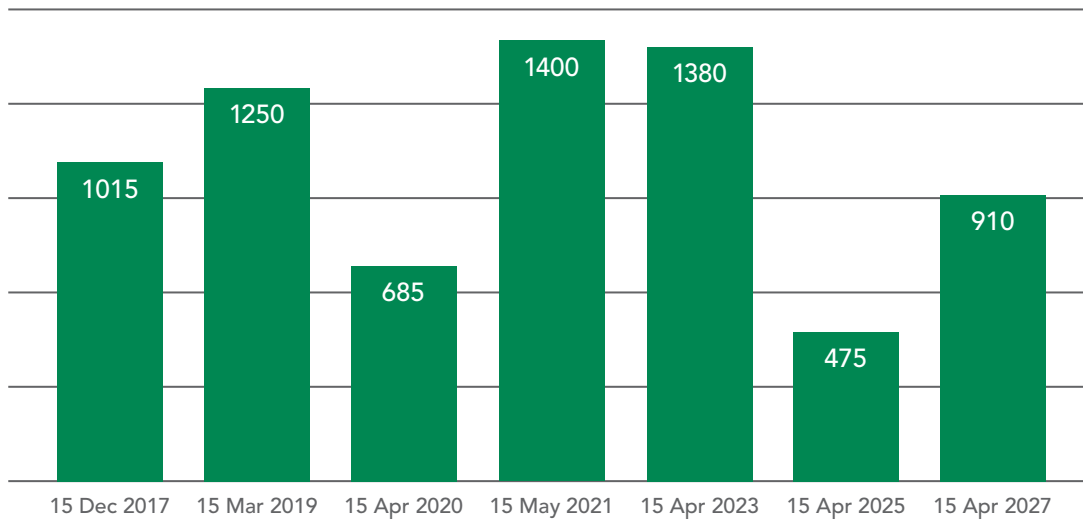


The average term of borrowing by Councils from LGFA was 7.56 years for the six-month period to 31 December 2016. This is shorter than the 8.08 years' average term for the 2015-16 year but reflects the current wider borrowing margins, higher yields and most councils had lengthened the duration of their borrowing in the prior year.

The following chart shows the total LGFA bond outstandings by maturity as at 31 December 2016

LGFA bonds outstandings as at 31 December 2016 (\$ million)

Includes \$300m treasury stock



Over the six-month period to 31 December 2016, LGFA issued \$595 million of bonds with an average term of 7.61 years. The amount of issuance is in line with the full year SOI forecast of \$1.2 billion but less than the \$710 million of issuance in the first six months of 2015-16.

2016-17 financial year issuance

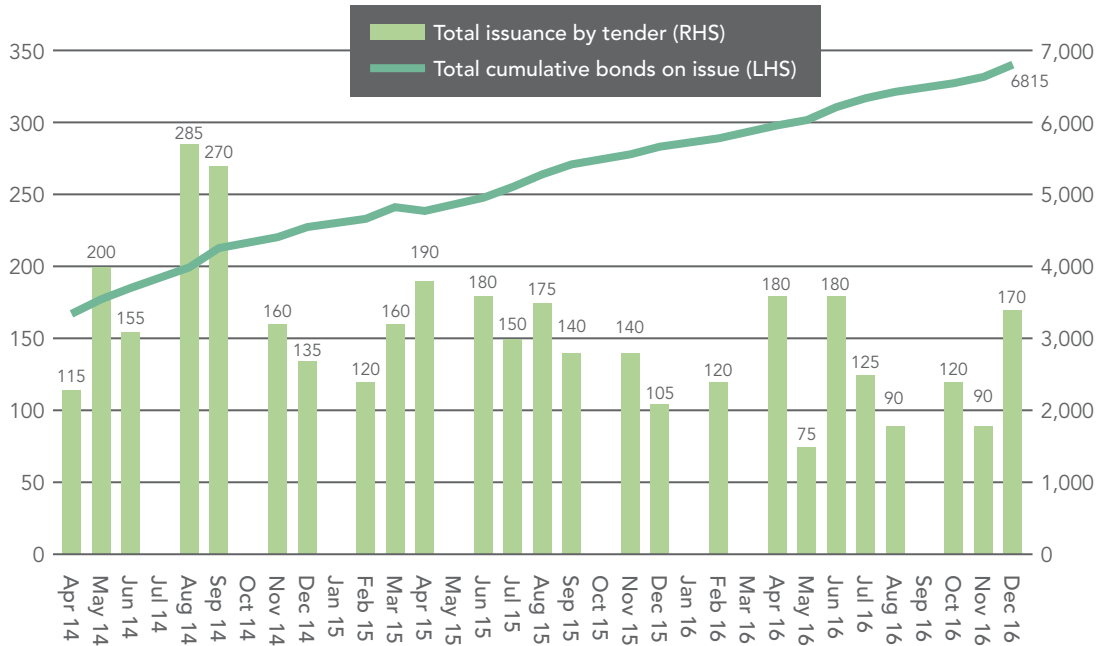
| Dec-17 | Mar-19 | Apr-20 | May-21 | Apr-23 | Apr-25 | Apr-27 | Total |
|--------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|
| - | \$20 million | \$70 million | \$30 million | \$45 million | \$325 million | \$105 million | \$595 million |
| - | 3.4% | 11.8% | 5.0% | 7.6% | 54.6% | 17.6% | 100% |

(iii) **Enhancing the certainty of access to debt markets for participating local authorities, subject always to operating in accordance with sound business practice**

LGFA held five tenders during the six-month period to 31 December 2016, with an average tender volume of \$119 million (compared to the average tender size for 2015-16 of \$141 million). The volume offered at each tender ranged from \$90 million to \$170 million and all tenders were successful and fully subscribed. Total issuance during the six-month period of \$595 million resulted in outstandings of LGFA bonds of \$6.815 billion as at 31 December 2016. This excludes the \$300 million of treasury stock held by LGFA to facilitate stock lending to banks.

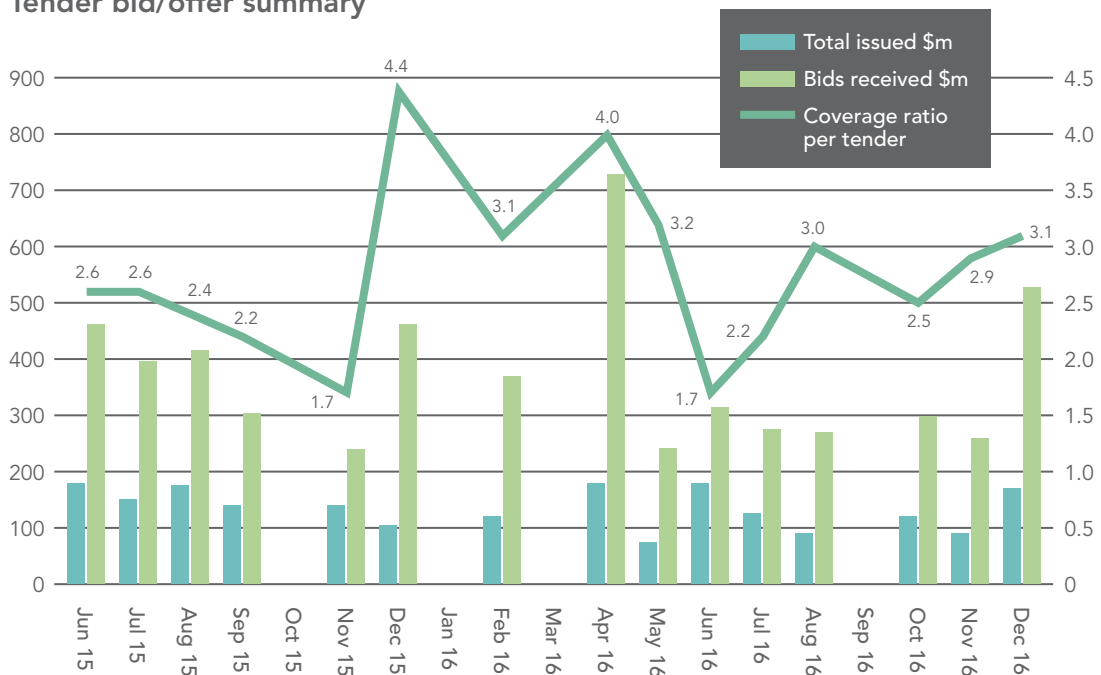
LGFA bond issuance by tender (\$ million)

Excludes issuance of treasury stock



Over the six-month period, total bids received across the five tenders was \$1.43 billion for the \$595 million of LGFA bonds offered resulting in a coverage ratio of 2.4 times. This coverage ratio is less than the 2.74 times coverage ratio for the 2015-16 year. The LGFA cover ratio for each tender and the cumulative ratio for tenders over the past two years is shown in the following chart.

Tender bid/offer summary



While the coverage ratio for the past six months is lower than the average coverage ratio of 3.1 times since LGFA first commenced issuing in February 2012, this is not surprising given the longer duration of LGFA bonds being currently tendered, the smaller tranche sizes being offered, relatively tight spreads to both NZGB and swap and low outright yields. Furthermore, offshore investor demand for LGFA securities has been noted in the secondary market rather than at LGFA tenders.

While LGFA issues fixed coupon debt to investors, Councils were provided the choice of either fixed or floating rate borrowing for their borrowing from LGFA. Councils tend to borrow on a floating rate basis from LGFA.

Improved certainty of access for councils was achieved through both bespoke lending and short-dated lending (less than one year terms).

(iv) Offering more flexible lending terms to participating local authorities

The successful introduction of bespoke lending and short-dated lending has provided councils with flexible lending conditions.

LGFA first offered bespoke lending in February 2015 where council borrowers could select their preferred borrowing maturity date and their preferred date of borrowing drawdown. In the six-month period to 31 December 2016 LGFA lent \$190 million on a bespoke basis for 14 transactions. Total bespoke lending outstanding as at 31 December 2016 was \$676 million to twenty-three councils or 10% of our loans outstanding.

LGFA first offered short-dated lending to councils in November 2015 and as at 31 December 2016 there were loans of \$240 million to seventeen councils. Councils can now borrow on attractive terms out to 364 days where previously the shortest borrowing maturity was to December 2017.

1.2 LGFA will monitor the quality of the asset book so that it remains of a high standard by ensuring it understands each participating local authority's financial position and the general issues confronting the Local Government sector. This includes:

(i) LGFA will review each participating local authority's financial position, its financial head-room under LGFA policies and visit each participating local authority on an annual basis

LGFA undertakes a detailed financial assessment on each of its borrowers and meets with all member councils on an annual basis while monitoring council performance throughout the year. LGFA reviews the Annual and Long Term Plans for each council and the annual financial statements. LGFA assigns an internal credit rating to each of its council members as part of the review exercise. All council members were compliant with LGFA covenants at June 2016.

(ii) LGFA will commence work on analysing finances at the council group level in addition to parent level. Previously the analysis was undertaken at the council parent level

LGFA reviews the financial position of each council on a Group basis where appropriate, eg. where council services are delivered through subsidiaries or holds substantial investments in subsidiaries.

(iii) LGFA will work closely with the Department of Internal Affairs (DIA), Office of the Auditor General (OAG) and Local Government New Zealand (LGNZ) on sector and individual council issues

LGFA staff and directors have met with the OAG during the past twelve months and staff have met with DIA. LGFA has presented at all LGNZ quarterly media briefings during the six-month period.

2 ADDITIONAL OBJECTIVES

LGFA has a number of additional objectives which complement the primary objective. These additional objectives are to:

2.1 Operate with a view to making a profit sufficient to pay a dividend in accordance with its stated Dividend Policy set out in section 6 of the Statement of Intent

The LGFA's policy is to pay a dividend that provides an annual rate of return to shareholders equal to LGFA cost of funds plus 2% over the medium term.

With lending volumes and financial outcomes for the six-month period close to SOI forecast, we expect profitability to be sufficient to make a dividend payment for the full year. This remains at the Board's discretion.

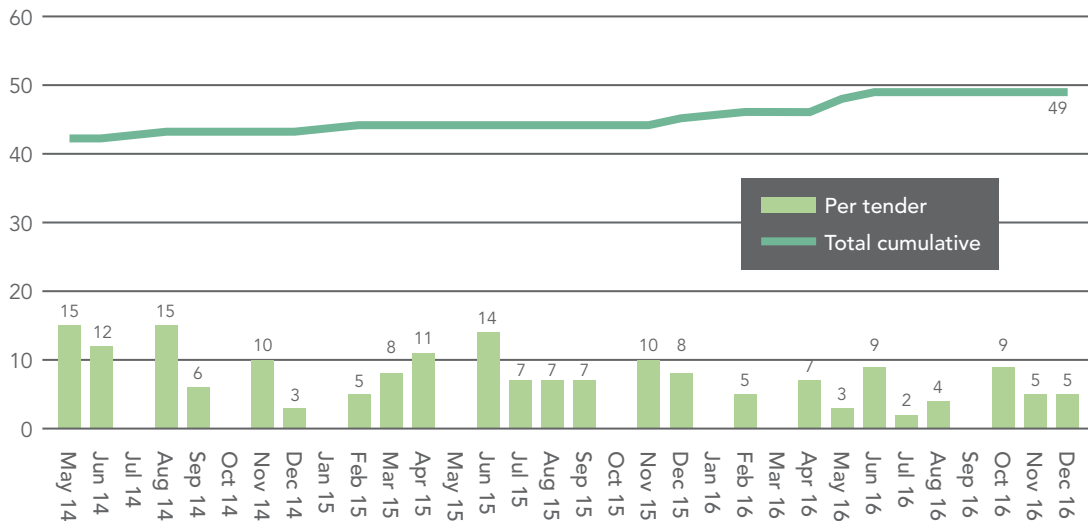
The impact from a lower interest rate environment is that LGFA has a lower cost of funds than previous years. Our cost of funds for the six-month period to 31 December 2016 is 3.31% compared to 3.57% for the 2015-16 year. While council borrowers benefit from lower borrowing costs, the dividend payment if calculated on the above cost of funds would be lower than previous years.

2.2 Provide at least 50% of aggregate long-term debt funding for Participating Local Authorities

Central Hawkes Bay District Council joined as a non-guarantor in the past six months bringing the total number of council members to 51. Councils have strongly supported LGFA and by 31 December 2016, 49 participating councils have borrowed from LGFA.

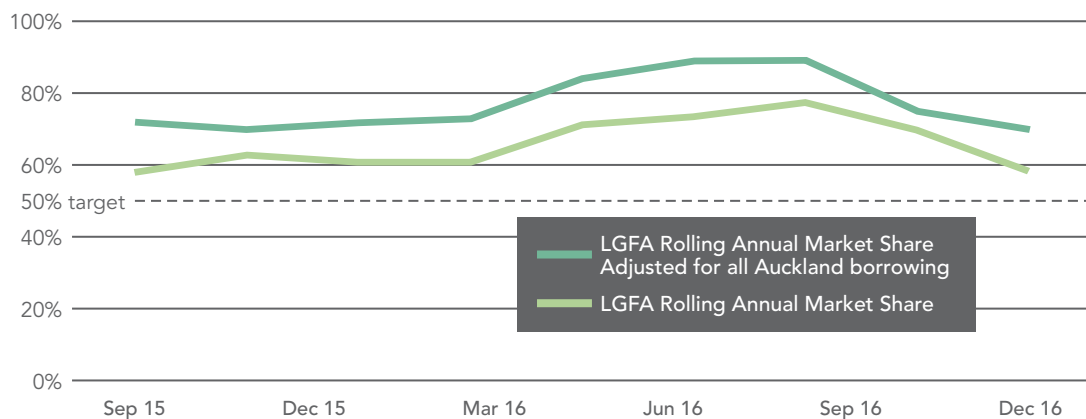
The strong council support for LGFA is demonstrated in the following chart which shows the progression of council participation

Participating councils



The following chart shows LGFA's share of new local government debt issuance and is derived from data provided by PwC. Our share of long-term borrowing by the sector including non-members of LGFA was 58% for the twelve-month period to 30 September 2016. The market share is influenced by the amount of debt issued by the sector's largest borrower, Auckland Council in its own name in the domestic market. If we exclude Auckland Council external borrowing from the data, then our estimated market share for the twelve-month period to 30 June 2016 was 69.6%.

LGFA Market Share – rolling one-year average (excluding short-term lending)



2.3 Issue a new long-dated LGFA bond (should one not be issued in the 2015/16 year)

The 2016-17 SOI was finalised before the issuance of a new April 2025 bond maturity in June 2016. Given our forecast borrowing programme we will consider issuing a further new long-dated bond maturity in the 2017 calendar year. The timing of issuance and the bond maturity will depend upon both council borrowing intentions and investor demand.

2.4 Ensure its products and services are delivered at a cost that does not exceed the forecast for issuance and operating expenses set out in section 4 of the Statement of Intent

Issuance and Operating Expenses for the six-month period to 31 December 2016 were \$3.199 million compared to a full year SOI budget of \$6.580 million. Management forecast for the six-month period was \$3.125 million.

Issuance and on-lending costs were slightly higher than budget (by \$51k) due to higher NZX listing costs relating to additional bond issuance associated with the introduction of the bond lending facility. Approved Issuer Levy (AIL) costs were slightly below budget (by \$26k). Operating costs were \$50k above budget, reflecting slightly higher treasury system and personnel costs.

2.5 Take appropriate steps to ensure compliance with the Health and Safety at Work Act 2015

In the past six months, LGFA established a Health and Safety Staff Committee and reporting on health and safety issues is made to the LGFA Board on a regular basis by the Risk and Compliance Manager. There were no health and safety incidents during the six-month period.

The Kaikoura earthquake in November impacted buildings in the Wellington CBD. While the building that LGFA occupied was not structurally affected by the earthquakes, an asbestos contamination problem was discovered. As a result, staff are currently working from the Local Government New Zealand offices until it is safe to return to the LGFA offices.

2.6 Maintain LGFA's credit rating equal to the New Zealand Government sovereign rating where both entities are rated by the same rating agency

LGFA met with both Standard & Poor's (S&P) and Fitch rating agencies in September 2016 as part of their annual review processes. S&P subsequently affirmed the long-term rating of LGFA at AA+ (stable outlook) on 20 October 2016 and Fitch affirmed the AA+ (stable outlook) on 15 November 2016.

Both the S&P and Fitch ratings reports are available on our website (lgfa.co.nz).

Both the S&P and Fitch ratings are the same as, and are capped by, New Zealand's sovereign credit ratings. Fitch has defined LGFA as a dependant Public Sector Entity and our credit rating is explicitly linked to the New Zealand Sovereign credit rating.

2.7 Achieve the Financial Forecasts (excluding the impact of AIL) set out in section 4 of the Statement of Intent

LGFA's financial results for key items set out in section 4 of the SOI for the six-month period to 31 December 2016 are:

| In \$ million | 31 Dec 2016 Six months actual | 30 June 2017 SOI forecast |
|---------------------------------|----------------------------------|------------------------------|
| Net interest revenue | 8.51 | 16.58 |
| Issuance and operating expenses | (3.20) | (6.58) |
| Net Profit | 5.31 | 10.00 |

Net interest revenue for the six month period is \$314k above management forecast due to timing issues and the early repayment of a December 2017 loan by a council borrower.

Issuance and operating expenses for the period are \$74k above management forecast.

2.8 Meet or exceed the Performance Targets outlined in section 5

| Current performance targets | Target | Result as at half year | Outcome |
|--|------------------|--|----------|
| 1 Average cost of funds on debt issued relative to New Zealand Government Securities for the 12-month period | ≤0.50% | 0.74% | No (i) |
| 2 Average base on-lending margin above LGFA's cost of funds | ≤0.10% | 0.098% | Yes |
| 3 Annualised issuance and operating expenses | ≤\$4.80 million | \$2.260 million | Yes |
| 4 Lending to participating councils | ≥\$7,341 million | \$7,016 million | On track |
| 5 Savings to council borrowers relative to other sources of financing and compared to previous years | Improvement | No additional savings in borrowing costs from June 2016 levels | No |

- (i) The average cost of funds of all issuance for the twelve-month period ending 31 December 2016 relative to NZGS was 0.74%. This compares to a spread of 0.74% for the twelve-month period to 30 June 2016.

2.9 Comply with its Treasury Policy, as approved by the Board

LGFA was compliant at all times with the Treasury Policy for the six-month period ending 31 December 2016.

Christchurch Town Hall restoration project, scheduled for completion mid-2018. Christchurch City Council.





FINANCIAL STATEMENTS

The new library and community hub opened in Greerton last year. It is twice the size of the old library and is a modern, engaging and vibrant facility for the Greerton community. Tauranga City Council.

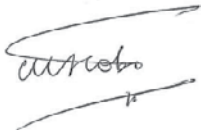
| | |
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In the opinion of the directors of the New Zealand Local Government Funding Agency Limited, the financial statements and notes on pages 24 to 38:

- Comply with New Zealand generally accepted accounting practice and give a true and fair view of the financial position of the Company as at 31 December 2016, and
- Have been prepared using appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.
- The directors believe that proper accounting records have been kept which enables, with reasonable accuracy, the determination of the financial position of the Company and facilitates the compliance of the financial statements with the Financial Reporting Act 1993.

The directors consider that they have taken adequate steps to safeguard the assets of the Company, and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide a reasonable assurance as to the integrity and reliability of the financial statements.

For and on behalf of the Board of Directors



C. Stobo, Director
24 February 2017



A. Foote, Director
24 February 2017

For the six months ended 31 December 2016 (unaudited) in \$000s

| | Note | 2016 Unaudited | 2015 Unaudited |
|--|------|-------------------|-------------------|
| Interest income from | | | |
| Cash and cash equivalents | | 272 | 635 |
| Loans to local government | | 109,752 | 108,035 |
| Marketable securities | | 1,304 | 598 |
| Deposits | | 1,548 | 2,037 |
| Derivatives | | 42,835 | 22,912 |
| Fair value hedge ineffectiveness | 2 | - | - |
| Total interest income | | 155,711 | 134,217 |
| Interest expense on | | | |
| Bills | | 2,582 | 542 |
| Bonds | | 142,988 | 124,476 |
| Borrower notes | | 1,584 | 1,606 |
| Bond repurchases | | 46 | - |
| Total interest expense | | 147,200 | 126,624 |
| Net interest income | | 8,511 | 7,593 |
| Operating Expenses | | | |
| Issuance and on-lending expenses | 3 | 1,764 | 1,556 |
| Operating expenses | 4 | 1,435 | 1,268 |
| Total expenses | | 3,199 | 2,824 |
| Net operating profit | | 5,312 | 4,769 |
| Total comprehensive income for the year | | 5,312 | 4,769 |

These statements are to be read in conjunction with the notes to the financial statements

For the six months ended 31 December 2016 (unaudited) in \$000s

| | Note | Share capital | Retained Earnings | Total equity |
|---|------|---------------|-------------------|---------------|
| Equity as at 30 June 2016 | 11 | 25,000 | 19,224 | 44,224 |
| Net operating profit | | | 5,312 | 5,312 |
| Total comprehensive income for the year | | | 5,312 | 5,312 |
| Transactions with owners | | | - | - |
| Dividend paid on 15 October 2016 | | | (1,392) | (1,392) |
| Equity as at 31 December 2016 | 11 | 25,000 | 23,144 | 48,144 |

For the six months ended 31 December 2015 (unaudited) in \$000s

| | Share capital | Retained Earnings | Total equity |
|---|---------------|-------------------|---------------|
| Equity as at 30 June 2015 | 25,000 | 11,287 | 36,287 |
| Net operating profit | | 4,769 | 4,769 |
| Total comprehensive income for the year | | 4,769 | 4,769 |
| Transactions with owners | | | - |
| Dividend paid on 15 October 2015 | | (1,603) | (1,603) |
| Equity as at 31 December 2015 | 25,000 | 14,453 | 39,453 |

These statements are to be read in conjunction with the notes to the financial statements

As at 31 December 2016 (unaudited) in \$000s

| | Note | 31 December 2016 Unaudited | 30 June 2016 |
|---|------|----------------------------------|------------------|
| Assets | | | |
| Financial assets | | | |
| Cash and bank balances | | 22,186 | 37,084 |
| Borrower notes receivable | | - | 800 |
| Loans to local government | 5 | 7,064,966 | 6,451,332 |
| Marketable securities | | 86,714 | 139,339 |
| Deposits | | 103,745 | 89,828 |
| Derivatives in gain | | 354,074 | 537,379 |
| Non-financial assets | | | |
| Prepayments | | 827 | 535 |
| Other assets | 6 | 886 | 955 |
| Total assets | | 7,633,398 | 7,257,252 |
| Equity | | | |
| Share capital | | 25,000 | 25,000 |
| Retained earnings | | 17,832 | 19,224 |
| Total comprehensive income/ (deficit) for the period | | 5,312 | - |
| Total equity | | 48,144 | 44,224 |
| Liabilities | | | |
| Financial Liabilities | | | |
| Trade and other payables | | 241 | 182 |
| Loans to local government not yet advanced | | - | 50,000 |
| Accrued expenses | | 535 | 593 |
| Bills | | 224,041 | 223,916 |
| Bonds | 7, 9 | 7,196,452 | 6,819,658 |
| Borrower notes | 8 | 118,487 | 108,415 |
| Bond repurchases | 9 | 3,714 | - |
| Derivatives in loss | | 41,784 | 10,264 |
| Total liabilities | | 7,585,254 | 7,213,028 |
| Total equity and liabilities | | 7,633,398 | 7,257,252 |

These statements are to be read in conjunction with the notes to the financial statements

For the six months ended 31 December 2016 (unaudited) in \$000s

| | Note | 2016 Unaudited | 2015 Unaudited |
|---|------|-------------------|-------------------|
| Cash flow from operating activities | | | |
| Cash applied to loans to local government | | (662,866) | (746,138) |
| Interest paid on bonds issued | | (166,281) | (134,839) |
| Interest paid on bills issued | | 2,582 | 542 |
| Interest paid on borrower notes | | - | (57) |
| Interest paid on loans | | - | (26) |
| Interest paid on bond repurchases | | (44) | - |
| Interest received from cash & cash equivalents | | 271 | 635 |
| Interest received from loans to local government | | 108,984 | 108,270 |
| Interest received from marketable securities | | 1,142 | 756 |
| Interest received from deposits | | 1,630 | 1,966 |
| Net interest on derivatives | | 63,224 | 32,147 |
| Payments to suppliers and employees | | (3,488) | (3,051) |
| Net cash flow from operating activities | 10 | (654,846) | (739,795) |
| Cash flow from investing activities | | | |
| Purchase of marketable securities | | 52,787 | (89,745) |
| Purchase of deposits | | (14,000) | (35,000) |
| Purchase of plant and equipment | | 69 | (4) |
| Net cash flow from investing activities | | 38,856 | (124,749) |
| Cash flow from financing activities | | | |
| Dividends paid | | (1,392) | (1,608) |
| Cash proceeds from borrower notes | | 9,288 | 11,200 |
| Cash proceeds from bonds issued | | 603,386 | 744,807 |
| Cash proceeds from bills issued | | (5,040) | 147,868 |
| Cash applied to bond repurchases | | 3,712 | - |
| Cash applied to derivatives | | (8,862) | (27,022) |
| Net cash flow from financing activities | | 601,092 | 875,245 |
| Net (decrease) / increase in cash | | (14,898) | 10,701 |
| Cash, cash equivalents and bank overdraft at beginning of year | | 37,084 | 31,708 |
| Cash, cash equivalents and bank overdraft at end of year | | 22,186 | 42,409 |

These statements are to be read in conjunction with the notes to the financial statements

1 Statement of accounting policies

A REPORTING ENTITY

The New Zealand Local Government Funding Agency Limited (LGFA) is a company registered under the Companies Act 1993 and is subject to the requirements of the Local Government Act 2002.

