

Agenda for a meeting of the Strategy & Finance Committee to be held in the Council Chambers, District Office, 15 Galileo Street, Ngaruawahia on **WEDNESDAY 25 SEPTEMBER 2019** 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.

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GJ Ion
CHIEF EXECUTIVE

Open Meeting

To	Strategy & Finance Committee
From	Gavin Ion Chief Executive
Date	16 September 2019
Prepared by	Lynette Wainwright Committee Secretary
Chief Executive Approved	Y
Reference #	GOV1301
Report Title	Confirmation of Minutes – 28 August 2019

1. EXECUTIVE SUMMARY

To confirm the minutes of the Strategy & Finance Committee meeting held on Wednesday, 28 August 2019.

2. RECOMMENDATION

THAT the minutes of the meeting of the Strategy & Finance Committee held on Wednesday, 28 August 2019 be confirmed as a true and correct record of that meeting.

3. ATTACHMENTS

S&F Committee Minutes – 28 August 2019

Minutes of 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 28 AUGUST 2019** commencing at **9.00am**.

Present:

Cr JM Gibb (Chairperson)
His Worship the Mayor, Mr AM Sanson [until 10.21am and from 10.57am]
Cr AD Bech
Cr JA Church
Cr DW Fulton
Cr SD Lynch
Cr RC McGuire
Cr BL Main
Cr EM Patterson
Cr JD Sedgwick
Cr NMD Smith
Cr LR Thomson

Attending:

Mr B MacLeod (Raglan Community Board Chair)

Mr G Ion (Chief Executive)
Mr C Morgan (General Manager Community Growth)
Mr T Whittaker (Chief Operating Officer)
Ms A Diaz (Chief Operating Officer)
Mr R MacCulloch (Acting General Manager Service Delivery)
Ms C Wratt (Acting Team Leader Resource Management and Policy Team)
Mrs B Connolly (Policy Planner Community Development)
Ms D Dalbeth (Business Improvement Analyst)
Mrs C Pidduck (Legal Counsel)
Mrs R Gray (Senior Committee Secretary)

Ms E O'Dwyer (Waikato Times)

APOLOGIES AND LEAVE OF ABSENCE

Resolved: (Crs Thomson/Church)

THAT an apology be received from Crs Henderson and McInally.

CARRIED on the voices

S&F1908/01

CONFIRMATION OF STATUS OF AGENDA ITEMS

Resolved: (Crs Smith/Sedgwick)

THAT the Chair of the Raglan Community Board, Mr MacLeod, be given speaking rights for the duration of the open section of this meeting.

CARRIED on the voices

S&F1908/02

Resolved: (His Worship the Mayor/Cr Patterson)

THAT the agenda for a meeting of the Strategy & Finance Committee held on Wednesday 28 August 2019 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;

AND THAT all reports be received;

AND FURTHER THAT the Committee resolves that the following item be withdrawn from the agenda:

- **Item No. 5.3 – Climate Change (Zero Carbon) Amendment Bill.**

CARRIED on the voices

S&F1908/03

DISCLOSURES OF INTEREST

Councillor Gibb, Councillor Fulton and Councillor Sedgwick advised members of the Committee that they would declare a non-financial conflict of interest in item 5.1 [*District Plan Review Update*].

His Worship the Mayor, Councillor Bech and Councillor Church requested that it be noted that they had a non-financial conflict of interest in item 6.2 [*Final Statements of Intent 2019/20 - Wellbeing Trust*].

Councillor Sedgwick advised that she would declare a non-financial conflict of interest in item 2.1 [*Professional Negligence and Weathertight homes Claims Report*] included in the public excluded section of the meeting.

Councillor Bech advised that he would declare a non-financial conflict of interest in item 2.2 [*Development Agreement Sanderson Group Limited and Tamahere Country Club Limited*] included in the public excluded section of the meeting.

CONFIRMATION OF MINUTES

Resolved: (Crs Thomson/Main)

THAT the minutes of a meeting of the Strategy & Finance Committee held on Wednesday 26 June 2019 be confirmed as a true and correct record of that meeting.

CARRIED on the voices

S&F1908/04

REPORTS

District Plan Review Update
Agenda Item 5.1

The report was received [*S&F1908/03 refers*].

Councillor Gibb vacated the Chair owing to declaring a conflict of interest and withdrew from the meeting. Councillor Bech assumed the Chair for this item. Councillors Fulton and Sedgwick also declared a conflict of interest and withdrew from the meeting.

The report was taken as read. In speaking to the report, the Acting Team Leader Resource Management and Policy Team highlighted the following:

- Ambury Properties Hearing – Stage 1 hearings would be commencing on 30 September 2019 with an opening powhiri on 26 September 2019. The Ohinewai rezoning hearing would be scheduled for 7 June 2020. Stage 2 hearings were likely to take 12 weeks. Options were being investigated for venues to hold the hearings for Stage 2 with the Council Chambers being favoured.

Councillor Bech vacated the Chair following discussion on the above item. Councillors Gibb, Fulton and Sedgwick re-entered the meeting. Councillor Gibb assumed the Chair for the remainder of the meeting.