LGFA is controlled by participating local authorities and is a council-controlled organisation as defined under section 6 of the Local Government Act 2002. LGFA is a limited liability company incorporated and domiciled in New Zealand.

The primary objective of LGFA is to optimise the debt funding terms and conditions for participating local authorities.

The registered address of LGFA is Level 8, City Chambers, 142 Featherston Street, Wellington Central, Wellington 6011.

The financial statements are for the six-month period ended 31 December 2016.

These financial statements were authorised for issue by the Directors on 24 February 2017.

B BASIS OF PREPARATION

Measurement base

The financial statements have been prepared on a historical cost basis modified by the revaluation of certain assets and liabilities.

The financial statements are prepared on an accrual basis.

Functional and presentation currency

The financial statements are presented in New Zealand dollars rounded to the nearest thousand, unless separately identified. The functional currency of LGFA is New Zealand dollars.

Foreign currency conversions

Transactions denominated in foreign currency are translated into New Zealand dollars using exchange rates applied on the trade date of the transaction.

Changes in accounting policies

There have been no changes in accounting policies.

Early adoption standards and interpretations

NZ IFRS 9: Financial Instruments. The first two phases of this new standard were approved by the Accounting Standards Review Board in November 2009 and November 2010. These phases address the issues of classification and measurement of financial assets and financial liabilities.

Standards not yet adopted

LGFA does not consider any standards or interpretations in issue but not yet effective to have a significant impact on its financial statements. Those which may be relevant to LGFA are as follows:

- NZ IFRS 9: Financial Instruments (2014) – Effective for periods beginning on or after 1 January 2018. This standard aligns hedge accounting more closely with the risk management activities of the entity and adds requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit.

C FINANCIAL INSTRUMENTS**Financial assets**

Financial assets, other than derivatives, are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method.

Cash and cash equivalents include cash on hand, cash in transit, bank accounts and deposits with an original maturity of no more than three months.

Purchases and sales of all financial assets are accounted for at trade date.

At each balance date an assessment is made whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Financial liabilities

Financial liabilities, other than derivatives, are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method.

Derivatives

Derivative financial instruments are recognised both initially and subsequently at fair value. They are reported as either assets or liabilities depending on whether the derivative is in a net gain or net loss position respectively.

Fair value hedge

Where a derivative qualifies as a hedge of the exposure to changes in fair value of an asset or liability (fair value hedge) any gain or loss on the derivative is recognised in profit and loss together with any changes in the fair value of the hedged asset or liability.

The carrying amount of the hedged item is adjusted by the fair value gain or loss on the hedged item in respect of the risk being hedged. Effective parts of the hedge are recognised in the same area of profit and loss as the hedged item.

D OTHER ASSETS**Property, plant and equipment (PPE)**

Items of property, plant and equipment are initially recorded at cost.

Depreciation is charged on a straight-line basis at rates calculated to allocate the cost or valuation of an item of property, plant and equipment, less any estimated residual value, over its remaining useful life.

E OTHER LIABILITIES**Employee entitlements**

Employee entitlements to salaries and wages, annual leave and other similar benefits are recognised in the profit and loss when they accrue to employees.

F REVENUE AND EXPENSES**Revenue****Interest income**

Interest income is accrued using the effective interest rate method.

The effective interest rate exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this rate to the principal outstanding to determine interest income each period.

Expenses

Expenses are recognised in the period to which they relate.

Interest expense

Interest expense is accrued using the effective interest rate method.

The effective interest rate exactly discounts estimated future cash payments through the expected life of the financial liability to that liability's net carrying amount. The method applies this rate to the principal outstanding to determine interest expense each period.

Income tax

LGFA is exempt from income tax under Section 14 of the Local Government Borrowing Act 2011.

Goods and services tax

All items in the financial statements are presented exclusive of goods and service tax (GST), except for receivables and payables, which are presented on a GST-inclusive basis. Where GST is not recoverable as input tax, then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the IRD is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as a net operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

G LEASE PAYMENTS

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

H SEGMENT REPORTING

LGFA operates in one segment being funding of participating local authorities in New Zealand.

I JUDGEMENTS AND ESTIMATIONS

The preparation of these financial statements requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. For example, the present value of large cash flows that are predicted to occur a long time into the future depends critically on judgements regarding future cash flows, including inflation assumptions and the risk free discount rate used to calculate present values.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Where these judgements significantly affect the amounts recognised in the financial statements they are described below and in the following notes.

2 Hedge accounting

LGFA is exposed to interest rate risk from fixed rate borrowing and variable rate lending to councils. LGFA manages this interest rate risk through the use of interest rate swaps. For hedge accounting purposes, LGFA has designated these swaps in fair value relationships to its fixed rate borrowing.

The gain or (loss) on the hedging instrument and the hedged item attributable to the hedged risk for fair value hedge relationships is shown in the table below.

| Six months ended in \$000s | 31 December 2016 Unaudited | 31 December 2015 Unaudited |
|--|----------------------------------|----------------------------------|
| Hedging instruments – interest rate swaps | 134,733 | 127,024 |
| Hedged items attributable to the hedged risk – fixed rate bonds | (134,733) | (127,024) |
| Ineffectiveness recognised in profit or loss from fair value hedges | - | - |

The gains or losses on the hedging instrument (interest rate swaps) and the hedged item (bonds) are mapped to the same fair value account. For this reason, the statement of comprehensive income will only report any ineffectiveness arising from the fair value hedge.

3 Issuance and on-lending expenses

Issuance and on-lending expenses are those costs that are incurred as a necessary expense to facilitate the ongoing issuance of LGFA debt securities.

| Six months ended in \$000s | 31 December 2016 Unaudited | 31 December 2015 Unaudited |
|----------------------------------|----------------------------------|----------------------------------|
| NZDMO facility fee | 200 | 200 |
| NZX | 237 | 56 |
| Rating agency fees | 267 | 255 |
| Legal fees for issuance | 62 | 171 |
| Regulatory, registry, other fees | 18 | 14 |
| Trustee fees | 50 | 50 |
| Approved issuer levy | 865 | 751 |
| Information services | 65 | 59 |
| | 1,764 | 1,556 |

4 Operating expenses

Operating expenses are all other expenses that are not classified as 'Issuance and on-lending expenses.'

| Six months ended in \$000s | 31 December 2016 Unaudited | 31 December 2015 Unaudited |
|-------------------------------|-------------------------------|-------------------------------|
| Consultants | 78 | 75 |
| Directors' fees | 174 | 144 |
| Insurance | 30 | 31 |
| Legal fees | 23 | 19 |
| Other expenses | 362 | 360 |
| Auditor's remuneration | | |
| Statutory audit | 46 | 21 |
| Advisory | 4 | - |
| Personnel | 718 | 617 |
| | 1,435 | 1,268 |

5 Loans to local government

Includes loans and short-term loans to local government.

| in \$000s | 31 December 2016 Unaudited | | 30 June 2016 | |
|--|-------------------------------|------------------|------------------|------------------|
| | Short-term loans | Loans | Short-term loans | Loans |
| Ashburton District Council | 10,008 | 15,756 | 10,006 | 15,820 |
| Auckland Council | - | 2,382,378 | - | 2,158,614 |
| Buller District Council | - | 20,003 | - | 20,002 |
| Canterbury Regional Council | - | 25,090 | - | 25,036 |
| Christchurch City Council | 71,187 | 1,254,483 | 65,177 | 1,209,669 |
| Far North District Council | - | 20,112 | - | 10,040 |
| Gisborne District Council | 4,974 | 17,056 | 4,970 | 17,060 |
| Gore District Council | 6,025 | 6,037 | 6,026 | 6,042 |
| Greater Wellington Regional Council | - | 255,741 | - | 255,660 |
| Grey District Council | - | 20,606 | - | 20,655 |
| Hamilton City Council | - | 260,765 | - | 230,663 |
| Hastings District Council | 4,976 | 50,164 | - | 50,175 |
| Hauraki District Council | - | 34,124 | - | 34,133 |
| Horizons Regional Council | - | 10,014 | - | 10,015 |
| Horowhenua District Council | 10,011 | 52,894 | 7,007 | 47,870 |
| Hurunui District Council | - | 19,068 | - | 17,069 |
| Hutt City Council | - | 79,653 | - | 79,711 |
| Kaipara District Council | 4,974 | 43,182 | - | 35,156 |
| Kapiti Coast District Council | - | 190,582 | - | 150,471 |
| Manawatu District Council | - | 51,059 | - | 51,035 |
| Marlborough District Council | 20,836 | 63,206 | - | 28,067 |
| Masterton District Council | 2,005 | 44,158 | 3,002 | 44,169 |
| Matamata-Piako District Council | - | 24,568 | - | 24,573 |
| Nelson City Council | - | 45,193 | 10,007 | 35,171 |
| New Plymouth District Council | - | 61,180 | - | 61,193 |
| Opotiki District Council | - | 5,196 | - | 5,210 |
| Otorohanga District Council | - | 9,214 | - | 9,246 |
| Palmerston North City Council | - | 77,276 | - | 77,295 |
| Porirua City Council | 9,982 | 23,611 | 9,982 | 23,621 |
| Queenstown Lakes District Council | 7,074 | 76,277 | - | 76,371 |
| Rotorua District Council | - | 104,991 | - | 100,025 |
| Selwyn District Council | - | 35,054 | - | 35,056 |
| South Taranaki District Council | - | 62,218 | 9,989 | 62,234 |
| South Wairarapa District Council | - | 7,537 | - | 7,536 |
| Tararua District Council | 1,004 | 10,035 | - | 9,033 |
| Tasman District Council | - | 90,293 | - | 90,314 |
| Taupo District Council | - | 125,399 | - | 125,431 |
| Tauranga City Council | 39,807 | 307,035 | - | 277,009 |
| Thames-Coromandel District Council | - | 35,065 | - | 35,069 |
| Timaru District Council | 5,106 | 51,312 | 9,737 | 51,325 |
| Upper Hutt City Council | - | 29,629 | - | 24,591 |
| Waikato District Council | - | 70,250 | - | 60,212 |
| Waimakariri District Council | 10,010 | 75,816 | 10,005 | 75,861 |
| Waipa District Council | 21,673 | 13,017 | - | 13,018 |
| Wellington City Council | - | 278,930 | - | 233,884 |
| Western Bay of Plenty District Council | - | 70,219 | - | 70,233 |
| Whakatane District Council | - | 31,093 | 3,015 | 28,076 |
| Whanganui District Council | - | 66,283 | - | 41,162 |
| Whangarei District Council | 9,972 | 122,519 | 9,968 | 122,558 |
| | 239,624 | 6,825,342 | 158,891 | 6,292,441 |

6 Other assets

| in \$000s | 31 December 2016 Unaudited | 30 June 2016 |
|-------------------------------|-------------------------------|--------------|
| Property, plant and equipment | 50 | 50 |
| Intangible assets | 836 | 961 |
| Total other assets | 886 | 1,011 |

7 Bonds issued

| As at 31 December 2016 Unaudited in \$000s | | Face Value | Unamortised Premium | Accrued Interest | Fair Value Hedge Adjustment | Total |
|--|--------------|------------------|------------------------|---------------------|-----------------------------------|------------------|
| 15 December 2017 | 6% coupon | 1,200,000 | 24,917 | 17,900 | | 1,242,817 |
| 15 March 2019 | 5% coupon | 635,000 | (15,668) | 4,082 | | 623,414 |
| 15 April 2020 | 3% coupon | 1,330,000 | 72,688 | 15,675 | | 1,418,363 |
| 15 May 2021 | 6% coupon | 425,000 | (19,380) | 2,504 | | 408,124 |
| 15 April 2023 | 5.5% coupon | 860,000 | 30,039 | 8,293 | | 898,332 |
| 15 April 2025 | 2.75% coupon | 1,350,000 | 76,246 | 10,517 | | 1,436,763 |
| 15 April 2027 | 4.5% coupon | 1,015,000 | 16,062 | 2,844 | | 1,033,906 |
| Fair value hedge adjustment | | | | | 134,733 | 134,733 |
| Total | | 6,815,000 | 184,903 | 61,816 | 134,733 | 7,196,452 |

| As at 30 June 2016 in \$000s | | Face Value | Unamortised Premium | Accrued Interest | Fair Value Hedge Adjustment | Total |
|---------------------------------|--------------|------------------|------------------------|---------------------|-----------------------------------|------------------|
| 15 December 2017 | 6% coupon | 1,015,000 | 24,292 | 2,662 | | |
| 15 March 2019 | 5% coupon | 1,180,000 | 29,129 | 17,315 | | |
| 15 April 2020 | 3% coupon | 565,000 | (18,322) | 3,566 | | |
| 15 May 2021 | 6% coupon | 1,320,000 | 79,629 | 10,115 | | |
| 15 April 2023 | 5.5% coupon | 1,285,000 | 70,428 | 14,869 | | |
| 15 April 2025 | 2.75% coupon | 100,000 | (3,157) | 579 | | |
| 15 April 2027 | 4.5% coupon | 755,000 | 23,373 | 7,148 | | |
| Fair value hedge adjustment | | | | | 338,032 | |
| Total | | 6,220,000 | 205,372 | 56,254 | 338,032 | 6,819,658 |

8 Borrower notes

Borrower notes are subordinated debt instruments (which are required to be held by each local authority that borrows from LGFA in an amount equal to 1.6% of the aggregate borrowings, excluding short-term loans, by that local authority).

LGFA may convert borrower notes into redeemable shares if it has made calls for all unpaid capital to be paid in full and the LGFA Board determines it is still at risk of imminent default.

9 Treasury stock and bond repurchase transactions

Periodically, LGFA subscribes for LGFA bonds as part of its tender process and holds these bonds as treasury stock. LGFA bonds held by LGFA as treasury stock are derecognised at the time of issue and no liability is recognised in the statement of financial position.

LGFA makes these treasury stock bonds available to banks authorised as its tender counterparties to borrow under short-term repurchase transactions. The objective of the bond lending facility is to assist with improving secondary market liquidity in LGFA bonds. Bonds lent to counterparties are disclosed as a separate stock lending liability on the face of the statement of financial position.

LGFA notifies the market on a monthly basis the amount of outstanding repurchase transactions and LGFA bonds held as treasury stock.

| in \$000s | | 31 December 2016 Unaudited | | 30 June 2016 | |
|---------------|--------------|-------------------------------|------------------------------|-------------------|------------------------------|
| | | Treasury stock | Bond repurchase trades | Treasury stock | Bond repurchase trades |
| 15 March 2019 | 5% coupon | 46,500 | 3,714 | - | - |
| 15 April 2020 | 3% coupon | 50,000 | - | - | - |
| 15 May 2021 | 6% coupon | 50,000 | - | - | - |
| 15 April 2023 | 5.5% coupon | 50,000 | - | - | - |
| 15 April 2025 | 2.75% coupon | 50,000 | - | - | - |
| 15 April 2027 | 4.5% coupon | 50,000 | - | - | - |
| | | 296,500 | 3,714 | - | - |

10 Reconciliation of net profit to net cash flow from operating activities

| Six months ended in \$000s | 31 December 2016 Unaudited | 31 December 2015 Unaudited |
|---|----------------------------------|----------------------------------|
| Net profit/(loss) for the period | 5,312 | 4,769 |
| Cash applied to loans to local government | (662,866) | (746,139) |
| Non-cash adjustments | | |
| Amortisation and depreciation | 2,999 | 1,261 |
| Working capital movements | | |
| Net change in trade debtors and receivables | 59 | 51 |
| Net change in prepayments | (292) | (481) |
| Net change in accruals | (58) | 202 |
| Net Cash From Operating Activities | (654,846) | (740,337) |

11 Share capital

As at 31 December 2016 LGFA had 45 million ordinary shares on issue, 20 million of which remain uncalled. All ordinary shares rank equally with one vote attached to each ordinary share.

As at 31 December 2016, the shareholding of the New Zealand Government had been fully paid up. For all other shareholders, 50% of the shareholding had been called.

| in \$000s | 31 December 2016 | | 30 June 2016 | |
|--|-------------------|-------------|-------------------|-------------|
| New Zealand Government | 5,000,000 | 11.1% | 5,000,000 | 11.1% |
| Auckland Council | 3,731,960 | 8.3% | 3,731,960 | 8.3% |
| Christchurch City Council | 3,731,960 | 8.3% | 3,731,960 | 8.3% |
| Hamilton City Council | 3,731,960 | 8.3% | 3,731,960 | 8.3% |
| Bay of Plenty Regional Council | 3,731,960 | 8.3% | 3,731,960 | 8.3% |
| Greater Wellington Regional Council | 3,731,960 | 8.3% | 3,731,960 | 8.3% |
| Tasman District Council | 3,731,960 | 8.3% | 3,731,960 | 8.3% |
| Tauranga City Council | 3,731,960 | 8.3% | 3,731,960 | 8.3% |
| Wellington City Council | 3,731,960 | 8.3% | 3,731,960 | 8.3% |
| Western Bay of Plenty District Council | 3,731,960 | 8.3% | 3,731,960 | 8.3% |
| Whangarei District Council | 1,492,784 | 3.3% | 1,492,784 | 3.3% |
| Hastings District Council | 746,392 | 1.7% | 746,392 | 1.7% |
| Marlborough District Council | 400,000 | 0.9% | 400,000 | 0.9% |
| Selwyn District Council | 373,196 | 0.8% | 373,196 | 0.8% |
| Gisborne District Council | 200,000 | 0.4% | 200,000 | 0.4% |
| Hauraki District Council | 200,000 | 0.4% | 200,000 | 0.4% |
| Horowhenua District Council | 200,000 | 0.4% | 200,000 | 0.4% |
| Hutt City Council | 200,000 | 0.4% | 200,000 | 0.4% |
| Kapiti Coast District Council | 200,000 | 0.4% | 200,000 | 0.4% |
| Manawatu District Council | 200,000 | 0.4% | 200,000 | 0.4% |
| Masterton District Council | 200,000 | 0.4% | 200,000 | 0.4% |
| New Plymouth District Council | 200,000 | 0.4% | 200,000 | 0.4% |
| Otorohanga District Council | 200,000 | 0.4% | 200,000 | 0.4% |
| Palmerston North District Council | 200,000 | 0.4% | 200,000 | 0.4% |
| South Taranaki District Council | 200,000 | 0.4% | 200,000 | 0.4% |
| Taupo District Council | 200,000 | 0.4% | 200,000 | 0.4% |
| Thames-Coromandel District Council | 200,000 | 0.4% | 200,000 | 0.4% |
| Waimakariri District Council | 200,000 | 0.4% | 200,000 | 0.4% |
| Waipa District Council | 200,000 | 0.4% | 200,000 | 0.4% |
| Wanganui District Council | 200,000 | 0.4% | 200,000 | 0.4% |
| Whakatane District Council | 200,000 | 0.4% | 200,000 | 0.4% |
| | 45,000,000 | 100% | 45,000,000 | 100% |

12 Related parties

Identity of related parties

The Company is related to the local authorities set out in the Shareholder Information by shareholding.

The Company operates under a Statement of Intent with the respective local authorities that requires the Company to optimise the debt funding terms and conditions for participating local authorities.

Shareholding local authorities, and non-shareholder local authorities who borrow more than \$20 million, are required to enter into a guarantee when they join or participate in LGFA. The guarantee is in respect of the payment obligations of other guaranteeing local authorities to the LGFA (cross guarantee) and of the LGFA itself.

Related party transactions

LGFA was established for the purpose of raising funds from the market to lend to participating councils. The lending to individual councils is disclosed in note 5, and interest income recognised on this lending is shown in the Statement of Comprehensive Income. The requirement for participating councils to subscribe to LGFA borrower notes is disclosed in note 8, and the interest expense on these is shown in the Statement of comprehensive income.

13 Subsequent events

There have been no significant events after balance date that have affected the accuracy of these financial statements.

Subsequent to balance date, LGFA has issued \$160 million in bonds through a tender on 15 February 2017



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Below: The Dive Crescent project, to replace a dilapidated seawall, also gave Council the opportunity to include a three-metre wide shared pedestrian/cycle path as part of the overall design. Tauranga City Council.

Back cover: Major capital projects for Christchurch in 2016 included the completion of many new community centres, such as the Governors Bay Community Centre. Christchurch City Council.





Open Meeting

| | |
|---------------------------------|---|
| To | Strategy & Finance Committee |
| From | Tony Whittaker General Manager Strategy & Support |
| Date | 9 March 2017 |
| Prepared by | Alison Diaz Finance Manager |
| Chief Executive Approved | Y |
| Reference # | GOV1318 |
| Report Title | Local Government Funding Agency draft Statement of Intent 2017/18 |

1. EXECUTIVE SUMMARY

The New Zealand Local Government Funding Agency (“LGFA”) draft Statement of Intent (“SOI”) for 2017/18 is presented to the Strategy & Finance Committee for information purposes only.

This is the first time the SOI has been distributed to Council as a guaranteeing local authority. No analysis has been provided on the draft SOI, as there is no comparative information to work with, but if LGFA continue to distribute the SOI more broadly, analysis could be undertaken.

Shareholders have the ability to provide feedback on the SOI.

2. RECOMMENDATION

THAT the report from the General Manager Strategy & Support be received.

3. ATTACHMENTS

New Zealand Local Government Funding Agency draft Statement of Intent 2017/18



Draft Statement of Intent 2017/18

1. Introduction

This Statement of Intent (SOI) sets out the intentions and expectations of New Zealand Local Government Funding Agency Limited (LGFA).

The LGFA is enabled under the Local Government Borrowing Act 2011 and is a council-controlled organisation (CCO) for the purposes of the Local Government Act 2002.

The SOI is prepared in accordance with section 64(1) of the Local Government Act 2002.

2. Nature and scope of activities

LGFA will raise debt funding either domestically and/or offshore in either NZ dollars or foreign currency and provide debt funding to New Zealand local authorities, and may undertake any other activities considered by the Board of LGFA to be reasonably related or incidentally to, or in connection with, that business.

The LGFA will only lend to local authorities that enter into all the relevant arrangements with it (Participating Local Authorities) and comply with the LGFA's lending policies.

In lending to Participating Local Authorities, LGFA will:

- Operate in a manner to ensure LGFA is successful and sustainable in the long-term;
- Educate and inform Participating Local Authorities on matters within the scope of LGFA's operations;
- Provide excellent service to Participating Local Authorities;
- Ensure excellent communication exists and be professional in its dealings with all its stakeholders; and
- Ensure its products and services are delivered in a cost effective manner.

3. Objectives

Principal Objectives

In accordance with the Local Government Act 2002, in carrying on its business, the principal objectives of LGFA will be to:

- Achieve the objectives and performance targets of the shareholders in LGFA (both commercial and non-commercial) as specified in this SOI;
- Be a good employer;
- Exhibit a sense of social and environmental responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when able to do so; and
- Conduct its affairs in accordance with sound business practice.

Primary objectives

LGFA will operate with the primary objective of optimising the debt funding terms and conditions for Participating Local Authorities. Among other things this includes:

- Providing savings in annual interest costs for all Participating Local Authorities on a relative basis to other sources of financing;
- Making longer-term borrowings available to Participating Local Authorities;
- Enhancing the certainty of access to debt markets for Participating Local Authorities, subject always to operating in accordance with sound business practice; and
- Offering more flexible lending terms to Participating Local Authorities.

LGFA will monitor the quality of the asset book so that it remains of a high standard by ensuring it understands each Participating Local Authority's financial position and the general issues confronting the Local Government sector. This includes

- LGFA will review each Participating Local Authority's financial position, its financial headroom under LGFA policies and visit each Participating Local Authority on an annual basis;
- LGFA will analyse finances at the Council group level where appropriate
- LGFA will work closely with the Department of Internal Affairs (DIA), Office of the Auditor General (OAG) and Local Government New Zealand (LGNZ) on sector and individual council issues.

Additional objectives

LGFA has a number of additional objectives which complement the primary objective. These objectives will be measurable and achievable and the performance of the company in achieving its objectives will be reported annually. These additional objectives are to:

- Operate with a view to making a profit sufficient to pay a dividend in accordance with its stated Dividend Policy set out in section 6;
- Provide at least 50% of aggregate long-term debt funding to the Local Government sector;
- Ensure its products and services are delivered at a cost that does not exceed the forecast for issuance and operating expenses set out in section 4;
- Take appropriate steps to ensure compliance with the Health and Safety at Work Act 2015;
- Maintain LGFA's credit rating equal to the New Zealand Government sovereign rating where both entities are rated by the same Rating Agency;
- Achieve the Financial Forecasts (excluding the impact of AIL) set out in section 4;
- Meet or exceed the Performance Targets outlined in section 5; and
- Comply with its Treasury Policy, as approved by the Board.

4. Financial forecasts

LGFA's financial forecasts for the three years to 30 June 2020 are:

FINANCIAL YEAR (\$M)

| Comprehensive income | Jun-18 | Jun-19 | Jun-20 |
|--|--------------|--------------|--------------|
| Interest income | 240.60 | 251.22 | 258.46 |
| Interest expense | 223.18 | 233.93 | 243.16 |
| Net Interest income | 17.43 | 17.29 | 15.30 |
| | | | |
| Issuance and on-lending costs | 2.29 | 2.32 | 2.35 |
| Approved Issuer Levy | 1.84 | 1.57 | 1.17 |
| Operating expenses | 2.97 | 3.06 | 3.15 |
| Issuance and operating expenses | 7.10 | 6.96 | 6.67 |
| | | | |
| P&L | 10.33 | 10.34 | 8.63 |

| Financial position (\$m) | Jun-18 | Jun-19 | Jun-20 |
|---------------------------------------|----------|----------|----------|
| Capital | 25.00 | 25.00 | 25.00 |
| Retained earnings | 36.57 | 45.41 | 52.53 |
| Total equity | 61.57 | 70.41 | 77.53 |
| Dividend provision | 1.50 | 1.50 | 1.50 |
| Total assets (nominal) | 8,131.17 | 8,189.67 | 8,308.17 |
| Total LG loans - short term (nominal) | 260.00 | 260.00 | 260.00 |
| Total LG loans (nominal) | 7,604.00 | 7,653.00 | 7,805.00 |
| Total bills (nominal) | 350.00 | 350.00 | 350.00 |
| Total bonds (nominal) | 7,585.00 | 7,635.00 | 7,745.00 |
| Total borrower notes (nominal) | 121.66 | 122.45 | 124.88 |

Note that there is some forecast uncertainty around the timing of Net Interest Revenue, Net Profit, Total Assets, LG Loans, Bonds and Borrower Notes depending upon council decisions regarding the amount and timing of refinancing of their March 2019 and April 2020 loans. LGFA will work with council borrowers to reduce this uncertainty.

5. Performance targets

LGFA has the following performance targets:

- The average margin above LGFA's cost of funds charged to the highest rated Participating Local Authorities for the period to:
 - 30 June 2018 will be no more than 0.10%.
 - 30 June 2019 will be no more than 0.10%.
 - 30 June 2020 will be no more than 0.10%.

The above indicators include both LGFA Bills and Bonds and short dated and long dated lending to councils.

- LGFA's annual issuance and operating expenses (excluding AIL) for the period to:
 - 30 June 2018 will be less than \$5.26 million.
 - 30 June 2019 will be less than \$5.39 million.
 - 30 June 2020 will be less than \$5.50 million.
- Total lending to Participating Local Authorities¹ at:
 - 30 June 2018 will be at least \$7,864 million.
 - 30 June 2019 will be at least \$7,913 million.
 - 30 June 2020 will be at least \$8,065 million.
- Savings on borrowing costs for council borrowers:
 - LGFA will demonstrate the savings to council borrowers on a relative basis to other sources of financing. This will be measured by maintaining or improving the prevailing secondary market spread between LGFA bonds and those bonds of a similar maturity issued by (i) registered banks and (ii) Auckland Council and Dunedin Council as a proxy for single name issuance of council financing.

¹ Subject to the forecasting uncertainty noted previously

6. Dividend policy

LGFA will seek to maximise benefits to Participating Local Authorities as Borrowers rather than Shareholders. Consequently, it is intended to pay a limited dividend to Shareholders.

The Board's policy is to pay a dividend that provides an annual rate of return to Shareholders equal to LGFA cost of funds plus 2.00% over the medium term.

At all times payment of any dividend will be discretionary and subject to the Board's legal obligations and views on appropriate capital structure.

7. Governance

Board

The Board is responsible for the strategic direction and control of LGFA's activities. The Board guides and monitors the business and affairs of LGFA, in accordance with the Companies Act 1993, the Local Government Act 2002, the Local Government Borrowing Act 2011, the Company's Constitution, the Shareholders' Agreement for LGFA and this SOI.

The Board will comprise between four and seven directors with a majority of independent directors.

The Board's approach to governance is to adopt best practice² with respect to:

- The operation of the Board.
- The performance of the Board.
- Managing the relationship with the Company's Chief Executive.
- Being accountable to all Shareholders.

All directors are required to comply with a formal Charter, to be reviewed from time to time in consultation with Shareholders.

The Board will meet on a regular basis and no less than 6 times each year.

Shareholders' Council

The Shareholders' Council is made up of between five and ten appointees of the Shareholders (including an appointee from the Crown). The role of the Shareholders' Council is to:

- Review the performance of LGFA and the Board, and report to Shareholders on that performance on a periodic basis.
- Make recommendations to Shareholders as to the appointment, removal, replacement and remuneration of directors.
- Make recommendations to Shareholders as to any changes to policies, or the SOI, requiring

² Best practice as per NZX and Institute of Directors guidelines

their approval.

- Ensure all Shareholders are fully informed on LGFA matters and to coordinate Shareholders on governance decisions.

8. Information to be provided to Shareholders

The Board aims to ensure that Shareholders are informed of all major developments affecting LGFA's state of affairs, while at the same time recognising both LGFA's obligations under NZX Listing Rules and that commercial sensitivity may preclude certain information from being made public.

Annual Report

The LGFA's balance date is 30 June.

By 30 September each year, the Company will produce an Annual Report complying with Sections 67, 68 and 69 of the Local Government Act 2002, the Companies Act and Financial Reporting Act. The Annual Report will contain the information necessary to enable an informed assessment of the operations of the company, and will include the following information:

- Directors' Report.
- Financial Statements incorporating a Statement of Financial Performance, Statement of Movements in Equity, Statement of Financial Position, Statement of Cashflows, Statement of Accounting Policies and Notes to the Accounts.
- Comparison of the LGFA's performance with regard to the objectives and performance targets set out in the SOI, with an explanation of any material variances.
- Auditor's Report on the financial statements and the performance targets.
- Any other information that the directors consider appropriate.

Half Yearly Report

By 28 February each year, the Company will produce a Half Yearly Report complying with Section 66 of the Local Government Act 2002. The Half Yearly Report will include the following information:

- Directors' commentary on operations for the relevant six-month period.
- Comparison of LGFA's performance with regard to the objectives and performance targets set out in the SOI, with an explanation of any material variances.
- Un-audited half-yearly Financial Statements incorporating a Statement of Financial Performance, Statement of Movements in Equity, Statement of Financial Position and Statement of Cashflows.

Quarterly Report

By 31 January, 30 April, 31 July, and 31 October each year, the Company will produce a Quarterly

Report. The Quarterly Report will include the following information:

- Commentary on operations for the relevant quarter, including a summary of borrowing margins charged to Participating Local Authorities (in credit rating bands).
- Comparison of LGFA's performance with regard to the objectives and performance targets set out in the SOI, with an explanation of any material variances.
- Analysis of the weighted average maturity of LGFA bonds outstanding.
- In the December Quarterly Report only, commentary on the Net Debt/Total Revenue percentage for each Participating Local Authority that has borrowed from LGFA (as at the end of the preceding financial year).
- To the extent known by LGFA, details of all events of review in respect of any Participating Local Authority that occurred during the relevant quarter (including steps taken, or proposed to be taken, by LGFA in relation thereto).

Statement of Intent

By 1 March in each year the Company will deliver to the Shareholders its draft SOI for the following year in the form required by Clause 9(1) of Schedule 8 and Section 64(1) of the Local Government Act 2002.

Having considered any comments from the Shareholders received by 30 April, the Board will deliver the completed SOI to the Shareholders on or before 30 June each year.

Shareholder Meetings

The Board will hold an Annual General Meeting between 30 September and 30 November each year to present the Annual Report to all Shareholders.

The Company will hold a meeting with the Shareholders' Council approximately every six months – prior to the Annual General Meeting and after the Half Yearly Report has been submitted. Other meetings may be held by agreement between the Board and the Shareholders' Council.

9. Acquisition/divestment policy

LGFA will invest in securities in the ordinary course of business. It is expected that these securities will be debt securities. These investments will be governed by LGFA's lending and/or investment policies as approved by the Board and/or Shareholders.

Any subscription, purchase or acquisition by LGFA of shares in a company or organisation will, if not within those investment policies, require Shareholder approval other than as concerns the formation of wholly-owned subsidiaries and the subscription of shares in such wholly-owned subsidiaries.

10. Activities for which compensation is sought from Shareholders

At the request of Shareholders, LGFA may (at its discretion) undertake activities that are not consistent with its normal commercial objectives. Specific financial arrangements will be entered into to meet the full cost of providing such as activities.

Currently there are no activities for which compensation will be sought from Shareholders.

11. Commercial value of Shareholder's investment

LGFA will seek to maximise benefits to Participating Local Authorities as Borrowers rather than Shareholders.

Subject to the Board's views on the appropriate capital structure for LGFA, the Board's intention will be to pay a dividend that provides an annual rate of return to Principal Shareholders equal to LGFA cost of funds plus 2.00% over the medium term.

As the Shareholders will have invested in the LGFA on the basis of this limited dividend, the Board considers that at establishment the commercial value of LGFA is equal to the face value of the Shareholders' paid up Principal Shares - \$25 million.

In the absence of any subsequent share transfers to the observed share transfers on 30 November 2012, the Board considers the current commercial value of LGFA is at least equal to the face value of the Shareholders' paid up Principal Shares - \$25 million.

12. Accounting policies

LGFA has adopted accounting policies that are in accordance with the New Zealand International Financial Reporting Standards and generally accepted accounting practice. A Statement of accounting policies is attached to this SOI.

The following statement is taken from the Financial Statements presented as part of LGFA's Annual Report 2015-2016 (updated where necessary).

ATTACHMENT: Statement of accounting policies

a. Reporting Entity

The New Zealand Local Government Funding Agency Limited (LGFA) is a company registered under the Companies Act 1993 and is subject to the requirements of the Local Government Act 2002.

LGFA is controlled by participating local authorities and is a council-controlled organisation as defined under section 6 of the Local Government Act 2002. LGFA is a limited liability company incorporated and domiciled in New Zealand.

The primary objective of LGFA is to optimise the debt funding terms and conditions for participating local authorities.

The registered address of LGFA is Level 8, City Chambers, 142 Featherston Street, Wellington Central, Wellington 6011.

The financial statements are as at and for the year ended 30 June 2016.

These financial statements were authorised for issue by the Directors on 20 September 2016.

b. Statement of Compliance

LGFA is an issuer in terms of the Financial Reporting Act 1993. The financial statements comply with the Financial Reporting Act 1993, in accordance with the transitional provisions under Section 55 of the

Financial Reporting Act 2013 and Schedule 4 of the Financial Markets Conduct Act 2013.

LGFA is a profit orientated entity as defined under the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with NZ IFRS and other applicable Financial Reporting Standard, as appropriate for Tier 1 for-profit entities. The financial statements also comply with International Financial Reporting Standards ("IFRS").

c. Basis of Preparation

Measurement base

The financial statements have been prepared on a historical cost basis modified by the revaluation of certain assets and liabilities.

The financial statements are prepared on an accrual basis.

Functional and presentation currency

The financial statements are presented in New Zealand dollars rounded to the nearest thousand, unless separately identified. The functional currency of LGFA is New Zealand dollars.

Foreign currency conversions

Transactions denominated in foreign currency are translated into New Zealand dollars using exchange rates applied on the trade date of the transaction.

Changes in accounting policies

There have been no changes in accounting policies.

Early adoption standards and interpretations

NZ IFRS 9: Financial Instruments. The first two phases of this new standard were approved by the Accounting Standards Review Board in November 2009 and November 2010. These phases address the issues of classification and measurement of financial assets and financial liabilities.

Standards not yet adopted

LGFA does not consider any standards or interpretations in issue but not yet effective to have a significant impact on its financial statements. Those which may be relevant to LGFA are as follows: NZ IFRS 9: Financial Instruments (2014) – Effective for periods beginning on or after 1 January 2018. This standard aligns hedge accounting more closely with the risk management activities of the entity and adds requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit.

d. Financial instruments

Financial assets

Financial assets, other than derivatives, are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method.

Cash and cash equivalents include cash on hand; cash in transit, bank accounts and deposits with an original maturity of no more than three months.

Purchases and sales of all financial assets are accounted for at trade date.

At each balance date an assessment is made whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Financial liabilities

Financial liabilities, other than derivatives, are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method.

Derivatives

Derivative financial instruments are recognised both initially and subsequently at fair value. They are reported as either assets or liabilities depending on whether the derivative is in a net gain or net loss position respectively.

Fair value hedge

Where a derivative qualifies as a hedge of the exposure to changes in fair value of an asset or liability (fair value hedge) any gain or loss on the derivative is recognised in profit and loss together with any changes in the fair value of the hedged asset or liability.

The carrying amount of the hedged item is adjusted by the fair value gain or loss on the hedged item in respect of the risk being hedged. Effective parts of the hedge are recognised in the same area of profit and loss as the hedged item.

e. Other assets

Property, plant and equipment (PPE)

Items of property, plant and equipment are initially recorded at cost.

Depreciation is charged on a straight-line basis at rates calculated to allocate the cost or valuation of an item of property, plant and equipment, less any estimated residual value, over its remaining useful life.

Intangible Assets

Intangible assets comprise software and project costs incurred for the implementation of the treasury management system. Capitalised computer software costs are amortised on a straight line basis over the estimated useful life of the software (3 to 7 years). Costs associated with maintaining computer software are recognised as expenses.

f) Other liabilities

Employee entitlements

Employee entitlements to salaries and wages, annual leave and other similar benefits are recognised in the profit and loss when they accrue to employees.

g) Revenue and expenses**Revenue****Interest income**

Interest income is accrued using the effective interest rate method.

The effective interest rate exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this rate to the principal outstanding to determine interest income each period.

Expenses

Expenses are recognised in the period to which they relate.

Interest expense

Interest expense is accrued using the effective interest rate method.

The effective interest rate exactly discounts estimated future cash payments through the expected life of the financial liability to that liability's net carrying amount. The method applies this rate to the principal outstanding to determine interest expense each period.

Income tax

LGFA is exempt from income tax under Section 14 of the Local Government Borrowing Act 2011.

Goods and services tax

All items in the financial statements are presented exclusive of goods and service tax (GST), except for receivables and payables, which are presented on a GST-inclusive basis. Where GST is not recoverable as input tax, then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the IRD is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as a net operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

h. Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

i. Segment reporting

LGFA operates in one segment being funding of participating local authorities in New Zealand.

j. Judgements and estimations

The preparation of these financial statements requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. For example, the present value of large cash flows that are predicted to occur a long time into the future depends critically on judgements regarding future cash flows, including inflation assumptions and the risk free discount rate used to calculate present values. Refer note 2b for fair value determination for financial instruments.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Where these judgements significantly affect the amounts recognised in the financial statements they are described below and in the following notes.

Open Meeting

| | |
|---------------------------------|--|
| To | Strategy & Finance Committee |
| From | Tony Whittaker General Manager Strategy & Support |
| Date | 9 March 2017 |
| Prepared by | Alison Diaz Finance Manager |
| Chief Executive Approved | Y |
| Reference # | GOV1318 |
| Report Title | Waikato Regional Airport Limited Draft Statement of Intent 2017/18 |

I. EXECUTIVE SUMMARY

The Waikato Regional Airport Limited (“WRAL”) Draft Statement of Intent for 2017/18 is attached for the consideration of the Strategy & Finance Committee (“the Committee”). The Committee is responsible for monitoring WRAL’s operations and making recommendations to Council for any proposed amendments to their activities.

The Council has two months within which it can provide feedback or request changes to the Statement of Intent as a shareholder, with the final Statement of Intent due on or before the 30 June 2017.

2. RECOMMENDATION

THAT the report from the **General Manager Strategy & Support** be received;

AND THAT pursuant to section 64 of the **Local Government Act 2002** the **Strategy & Finance Committee** will provide feedback on the **Waikato Regional Airport Limited** draft **Statement of Intent** for 2017/18 no later than **30 April 2017**.

3. BACKGROUND

WRAL met with shareholders on 02 March to present their six monthly results and the draft Statement of Intent (“SOI”). Mayor Sanson and Economic Development Manager, Clive Morgan, attended on behalf of Council. The SOI is attached and sets out the Boards intentions for the company for 2017/18, 2018/19 and 2019/20.

4. DISCUSSION AND ANALYSIS OF OPTIONS

4.1 DISCUSSION

The strategic activities of the Airport will differ from the 2016/17 position in terms of debt repayment being a key strategic activity. In the last 12 months \$2.7 million of debt was repaid (as per the interim report), however, moving forward the implementation of the property business plan will require debt funding. This will increase the leverage above what was indicated previously. The dividend policy has also changed in that shareholders are expected to be paid a dividend in 2017/18.

4.2 OPTIONS

The Committee can:

- a) Recommend approval of the current draft SOI to Council, or
- b) Request further information of WRAL, or
- c) Suggest changes to the draft SOI,

Any feedback must be provided to WRAL before 30 April.

5. CONSIDERATION

5.1 FINANCIAL

The financial performance targets take into account the upwards trend in passenger numbers despite the removal of the Auckland connection, the implementation of the property business plan, diversification of revenue and drive for operational efficiencies. The targets exclude any Titanium Park land sales. The comparative position between the 2016/17 SOI and the draft 2017/18 SOI is presented in the table below:

| Targets | 2016/17 SOI | | 2017/18 draft SOI | | |
|--|-------------|----------|-------------------|----------|----------|
| | 2018 | 2019 | 2018 | 2019 | 2020 |
| Earnings before interest, taxation and depreciation (EBITDA) | \$2.374m | \$2.413m | \$2.374m | \$2.495m | \$2.550m |
| Net surplus after tax | \$-350k | \$-336k | \$-366k | \$-342k | \$-350k |
| Net profit after tax to average shareholders' funds | -1% | -1% | -1% | -1% | -1% |
| Net profit after tax to total assets | 0% | 0% | 0% | 0% | 0% |
| Net cashflow (operating and investing) | \$10k | \$438k | \$200k | \$830k | \$250k |
| Total liabilities/shareholders' funds (debt/equity ratio) | 26:74 | 25:75 | 35:65 | 35:65 | 35:65 |
| Percentage of non-landing charges revenue | 76% | 74% | 76% | 74% | 74% |
| Interest cover | 6.65 | 6.92 | 6.00 | 6.00 | 6.00 |

5.2 NON-FINANCIAL

The SOI includes three measures to support health and safety practices, two operational measures relating to compliance with Civil Aviation Authority requirements and continued operations for passengers as well as a noise management compliance target.

5.3 LEGAL

Schedule 8 of the Local Government Act 2002 requires the board of WRAL to make their SOI publicly available within one month of Council adoption.

6. CONCLUSION

Council has an opportunity to provide feedback on the SOI before the end of April. Once all shareholders have provided feedback a final SOI will be issued (or the draft confirmed as final).

7. ATTACHMENTS

Waikato Regional Airport Limited draft Statement of Intent 2017/18



2017/2018

Waikato Regional Airport Limited Statement of Intent

June 2017



1.0 Introduction

This statement is presented by the Directors in accordance with s.64 (1) Local Government Act 2002 and sets out the Board's intentions for the Company for the year ending 30 June 2018 and succeeding two financial years.

2.0 Strategic Intent

The Airport has identified its core purpose and key objectives that recognise the strategic intent of the business:

Core Purpose

1. Enabler of air services to the region
2. Operate a first class, safe and compliant regional airport
3. Strategic positioning of the business to enhance capital value

Key Objectives

1. Operate an efficient and compliant airport
2. Enhance the traveller experience
3. Maintain a viable aeronautical business
4. Maximise revenue diversification through non-aeronautical business opportunities

3.0 In Pursuing its Goals the Company will:

- At all times behave in a professional and ethical manner in all its business dealings with its customers and stakeholders
- Be a good employer
- Ensure a safe and healthy work place environment that complies with government legislation
- Identify and recognise Shareholders' expectations, within the bounds of corporate prudence

4.0 Nature and Scope of Activities to be Undertaken

(4.1) Operate an efficient and compliant airport

Operate a safe, secure and compliant airport by providing for essential projects together with any compliance expenditure warranted

(4.2) Enhance the traveller experience

Maximise traveller satisfaction and airport experience

**(4.3) Maintain a viable aeronautical business**

Identify opportunities to develop new, and expand existing, domestic passenger services

Promote development and growth of the general aviation sector

To allow the main runway to be extended when supported by an appropriate business case

Position and protect the airport as an efficient, cost-effective international port of arrival for private, corporate and medical aircraft

(4.4) Maximise revenue diversification through non-aeronautical business opportunities

Support the development of land within the bounds of a sound strategic approach to long-term planning for the airport precinct by its subsidiary Titanium Park Limited.

TPL will identify and market for sale or development all available surplus airport-owned land in a planned and co-ordinated approach.

(4.5) Ensure appropriate internal and external resource to enable a commercially driven and high performing organisation

Knowledgeable and capable, high performing and appropriately resourced management team to ensure sound reporting and accountability, and delivery of the strategic plan

(4.6) Capital Expenditure

Planned major capital expenditure included in the three year forecast is:

2018 \$1,254k

2019 \$970k

2020 \$1,500k

(4.7) Strategic Activities

Key activities for the 2017/18 year are:

- Optimise domestic passenger services and the customer experience
- Maximise property lease income
- Implement the comprehensive property business plan that will address development and investment opportunities to grow long term property income for the Group.

5.0 Shareholders' Funds to Total Assets

| Years ending 30 June | 2018 | 2019 | 2020 |
|-------------------------------------|------|------|------|
| Shareholders' funds to total assets | 76% | 76% | 76% |

Definitions:

Shareholders' funds Total assets less the total liabilities.

Total assets The value of all assets reported in the Company's statement of financial position at the end of each reporting period.

**6.0 Statement of Accounting Policies**

The accounting policies adopted by the Group for the year ending 30 June 2018 and succeeding 2 years are those as adopted in the 2016 Annual Report prepared under Tier 2 of the Public Sector Public Benefit Framework (NZ IFRS RDR).