Consideration of Conservation Fund Applications
Agenda Item 5.2

The report was received [*S&F1908/03 refers*].

The report was taken as read by the Policy Planner Community Development who summarised the report.

ACTION: Feedback is sought on the criteria and results for Conservation Fund applications.

Resolved: (Crs Lynch/Patterson)

THAT Strategy & Finance Committee recommends to Council that the Conservation Fund application of \$4,474.80 from Mike Honiss be approved in full.

CARRIED on the voices

S&F1908/05

Climate Change Response (Zero Carbon) Amendment Bill
Agenda Item 5.3

This item was withdrawn from the agenda [*S&F1908/03 refers*].

General Rate Position for the year ended 30 June 2019
Agenda Item 6.1

The report was received [*S&F1908/03 refers*].

The report was taken as read by the Chief Financial Officer who summarised the report.

The following points were discussed:

- The Chief Executive highlighted the significant level of carry forwards when discussion was held on including additional work.
- Funding source required for three projects, eg District Plan Review, the Horotiu Bridge, and potential works in Council's Ngaruawahia office, that had been raised between the LTP periods.
- The Whatawhata Community Facilities Project.

Resolved: (Crs Smith/Main)

THAT the Strategy & Finance Committee recommends to Council that the 2018/19 surplus of \$2,211,080 is apportioned between the general accounting reserve fund (\$1,100,378) and the gearing for growth and greatness reserve fund (\$1,110,702);

AND THAT funding be allocated for a maximum Seed Funding of \$250,000 from the GARF total surplus for the Whatawhata Community Facilities Project.

CARRIED on the voices

S&F1908/06

Final Statements of Intent 2019/20

Agenda Item 6.2

The report was received [S&F1908/03 refers].

The report was taken as read by the Chief Financial Officer who summarised the report.

Summary of Movements in Discretionary Funds

Agenda Item 6.3

The report was received [S&F1908/03 refers].

The report was taken as read by the Chief Financial Officer who summarised the report.

Treasury Risk Management Policy – Compliance Report at 30 June 2019

Agenda Item 6.4

The report was received [S&F1908/03 refers].

The report was taken as read by the Chief Financial Officer who summarised the report and, in response to questions, noted that the focus was currently on opportunities with interest rates and benefits of a credit rating.

Submission on the Local Government Funding and Financing Draft Report

Agenda Item 6.5

The report was received [S&F1908/03 refers].

The report was taken as read by the Chief Financial Officer who summarised the report and responded to questions on the following issues:

- Special purpose vehicle financing options – staff were currently looking at how this would work in setting up a separate company with Council's responsibility for a levy.
- Tourism levy and distribution, eg concern with the impact of tourism on Air B&B in Raglan. Two recommendations were being discussed to support this area.

Resolved: (Crs Sedgwick/Lynch)

THAT the Strategy & Finance Committee approves the submission on the Productivity Commission's Local Government Funding and Financing Draft Report (Attachment D to the staff report).

CARRIED on the voices

S&F1908/07

2018-2019 End of Year Non-Financial Performance Report
Agenda Item 6.6

The report was received [*S&F/1908/03 refers*].

The report was taken as read by the Business Improvement Analyst who summarised the report and responded to questions on the following issues.

- To address priorities as opposed to business as usual – Council was focussing on the survey results in terms of digesting feedback to ensure that staff focussed on priority issues.
- Messages on Councillor mobiles from ratepayers – suggested that the call centre staff, when transferring calls to Councillor mobiles, advise callers that the Councillor may be in meetings and would return their call later.
- Interpretation of information in the survey – cost versus benefit of the survey, eg perception of rates to outcomes compared to playgrounds, underground assets were invisible etc.
- Consultation questions showed less satisfaction with a younger age group. There was a need to look at innovation to engage youth.

His Worship the Mayor withdrew from the meeting at 10.21am and re-entered at 10.57am.

The meeting adjourned at 10.25am at the end of the above item and resumed at 10.57am.

EXCLUSION OF THE PUBLIC

Agenda Item 7

Resolved: (Crs Church/Thomson)

THAT the public be excluded from the whole or part of the meeting to enable Council to deliberate and make decisions on the following items of business:

Confirmation of Minutes dated Wednesday 29 June 2019.

REPORTS

a. Professional Negligence and Weathertight Homes Claim Report

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)(a)**Section 48(1)(a)****b. Development Agreement Sanderson Group Limited & Tamahere Country Club Limited**

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)(b)(ii)**Section 48(1)(a)****CARRIED on the voices****S&F1908/08**

Resolutions S&F1908/09 – S&F1908/11 are contained in the public excluded section of these minutes.

Having resumed the open meeting the following item was released into open meeting:

REPORTS (CONTINUED)

Development Agreement Sanderson Group Limited & Tamahere Country Club Limited
Agenda Item PEX 2.2

It was resolved [*Resolution No. S&F1908/10*] during the public excluded section of the meeting that the following resolution be released into open meeting but the report remain confidential and unavailable to the public:

'Resolved: (His Worship the Mayor/Cr Smith)

THAT the Strategy and Finance Committee recommends that Council approve the draft Development Agreement with Sanderson Group Limited and Tamahere Country Club Limited (Attachment 1 to the staff report);

AND THAT the resolution be released into open meeting but the report remain confidential and unavailable to the public.