7.0 Performance Targets

The following annual performance targets exclude any Titanium Park land sales.

| | | Year Ended 30 June | | |
|---|--|--------------------|--------------|---------------|
| Based on consolidated company forecasts | | 2018 | 2019 | 2020 |
| 7.1 | Earnings before interest, taxation & depreciation (EBITDA) | \$2,374,000 | \$2,495,000 | \$2,550,000 |
| 7.2 | Net deficit after tax | (\$366,000) | (\$342,000) | (\$350,000) |
| 7.3 | Net profit after tax to average shareholders' funds | -1% | -1% | -1% |
| 7.4 | Net profit after tax to total assets | 0% | 0% | 0% |
| 7.5 | Net cash flow (operating & investing) | | | |
| | Net operating cash flow | \$1,700,000 | \$1,800,000 | \$1,750,000 |
| | Net investing cash flow | (\$1,500,000) | (\$970,000) | (\$1,500,000) |
| | Funding Titanium Park Limited | (\$0) | (\$0) | (\$0) |
| | Total net cash flow (operating & investing) | \$200,000 | \$830,000 | \$250,000 |
| | Net debt | \$12,000,000 | \$11,170,000 | \$10,920,000 |
| 7.6 | Total liabilities/shareholders' funds (debt/equity ratio) <i>a maximum of</i> | 35:65 | 35:65 | 35:65 |
| Applicable to parent company operations only | | 2018 | 2019 | 2020 |
| 7.7 | Percentage of non-landing charges Revenue | 76% | 74% | 74% |
| 7.8 | Interest cover | 6.0x | 6.0x | 6.0x |
| <i>The interest cover measures the number of times the net profit before interest, tax and depreciation (EBITDA) covers interest paid on debt</i> | | | | |
| Non-financial performance targets | | | | |
| 7.9 | Health & Safety | | | |
| 7.9.1 | Facilitate Health & Safety meetings every 2 months with representatives from each company department | | | |
| 7.9.2 | Zero Work Safe notifiable accidents/injuries | | | |



7.9.3 Implement the company's Health & Safety framework to align with the requirements of the Health and Safety at Work Act 2015 and independently review and audit the system each year.

7.10 Operational Compliance

7.10.1 To achieve the Airport Certification Standards as required by the Civil Aviation Authority and as evidenced by Civil Aviation Authority audit reports

7.10.2 Ensure airport is operationally available for all scheduled passenger services (except for uncontrollable events)

7.10.3 Facilitate noise management meetings each 4 months in accordance with the Noise Management Plan

7.11 Customer Satisfaction

7.11.1 Collect, document and act (where viable) on customer feedback forms to continuously monitor and improve the customer experience. Maintain a database to ensure recurring negative feedback is promptly acted upon

8.0 Dividend Policy

WRAL will endeavor to review paying an ordinary annual dividend based on the forecast Cash Flow for the year 2017–18 and propose to make a decision in the last quarter of the financial year ended 2017-18.

9.0 Information to be provided to Shareholders

- 9.1 The Annual Report of the Company
- 9.2 An Interim Report circulated to Shareholders each half-year
- 9.3 Shareholder Briefings

10.0 Future Investment Proposals

If the Company wishes to subscribe for, purchase, or otherwise acquire shares in any other company or any other organisation it can do so only after first obtaining approval from the majority of shareholders at either a General Meeting or at a Special Meeting convened for that purpose.

11.0 Commercial Value of the Shareholders Investment

No valuation of shares has been completed.

The consolidated balance sheet of WRAL as at 30 June 2016 shows shareholder equity of \$64.4m. Company Property, Plant & Equipment is based upon a 2016 valuation except for land which was revalued as at 30 June 2013. Company assets such as runways, aprons, taxiways and the terminal building are based upon depreciated replacement cost.

12.0 Compensation from Local Authorities

There are no activities of the Company for which the Directorate would seek compensation from any local authority.



13.0 Major Transactions

Shareholders approve major transactions via a special resolution. A major transaction is defined as:

- (a) the acquisition of, or an agreement to acquire (whether contingent or not), assets the value of which is more than 10% of the value of the company's assets before the acquisition; or
- (b) the disposition of, or an agreement to dispose of (whether contingent or not), assets the value of which is more than 10% of the value of the company's assets before the disposition; or
- (c) a transaction which has or is likely to have the effect of the company acquiring rights or interests or incurring obligations or liabilities, the value of which is more than 10% of the value of the company's assets before the transaction;

but does not include:

- (d) any transaction entered into by a receiver appointed pursuant to a security over all or substantially all of the property of the company.

Nothing in paragraph (c) of this definition applies by reason only of the company giving, or entering into an agreement to give, a floating charge secured over assets of the company the value of which is more than 10% of the value of the company's assets for the purpose of securing the repayment of money or the performance of an obligation.

There are no major transactions planned during the period.

14.0 Health and Safety

The Board and Management will ensure that all requirements to the Health and Safety at Work Act 2015 are maintained. This will be achieved by the engagement of an independent consultant and audit processes to ensure the organisation and its subsidiary companies are maintaining compliant and best practise processes. At all times the company will continue to monitor and review Health and Safety requirements via monthly reporting.

Open Meeting

| | |
|---------------------------------|--|
| To | Strategy & Finance Committee |
| From | Tony Whittaker General Manager Strategy & Support |
| Date | 8 March 2017 |
| Prepared by | Alison Diaz Finance Manager |
| Chief Executive Approved | Y |
| Reference # | GOV1318 |
| Report Title | Waikato Regional Airport interim report |

I. EXECUTIVE SUMMARY

The Waikato Regional Airport Limited (“WRAL”) interim report is presented in accordance with the requirements of section 66 of the Local Government Act 2002.

The attached report indicates that the performance measures stipulated within WRAL’s Statement of Intent (“SOI”) for 2016/17 are likely to be met and in most instances exceeded for the year. When compared against prior period results, performance has been reasonably stable, with an operating surplus increase of \$10,000. The groups net cashflow and total liabilities to shareholder funds forecasts are significantly different to that presented in the SOI due to loan funding the purchase of 40 hectares of land.

Air New Zealand’s introduction of larger aircraft has supported continued growth in passenger numbers for the Palmerston North, Wellington and Christchurch routes. Carpark revenue has also increased. Operating expenses are \$8,000 lower than the prior year and term loans have been reduced by \$2.7 million over the last 12 months. There has been increased interest in land around the airport since the middle of last year, and the board with management are developing a business case for future land use owned by WRAL and Titanium Park Limited.

2. RECOMMENDATION

THAT the report from the General Manager Strategy & Support be received.

3. ATTACHMENTS

Waikato Regional Airport Limited interim report for the six months ended 31 December 2016

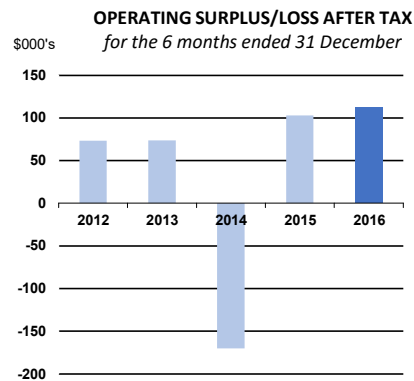
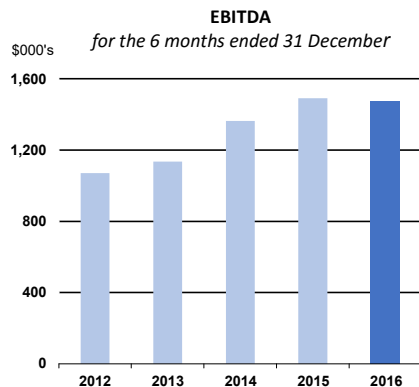
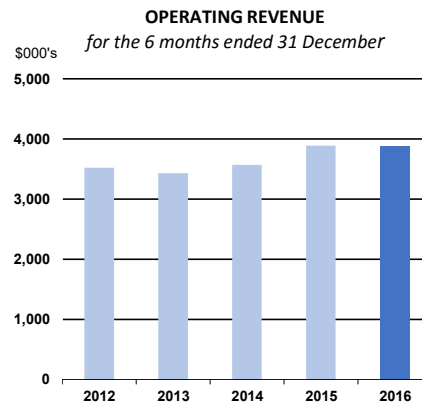
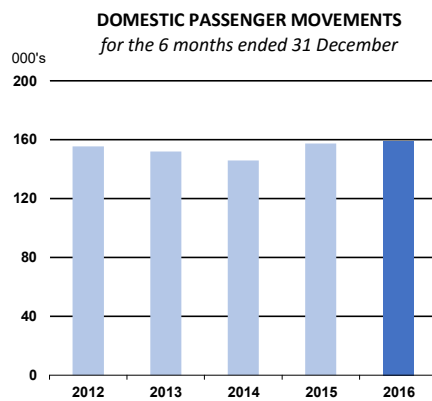


Interim Report

For the six months ended
31 December 2016

| | |
|---|--------------------|
| Domestic Passenger Numbers | 159,000 |
| <i>up on prior period by 1,600 or 1%</i> | |
| Air Movements | 65,000 |
| <i>up on prior period by 3,000 or 5%</i> | |
| Operating Revenue | \$3,877,000 |
| <i>down on prior period by \$9k or (0.23%)</i> | |
| Operating Expenses | \$1,215,000 |
| <i>down on prior period by \$8k or (0.57%)</i> | |
| Earnings before Interest, Tax, Depreciation and Amortisation | \$1,475,000 |
| <i>down on prior period by \$17k or (1%)</i> | |
| Operating Surplus After Tax | \$112,000 |
| <i>up on prior period by \$10k or (10%)</i> | |

Note: Results are rounded to the closest thousand and compared to the six months ended 31 December 2015 unless otherwise stated.
The financial results shown above are "normalised" and exclude the prior year's revenue from the NZTA compulsory acquisition of land.



OVERVIEW OF THE HALF YEAR

The first six months trading delivered a solid financial performance, assisted by revenue growth from increased passenger numbers, including carpark growth and lower operating costs when compared to budget. The primary focus of the management team has been on the efficiencies of the airport operation coupled with improving the customer's experience.

In addition, there has been significant work on Titanium Park Limited. This has been to ensure that the key actions due to the joint venture dissolution are completed and there has also been a strong emphasis on managing land sales enquiries and optimising lease and concession income.

Customer experience has been enhanced by the completion and opening of the new Air New Zealand Regional Lounge in May 2016. The lounge has provided Air New Zealand valued customers with the latest regional lounge design, interior fit out and technology enhancements. In addition, we were delighted to welcome Mavis & Co to the Airport opening the latest of their Waikato Cafes, Mavis Lounge. The Café has provided a much-improved quality of food and beverage and has enhanced the ambiance of the mezzanine floor of the terminal.

In December 2016, the Airport also launched new conferencing facilities (in what was the old international terminal space) and marketing these will be a strong focus in 2017. Initial feedback has been very positive and will be further supported by the Mavis Café.

At the half year, 159,000 passengers have used the airport which is a 1% increase on the same period last year. However, it is important to note that the prior year numbers still have a significant number of passengers from the discontinued Auckland service. If we compare the current services of Palmerston North, Wellington and Christchurch on a comparative basis, we have seen growth of 7%.

From October 2016, there has been a significant change to the Air New Zealand schedule and an increase in seat capacity due to the larger aircraft type. This is particularly evident on the Palmerston North route where we are seeing year on year passenger growth of between 80% and 125%.

Capital works this financial year have been focused on maintaining operational improvements and general maintenance to the aerodrome. In February 2017, there will be significant overlay works on the Terminal apron and taxiway to the runway.

There continues to be a major focus on Health & Safety. Independent expertise has been engaged to oversee Health and Safety compliance for the company ensuring obligations are met in relation to the new legislation that came into effect on the 4th April 2016. In addition, an independent audit was conducted in October 2016 which has reinforced that the company's existing framework meets the current act requirements.

FINANCIAL RESULTS

The operating surplus after tax for the Group (inclusive of Titanium Park Limited and Hamilton & Waikato Tourism Limited) for the six months ended 31st December 2016 is \$112,000.

Revenue for the Group of \$3.8m is consistent with the prior year showing a slight decrease of \$9k. Following the trend, operating expenses of \$1.3m are down on prior year by \$8k.

Term loans reduced by \$2.684m in the last 12 months.

OPERATIONS

Operations continue to be conducted in accordance with Civil Aviation Authority's (CAA) regulatory compliance. Total air movements are slightly ahead of the same period in 2015. Airfield capital works forecast to be undertaken in February 2017 and include budgeted asphalt overlay works of the terminal apron and taxiway areas (\$600k). Budgeted pavement maintenance works (\$100k) are also planned to be undertaken concurrently with the overlay works.

Consistent with similar airport reviews and outcomes, the CAA have designated to reduce the aerodrome control zone from its previous dimensions established in the mid-1960s. Led by CAA, the change was effected following safety assessment and lengthy consultation process involving the operators and users of Hamilton Airport. The reduction in controlled airspace aligns with the need to ensure the control zone is as small as practicable whilst protecting the flight paths of commercial aircraft flying in all weather conditions arriving and departing the airport. The changes became effective November 2016.

TITANIUM PARK LIMITED (TPL)

Since the dissolution of the joint venture at 31st March 2016, the Board's key priorities have been to ensure that all contractual matters relating to the dissolution are progressed and completing a review of the group property portfolio to optimise value and lease income.

There has been increased interest in land around the airport since the middle of 2016. TPL has achieved two land sales of approximately 3,500m² per sale. In addition, the Montgomerie Farm (Northern Precinct) property was purchased from Titanium Park Development Limited (TPDL) and contemporaneously TPL sold its land on the Western Precinct to TPDL. The purchase and sale went unconditional on the 22nd December 2016.

Graham Dwyer joined the TPL Board in May 2016 bringing an extensive background in property sales and development. The Board and Management are developing a business case for the future land use owned by TPL and WRAL.

HAMILTON & WAIKATO TOURISM LIMITED (HWT)

New Zealand's tourism industry is experiencing exponential growth with international visitor arrivals and expenditure at its highest level ever. The Hamilton and Waikato region has shared in this significant growth. Recent data released by the Ministry for Business, Innovation and Employment (MBIE) show the region's visitor expenditure for the year ended November 2016 has climbed to an estimated \$1.373 billion, an 8.6% increase on the previous year. Hamilton and Waikato is the fifth largest region by expenditure behind Auckland, Christchurch, Queenstown and Wellington.

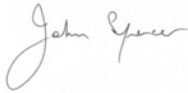
International visitors contributed \$325 million to the region, while domestic spend delivered \$1.047 billion of economic benefit (year ended November 2016).

Jason Dawson was appointed Chief Executive of HWT in August 2016.

Graeme Osborne retired from the HWT Board and Annabel Cotton was appointed Chair in November 2016.

OUTLOOK

The ongoing focus for the Board and Management during the second half of the financial year will be to prudently control operating expenses, begin implementation of the key initiatives from the Titanium Park business plan and to remain responsive to land sale and development opportunities.



John Spencer

Chair

 **CONSOLIDATED INCOME STATEMENT**
For the Six Months Ended 31 December 2016

| | GROUP | |
|--|--------------|--------------|
| | \$000 | |
| | 2016 | 2015 |
| Revenue | | |
| Operating revenue | 3,877 | 3,886 |
| Other revenue | - | - |
| TOTAL REVENUE | 3,877 | 3,886 |
| Expenses | | |
| Operating expenses | 1,215 | 1,350 |
| Employee benefit expenses | 1,050 | 924 |
| Depreciation and amortisation | 1,180 | 1,051 |
| Directors' fees | 96 | 81 |
| Interest | 143 | 258 |
| Remuneration of auditor | 41 | 40 |
| Other losses | (4) | 23 |
| TOTAL EXPENSES | 3,721 | 3,727 |
| Operating surplus before taxation | 156 | 159 |
| Taxation | 44 | 57 |
| OPERATING SURPLUS AFTER TAXATION | 112 | 102 |
| NZTA compulsory acquisition of land (net of tax) | - | 562 |
| SURPLUS AFTER TAXATION | 112 | 664 |

The above results have not been audited.


CONSOLIDATED BALANCE SHEET

As at 31 December 2016

| | GROUP \$000 | |
|--------------------------------|----------------|---------------|
| | 2016 | 2015 |
| Equity | | |
| Share capital | 14,860 | 14,860 |
| Asset revaluation reserve | 33,078 | 28,677 |
| Retained earnings | 15,856 | 16,987 |
| Total Equity | 63,794 | 60,524 |
| Current Assets | | |
| Cash and cash equivalents | 118 | 1,501 |
| Trade and other receivables | 515 | 677 |
| Prepayments | 114 | 84 |
| Inventories | 88 | 91 |
| Development property | 10,620 | 11,298 |
| | 11,456 | 13,651 |
| Current Liabilities | | |
| Payables and accruals | 1,100 | 963 |
| Employee entitlements | 274 | 207 |
| Income in advance | 205 | 208 |
| | 1,579 | 1,378 |
| Working Capital | 9,877 | 12,273 |
| Non-Current Assets | | |
| Property, plant and equipment | 63,982 | 60,890 |
| Investment property | 3,750 | 3,730 |
| Other financial assets | - | 25 |
| Intangible assets | 1,145 | 9 |
| Other assets | 78 | 88 |
| | 68,955 | 64,742 |
| Non-Current Liabilities | | |
| Term loans | 7,049 | 9,733 |
| Deferred taxation | 7,989 | 6,758 |
| | 15,038 | 16,491 |
| Net Assets | 63,794 | 60,524 |

The above results have not been audited.


FINANCIAL PERFORMANCE TARGETS

For the Six Months Ended 31 December 2016

| | Group | | |
|--|----------------------|------------------------|-------------------|
| | Actual 31/12/2016 | Forecast 30/06/2017 | SOI 30/06/2017 |
| MEASURES (GROUP) | | | |
| Earnings before interest, taxation & depreciation (EBITDA) | \$1.475m | \$2.626m | \$2.279m |
| Net surplus/(deficit) after tax | \$112k | \$638k | -\$366k |
| Net profit after tax to average shareholders' funds | 0% | 1% | -1% |
| Net profit after tax to total assets | 0% | 1% | 0% |
| Net cash flow (operating & investing) | \$13k | -\$5.426m | -\$451k |
| Total liabilities to shareholder funds | 21:79 | 35:65 | 26:74 |
| MEASURES (Parent) | | | |
| Percentage of non-landing charges revenue to total revenue | 81% | 80% | 76% |
| Interest cover (Banking covenant requirement 1.50) | 8.23 | 7.97 | 6.56 |

The above results have not been audited.

 **CORPORATE DIRECTORY**

For the Six Months Ended 31 December 2016

| | |
|-------------------------------------|--|
| Board of Directors | John Spencer CNZM (Chair) Annabel Cotton Margaret Devlin Carlos da Silva |
| Chief Executive | Mark Morgan |
| General Manager - Operations | Simon Hollinger |
| Finance Manager | Nikki Orange |
| Registered Office | Hamilton Airport Terminal Building Hamilton Airport Airport Road, R D 2 Hamilton 3282 |
| Telephone | 07 848 9027 |
| E-mail | wral@hamiltonairport.co.nz |
| Web Site | www.hamiltonairport.co.nz |
| Bankers | Bank of New Zealand |
| Solicitors | Tompkins Wake, Hamilton Ellice Tanner Hart, Hamilton |
| Auditors | Audit New Zealand, Hamilton on behalf of the Controller and Auditor-General |

Open Meeting

| | |
|---------------------------------|---|
| To | Strategy & Finance Committee |
| From | Tony Whittaker General Manager Strategy & Support |
| Date | 8 March 2017 |
| Prepared by | Alison Diaz Finance Manager |
| Chief Executive Approved | Y |
| Reference # | GOV1318 / 1691812 |
| Report Title | Waikato Local Authority Shared Services Limited six monthly report |

I. EXECUTIVE SUMMARY

The six monthly accounts from Waikato Local Authority Shared Services Limited (WLASS) are presented to the Strategy & Finance Committee in accordance with the requirements of section 66 of the Local Government Act 2002.

WLASS has made sound progress against stipulated Statement of Intent targets in the first half of the financial year. Of the 33 non-financial measures agreed, 17 have been achieved (52%), 7 are in progress, partly achieved or on track (21%), with 1 target relating to quality assurance for building consents not delivered (3%). The remaining targets are either on an annual measurement basis or are not applicable at this time.

Both revenue and expenditure are higher than anticipated for the period mainly attributed to letting the Waikato Regional Aerial Photography tender (extra costs and revenue), additional costs for population forecast revisions and the Waikato Plan, release of accumulated funds in excess of expectations for both Future Proof and the Waikato Building Consent Group and revenue from Road Asset Technical Accord above budgeted levels. The net impact of these movements is approximately \$983,000 more favourable than the budgeted position. This is simply a timing difference.

2. RECOMMENDATION

THAT the report from the General Manager Strategy & Support be received.

3. ATTACHMENTS

Waikato Local Authority Shared Services Limited six monthly report to shareholders



SIX MONTHLY REPORT TO SHAREHOLDERS

1 July 2016 to 31 December 2016

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Waikato Local Authority Shared Services Limited – 6 Monthly Report

Local Authority Shared Services Limited was incorporated under the Companies Act 1993 on the 13th day of December 2005, and changed its name to WAIKATO LOCAL AUTHORITY SHARED SERVICES LIMITED (WLASS) on the 4th day of April 2016. Each of the 12 Waikato councils owns an equal number of shares in WLASS and as such has an equal say in its development. This report covers the 6-month period from 1 July to 31 December 2016, as required by Section 66 of the Local Government Act 2002.

Objectives of WLASS

WLASS was established principally to provide the Councils in the Waikato Region with a vehicle to procure shared services. Its key purpose is to drive collaboration between councils, to improve customer service and performance across the Waikato region, and to reduce costs. It provides a mechanism for the development of new services, which are available to be joined by any shareholder that chooses to do so.

The objectives of WLASS are:

- To enable the Waikato councils to collectively be more effective as a region on the national stage
- To contribute to building central government's confidence in the Waikato region, and to encourage central government investment
- To achieve effectiveness and efficiency gains
- To reduce duplication of effort and eliminate waste through repetition
- To make it easier for customers to engage with councils in the Waikato region
- To promote and contribute to the development of best practice
- To promote business transformation to improve customers' experiences.

WLASS also provides administrative and financial support services to the Waikato Mayoral Forum, to enable the successful implementation of Mayoral Forum initiated projects.

The shareholders continue to identify improvements that could be made, such as: implementing shared services related to back-office activities; shared procurement to provide cost savings and consistency; streamlining of work processes; and service improvements. Initiatives which could benefit from being managed by WLASS are considered by working groups comprising staff from the shareholding councils, and recommendations are made to the WLASS Board.

Over the period that the company has been operating, benefits have been delivered in the form of:

- improved levels and quality of service
- a more co-ordinated approach to the provision of services
- reductions in the cost of services
- the development of new initiatives
- standardisation of service levels
- opportunities for all Councils, irrespective of location or size, to benefit from joint initiatives
- economies of scale resulting from a single entity representing all Councils and leveraging procurement opportunities.

The WLASS Directors continue to seek new opportunities, either from internal investigations or from council or CEO initiatives that are presented to the Board.

Nature and Scope of Current Activities

Services and Performance

There are currently nine major initiatives operating under the WLASS umbrella, plus a number of Working Parties investigating new opportunities, and a support role for the collaborative work streams of the Waikato Mayoral Forum.

1. **Shared Valuation Data Service (SVDS).** This system continues to operate effectively, providing timely and accurate property valuation data to the 10 member Councils and shareholders at a reducing cost. Current members are: Waikato Regional, Hamilton City, Hauraki, Matamata Piako, Rotorua, South Waikato, Thames Coromandel, Waikato, Waipa and Waitomo District Councils.

Two new data sales contracts have been signed in the past six months, which have further reduced costs to the participating councils. External sales revenue now exceeds \$350,000 per annum.

Significant benefits continue to accrue to Councils using the SVDS service, including:

- competition in the Waikato valuation market, with a resultant improved level of service
- significantly improved data quality, and a minimum of errors
- standardised information and the removal of processing inefficiencies
- quicker and more efficient access to data
- improved collaboration between the user Local Authorities.

2. **Road Asset Technical Accord (RATA).** RATA was initially established as a centre of excellence for road asset planning in 2014, as a work stream under the Mayoral Forum. The activity transferred to WLASS on 1 July 2016. The aim of RATA is to achieve best practice in road asset management by improving capability, capacity and outcomes through effective collaboration. By leading asset management best practice, RATA delivers better decision making through the effective collection and use of good quality data, and the implementation of good practice processes and systems for data collection, analysis and management.

Waipa District Council currently acts as the host council for RATA, providing accommodation and overheads (which are fully recovered from the participating councils), and managing the employment agreements/relationships with the four staff members. This activity is fully funded by the nine participating councils and operates as a separate cost centre. Current members are: Hamilton City, Hauraki, Matamata Piako, Otorohanga, South Waikato, Thames Coromandel, Waikato, Waipa and Waitomo District Councils, supported by the NZ Transport Agency.

3. **Waikato Regional Transportation Model (WRTM).** This model became fully operational in February 2010. It provides accurate information to Councils and to external users (for a charge) for their transport modelling requirements. The WRTM is the only recognised strategic transport modelling resource in the Waikato Region, and is jointly funded by the NZ Transport Agency. WRTM is making a significant contribution to strategic planning of land use and infrastructure within the region, and has been involved in regionally and nationally significant investigations including: the Waikato Expressway Network Plan; the Waikato Regional Land Transport Strategy and Regional Policy Statement; and transport impact assessments in relation to the development of Ruakura.

This activity is fully funded by the seven participating councils, and operates as a separate cost centre. Current members are: Waikato Regional, Hamilton City, Matamata Piako, Taupo, Thames Coromandel, Waikato, and Waipa District Councils, and the NZ Transport Agency. The model has been managed by RATA since 1 July 2016.

- 4. Waikato Building Consent Group (WBCG).** The WBCG was initially set up by five Waikato local authorities in 2004 to foster co-operation, collaboration and consistency in building functions, legislative interpretation and process documentation across the partnering councils. The Group now comprises eight councils (Hamilton City, Hauraki, Matamata Piako, Otorohanga, Thames Coromandel, Waikato, Waipa and Waitomo Districts). The Group has developed a common quality assurance system with associated supporting documentation and media that meet the legislative requirements of the Building Act 2004 and the Building (Accreditation of Building Consent Authorities) Regulations 2006. These regulations cover all aspects of the operational management and compliance of a Building Consent Authority (BCA).

Waikato District Council currently acts as the host council for the WBCG, providing accommodation and overheads (which are fully recovered from the WBCG members), and managing the employment agreements/relationships with the two staff members. The activity is fully funded by the participating councils, and operates as a separate cost centre. The activity transferred to WLASS on 1 July 2016.

- 5. Future Proof.** This is a collaborative partnership between Hamilton City, Waikato and Waipa Districts, Waikato Regional Council and Tāngata whenua, with assistance from the New Zealand Transport Agency. The partners have jointly developed the Future Proof Growth Strategy and Implementation Plan – a 50-year vision and implementation plan specific to the Hamilton, Waipa and Waikato sub-region (Future Proof sub-region), which was adopted by the partners on 30 June 2009.

The accommodation, overheads and employment arrangements of the Future Proof Co-Ordinator are managed by Hamilton City Council. This activity is fully funded by the participating councils, and transferred to WLASS on 1 July 2016.

- 6. Energy Management.** WLASS entered into a Collaboration Agreement with the Energy Efficiency Conservation Authority (EECA) in February 2016. This arrangement will bring \$210,000 in revenue from EECA over three years, subject to meeting specific energy saving targets. The activity is fully funded by the 10 participating councils (Matamata Piako is not eligible, as it has previously received EECA funding, and Thames Coromandel is not participating), and the activity operates as a separate cost centre.

A WLASS Energy Management Plan and Policy have been prepared and both were approved by the Board in August 2016. It is anticipated that the Energy Policy will now be adopted by each council. Energy monitoring software has been installed at each participating council and staff training has been completed. The data now available has identified a number of areas where cost savings can be made (e.g. ensuring that electricity connections are being billed with correct tariffs). Audits have been completed and/or are in progress at a number of council sites to evaluate the cost/benefit of a variety of projects, including street and building lighting, aquatic and events centre operations, and water and wastewater operations. These audits each attract a subsidy of up to \$2K from EECA.

- 7. Joint Procurement Initiatives.** WLASS is a party to numerous joint procurement contracts between the company, shareholding Councils and suppliers. Some contracts (e.g. insurance brokerage services; various collective insurance policies; courier and postal services; historic aerial photography) involve all of the shareholding councils. Other joint procurement contracts have been negotiated, but only some of the shareholding councils have chosen to participate (e.g. the Professional Services Panel; computer-generated print, mail house and e-services; IT Professional Services Panel; Internal Audit Services; Laboratory Services).

Over the past 6 months, new contracts have been put in place for an IT Professional Services Panel and Internal Audit Services. A syndicated contract has also been made available to all shareholders for library book buying. A report on each shareholding

councils' use of the All of Government (AoG) suite of contracts for 2015/16 was sent to each council, and opportunities for further cost savings identified. The availability and benefits of AoG contracts for transactional banking services was actively promoted. It is now up to each council to take advantage of these AoG contracts, with support available from members of the Procurement Working Party. Further procurement opportunities continue to be identified.

8. **Historic Aerial Photos.** In May 2015, WLASS entered into a Memorandum of Understanding with LINZ to scan the Waikato Historic Aerial Photos archive. The LINZ Crown archive contains over 500,000 historic aerial photo negatives captured by surveys flown over New Zealand between 1936 and 2005. All of the shareholding councils are participating in this 4-year project, which includes a subsidy of \$56,000 from LINZ. The project is running ahead of schedule and is now expected to be completed in 2018.
9. **Waikato Regional Aerial Photography Service (WRAPS).** WRAPS was set up in the 1990s for the supply of colour, digital, ortho-rectified, aerial photography for the Waikato Region. So far, there have been four WRAPS contracts – 2002, 2007, 2012, and the 2016 contract that is currently in progress. Consideration is currently being given to changing the frequency of flying to 4-yearly. WRAPS became a WLASS project in December 2014 and is fully funded by the 12 participating councils, including \$84,000 from external partners.

Other Initiatives

Contractor Health & Safety Pre-qualification Scheme

In a great example of inter-council and inter-regional co-operation, staff from WLASS and BOPLASS have worked together over the past year to develop and implement an online contractor health and quality pre-qualification scheme that uses simple software to capture contractors' health and safety management systems and insurance details.

This is a new shared service that is now being offered nationally as part of a drive to better manage councils' contractors in the new health and safety environment. It will also save councils considerable time and money, as the scheme is fully managed by the software provider.

The prequalification scheme has been developed over the past 12 months specifically for use by local government, and is now in use by most of the councils across the Waikato and Bay of Plenty. Other councils from throughout New Zealand have indicated that they are also keen to participate and will join as soon as the scheme is made available nationally, in March 2017.

For contractors, the new scheme will make them compliant to work for all councils participating in the scheme, and remove the need for them to supply separate details to each council or for each contract sought. In essence, it allows contractors to "do it once and do it right". Contractors simply need to complete an on-line questionnaire and provide their health and safety documentation to show that they understand and comply with the Health and Safety at Work Act 2015 and any associated Regulations. The portal can be accessed at: <https://payments.sheasure.net/> and a link is available on every participating council's website.

The project team involved in developing the scheme intend to apply for a Safeguard Award in early 2017, and for a SOLGM Business Excellence award in 2018, once the scheme is more fully implemented and measures of its success are available.

Collaboration Portal

Over the past six months, implementation of the Local Government Collaboration Portal at each of the shareholding councils has been completed (www.collaborate.org.nz). The Portal is an initiative instigated by BOPLASS, with the intention of accelerating the growth of shared service strategies and projects throughout local government. The Portal consists of:

- A public site, open to everyone, where success stories can be communicated
- A secure area for sharing information and opportunities among councils
- A project area, for collaborative projects.

Councils from the Waikato, Bay of Plenty, Hawkes Bay and Northland are already using the Portal, and the intention is to extend the Portal nationally.

Several of the WLASS Working Parties have already set up “Project Rooms” on the portal. WLASS has recently published a story about its contractor health and safety pre-qualification scheme on the public area, and the WLASS document “Collaboration in Action” can also be found on the site (www.collaborate.org.nz then click on Collaborative Groups/Shared Services Publications). Work is currently in progress to publish a range of the successful Waikato Mayoral Forum initiatives on the site (e.g. Waikato Means Business, The Waikato Plan, the reduction in the number of policies in the Waikato, The Waikato Story etc.).

Working Parties

The WLASS Chief Executive co-ordinates and facilitates a number of Working Parties of council staff. The standing Working Parties are:

- **Shared Services Working Party**, which comprises the GM Corporate (or equivalent) from all of the shareholding councils, and which considers and evaluates new shared services opportunities and makes recommendations to the WLASS Board.
- **Waikato IT Managers’ Working Party**, which comprises the IT Managers from all of the shareholding councils, and which investigates collaboration opportunities in the technology space.
- **Procurement Managers’ Working Party**, which comprises the Procurement Managers from Hamilton City, Waikato Regional and Waikato District councils, and which manages procurement initiatives on behalf of WLASS.
- **Health & Safety Working Party**, which comprises the H&S managers (or equivalent) from all of the shareholding council, and which identifies issues arising from the new Health and Safety legislation which need to be addressed by the participating councils; identifies areas where Health and Safety policy, procedures and guidelines need to be developed (which are applicable to all of the councils); develops standard reporting measures for health and safety; develops regional Health and Safety policies, procedures and guidelines; and makes recommendations to the WLASS Board.
- **Asset Valuation Working Party**, which comprises representatives from a number of shareholding councils, and which is developing a regional asset valuation template and recommendations for transitioning to standard or consistent asset lives, where appropriate.
- **S17a Review Team**, of which oversight by WLASS commenced this financial year. The group consists of representatives from all of the shareholding councils and meets quarterly to update each other on progress with the s17a reviews being undertaken at each council and to identify potential collaborative opportunities.

- **Insurance Advisory Group**, which manages the procurement of insurance for all shareholding Councils on a collective basis to achieve best value for money, and also manages the insurance broker's contract performance.

Over the past 6 months, the **Shared Services Working Party** has been focused on identifying and evaluating new shared services opportunities. Five potential opportunities have emerged from this work: Procurement, Aligned Planning, GIS, the development of a Digital Strategy, and extension of the existing Building Control activity. Business cases to assess whether or not to progress any or all of these initiatives are currently being worked on.

The primary focus of the **Waikato IT Managers' Working Party** over the past six months has been the development of a GIS Data Portal, which will provide easy, secure access to spatial tools, information and data, and provide a map viewer for the whole of the Waikato region. The potential to include a link to Civil Defence and Emergency Management information is also being assessed. A new WLASS website is under development as part of the implementation of the portal.

Representatives from the **IT Managers' Working Party** are also involved with the Waikato Regional Aerial Photography Syndicate (WRAPS). The 2016 WRAPS contract was tendered in May 2016, and the successful contractor was Aerial Surveys Ltd. Flying of urban and rural imagery is now in progress.

Current projects being led by representatives of the **Procurement Managers' Working Party** include a Fleet Management review, a review of regional procurement processes, secondary procurement of multi-function devices (photocopiers) (jointly with BOPLASS), extension of the Infometrics contract for one year, and reviews of the existing Professional Services Panel and Dataprint contracts, to determine whether or not to exercise their contract extension provisions.

The **Health and Safety Working Party** has completed the development of an on-line contractor health and safety pre-qualification scheme (as noted above), and is currently implementing it across councils in the Waikato and Bay of Plenty. Articles on the scheme have been published in the Local Government and NZ Contractor magazines. Collective training in health and safety leadership for managers was organised, with 29 attendees from across the region. Further shared training initiatives are being investigated. Regional Terms of Reference for Health and Safety Committees, Terms of Reference for cross-council auditing, and a regional template addressing health and safety considerations when procuring machinery have been developed. A joint approach with BOPLASS to the provider of a widely used electronic health and safety recording system has resulted in an improved level of service and a better understanding by the vendor of local government's needs. BOPLASS also joined WLASS to obtain a legal opinion on the health and safety risks associated with community events, which has been shared with all councils.

The **Asset Valuation Working Party** held a very successful workshop with infrastructure asset managers and finance staff from across the region in August. Based on the feedback gathered at the workshop, the Working Party are now preparing a draft Asset Revaluation Template, which it is hoped will be adopted regionally.

Over the past 6-months, the **S17a Review Team** has developed a draft set of principles for regional collaborative reviews, and a spreadsheet which will assist in the identification of future shared services reviews (as contracts come up for renewal at each council). This tool is currently being implemented and will aid in the development of a regional 6-year rolling programme of reviews.

Most of the work of the **Insurance Advisory Group** has focused on the 31 October insurance programme renewal. Sending a WLASS representative to present directly to the UK underwriters, together with AON, has proved very beneficial. Based on the recommendation of AON, WLASS has signed up to a two year agreement with the programme underwriters. The renewal outcomes for the major insurance policy classes under the WLASS Insurance Programme are summarised below:

Infrastructure

The combined declared values have increased from \$3.2 billion to \$3.7 billion, a 15% increase. Following the recommendations from the loss modelling work completed for Hamilton City, Waikato Regional, Waipa and Waikato District Councils, the programme loss limits have increased from \$120M to \$300M, yet overall, there was a \$6,914 premium reduction. Given the asset value and loss limit increases, this represents an effective 30% saving on premium rates.

Material Damage and Business Interruption

While the combined total declared values have increased from \$2,006,586,944 to \$2,096,409,570 (an increase of \$89,822,626), a rate reduction of 6.45% has been achieved.

Future Fire Service Levies

Changes are being implemented to the way that Fire Service levies are calculated. This does not impact on the current renewal, but it will have an impact on the value of Fire Service Levies applicable at the 2017 renewal. The full impact is not currently known as the proposed changes are still going through a consultation process.

Motor Vehicles

Vehicle insurance premiums are driven by claims experience. The loss ratio for the group since 2014 is 90.86, and the insurers have increased the underlying rate by 2.5%. The programme was re-marketed and alternative quotations sought. The current premium is \$313,208 for the group, with the alternative quotations ranging from \$369,500 to \$374,511. Therefore the current insurers were retained, as they are still the most competitive.

Statutory and Employers Liability

With increased exposures under the new Health and Safety legislation, the limits of Indemnity under these policies have been increased from \$1,000,000 to \$2,000,000.

Ancillary Lines

The other insurances bought by individual shareholding councils (such as Personal Accident, Travel Standing Timber and Fine Arts Cover) have largely remained static from a premium perspective.

Other

Work is continuing on the stage 2 loss modelling work for Thames Coromandel District and Waikato Regional Council's infrastructure assets. A working party has been set up to develop guidelines to assist in determining appropriate levels of contractor professional indemnity and public liability insurance.

Waikato Mayoral Forum

The Mayoral Forum initially established six working parties to investigate collaborative opportunities in the areas of governance, planning, waters, roading, economic development, and policy and bylaws.

The governance work stream is in abeyance. The Waikato Plan work stream is now governed by a Joint Committee, which was established in July 2015, and is expected to complete its work in 2017. The two waters project is now being run by a consortium comprising Hamilton City, Waikato and Waipa District Councils, who are investigating a future delivery model for water services across the three councils.

As noted above, the roading work stream (now called RATA) transferred into WLASS on 1 July 2016.

The Policy and Bylaws work stream has evolved into four parts: Policy reviews and consolidation (completed); Bylaw consolidation (yet to commence); s17a reviews (ongoing); and the development of a Regional Infrastructure Technical Specification (in progress, and due for completion in the first half of 2017).

Finally, the Economic Development work stream has developed a strategy, and implementation of the “Waikato Means Business” plan was devolved to an independent Steering Group in July 2015.

WLASS provides administrative support to the Mayoral Forum, and also administers the collective funding for each of these work streams, invoicing each of the participating councils and paying all of the approved invoices for each work stream. The WLASS CEO is no longer responsible for co-ordinating reporting on projects to the Mayoral Forum, as this is the responsibility of the project sponsors.

Proposed New Services

An assessment is currently being undertaken to determine whether or not there is benefit in establishing a new Learning and Development Working Party. A business case will be considered by the Board in the third quarter of this financial year.

As noted above under the work of the Shared Services Working Party, investigations are currently underway into new opportunities associated with Regional Procurement, Aligned Planning, GIS, the development of a Digital Strategy, and extension of the existing Building Control activity. Business cases to assess whether or not to progress any or all of these initiatives are currently being worked on, and will be presented to the WLASS Board over the coming six months.

Performance Measures

The following performance measures were included in the Statement of Intent for the 2016/17 financial year. An update on their status as at 31 December 2016 is shown in the table below.





| TARGET | METHOD | MEASURE | ACTUAL OUTCOME | |
|---|---|---|---|---|
| Procurement Joint procurement initiatives for goods and services for WLASS councils will be investigated and implemented. | Procurement is from sources offering best value, service, continuity of supply, and/or opportunities for integration. | A minimum of three new procurement initiatives investigated per annum and business cases developed if considered appropriate. | Achieved. An RFP for the supply of Multi-function Devices is currently at the tender evaluation stage. Shared procurement of Thomson Reuters services, EMA membership, and participation in the BOPLASS EFTPOS contract have been investigated, but no financial benefits were identified. | ● |
| | | Initiatives which are implemented shall provide financial savings and/or improved service levels to the participating councils. | Achieved. A syndicated clause in a tendered Hamilton City Council contract enables all shareholders to access a library book buying contract at 37% discount on the RRP. Details about how to participate have been provided to all shareholders. | ● |
| | | New suppliers are awarded contracts through a competitive tender process. | N/A No new suppliers have been engaged. | ● |




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| <p>Collaborative Projects Priorities for collaboration are identified, business cases are developed for the highest priority projects, and the projects are implemented.</p> | <p>The focus is on shared services which will benefit all councils.</p> | <p>A minimum of three priority projects for collaboration are identified per annum.</p> <p>If considered of value, business cases are developed for approval by the Board, and the projects are implemented.</p> | <p>In progress. Six projects (GIS, Procurement, Aligned Planning, Digital Strategy, Learning and Development, and Building Services) are currently under investigation.</p> <p>In progress. Business cases are currently being prepared for Aligned Planning and a new Learning and Development Working Party.</p> | <p>●</p> <p>●</p> |
| <p>Existing WLASS Contracts Existing contracts are managed and renegotiated as required.</p> | <p>Appointed vendors deliver on the terms of their contracts and deliver value to the shareholders.</p> | <p>The WLASS Contracts Register is maintained and managed.</p> <p>Contracts which are due for renewal are tested for competitiveness and either renegotiated or tendered through a competitive process.</p> | <p>Achieved. Contracts Register is up-to-date.</p> <p>In progress. Infometrics contract is currently under review. Reviews of Dataprint and the Professional Services Panel contracts are scheduled over the next 6 months.</p> | <p>●</p> <p>●</p> |
| <p>Cashflow The company shall maintain a positive cashflow position.</p> | <p>The Financial Accountant reviews cashflow monthly.</p> <p>The WLASS Board reviews the financial statements quarterly.</p> | <p>Monthly financial statements show a positive cashflow position.</p> | <p>Achieved. Reports on the financial position were considered at WLASS Board meetings on 5 August, 14 October and 2 December 2016.</p> | <p>●</p> |

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| <p>Cost Control Administration expenditure shall be managed and monitored.</p> | <p>The Financial Accountant and Chief Executive review expenditure monthly.</p> <p>The WLASS Board reviews the financial statements quarterly.</p> | <p>Administration expenditure shall not exceed budget by more than 5%, unless prior approval is obtained from the Board.</p> | <p>Achieved. Administration expenditure showed a positive variance of \$29,161 as at 31 December 2016.</p> | <p>●</p> |
| <p>Reporting Six monthly reports provided to Shareholders.</p> | <p>The Chief Executive prepares a written report for the WLASS Board every meeting.</p> <p>One 6-monthly and one Annual Report are prepared for shareholders.</p> | <p>The Board shall provide a written report on the business operations and financial position of WLASS to the Shareholders every six months.</p> <p>Every second report shall be the Annual Report, which includes a report that all of the statutory requirements of WLASS are being adhered to.</p> | <p>Achieved. This is the 6-monthly report.</p> <p>Achieved. An audited copy of the 2015/16 Annual Report was sent to shareholders on 3 October 2016.</p> | <p>●</p> <p>●</p> |
| <p>Waikato Mayoral Forum The company shall provide administrative support and updates on Mayoral Forum work streams to the Mayoral Forum.</p> | <p>Updates on Mayoral Forum projects shall be co-ordinated by the WLASS Chief Executive.</p> <p>Mayoral Forum projects shall be managed financially through WLASS.</p> <p>Note: The current approved work streams are:</p> <ul style="list-style-type: none"> • Regulatory Bylaws and Policies • Waikato Plan | <p>The Mayoral Forum is regularly updated on the progress of each approved work stream.</p> <p>Approved invoices for Mayoral Forum projects are paid by the 20th of the month following their receipt.</p> | <p>Not Applicable. The WLASS CEO is no longer responsible for updating the Mayoral Forum on progress with projects. Project sponsors are responsible for updates.</p> <p>Partly Achieved. All approved invoices, except for one, were paid by the 20th of the month following their receipt.</p> | <p>●</p> <p>●</p> |

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| <p>Shared Valuation Data Services (SVDS) The SVDS is reliable, well maintained and available to all users.</p> | <p>A Contract Manager is appointed for SVDS.</p> <p>The Contract Manager monitors performance of the contractor and reports quarterly to the SVDS Advisory Group.</p> | <p>The SVDS is available to users at least 99% of normal working hours.</p> <p>All capital enhancement work is supported by a business case and approved by the SVDS Advisory Group.</p> <p>The SVDS Advisory Group meets at least 6-monthly.</p> | <p>Achieved. SVDS was available to users for 99.1% of normal working hours.</p> <p>N/A. There has been no capital enhancement work over the last 6 months.</p> <p>Achieved. .The Group met on 1 September and 17 November 2016.</p> | <p>●</p> <p>●</p> <p>●</p> |
| <p>Insurance Achieve the relevant KPIs in Appendix 4 of the Insurance Brokerage contract with Aon.</p> | <p>The Insurance Broker delivers on the terms of their contract and provides value to the participating councils.</p> | <p>Strategic advice provided by Aon on the insurance programme structure is assessed as satisfactory in the annual WLASS Shareholders' survey by the participating councils.</p> <p>The day-to-day service provided by Aon is assessed as satisfactory in the annual WLASS Shareholders' survey by the participating councils.</p> | <p>N/A. Shareholders' survey is scheduled for May 2017.</p> <p>N/A. Shareholders' survey is scheduled for May 2017.</p> | <p>●</p> <p>●</p> |
| <p>RATA All stakeholders are kept informed about RATA's projects and achievements.</p> | <p>Six monthly and annual reports are provided to all stakeholders.</p> | <p>Reports presented to WLASS Board as at 30 December and 30 June, and circulated to stakeholders.</p> <p>Reports include a</p> | <p>Achieved. 6-monthly report presented to Board meeting on 2 December 2016 and circulated to stakeholders on 19 December.</p> <p>Achieved.</p> | <p>●</p> <p>●</p> |

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|---|--|---|--|----------------------------|
| <p>Sub-regional data collection contracts deliver good quality data on roading assets.</p> | <p>Annual Forward Works Programme tours are completed, to provide opportunities for councils' roading staff to share their knowledge and experience</p> <p>Data collection contracts (minimum of two across the region) are managed in accordance with best practice.</p> <p>Data supplied by contractors is of good quality and meets all councils' requirements.</p> | <p>summary of savings achieved.</p> <p>All RATA councils participate in the tour.</p> <p>Report on tour outcomes prepared by 31 December each year, and circulated to stakeholders.</p> <p>Contracts which are due for renewal are tested for competitiveness and either renegotiated or tendered through a competitive process.</p> <p>Any data issues are identified and resolved, with any incidents reported to stakeholders.</p> | <p>Summaries of savings are presented to the RATA Advisory Group, which met on 25 August and 22 November 2016.</p> <p>Achieved. All councils participated in the tour in October 2016.</p> <p>Not Achieved. Report delayed until February 2017 (individual councils will receive their reports in January).</p> <p>N/A. No contracts due for renewal. Data collection contracts were extended for one year on 14 October 2016.</p> <p>Achieved. Asset Information Engineer identifies and resolves all issues.</p> | <p>●</p> <p>●</p> <p>●</p> |
| <p>Waikato Regional Transport Model (WRTM) The WRTM is reliable, well maintained and available to all users.</p> | <p>RATA manages the WRTM on behalf of LASS, and monitors the performance of the model supplier (currently Traffic Design Group).</p> <p>RATA reports quarterly to the WRTM Project Advisory Group.</p> | <p>All modelling reports requested from the model supplier are actioned within the agreed timeframe, scope and budget.</p> <p>A report from RATA on any new developments and on the status of the model is provided to the WLASS Board at least every</p> | <p>Achieved. Model Supplier reported quarterly on service performance (reports received 15 August and 18 November 2016).</p> <p>Achieved. Report presented to Board in December 2016.</p> | <p>●</p> <p>●</p> |

| | | | | |
|--|--|---|---|---|
| | | <p>six months.</p> <p>The quality of the base model complies with NZTA guidelines (as set out in the NZTA's Economic Evaluation Manual), and is independently peer reviewed each time the model is updated.</p> | <p>On track. Peer review has been completed on base year model, but is yet to commence for future years, due to a delay in receiving population projection data.</p> |  |
| <p>Waikato Building Consent Group Provide strategic direction and actively pursue improvements in Building Control across the Waikato region.</p> | <p>Develop and maintain a quality assurance system for building consents, that meets statutory compliance and supports excellence and consistency in customer service and business practice.</p> | <p>Internal audits completed annually for each Group member.</p> <p>Provide Group members with a joint quality assurance system that meets statutory compliance.</p> <p>Report at least six monthly to the WLASS Board on the Group's activities.</p> | <p>In Progress. Three of the eight audits scheduled for the year have only been partially completed due to a lack of staff resources to assist.</p> <p>Not Achieved. The Regulations require an annual audit (for compliance) and a review (for continuous improvement), as well as the immediate integration of any legislative changes. Significant changes will be required to the QA and auditing systems to meet the new BCA performance requirements (due to be released in mid-February 2017).</p> <p>On track. 6-monthly report will be presented to the 3 February Board meeting. Interim reports</p> |    |

| | | | | |
|--|---|--|---|---|
| | | | were provided in July and October 2016. | |
| Future Proof All stakeholders are kept informed about Future Proof's projects and achievements. | Six monthly and annual reports are provided to all stakeholders. | Reports presented to WLASS Board as at 30 December and 30 June, and circulated to stakeholders. | Achieved. 6-monthly report presented to the Board on 2 December 2016. |  |
| Shareholder Survey Shareholders are satisfied with the performance of WLASS. | An annual survey of shareholders is undertaken to assess satisfaction levels with WLASS. | A survey of shareholders is undertaken each year, and the results are reported to all shareholders. | N/A Shareholders' survey is scheduled for May 2017. |  |
| Review of Benefits Shareholders are informed of the benefits being provided to shareholding councils by WLASS. | The benefits of WLASS (including financial and non-financial achievements) are regularly analysed and reported to shareholders. | Information on the financial and non-financial benefits being achieved by WLASS are included in the 6-monthly and Annual Report to shareholders. | Achieved. Information is included in this report. |  |

WLASS Financial Position

Expenditure for the WLASS Company has been assessed on the basis of the direct cost of management and services. The Directors require that the management costs be kept to a minimum.

The WLASS Company expenditure for this period was \$1,897,962, against a budget of \$1,767,486. The variance is due to three main factors:

- 1) Procurement – The Waikato Regional Aerial Photography (WRAPS) project had a budget of \$84,000 in the SOI, with a note indicating that the tender had yet to be let, and that the total costs were yet to be finalised. The tender has now been let, and the forecast budget is now \$577,155, which will be funded from additional revenue. Total costs year to date are \$169,061.
- 2) Mayoral Forum – The Waikato Plan has a total expenditure year to date of \$187,711, which has been funded from previous years' contributions. Additional revenue of 150,000 was invoiced to all participating Councils in December.
- 3) Future Proof - The need to revise the Waikato population projections (NIDEA and WISE refinements) has resulted in the budget being exceeded by \$66,108, which is being funded from previous years' contributions.

Revenue has also exceeded budget at \$3,298,819, compared to a budget of \$2,213,533. The main contributors were:

- 1) RATA - revenue to date has increased by \$182,596, as the SOI budget was based on the previous year's figures. Actual commitments are now in place and the participating Councils have agreed on a total increase of \$208,000 for Data Collection.
- 2) Procurement - revenue has increased by \$510,204, mostly due to the WRAPS project (as noted above).
- 3) Future Proof – the accumulated funds actually transferred from Hamilton City Council to WLASS for Future Proof on 1 July 2016 were \$265,225, which exceeded the budget of \$120,990.
- 4) Waikato Building Consent Group - the accumulated funds actually transferred from Waikato District Council to WLASS for Building on 1 July 2016 were \$98,105, which exceeded the budget of \$45,144.

Overall, revenue exceeded expenditure by \$1,400,858, compared with a budget of revenue exceeding expenditure by \$418,074.

The combined services costs are shown in the financial statements attached in Appendix 1. The financial statements meet the WLASS policies outlined in Appendix 2, as well as complying with the generally accepted international accounting principles.

Outcome of 2016 Audit

Audit New Zealand issued an unmodified audit opinion on 19 September 2016. Three minor issues were raised by the auditor, which have all been addressed.

Directors

The Directors appointed for the period that this six monthly report covers were:

| Director | Position | Director Appointed By |
|---------------------------|---|------------------------------------|
| Gavin Ion (Chair) | Chief Executive, Waikato District Council | Waikato District Council |
| Richard Briggs | Chief Executive, Hamilton City Council | Hamilton City Council |
| Langley Cavers | Chief Executive, Hauraki District Council | Hauraki District Council |
| Don McLeod | Chief Executive, Matamata-Piako District Council | Matamata-Piako District Council |
| Dave Clibbery | Chief Executive, Otorohanga District Council | Otorohanga District Council |
| Geoffrey Williams | Chief Executive, Rotorua District Council | Rotorua District Council |
| Craig Hobbs | Chief Executive, South Waikato District Council | South Waikato District Council |
| Gareth Green ¹ | Chief Executive, Taupo District Council | Taupo District Council |
| Rob Williams ² | Chief Executive, Thames-Coromandel District Council | Thames-Coromandel District Council |
| Vaughan Payne | Chief Executive, Waikato Regional Council | Waikato Regional Council |
| Garry Dyet | Chief Executive, Waipa District Council | Waipa District Council |
| Chris Ryan | Chief Executive, Waitomo District Council | Waitomo District Council |

¹*Gareth Green was appointed as Taupo District Council's Chief Executive on 20 July 2016 and was confirmed as a WLASS Director on 5 August 2016.*


²*Rob Williams was appointed as Thames Coromandel District Council's Chief Executive on 16 May and was confirmed as a WLASS Director on 5 August 2016.*

Appendix 1

Management Accounts for period ended 31 December 2016

| | | Year to Date | | | Full Year | | Last Year |
|---|--|------------------|------------------|------------------|------------------|------------------|------------------|
| | | Note | Actual YTD | Budget | Variance | Budget | |
| Waikato Local Authority Shared Services | | | | | | | |
| Management Accounts for the Period Ended 31 December 2016 | | | | | | | |
| Company Summary | | | | | | | |
| Income | | | | | | | |
| | | 238,438 | 240,334 | (1,896) | 271,117 | 271,117 | 243,765 |
| | Company Administration | | | | | | |
| | Procurement | 908,251 | 398,047 | 510,204 | 442,593 | 952,797 | 352,446 |
| | Information Technology | 53,600 | 53,600 | 0 | 53,600 | 53,600 | 22,334 |
| | Energy Management | 82,270 | 106,500 | (24,230) | 213,000 | 213,000 | 39,685 |
| | Shared Valuation Data Service (SVDS) | 379,623 | 326,415 | 53,208 | 584,557 | 684,557 | 604,450 |
| | Road Asset Technical Accord (RATA) | 653,596 | 471,000 | 182,596 | 914,000 | 1,153,733 | 618,420 |
| | Waikato Regional Transport Model (WRTM) | 63,399 | 56,917 | 6,482 | 113,834 | 113,834 | 168,000 |
| | Waikato Building Consent Group | 230,833 | 157,872 | 72,961 | 270,600 | 368,705 | 0 |
| | Future Proof | 430,225 | 348,490 | 81,735 | 575,990 | 595,225 | 0 |
| | Waikato Mayoral Forum | 258,584 | 57,000 | 201,584 | 71,000 | 288,711 | 1,154,804 |
| | Total Income | 3,298,819 | 2,216,175 | 1,082,645 | 3,510,291 | 4,695,279 | 3,203,904 |
| Operating Expenditure | | | | | | | |
| | | 110,566 | 139,727 | 29,161 | 271,117 | 284,823 | 189,116 |
| | Company Administration | | | | | | |
| | Procurement | 333,569 | 246,500 | (87,069) | 442,593 | 973,307 | 325,446 |
| | Information Technology | 37,027 | 44,300 | 7,273 | 53,600 | 80,079 | 12,610 |
| | Energy Management | 44,154 | 106,500 | 62,346 | 213,000 | 213,000 | 39,685 |
| | Shared Valuation Data Service (SVDS) | 287,759 | 287,934 | 175 | 574,367 | 623,357 | 566,478 |
| | Road Asset Technical Accord (RATA) | 375,116 | 457,000 | 81,884 | 914,000 | 1,146,430 | 618,420 |
| | Waikato Regional Transport Model (WRTM) | 51,846 | 57,567 | 5,721 | 113,834 | 113,834 | 214,632 |
| | Waikato Building Consent Group | 124,015 | 136,100 | 12,085 | 270,600 | 278,780 | 0 |
| | Future Proof | 275,326 | 237,500 | (37,826) | 455,000 | 521,108 | 0 |
| | Waikato Mayoral Forum | 258,584 | 57,000 | (201,584) | 71,000 | 288,711 | 1,154,804 |
| | Total Operating Expenditure | 1,897,962 | 1,770,128 | (127,834) | 3,379,111 | 4,523,429 | 3,121,191 |
| Earnings before interest, tax and depreciation/ amortisation (EBITA) | | 1,400,858 | 446,047 | 954,811 | 131,180 | 171,850 | 82,713 |
| Non-Cash Operating Expenditure | | | | | | | |
| | | 86 | 86 | 0 | 171 | 171 | 171 |
| | Company Admin Non-Cash Expenditure | | | | | | |
| | SVDS Non-Cash Expenditure | 45,611 | 48,528 | 2,917 | 97,055 | 91,222 | 91,214 |
| | WRTM Non-Cash Expenditure | 36,458 | 36,458 | 1 | 72,916 | 72,916 | 328,122 |
| | Total Non-Cash Operating Expenditure | 82,155 | 85,071 | 2,918 | 170,142 | 164,309 | 419,507 |
| | Earnings before interest and tax | 1,318,703 | 360,976 | 957,728 | (38,962) | 7,541 | (336,794) |
| | Net Surplus (Deficit) before tax | 1,318,703 | 360,976 | 957,728 | (38,962) | 7,541 | (336,794) |
| | | 127,787 | 100,521 | 27,266 | (171) | (13,877) | 54,478 |
| | CA Net Surplus (Deficit) before tax | | | | | | |
| | Procurement Net Surplus (Deficit) before tax | 574,682 | 151,547 | 423,136 | 0 | (20,510) | 27,000 |
| | IT Net Surplus (Deficit) before tax | 16,573 | 9,300 | 7,273 | 0 | (26,479) | 9,724 |
| | Energy Mgmt. Net Surplus (Deficit) before tax | 38,116 | 0 | 38,116 | 0 | 0 | 0 |
| | SVDS Net Surplus (Deficit) before tax | 46,253 | (10,046) | 56,299 | (86,865) | (30,022) | (53,242) |
| | RATA Net Surplus (Deficit) before tax | 278,480 | 14,000 | 264,480 | 0 | 7,303 | 0 |
| | WRTM Net Surplus (Deficit) before tax | (24,905) | (37,108) | 12,203 | (72,916) | (72,916) | (374,754) |
| | WBCG Net Surplus (Deficit) before tax | 106,818 | 21,772 | 85,046 | 0 | 89,925 | 0 |
| | Future Proof Net Surplus (Deficit) before tax | 154,899 | 110,990 | 43,909 | 120,990 | 74,117 | 0 |
| | MF Net Surplus (Deficit) before tax | 0 | 0 | 0 | 0 | 0 | 0 |
| | Net Surplus (Deficit) before tax | 1,318,703 | 360,976 | 957,728 | (38,962) | 7,541 | (336,794) |
| Capital Expenditure | | | | | | | |
| | | 0 | 0 | 0 | 10,190 | 10,190 | 0 |
| | SVDS Enhancements | | | | | | |
| | Total Cash Expenditure (Opex, Interest & Capital) | 0 | 0 | 0 | 10,190 | 10,190 | 0 |


| | | Year to Date | | | Full Year | | | |
|---|---|--------------|----------------|----------------|----------------|----------------|-----------------|----------------|
| | | Notes | Actual YTD | Budget | Variance | Budget | Forecast | Last Year |
| Waikato Local Authority Shared Services | | | | | | | | |
| Management Accounts for the Period Ended 31 December 2016 | | | | | | | | |
| Company Admin | | | | | | | | |
| Income | | | | | | | | |
| | | | 209,550 | 209,550 | 0 | 209,550 | 209,550 | 169,550 |
| | | | 27,534 | 27,534 | 0 | 55,067 | 55,067 | 62,686 |
| | | | 1,354 | 3,250 | (1,896) | 6,500 | 6,500 | 11,529 |
| | | | 238,438 | 240,334 | (1,896) | 271,117 | 271,117 | 243,765 |
| Expenses | | | | | | | | |
| | 1 | | 16,459 | 13,750 | (2,709) | 27,500 | 36,521 | 29,292 |
| | | | 2,550 | 2,500 | (50) | 5,000 | 5,000 | 4,836 |
| | | | 10,566 | 10,426 | (140) | 15,349 | 15,349 | 15,349 |
| | | | 0 | 46 | 46 | 92 | 92 | 36 |
| | | | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | 0 | 1,250 | 1,250 | 2,500 | 2,500 | 0 |
| | | | 198 | 250 | 52 | 500 | 500 | 357 |
| | | | 0 | 1,250 | 1,250 | 2,500 | 2,500 | 126 |
| | | | 1,320 | 1,320 | 0 | 2,341 | 2,341 | 2,177 |
| | | | 765 | 650 | (115) | 1,300 | 1,300 | 1,001 |
| | | | 2,720 | 2,535 | (185) | 2,535 | 2,720 | 2,535 |
| | | | 66,091 | 98,000 | 31,909 | 196,000 | 181,000 | 122,128 |
| | | | 0 | 0 | 0 | 0 | 15,000 | 0 |
| | 2 | | 0 | 0 | 0 | 0 | 3,000 | 0 |
| | | | 3,582 | 2,750 | (832) | 5,500 | 7,000 | 1,617 |
| | | | 6,315 | 5,000 | (1,315) | 10,000 | 10,000 | 9,713 |
| | | | 0 | 0 | 0 | 0 | 0 | (51) |
| | | | 110,566 | 139,727 | 29,161 | 271,117 | 284,823 | 189,116 |
| Earnings before interest, tax and depreciation/ amortisation (EBITA) | | | 127,872 | 100,607 | 27,265 | 0 | (13,706) | 54,649 |
| Non-Cash Expenses | | | | | | | | |
| | | | 86 | 86 | 0 | 171 | 171 | 171 |
| | | | 127,787 | 100,521 | 27,266 | (171) | (13,877) | 54,478 |
| Net Surplus (Deficit) before tax | | | 127,787 | 100,521 | 27,266 | (171) | (13,877) | 54,478 |
| Cash Surplus | | | | | | | | |
| | | | 78,482 | 0 | 78,482 | 0 | 78,482 | 31,600 |
| | 3 | | (1,943) | 0 | (1,943) | 0 | (1,943) | (7,767) |
| | | | 127,872 | 100,607 | 27,266 | 0 | (13,706) | 54,649 |
| | | | 204,411 | 100,607 | 103,805 | 0 | 62,834 | 78,482 |
| Notes | | | | | | | | |
| 1) Financial Services currently above budget due to extra hours worked in August for the Annual Report and complexity of accounts increasing. The forecast has been adjusted accordingly. | | | | | | | | |
| 2) Approved by the Board at their meeting in August 2016. | | | | | | | | |
| 3) \$1,943 transferred toward the Asset Valuation workshop held on 17 August 2016. | | | | | | | | |

| | | Year to Date | | | Full Year | | |
|---|---|----------------|----------------|-----------------|----------------|-----------------|----------------|
| | | Notes | Actual YTD | Budget | Variance | Budget | Forecast |
| Waikato Local Authority Shared Services | | | | | | | |
| Management Accounts for the Period Ended 31 December 2016 | | | | | | | |
| Procurement of Shared Services | | | | | | | |
|  | | | | | | | |
| Income | | | | | | | |
| | | | | | | | |
| | | 20,000 | 20,000 | 0 | 20,000 | 20,000 | 18,000 |
| | | 0 | 0 | 0 | 18,000 | 18,000 | 35,866 |
| | | 2,147 | 2,147 | 0 | 28,693 | 28,693 | 147,500 |
| | 1 | 152,586 | 147,500 | 5,086 | 147,500 | 152,586 | 62,400 |
| | | 69,920 | 62,400 | 7,520 | 62,400 | 69,920 | 0 |
| | 2 | 1,943 | 0 | 1,943 | 0 | 1,943 | 0 |
| | | 7,500 | 5,000 | 2,500 | 5,000 | 7,500 | 11,680 |
| | 3 | 577,155 | 84,000 | 493,155 | 84,000 | 577,155 | 0 |
| | | 77,000 | 77,000 | 0 | 77,000 | 77,000 | 77,000 |
| | | 908,251 | 398,047 | 510,204 | 442,593 | 952,797 | 352,446 |
| Expenses | | | | | | | |
| | | 0 | 10,000 | 10,000 | 20,000 | 20,000 | 0 |
| | | 0 | 0 | 0 | 18,000 | 18,000 | 18,000 |
| | | 0 | 0 | 0 | 28,693 | 28,693 | 35,866 |
| | 1 | 152,586 | 147,500 | (5,086) | 147,500 | 152,586 | 147,500 |
| | | 0 | 0 | 0 | 62,400 | 69,920 | 62,400 |
| | 2 | 1,943 | 0 | (1,943) | 0 | 1,943 | 0 |
| | | 8,010 | 5,000 | (3,010) | 5,000 | 8,010 | 0 |
| | 3 | 171,030 | 84,000 | (87,030) | 84,000 | 577,155 | 0 |
| | | 0 | 0 | 0 | 77,000 | 77,000 | 50,000 |
| | 4 | 0 | 0 | 0 | 0 | 20,000 | 0 |
| | | 333,569 | 246,500 | (87,069) | 442,593 | 973,307 | 313,766 |
| Earnings before interest, tax and depreciation/ amortisation (EBITA) | | 574,682 | 151,547 | 423,135 | 0 | (20,510) | 38,680 |
| Earnings before interest and tax | | 574,682 | 151,547 | 423,135 | 0 | (20,510) | 19,827 |
| Net Surplus (Deficit) before tax | | 574,682 | 151,547 | 423,135 | 0 | (20,510) | 19,827 |
| Cash Surplus | | | | | | | |
| | | 24,827 | 0 | 24,827 | 0 | 24,827 | 0 |
| | 2 | 1,943 | 0 | 1,943 | 0 | 0 | 5,000 |
| | | 574,682 | 151,547 | 423,135 | 0 | (20,510) | 19,827 |
| | 4 | 601,452 | 151,547 | 449,905 | 0 | 4,317 | 24,827 |
| Notes | | | | | | | |
| 1) Additional cost of \$5,086 for UK underwriter visit by WLASS rep. Approved by the Board. | | | | | | | |
| 2) \$1,943 transferred from Company Admin 2015/16 cash surplus to fund Asset Valuation workshop. | | | | | | | |
| 3) The budget for this project was not known when the SOI was adopted, as tendering was in progress. The full budget is \$582,186, which will be funded by the participating councils and from external parties. \$577,155 will be expensed by June 2017. | | | | | | | |
| 4) Approved by Board at their meeting in August 2016. To be funded by cash surplus. | | | | | | | |

| | | Year to Date | | | Full Year | | | |
|---|---|--------------|---------------|---------------|--------------|---------------|-----------------|---------------|
| | | Notes | Actual YTD | Budget | Variance | Budget | Forecast | Last Year |
| Waikato Local Authority Shared Services | | | | | | | | |
| Management Accounts for the Period Ended 31 December 2016 | | | | | | | | |
| Information Technology (IT) | | | | | | | | |
| Income | | | | | | | | |
| | | | 52,600 | 52,600 | 0 | 52,600 | 52,600 | 22,334 |
| | | | 1,000 | 1,000 | 0 | 1,000 | 1,000 | 0 |
| | | | 53,600 | 53,600 | 0 | 53,600 | 53,600 | 22,334 |
| Expenses | | | | | | | | |
| | | | 548 | 500 | (48) | 1,000 | 1,000 | 830 |
| | | | 0 | 8,800 | 8,800 | 17,600 | 17,600 | 11,780 |
| | 1 | | 36,479 | 35,000 | (1,479) | 35,000 | 36,479 | 0 |
| | 2 | | 0 | 0 | 0 | 0 | 25,000 | 0 |
| | | | 37,027 | 44,300 | 7,273 | 53,600 | 80,079 | 12,610 |
| Earnings before interest, tax and depreciation/ amortisation (EBITA) | | | | | | | | |
| | | | 16,573 | 9,300 | 7,273 | 0 | (26,479) | 9,724 |
| | | | 16,573 | 9,300 | 7,273 | 0 | (26,479) | 9,724 |
| Net Surplus (Deficit) before tax | | | | | | | | |
| | | | 16,573 | 9,300 | 7,273 | 0 | (26,479) | 9,724 |
| Cash Surplus | | | | | | | | |
| | 1 | | 21,243 | 0 | 21,243 | 0 | 21,243 | 11,519 |
| | | | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | 16,573 | 9,300 | 7,273 | 0 | (26,479) | 9,724 |
| | 2 | | 37,816 | 9,300 | 28,516 | 0 | (5,236) | 21,243 |
| Notes | | | | | | | | |
| 1) Cost of \$1,479 for roll-out of the Collaboration Portal funded by 2015/16 cash surplus. | | | | | | | | |
| 2) Approved by Board at their meeting in August 2016. To be funded by cash surplus. | | | | | | | | |

| | | Year to Date | | | Full Year | | Last Year | |
|--|---|--------------|---------------|----------|---------------|----------|-----------|----------|
| | | Notes | Actual YTD | Budget | Variance | Budget | | Forecast |
| Waikato Local Authority Shared Services | | | | | | | | |
| Management Accounts for the Period Ended 31 December 2016 | | | | | | | | |
| Energy Management | | | | | | | | |
| Income | | | | | | | | |
| | | | 56,316 | 40,000 | 16,316 | 80,000 | 80,000 | 0 |
| | EECA Collaboration - Council Contributions | | | | | | | |
| | EECA Revenue | 1 | 25,954 | 66,500 | (40,546) | 133,000 | 133,000 | 0 |
| | Energy Management | | 0 | 0 | 0 | 0 | 0 | 39,685 |
| | Total Income | | 82,270 | 106,500 | (24,230) | 213,000 | 213,000 | 39,685 |
| Expenses | | | | | | | | |
| | EECA Collaboration | | 44,154 | 40,000 | (4,154) | 80,000 | 80,000 | 0 |
| | Professional Services Costs | | 0 | 66,500 | 66,500 | 133,000 | 133,000 | 0 |
| | Energy Management | | 0 | 0 | 0 | 0 | 0 | 39,685 |
| | Total Expenses | | 44,154 | 106,500 | 62,346 | 213,000 | 213,000 | 39,685 |
| | Earnings before interest, tax and depreciation/ amortisation (EBITA) | | 38,116 | 0 | 38,116 | 0 | 0 | 0 |
| | Earnings before interest and tax | | 38,116 | 0 | 38,116 | 0 | 0 | 0 |
| | Net Surplus (Deficit) before tax | | 38,116 | 0 | 38,116 | 0 | 0 | 0 |
| Cash Surplus | | | | | | | | |
| | Opening Balance | | 0 | 0 | 0 | 0 | 0 | 0 |
| | plus / (less) transfers | | 0 | 0 | 0 | 0 | 0 | 0 |
| | Movement for year | | 38,116 | 0 | 38,116 | 0 | 0 | 0 |
| | Cash Surplus / (Deficit) | | 38,116 | 0 | 38,116 | 0 | 0 | 0 |
| Notes | | | | | | | | |
| 1) Revenue is lower than budgeted due to delays in implementing the programme in several councils, due to lack of availability of staff. | | | | | | | | |

| | | Year to Date | | | Full Year | | | |
|--|---|--------------|----------------|-----------------|---------------|-----------------|-----------------|-----------------|
| | | Notes | Actual YTD | Budget | Variance | Budget | Forecast | Last Year |
| Waikato Local Authority Shared Services | | | | | | | | |
| Management Accounts for the Period Ended 31 December 2016 | | | | | | | | |
| Shared Valuation Data Service (SVDS) | | | | | | | | |
| Income | | | | | | | | |
| | | | 133,993 | 133,993 | 0 | 267,985 | 267,985 | 290,293 |
| | | | 78,463 | 78,463 | 0 | 78,463 | 78,463 | 78,500 |
| | 1 | | 0 | 0 | 0 | 10,190 | 10,190 | 0 |
| | 2 | | 167,167 | 113,960 | 53,208 | 227,919 | 327,919 | 235,657 |
| | | | 379,623 | 326,415 | 53,208 | 584,557 | 684,557 | 604,450 |
| Expenses | | | | | | | | |
| | | | 24,045 | 24,334 | 289 | 48,667 | 48,667 | 47,760 |
| | | | 51,750 | 52,734 | 984 | 105,467 | 105,467 | 103,500 |
| | | | 139,531 | 141,594 | 2,063 | 283,187 | 283,187 | 276,207 |
| | | | 38,499 | 39,232 | 733 | 78,463 | 78,463 | 76,999 |
| | | | 13,820 | 8,000 | (5,820) | 16,000 | 32,165 | 21,864 |
| | | | 0 | 3,125 | 3,125 | 6,250 | 36,250 | 0 |
| | | | 0 | 150 | 150 | 300 | 300 | 0 |
| | 3 | | 4,325 | 1,500 | (2,825) | 1,500 | 4,325 | 1,357 |
| | | | 329 | 2,000 | 1,671 | 4,000 | 4,000 | 4,220 |
| | | | 1,693 | 1,500 | (193) | 3,000 | 3,000 | 3,228 |
| | | | 13,767 | 13,767 | (0) | 27,533 | 27,533 | 31,343 |
| | | | 287,759 | 287,934 | 175 | 574,367 | 623,357 | 566,478 |
| | | | 91,864 | 38,482 | 53,382 | 10,190 | 61,200 | 37,972 |
| Non-Cash Expenses | | | | | | | | |
| | 4 | | 45,611 | 48,528 | 2,917 | 97,055 | 91,222 | 91,214 |
| | | | 46,253 | (10,046) | 56,299 | (86,865) | (30,022) | (53,242) |
| | | | 46,253 | (10,046) | 56,299 | (86,865) | (30,022) | (53,242) |
| Capital Expenditure | | | | | | | | |
| | 1 | | 0 | 0 | 0 | 10,190 | 10,190 | 0 |
| | | | 287,759 | 287,934 | 175 | 584,557 | 633,547 | 566,478 |
| Cash Surplus | | | | | | | | |
| | | | 34,830 | 0 | 34,830 | 0 | 34,830 | (3,142) |
| | | | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | 91,864 | 38,482 | 53,382 | 0 | 61,200 | 37,972 |
| | 5 | | 126,694 | 38,482 | 88,212 | 0 | 96,030 | 34,830 |
| Notes | | | | | | | | |
| 1) Enhancement work to be recovered from individual councils. | | | | | | | | |
| 2) New data sales contracts are bringing additional revenue. | | | | | | | | |
| 3) Insurance includes the professional indemnity and technology liability insurance for RVSL. | | | | | | | | |
| 4) SVDS database to be fully depreciated by 30 June 2019. | | | | | | | | |
| 5) Surplus expected to be used for rewriting the front end of the Sales Portal; subject to business case approval. | | | | | | | | |

| Waikato Local Authority Shared Services Management Accounts for the Period Ended 31 December 2016 Road Asset Technical Accord (RATA) | | | | |  | | |
|--|-------|----------------|----------------|----------------|---|------------------|----------------|
| | | Year to Date | | | Full Year | | |
| | Notes | Actual YTD | Budget | Variance | Budget | Forecast | Last Year |
| Income | | | | | | | |
| Councils - Data Collection | 1 | 303,363 | 157,500 | 145,863 | 315,000 | 523,000 | 0 |
| Councils - RATA Funding | | 299,500 | 285,500 | 14,000 | 571,000 | 571,000 | 618,420 |
| Councils - Project Funding | 1 | 41,733 | 28,000 | 13,733 | 28,000 | 41,733 | 0 |
| Project Management (WRM) | 2 | 9,000 | 0 | 9,000 | 0 | 18,000 | 0 |
| Total Income | | 653,596 | 471,000 | 182,596 | 914,000 | 1,153,733 | 618,420 |
| Expenses | | | | | | | |
| Data Collection | 1 | 200,811 | 157,500 | (43,311) | 315,000 | 523,000 | 0 |
| Forward Works Programme Tours | | 0 | 2,500 | 2,500 | 5,000 | 5,000 | 0 |
| Asset Managers Forum | | 0 | 1,500 | 1,500 | 3,000 | 3,000 | 0 |
| Benchmarking of Reg. Road Outcomes | | 0 | 10,000 | 10,000 | 20,000 | 20,000 | 0 |
| Deterioration Modelling | | 0 | 23,500 | 23,500 | 47,000 | 47,000 | 0 |
| Staff and Contractor Services | | 88,750 | 182,500 | 93,750 | 365,000 | 365,000 | 0 |
| External Contractor (Data Collection) | | 1,750 | 3,500 | 1,750 | 7,000 | 7,000 | 0 |
| Overheads | 3 | 59,375 | 76,000 | 16,625 | 152,000 | 152,000 | 0 |
| Roading (RATA) | 4 | 24,430 | 0 | (24,430) | 0 | 24,430 | 618,420 |
| Total Expenses | | 375,116 | 457,000 | 81,884 | 914,000 | 1,146,430 | 618,420 |
| Earnings before interest, tax and depreciation/ amortisation (EBITA) | | 278,480 | 14,000 | 264,480 | 0 | 7,303 | 0 |
| Earnings before interest and tax | | 278,480 | 14,000 | 264,480 | 0 | 7,303 | 0 |
| Net Surplus (Deficit) before tax | | 278,480 | 14,000 | 264,480 | 0 | 7,303 | 0 |
| Cash Surplus | | | | | | | |
| Opening Balance | 5 | 151,061 | 0 | 151,061 | 0 | 151,061 | 151,061 |
| plus / (less) transfers | | 0 | 0 | 0 | 0 | 0 | 0 |
| Movement for year | | 278,480 | 14,000 | 264,480 | 0 | 7,303 | 0 |
| Cash Surplus / (Deficit) | 4 | 429,541 | 14,000 | 415,541 | 0 | 158,364 | 151,061 |
| Notes | | | | | | | |
| 1) Budget based on previous year. Forecast based on commitments made by each of the participating councils. | | | | | | | |
| 2) Project management of WRTM. | | | | | | | |
| 3) Waipa District Council provides RATA with full support services, including accommodation, finance, IT, HR, GIS, legal advice, communications and Group Manager support. | | | | | | | |
| 4) Projects funded from 2015/16 cash surplus. \$24,430 for IDS RATA dTIMS Analysis - Stage 1 & 2. | | | | | | | |
| 5) Opening balance includes \$97,942 transferred from revenue in advance and \$53,119 from 2015/16 invoicing. | | | | | | | |

| | | Year to Date | | | Full Year | | |
|--|---|-----------------|-----------------|----------------|-----------------|-----------------|------------------|
| | | Notes | Actual YTD | Budget | Variance | Budget | Forecast |
| Waikato Local Authority Shared Services | | | | | | | |
| Management Accounts for the Period Ended 31 December 2016 | | | | | | | |
| Waikato Regional Transport Model (WRTM) | | | | | | | |
| Income | | | | | | | |
| | | 54,010 | 50,917 | 3,093 | 101,834 | 101,834 | 156,276 |
| | WRTM Member Charges | | | | | | |
| | WRTM External Users Recovery | 9,389 | 6,000 | 3,389 | 12,000 | 12,000 | 11,724 |
| | Total Income | 63,399 | 56,917 | 6,482 | 113,834 | 113,834 | 168,000 |
| Expenses | | | | | | | |
| | WRTM Project Manager | 9,000 | 9,000 | 0 | 18,000 | 18,000 | 18,000 |
| | Minor Model Upgrades | 10,303 | 15,000 | 4,697 | 30,000 | 30,000 | 42,535 |
| | Peer Review | 1,201 | 2,500 | 1,299 | 5,000 | 5,000 | 276 |
| | Annual Scheduling of Works Review | 0 | 2,250 | 2,250 | 4,500 | 4,500 | 0 |
| | WRTM Base Model Testing | 0 | 0 | 0 | 0 | 0 | 16,506 |
| | External User Costs | 0 | 5,000 | 5,000 | 10,000 | 10,000 | 9,681 |
| | Census Update | 0 | 0 | 0 | 0 | 0 | 30,931 |
| | Tendering for WRTM Contract | 0 | 0 | 0 | 0 | 0 | 19,570 |
| | Future Land Use Client Input | 0 | 0 | 0 | 0 | 0 | 44,433 |
| | Future Land Use Update | 16,200 | 7,500 | (8,700) | 15,000 | 16,200 | 0 |
| | Household Interview Survey (HIS) Scoping | 0 | 1,250 | 1,250 | 2,500 | 2,500 | 0 |
| | HIS Input into National Survey | 0 | 0 | 0 | 0 | 0 | 0 |
| | Insurance | 1,375 | 1,300 | (75) | 1,300 | 1,375 | 1,357 |
| | Oncharge of LASS Admin Costs | 13,767 | 13,767 | 0 | 27,534 | 27,534 | 31,343 |
| | Total Expenses | 51,846 | 57,567 | (5,721) | 113,834 | 115,109 | 214,632 |
| | Earnings before interest, tax and depreciation/ amortisation (EBITA) | 11,553 | (650) | 12,203 | 0 | (1,275) | (46,632) |
| Non-Cash Expenses | | | | | | | |
| | Depreciation | 36,458 | 36,458 | 0 | 72,916 | 72,916 | 328,122 |
| | Earnings before interest and tax | (24,905) | (37,108) | 12,203 | (72,916) | (74,191) | (374,754) |
| | Net Surplus (Deficit) before tax | (24,905) | (37,108) | 12,203 | (72,916) | (74,191) | (374,754) |
| Cash Surplus | | | | | | | |
| | Opening Balance | 11,815 | 0 | 11,815 | 0 | 11,815 | 58,447 |
| | plus /(less) transfers | 0 | 0 | 0 | 0 | 0 | 0 |
| | Movement for year | 11,553 | 94,025 | (82,472) | 0 | (1,275) | (46,632) |
| | Cash Surplus / (Deficit) | 23,368 | 94,025 | (70,657) | 0 | 10,540 | 11,815 |

| | | Year to Date | | | Full Year | | |
|---|-------|----------------|----------------|---------------|----------------|----------------|----------|
| | | Notes | Actual YTD | Budget | Variance | Budget | Forecast |
| Waikato Local Authority Shared Services | | | | | | | |
| Management Accounts for the Period Ended 31 December 2016 | | | | | | | |
| Waikato Building Consent Group (WBCG) | | | | | | | |
| Income | | | | | | | |
| Member Charges | 1 & 2 | 132,728 | 112,728 | 20,000 | 225,456 | 270,600 | 0 |
| Accumulated Fund | 3 | 98,105 | 45,144 | 52,961 | 45,144 | 98,105 | 0 |
| Total Income | | 230,833 | 157,872 | 72,961 | 270,600 | 368,705 | 0 |
| Expenses | | | | | | | |
| Salaries | | 77,540 | 103,100 | 25,560 | 206,200 | 206,200 | 0 |
| Vehicle Expenses | | 6,422 | 8,850 | 2,428 | 17,700 | 17,700 | 0 |
| Training / Professional Fees | | 1,596 | 1,650 | 54 | 3,300 | 3,300 | 0 |
| Operating Costs | | 0 | 1,500 | 1,500 | 3,000 | 3,000 | 0 |
| Communications / IT Costs | | 3,908 | 2,000 | (1,908) | 2,000 | 3,908 | 0 |
| Annual Subscriptions | | 0 | 0 | 0 | 400 | 400 | 0 |
| Overheads | 4 | 28,639 | 19,000 | (9,639) | 38,000 | 38,000 | 0 |
| Special Projects | 5 | 5,910 | 0 | (5,910) | 0 | 6,272 | 0 |
| Total Expenses | | 124,015 | 136,100 | 12,085 | 270,600 | 278,780 | 0 |
| Earnings before interest, tax and depreciation/ amortisation (EBITA) | | 106,818 | 21,772 | 85,046 | 0 | 89,925 | 0 |
| Earnings before interest and tax | | 106,818 | 21,772 | 85,046 | 0 | 89,925 | 0 |
| Net Surplus (Deficit) before tax | | 106,818 | 21,772 | 85,046 | 0 | 89,925 | 0 |
| Cash Surplus | | | | | | | |
| Opening Balance | | 0 | 0 | 0 | 0 | 0 | 0 |
| plus / (less) transfers | | 0 | 0 | 0 | 0 | 0 | 0 |
| Movement for year | | 106,818 | 21,772 | 85,046 | 0 | 89,925 | 0 |
| Cash Surplus / (Deficit) | | 106,818 | 21,772 | 85,046 | 0 | 89,925 | 0 |
| Notes | | | | | | | |
| 1) MEMBER COUNCILS: Hamilton CC, Hauraki DC, Matamata-Piako DC, Otorohanga DC, Thames-Coromandel DC, Waikato DC, Waipa DC and Waitomo DC. | | | | | | | |
| 2) MEMBER CHARGES | | | | | | | |
| - Refer to WBCG proposed budget for 2016 - 2019. | | | | | | | |
| - Advisory Group Resolution 4 July 2016 - "Budget will include TCDC from today onwards, please note it will be different during TCDC's transitioning, after which the usual budget process will be followed". Consequently 2016/2017 income includes TCDC contribution of \$40,000 for the first year only, after which the usual contribution formula applies. | | | | | | | |
| - Income is inflation adjusted | | | | | | | |
| 3) ACCUMULATED FUND: Board Resolution 7 Dec 2015 - "The original 5 authority accumulated fund (fund 1) should be ring fenced and use up over next 3 years to offset an increased cost for the LTP". | | | | | | | |
| 4) OVERHEADS: Waikato DC provides the Building Consent Group with support services, including accommodation, IT, HR and Group Manager support. | | | | | | | |
| 5) SPECIAL PROJECT: New website, soon to come on line. Funded from the accumulated fund. | | | | | | | |

| | | Year to Date | | | Full Year | | | |
|--|--|--------------|----------------|----------------|-----------------|----------------|----------------|-----------|
| | | Notes | Actual YTD | Budget | Variance | Budget | Forecast | Last Year |
| Waikato Local Authority Shared Services | | | | | | | | |
| Management Accounts for the Period Ended 31 December 2016 | | | | | | | | |
| Future Proof | | | | | | | | |
| Income | | | | | | | | |
| | | | 165,000 | 227,500 | (62,500) | 455,000 | 330,000 | 0 |
| | | | 265,225 | 120,990 | 144,235 | 120,990 | 265,225 | 0 |
| | | | 430,225 | 348,490 | 81,735 | 575,990 | 595,225 | 0 |
| Expenses | | | | | | | | |
| | | | 81,740 | 55,000 | (26,740) | 110,000 | 110,000 | 0 |
| | | | 2,682 | 7,500 | 4,818 | 15,000 | 15,000 | 0 |
| | | | 9,844 | 12,500 | 2,656 | 25,000 | 25,000 | 0 |
| | | | 10,219 | 7,500 | (2,719) | 15,000 | 15,000 | 0 |
| | | | 30,000 | 32,500 | 2,500 | 65,000 | 65,000 | 0 |
| | | | 0 | 7,500 | 7,500 | 15,000 | 15,000 | 0 |
| | | | 6,600 | 7,500 | 900 | 15,000 | 15,000 | 0 |
| | | | 6,541 | 7,500 | 959 | 15,000 | 15,000 | 0 |
| | | | 0 | 2,500 | 2,500 | 5,000 | 5,000 | 0 |
| | | | 0 | 7,500 | 7,500 | 15,000 | 15,000 | 0 |
| | | | 33,803 | 30,000 | (3,803) | 60,000 | 60,000 | 0 |
| | | | 0 | 10,000 | 10,000 | 20,000 | 20,000 | 0 |
| | | | 0 | 2,500 | 2,500 | 5,000 | 5,000 | 0 |
| | | | 0 | 10,000 | 10,000 | 20,000 | 20,000 | 0 |
| | | | 86,108 | 20,000 | (66,108) | 20,000 | 86,108 | 0 |
| | | | 0 | 7,500 | 7,500 | 15,000 | 15,000 | 0 |
| | | | 7,789 | 10,000 | 2,211 | 20,000 | 20,000 | 0 |
| | | | 275,326 | 237,500 | (37,826) | 455,000 | 521,108 | 0 |
| Earnings before interest, tax and depreciation/ amortisation (EBITA) | | | 154,899 | 110,990 | 43,909 | 120,990 | 74,117 | 0 |
| Earnings before interest and tax | | | 154,899 | 110,990 | 43,909 | 120,990 | 74,117 | 0 |
| Net Surplus (Deficit) before tax | | | 154,899 | 110,990 | 43,909 | 120,990 | 74,117 | 0 |
| Cash Surplus | | | | | | | | |
| Opening Balance | | | 0 | 0 | 0 | 0 | 0 | 0 |
| plus /(less) transfers | | | 0 | 0 | 0 | 0 | 0 | 0 |
| Movement for year | | | 154,899 | 110,990 | 43,909 | 120,990 | 74,117 | 0 |
| Cash Surplus / (Deficit) | | | 154,899 | 110,990 | 43,909 | 120,990 | 74,117 | 0 |
| Notes | | | | | | | | |
| 1) Actual funds transferred from Hamilton City Council when Future Proof transferred into WLASS. | | | | | | | | |
| 2) Revision of Waikato Population Projections - the University of Waikato. | | | | | | | | |
| 3) Hamilton City Council provides support services. | | | | | | | | |

Waikato Local Authority Shared Services
Management Accounts for the Period Ended 31 December 2016
Waikato Mayoral Forum




| | Notes | Year to Date | | | Full Year | | Last Year | Project to date | |
|---|-------|--------------|----------|--|---|--------------------|------------------|------------------------|----------------|
| | | Actual YTD | Budget | Variance | Budget | Forecast | | | |
| Income | | | | | | | | | |
| Waikato Plan | 1 | 150,000 | 0 | 150,000 | 0 | 150,000 | 0 | 1,346,240 | |
| Policy & Bylaws | | 0 | 0 | 0 | 0 | 0 | 0 | 86,000 | |
| Regional Infrastructure Tech. Specs. | 2 | 68,400 | 50,000 | 18,400 | 50,000 | 80,000 | 42,600 | 111,000 | |
| Policy & Bylaws | | 0 | 0 | 0 | 7,000 | 7,000 | 10,000 | 10,000 | |
| Section 17a Review | | 7,000 | 7,000 | 0 | 7,000 | 7,000 | 14,000 | 24,656 | |
| Administration Costs | | 7,000 | 7,000 | 0 | 7,000 | 7,000 | 7,000 | 19,385 | |
| Revenue | | 232,400 | 64,000 | 168,400 | 71,000 | 251,000 | 73,600 | 1,597,281 | |
| Plus / (Less) Revenue in Advance | 3 | 26,184 | (7,000) | 33,184 | 0 | 37,711 | 462,784 | (258,521) | |
| Total Income | | 258,584 | 57,000 | 201,584 | 71,000 | 288,711 | 536,384 | 1,338,759 | |
| Expenses | | | | | | | | | |
| Waikato Plan | | 187,711 | 0 | (187,711) | 0 | 187,711 | 474,559 | 1,178,461 | |
| Policy & Bylaws | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| Regional Infrastructure Tech. Specs. | 2 | 66,115 | 50,000 | (16,115) | 50,000 | 80,000 | 25,069 | 91,184 | |
| Policy & Bylaws | | 0 | 0 | 0 | 7,000 | 7,000 | 13,911 | 37,068 | |
| Section 17a Review | | 3,126 | 3,500 | (374) | 7,000 | 7,000 | 17,656 | 20,782 | |
| Administration Costs | | 1,632 | 3,500 | 1,868 | 7,000 | 7,000 | 5,189 | 11,264 | |
| Total Expenses | | 258,584 | 57,000 | (202,332) | 71,000 | 288,711 | 536,384 | 1,338,759 | |
| Earnings before interest, tax and depreciation/ amortisation (EBITA) | | 0 | 0 | (748) | 0 | 0 | 0 | 0 | |
| Earnings before interest and tax | | 0 | 0 | (748) | 0 | 0 | 0 | | |
| Net Surplus (Deficit) before tax | | 0 | 0 | (748) | 0 | 0 | 0 | | |
| Notes 1) Participating Councils to be Invoiced in December 2016. 2) Forecast shows additional \$30,000 approved by the Board to complete RITS. These amounts have not yet been invoiced. 3) Revenue received in advance broken down as follows: | | | | | Revenue | Expenditure | Transfers | Available Funds | |
| | | | | | Administration | 19,385 | 11,264 | - | 8,121 |
| | | | | | Waikato Plan | 1,346,240 | 1,178,461 | - | 167,779 |
| | | | | | Policy & Bylaws | 96,000 | 37,068 | (19,000) | 39,932 |
| | | | | | Regional Infrastructure Tech. Specs | 111,000 | 91,184 | 19,000 | 38,816 |
| | | | | | Section 17a Review | 24,656 | 20,782 | - | 3,874 |
| | | | | | Total for Mayoral Forum Activities | | | | 258,522 |
| | | | | RATA (Showing in Cash Surplus Opening Balance) | | | | 97,942 | |
| | | | | Historical Aerial Photos (PROCUREM) | 3,515 | 3,515 | - | 3,515 | |
| | | | | | Revenue in Advance total | | | 359,979 | |

Waikato Local Authority Shared Services
Balance Sheet
As at 31 December 2016



| | Notes | Year to Date | | | Full Year | |
|---|-------|------------------|----------------|------------------|----------------|------------------|
| | | Actual YTD | Budget FY | Variance | Budget | Last Year |
| CAPITAL | | | | | | |
| Shares - SVDS | | 1,607,001 | 1,607,001 | 0 | 1,607,001 | 1,607,001 |
| Shares - WRTM | | 1,350,000 | 1,350,000 | 0 | 1,350,000 | 1,350,000 |
| Profit and Loss | | (2,273,720) | (2,328,930) | 55,211 | (2,328,930) | (1,924,992) |
| Plus Current Year Operating Surplus/(Deficit) | | 1,318,704 | (38,242) | 1,356,947 | (38,242) | (348,727) |
| TOTAL CAPITAL FUNDS | | 2,001,985 | 589,829 | 1,412,157 | 589,829 | 683,281 |
| ASSETS | | | | | | |
| CURRENT ASSETS | | | | | | |
| Prepayments | | 0 | 2,692 | (2,692) | 2,692 | 148,820 |
| Accounts Receivable | 1 | 1,136,411 | 3,394 | 1,133,017 | 3,394 | 390,047 |
| Accounts Receivable Accruals | | (79,390) | 0 | (79,390) | 0 | 21,252 |
| Accrued Interest | | 0 | 0 | 0 | 0 | 281 |
| RWT On Interest | | 3,916 | 1,820 | 2,096 | 1,820 | 3,385 |
| Local Authority Shared Services 00 | | 300,635 | 0 | 300,635 | 0 | 152,684 |
| Local Authority Shared Services On-Call | | 765,323 | 623,031 | 142,292 | 623,031 | 484,588 |
| BNZ - Term Deposit 020 | | 45,770 | 0 | 45,770 | 0 | 45,402 |
| GST Paid | | (43,651) | (48,066) | 4,415 | (48,066) | 33,833 |
| TOTAL CURRENT ASSETS | | 2,129,014 | 582,871 | 1,546,143 | 582,871 | 1,280,291 |
| NON-CURRENT ASSETS | | | | | | |
| SVDS - Intangible Asset | | 3,065,316 | 3,085,506 | (20,189) | 3,085,506 | 3,065,316 |
| WRTM - Intangible Asset | | 2,296,855 | 2,296,855 | (0) | 2,296,855 | 2,296,855 |
| MoneyWorks Software | | 1,195 | 1,195 | 0 | 1,195 | 1,195 |
| Accumulated Depreciation | 2 | (4,954,027) | (5,041,294) | 87,267 | (5,041,294) | (4,871,872) |
| TOTAL NON-CURRENT ASSETS | | 409,340 | 342,262 | 67,078 | 342,262 | 491,494 |
| NET ASSETS | | 2,538,353 | 925,133 | 1,613,221 | 925,133 | 1,771,785 |
| LESS CURRENT LIABILITIES | | | | | | |
| Accounts Payable | | 103,220 | 323,831 | (220,611) | 323,831 | 530,668 |
| Accounts Payable Accrual | | 73,052 | 11,473 | 61,580 | 11,473 | 27,327 |
| ACC Prepayments | | 0 | 0 | 0 | 0 | 0 |
| RWT On Payments | | 118 | 0 | 118 | 0 | 743 |
| Revenue in Advance | 3 | 359,977 | 0 | 359,977 | 0 | 529,766 |
| TOTAL CURRENT LIABILITIES | | 536,368 | 335,304 | 201,065 | 335,304 | 1,088,504 |
| NET WORTH | | 2,001,985 | 589,829 | 1,412,157 | 589,829 | 683,281 |
| Notes | | | | | | |
| 1) Outstanding Receivables higher at this time due to annual Invoices being sent. No issues to note. | | | | | | |
| 2) Accumulated depreciation is lower than budget due to the WRTM asset review extending the life of the asset to June 2019. | | | | | | |
| 3) Revenue in advance is not budgeted for as it results from revenue received not yet spent on expenses. | | | | | | |

| Waikato Local Authority Shared Services | |  | | |
|---|-------------------|---|-----------------|--|
| Statement of Cash Flows | | | | |
| As at 31 December 2016 | | | | |
| | Actual YTD | Full Year Budget | Last YTD | |
| Cashflows from Operating Activities | | | | |
| Interest Received | 1,635 | 6,500 | 16,538 | |
| Receipts from Other Revenue | 2,454,421 | 3,503,791 | 2,280,922 | |
| Payments to Suppliers | (2,016,027) | (3,379,111) | (2,101,635) | |
| Taxes Paid | (1,156) | (1,820) | 5,330 | |
| Goods & Services tax (net) | (9,818) | (25,221) | 59,305 | |
| Net cash from operating activities | 429,055 | 104,139 | 260,460 | |
| Net cash from investing activities | | | | |
| Purchase of Intangible Assets | 0 | (10,190) | (9,441) | |
| Net cash from investing activities | 0 | (10,190) | (9,441) | |
| Net increase in cash, cash equivalents and bank accounts | | | | |
| Opening cash and cash equivalents and bank overdrafts | 429,055 | 93,949 | 251,019 | |
| | 682,673 | 529,082 | 442,598 | |
| Closing cash, cash equivalents and bank accounts | 1,111,728 | 623,031 | 693,617 | |
| Summary of Bank Accounts | | | | |
| BNZ - Cheque a/c | 300,635 | 0 | 29,042 | |
| BNZ - Call a/c | 765,323 | 623,031 | 620,179 | |
| Term Deposit | 45,770 | 0 | 44,396 | |
| Closing Balance of Bank | 1,111,728 | 623,031 | 693,617 | |

Appendix 2

The following policies have been adhered to in the completion of this financial report:

Changes to NZ Accounting Standards

LASS transitioned to the new Public Sector Public Benefit Entities (PBE) accounting standards for the year ended 30 June 2015. LASS is eligible to report in accordance with the Tier 2 PBE accounting standards.

Accounting Principles

Financial statements are prepared in accordance with the requirements of the Local Government Act 2002, which includes the requirement to comply with the New Zealand Generally Accepted Accounting Practice (GAAP), the Financial Reporting Act 1993 and NZ IFRS Standards.

Specific Accounting Principles

The following particular principles which have a significant effect on the measurement of financial position apply:

- Receivables are recorded at their face value, less any provisions for impairment.
- Investments are valued at the prevailing market value.
- Fixed assets are recorded at cost, less accumulated depreciation.

Intangible Assets

Where intangible assets are purchased, such as intellectual property, these are capitalised and written off on a straight line basis over their expected life, but over no greater than seven years.

Depreciation is provided on a straight line basis on all assets other than land, and align with normal accepted depreciation for the types of services being developed.

Impairment Testing

Assets with a finite life are reviewed annually for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, less costs to sell and value in use.

Inventories

It is not envisaged that the company will hold inventories, other than those that might relate to providing electronic services to a number of parties. They are valued at net realisable value.

Taxation

Taxation is provided as required against the company in line with the required legislation.

Audit

In accordance with the Public Audit Act 2001 and the Local Government Act 2002, the Office of the Auditor General is responsible for auditing the company's financial statements.

Dividend Payments

It is not envisaged that the Board will make any recommendation about dividend, as the shared services are on a cost recovery basis and any savings will be used to reduce service costs or to reinvest in new services or upgrades.

Consolidated Shareholders' Funds

In accordance with the Local Government Act 2002, the ratio of Consolidated Shareholders' Funds to Total Assets has been included within the Statement of Financial Position (Balance Sheet).

Consolidated Shareholders' Funds are defined as the sum of retained earnings, reserves and paid-up share capital.

Assets

Total Assets include Current and Non-Current Assets, as disclosed in the Statement of Financial Position (Balance Sheet). This includes, but is not limited to, Bank, Debtors and Operational Assets.

Open Meeting

| | |
|---------------------------------|--|
| To | Strategy & Finance Committee |
| From | Tony Whittaker General Manager Strategy & Support |
| Date | 8 March 2017 |
| Prepared by | Alison Diaz Finance Manager |
| Chief Executive Approved | Y |
| Reference # | GOV1318 / 1691811 |
| Report Title | Waikato Local Authority Shared Services Limited draft Statement of Intent |

I. EXECUTIVE SUMMARY

The Waikato Local Authority Shared Services Limited (WLASS) draft Statement of Intent for 2017/18 is attached for the Strategy & Finance Committee's consideration. The Council has two months to approve, request changes or reject the Statement of Intent ("SOI") as a shareholder, with the final SOI due on or before the 30 June 2017.

The Strategy & Finance Committee is responsible for monitoring WLASS operations and making recommendations to Council for any proposed amendments to their activities.

The proposed direction is in line with the previous SOI approved for the current financial year, with emphasis on new business transformation initiatives. Additional funding will be required as the scope of activities, and related workload, increases.

Performance measures for the Road Asset Technical Accord ("RATA") are under development and will be presented with the final SOI.

2. RECOMMENDATION

THAT the report from the **General Manager Strategy & Support** be received;

AND THAT pursuant to section 64 of the **Local Government Act 2002** the **Strategy & Finance Committee** will provide feedback on the **Waikato Local Authority Shared Services Limited** draft **Statement of Intent** for 2017/18 no later than **30 April 2017**.

3. BACKGROUND

The SOI is attached and sets out the Boards intentions for the company for 2017/18, 2018/19 and 2019/20.

4. DISCUSSION AND ANALYSIS OF OPTIONS

4.1 DISCUSSION

The strategic intent of WLASS remains unchanged from the 2016/17 SOI. The priority is to work collaboratively across the region to achieve efficiency and effectiveness gains with customer experience in mind.

4.2 OPTIONS

The Strategy & Finance Committee can:

- a) Recommend approval of the current draft SOI to Council; or
- b) Request amendments; or
- c) Reject the draft SOI.

Any feedback must be provided to WLASS before 30 April.

5. CONSIDERATION

5.1 FINANCIAL

The overall net deficit position for both 2017/18 and 2018/19 is expected to increase in comparison to what was provided for in the 2016/17 SOI, however, net assets and working capital will improve.

Projects currently underway will require funding from 2017/18 onwards, and will be included in the final SOI.

5.2 LEGAL

Schedule 8 of the Local Government Act 2002 requires the board of WLASS to make their SOI publicly available within one month of Council adoption.

6. CONCLUSION

Council has an opportunity to provide feedback on the SOI before the end of April. Once all shareholders have provided feedback a final SOI will be issued (or the draft confirmed as final).

7. ATTACHMENTS

Waikato Local Authority Shared Services Limited draft Statement of Intent 2017/18



STATEMENT OF INTENT FOR 2017/18

30 June 2017

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Waikato Local Authority Shared Services Limited

Introduction

This Statement of Intent is a public declaration of the activities and intentions of the Council Controlled Organisation, Waikato Local Authority Shared Services Limited (WLASS). The statement outlines the proposed work plan for 2017/18 and the Directors' accountabilities to the shareholders for corporate performance, as is intended by Schedule 8 of the Local Government Act 2002.

Objectives of WLASS

Local Authority Shared Services Limited was incorporated under the Companies Act 1993 on the 13th day of December 2005, and changed its name to WAIKATO LOCAL AUTHORITY SHARED SERVICES LIMITED on the 4th day of April 2016. WLASS is owned by the 12 Waikato local authorities, with each shareholder owning an equal number of shares and having an equal say in its development. WLASS provides a legal entity, representative of all the shareholding councils, which can enter into contracts and agreements with external suppliers and provide value to the shareholders by reducing costs. WLASS contracts are available to be joined by any shareholder that so chooses.

Much of the work of WLASS is undertaken by Working Parties or Advisory Groups made up of staff representatives from the shareholding councils, with expertise and interest in particular services. The WLASS CEO provides facilitation and co-ordination of the Working Parties, and is an ex officio member of the Advisory Groups.

As part of providing a mechanism for supporting shared services and collaborative opportunities within the region, WLASS also provides support to the Waikato Mayoral Forum and its working streams.

The objectives of WLASS are:

- To enable the Waikato councils to collectively be more effective as a region on the national stage
- To contribute to building central government's confidence in the Waikato region, and to encourage central government investment
- To achieve effectiveness and efficiency gains
- To reduce duplication of effort and eliminate waste through repetition
- To make it easier for customers to engage with councils in the Waikato region
- To promote and contribute to the development of best practice
- To promote business transformation to improve customers' experiences.

Nature and Scope of Current Activities

There are currently nine major initiatives operating under the WLASS umbrella, plus a support role for the collaborative work streams of the Waikato Mayoral Forum.

- 1 **Shared Valuation Data Service (SVDS).** This system provides timely and accurate valuation data to the 10 member Councils (Waikato Regional, Hamilton City, Hauraki, Matamata Piako, Rotorua, South Waikato, Thames Coromandel, Waikato, Waipa and Waitomo District Councils). The SVDS has become the accepted valuation database for the region. Data sales significantly reduce costs to the participating councils.
- 2 **Road Asset Technical Accord (RATA).** RATA was initially established as a centre of excellence for road asset planning in 2014, as a work stream under the Mayoral Forum. The activity transferred to WLASS on 1 July 2016. The aim of RATA is to achieve best practice in road asset management by improving capability, capacity and outcomes through effective collaboration. By leading asset management best practice, RATA delivers better decision making through the effective collection and use of good quality data, and the implementation of good practice processes and systems for data collection, analysis and management.

Waipa District Council currently acts as the host council for RATA, providing accommodation and overheads (which are fully recovered from the participating councils), and managing the employment agreements/relationships with the three staff members. This activity is fully funded by the nine participating councils (Hamilton City, Hauraki, Matamata Piako, Otorohanga, South Waikato, Thames Coromandel, Waikato, Waipa and Waitomo District Councils, supported by the NZ Transport Agency) and operates as a separate cost centre.

- 3 **Waikato Regional Transportation Model (WRTM).** This model became fully operational in February 2010. It provides accurate information to Councils and to external users (for a charge) for their transport modelling requirements. The WRTM is the only recognised strategic transport modelling resource in the Waikato Region, and is jointly funded by the NZ Transport Agency. WRTM is making a significant contribution to strategic planning of land use and infrastructure within the region, and has been involved in regionally and nationally significant investigations including: the Waikato Expressway Network Plan; the Waikato Regional Land Transport Strategy and Regional Policy Statement; and transport impact assessment in relation to the development of Ruakura. This activity is fully funded by the seven participating councils (Waikato Regional, Hamilton City, Matamata Piako, Taupo, Thames Coromandel, Waikato, and Waipa District Councils, supported by the NZ Transport Agency), and operates as a separate cost centre. It has been managed by RATA since 1 July 2016.
- 4 **Waikato Building Consent Group (WBCG).** The WBCG was initially set up by five Waikato local authorities in 2004 to foster co-operation, collaboration and consistency in building functions, legislative interpretation and process documentation across the partnering councils. The Group now comprises eight councils (Hamilton City, Hauraki, Matamata Piako, Otorohanga, Thames Coromandel, Waikato, Waipa and Waitomo Districts). The Group has developed a common quality assurance system with associated supporting documentation and media that meet the legislative requirements of the Building Act 2004 and the Building (Accreditation of Building Consent Authorities) Regulations 2006. These regulations cover all aspects of the operational management and compliance of a Building Consent Authority (BCA).

Waikato District Council currently acts as the host council for the WBCG, providing accommodation and overheads (which are fully recovered from the WBCG), and managing the employment agreements/relationships with the two staff members. The activity is fully funded by the participating councils, and operates as a separate cost centre. The activity transferred to WLASS on 1 July 2016.

- 5 Future Proof.** This is a collaborative partnership between Hamilton City, Waikato and Waipa Districts, Waikato Regional Council and Tāngata whenua, with assistance from the New Zealand Transport Agency. The partners have jointly developed the Future Proof Growth Strategy and Implementation Plan – a 50-year vision and implementation plan specific to the Hamilton, Waipa and Waikato sub-region (Future Proof sub-region), which was adopted by the partners on 30 June 2009.

The accommodation, overhead and employment arrangements of the Future Proof Planner are managed by Hamilton City Council. This activity is fully funded by the participating councils, and transferred to WLASS on 1 July 2016.

- 6 Energy Management.** WLASS entered into a Collaboration Agreement with the Energy Efficiency Conservation Authority (EECA) in February 2016. This arrangement will bring \$210,000 in revenue from EECA over three years, subject to meeting specific energy saving targets. The activity is fully funded by the ten participating councils (Matamata Piako is not eligible, as it has previously received EECA funding, and Thames Coromandel is not participating), and operates as a separate cost centre.
- 7 Joint Procurement Initiatives.** WLASS is a party to numerous joint procurement contracts between the company, shareholding Councils and suppliers. Some contracts (e.g. insurance brokerage services; various collective insurance policies; courier and postal services; historic aerial photography) involve all of the shareholding councils. Other joint procurement contracts have been negotiated, but only some of the shareholding councils have chosen to participate (e.g. the Professional Services Panel; computer-generated print, mail house and e-services; IT Professional Services Panel; Internal Audit Services). A review of procurement opportunities will assist in determining the future direction of WLASS procurement activities.
- 8 Historic Aerial Photos.** In May 2015, WLASS entered into a Memorandum of Understanding with LINZ to scan the Waikato Historic Aerial Photos archive. The LINZ Crown archive contains over 500,000 historic aerial photo negatives captured by surveys flown over New Zealand between 1936 and 2005. All of the shareholding councils are participating in this 4-year project, which includes a subsidy of \$56,000 from LINZ. The project is running ahead of schedule and is now expected to be completed in 2018.
- 9 Waikato Regional Aerial Photography Service (WRAPS).** WRAPS was set up in the 1990s for the supply of colour, digital, ortho-rectified, aerial photography for the Waikato Region. So far, there have been four WRAPS contracts – 2002, 2007, 2012, and the 2016 contract that is currently in progress. Consideration is currently being given to changing the frequency to 4-yearly. WRAPS became a WLASS project in December 2014 and is fully funded by the participating councils.

Proposed New Activities

New Business Transformation Initiatives

In response to the challenge set in the 2016/17 SOI (to “*investigate business transformation opportunities which will improve customer experiences and provide added value, particularly within the digital field of operation*”), a number of projects are underway in the 2016/17 financial year which are likely to result in new work streams for WLASS. New funding is also likely to be required, and will be included in the final version of this SOI.

The projects currently being investigated are:

Procurement

A contract has been let to undertake a "health check/maturity assessment" of procurement activities and processes in the WLASS councils, and to identify opportunities and/or alternative approaches that could be taken to provide greater value to shareholders.

Aligned Planning

One of the outputs from the Waikato Plan was a report completed by GMD Consulting Ltd, which identified a range of methods by which councils can achieve greater efficiencies and effectiveness in the processing of resource consents. A business case is in preparation, to identify the benefits of progressing some or all of the recommendations in the report, and the investment that will be required to make progress. Recommendations will be made to the Board in the last quarter of the 2016/17 financial year.

GIS

Geographic Information Systems (GIS) in the Waikato region are characterised by a wide range of systems and software and are at varying levels of maturity. As a sector, Territorial Authorities are challenged with rapidly developing technology, an ever increasing requirement for skills, competition for skilled and knowledgeable staff, and a greater need to keep ahead of citizen requirements. Other regions face the same challenges and have responded in various ways. An investigation is underway into the progress being achieved by other GIS regional initiatives, to identify the benefits of different delivery models and their applicability to the Waikato. New collaborative initiatives will be identified, prioritised and business cases developed for those with significant benefits.

Work is also in progress to identify how spatial information systems can support the Waikato region within the framework of the Waikato Digital Strategy (see below) and contribute to the WLASS digital strategic direction setting from a spatial and analytical perspective.

Building

The Waikato Building Consent Group (WBCG) has reached a level of maturity within their current framework, but it is evident that there are opportunities to go a lot further. A strategic visioning workshop is being planned by the WBCG, to develop a long-term vision (10 years), and consider alternative service delivery options to achieve that vision. Proposals will then be considered by the Board.

Digital Strategy

Work is in progress to define the scope for the development of a WLASS Digital Strategy, what the challenges are, what success would look like, and to make recommendations to the Board on the next steps.

Additional Costs

Due to the increased workload arising from the growth of WLASS (turnover in 2014/15 was \$2.1M, compared with an estimated \$3.5M in 2017/18), additional funding of \$20,500 is

required to fund accounting services. This equates to 2% of total revenue, the same percentage as in 2014/15.

In addition, it is proposed to replace the current accounting package (MoneyWorks) with a new system, such as Xero, which will be more efficient in dealing with the increased complexity of the WLASS accounts. The likely additional cost for a licence is approximately \$850 p.a.

The Mayoral Forum (Policy and Bylaws work stream) project to publish a Regional Infrastructure Technical Specifications (RITS) document (a regional guide on how to construct public infrastructure) is expected to be completed in May 2017. New funding of \$18,000 p.a. has been included in the Procurement cost centre to fund a contractor to manage and review requests for changes/improvements/updates to the document, and to manage the process for including new approved products into the RITS, to keep it up-to-date. These costs will be funded solely by those councils using RITS (currently all of the shareholding councils, excluding Taupo, Thames Coromandel and Waikato Regional).

Waikato Mayoral Forum

Establishment of the **Waikato Mayoral Forum** in 2012 resulted in the creation of five work streams to investigate collaborative opportunities in the areas of governance, spatial planning, two waters, roading, and economic development. An additional work stream for bylaws and policies was created in 2013, focussing on reducing the number and standardising the format of Council policies and bylaws, and developing RITS.

The governance work stream is currently in abeyance. The spatial plan work stream is now known as the Waikato Plan, and is governed by a Joint Committee, which was established in July 2015. The two-waters project is now being run by a consortium comprising Hamilton City, Waikato and Waipa District Councils, who are investigating a future delivery model for water services across the three councils. As noted above, the roading work stream (RATA) transferred into WLASS on 1 July 2016. The Economic Development work stream has developed a strategy, and implementation of the "Waikato Means Business" plan was devolved to an independent Steering Group in July 2015. The work of the Policy and Bylaws work stream is ongoing.

The Mayoral Forum will be considering potential new work streams for the new triennium, and there may be a further role for WLASS, which provides administrative and financial support both to the Mayoral Forum and its work streams. This draft SOI does not include any new funding for Mayoral Forum work streams, but there is an opportunity for new funding to be included when the SOI is finalised in June, following feedback from shareholders.

Benefits of WLASS

Over the period that the company has been operating, benefits have been delivered in the form of:

- Improved level and quality of service
- Co-ordinated approach to the provision of services
- Reductions in the cost of services
- Development of new initiatives
- Opportunities for all Councils (irrespective of their location or size) to benefit from joint initiatives
- Economies of scale resulting from a single entity representing all Councils and leveraging procurement opportunities.

Based on feedback from the shareholding Councils and the Mayoral Forum, the WLASS Directors continue to discuss opportunities to develop shared services at Board meetings. The Directors see the continuing investigation of possible future shared services as a key focus of their role.

Governance

WLASS has twelve Directors, with each Director representing a shareholder Council.

Unless otherwise agreed by the appointing Councils, each Director shall be the Chief Executive of a local authority. In addition, the Board may appoint up to three professional directors to supplement the Directors' expertise. At this time, no independent directors have been appointed to the Board.

WLASS conducts itself in accordance with its constitution, its annual Statement of Intent as agreed with shareholders, the provisions of the Local Government Act 2002, and WLASS policies.

Directors

The current Directors of WLASS are:

| Director | Position | Director Appointed By |
|-------------------|--|---------------------------------|
| Gavin Ion (Chair) | Chief Executive, Waikato District Council | Waikato District Council |
| Richard Briggs | Chief Executive, Hamilton City Council | Hamilton City Council |
| Langley Cavers | Chief Executive, Hauraki District Council | Hauraki District Council |
| Don McLeod | Chief Executive, Matamata-Piako District Council | Matamata-Piako District Council |
| Dave Clibbery | Chief Executive, Otorohanga District Council | Otorohanga District Council |
| Geoffrey Williams | Chief Executive, Rotorua District Council | Rotorua District Council |
| Craig Hobbs | Chief Executive, South Waikato District Council | South Waikato District Council |
| Gareth Green | Chief Executive, Taupo District Council | Taupo District Council |

| | | |
|---------------|---|------------------------------------|
| Rob Williams | Chief Executive, Thames-Coromandel District Council | Thames-Coromandel District Council |
| Vaughan Payne | Chief Executive, Waikato Regional Council | Waikato Regional Council |
| Garry Dyet | Chief Executive, Waipa District Council | Waipa District Council |
| Chris Ryan | Chief Executive, Waitomo District Council | Waitomo District Council |

Activities for which the Board seeks Compensation

Additional shared services may be developed during the year that this Statement of Intent is current. Any such services will only be delivered by WLASS after the Directors have agreed that the proposed new service meets the objectives of WLASS.

Shareholders will continue to contribute to the operational costs of the WLASS on an annual basis. Specific projects will be funded solely by those councils which choose to participate, subject to funding approval from each participating council.

Performance Targets

To ensure that the Company continues to operate effectively and efficiently, the performance targets for 2017/18 are as follows:

| TARGET | METHOD | MEASURE |
|---|---|---|
| Procurement Joint procurement initiatives for goods and services for WLASS councils will be investigated and implemented. | Procurement is from sources offering best value, service, continuity of supply, and/or opportunities for integration. | Implement the recommendations of the Procurement review, as approved by the Board. New suppliers are awarded contracts through a competitive tender process. |
| Collaborative Projects Priorities for collaboration are identified, business cases are developed for the highest priority projects, and the projects are implemented. | The focus is on shared services which will benefit all councils. | A minimum of three priority projects for collaboration are identified per annum. If considered of value, business cases are developed for approval by the Board, and the projects are implemented. |
| Existing WLASS Contracts Existing contracts are managed and renegotiated as required. | Appointed vendors deliver on the terms of their contracts and deliver value to the shareholders. | The WLASS Contracts Register is maintained and managed. Contracts which are due for renewal are tested for competitiveness and either renegotiated or re-tendered through a competitive process. |
| Cashflow The company shall maintain a positive cashflow position. | The Financial Accountant reviews cashflow monthly. | The WLASS Board reviews the financial statements quarterly. |

| | | |
|--|--|--|
| <p>Cost Control Administration expenditure shall be managed and monitored.</p> | <p>The Financial Accountant and Chief Executive review expenditure monthly.</p> <p>The WLASS Board reviews the financial statements quarterly.</p> | <p>Administration expenditure shall not exceed budget by more than 5%, unless prior approval is obtained from the Board.</p> |
| <p>Reporting Six monthly reports provided to Shareholders.</p> | <p>The Chief Executive prepares a written report for the WLASS Board every meeting.</p> <p>One 6-monthly and one Annual Report are prepared for shareholders.</p> | <p>The Board shall provide a written report on the business operations and financial position of WLASS to the shareholders every six months.</p> <p>Every second report shall be the Annual Report, which includes a report that all of the statutory requirements of the WLASS are being adhered to.</p> |
| <p>Waikato Mayoral Forum The company shall provide administrative support to the Mayoral Forum work streams and to the Mayoral Forum.</p> | <p>Mayoral Forum projects shall be managed financially through the WLASS.</p> | <p>Approved invoices for Mayoral Forum projects are paid by the 20th of the month following their receipt.</p> |
| <p>Shared Valuation Data Services (SVDS) The SVDS is reliable, well maintained and available to all users.</p> | <p>A Contract Manager is appointed for SVDS.</p> <p>The Contract Manager monitors performance of the contractors and reports quarterly to the SVDS Advisory Group.</p> | <p>The SVDS is available to users at least 99% of normal working hours.</p> <p>All capital enhancement work is supported by a business case and approved by the SVDS Advisory Group.</p> <p>The SVDS Advisory Group meets at least 6-monthly.</p> |
| <p>Insurance Achieve the relevant KPIs in Appendix 4 of the Insurance Brokerage contract with Aon.</p> | <p>The Insurance Broker delivers on the terms of their contract and provides value to the participating councils.</p> | <p>Strategic advice provided by Aon on the insurance programme structure is assessed as satisfactory in the annual WLASS Shareholders' survey by the participating councils.</p> <p>The day-to-day service provided by Aon is assessed as satisfactory in the annual WLASS Shareholders' survey by the participating councils.</p> |
| <p>RATA¹ All stakeholders are kept informed about RATA's projects and achievements.</p> | <p>Six monthly and annual reports are provided to all stakeholders.</p> <p>Annual Forward Works</p> | <p>Reports presented to WLASS Board as at 30 December and 30 June, and circulated to stakeholders.</p> <p>Reports include a summary of savings and achievements.</p> <p>All RATA councils participate in</p> |