CARRIED on the voices'

There being no further business the meeting was declared closed at 11.17am.

Minutes approved and confirmed this day of 2019.

JM Gibb
CHAIRPERSON

Open Meeting

To	Strategy & Finance Committee
From	Gavin Ion Chief Executive
Date	16 September 2019
Prepared by	Lynette Wainwright Committee Secretary
Chief Executive Approved	Y
Reference #	GOV1318
Report Title	Receipt of Minutes – Audit & Risk Committee

1. EXECUTIVE SUMMARY

To receive the minutes of the Audit & Risk Committee meeting held on Thursday, 27 June 2019.

2. RECOMMENDATION

THAT the minutes of a meeting of the Audit & Risk Committee held on Thursday 27 June 2019 be received;

3. ATTACHMENTS

A&R open minutes – 27 June 2019

MINUTES of a meeting of the Audit & Risk Committee of the Waikato District Council held in the Committee Rooms 1 and 2, District Office, 15 Galileo Street, Ngaruawahia held on **THURSDAY 27 JUNE 2019** commencing at **9.00am**.

Present:

Cr JM Gibb (Chairperson)
His Worship the Mayor Mr AM Sanson [*from 9:02am*]
Cr AD Bech
Cr BL Main
Cr JD Sedgwick

Attending:

Mr GJ Ion (Chief Executive)
Mr TG Whittaker (Chief Operating Officer)
Mrs S O’Gorman (General Manager Customer Delivery)
Mr R MacCulloch (Acting General Manager Service Delivery)
Ms A Diaz (Chief Financial Officer)
Mr K Abbot (Projects and Innovation Manager)
Mr J Quinn (Communications, Engagement and Marketing Manager)
Mr G Mason (Innovation Team Leader)
Mrs K Jenkins (Risk Advisor)
Mr C Bailey (Rates Team Leader)
Mrs L Shirley (Zero Harm Manager)
Ms S Quinn (Procurement Manager)
Ms M Russo (Corporate Planning Team Leader)
Mr B Stringer (Democracy Manager)

Mr L Pieterse (Director Audit New Zealand)

In Ms Devlin’s absence, Councillor Gibb, as the Committee’s Deputy Chairperson, was the Chairperson for the meeting.

APOLOGIES AND LEAVE OF ABSENCE

Resolved: (Crs Main/Sedgwick)

THAT an apology be received from Ms M Devlin;

AND THAT an apology for lateness be received from His Worship the Mayor.

CARRIED on the voices

A&R1906/01

CONFIRMATION OF STATUS OF AGENDA ITEMS**Resolved: (Crs Main/Sedgwick)**

THAT the agenda for a meeting of the **Audit & Risk Committee** held on **Thursday 27 June 2019** be confirmed and all items therein be considered in open meeting with the exception of those items detailed at agenda item 6 which shall be discussed with the public excluded;

AND THAT all reports be received.

CARRIED on the voices**A&R1906/02****DISCLOSURES OF INTEREST**

There were no disclosures of interest.

His Worship the Mayor joined the meeting (9:02am) after the above item.

CONFIRMATION OF MINUTES**Resolved: (Cr Bech/His Worship the Mayor)**

THAT the minutes of a meeting of the **Audit & Risk Committee** held on **Wednesday 13 March 2019** be confirmed as a true and correct record of that meeting.

CARRIED on the voices**A&R1906/03****REPORTS****Strategic Risk Register June 2019**

Agenda Item 5.1.1

The report was received [A&R1906/02 refers]. In speaking to the report, the Risk Advisor, supported by the Projects Innovation Manager, highlighted, and responded to questions on, the following points:

- The Business Resilience project was on hold until 2020.
- A further Critical Incident workshop was proposed in the near future.
- The recent issues with Council email access and availability would be considered as part of the digital roadmap project to limit the risk of future failure.
- Business improvement projects were considered for approval by the Portfolio Governance Group. Projects with a strategic impact would be considered under the Risk portfolio.

ACTION: Staff to include a risk heat map in future reports to the Committee.

Risk Framework June 2019

Agenda Item 5.1.2

The report was received [A&R1906/02 refers]. In speaking to the report, the Risk Advisor highlighted the following point:

- A good response had been received on the internal risk survey. Feedback would be provided to staff shortly and recommendations presented to the Committee at its September 2019 meeting.

Emerging Risks June 2019

Agenda Item 5.1.3

The report was received [A&R1906/02 refers]. In speaking to the report, the Risk Advisor, supported by the Chief Operating Officer, highlighted, and responded to questions on the following points:

- Earthquake prone buildings – sufficient public engagement had been undertaken. Council staff would continue to monitor; nothing further was required from a risk perspective. The Building team had information on the number of buildings in each category.
A meeting with the Civil Defence team was planned to discuss their requirements.
- Climate change – a number of actions were underway with cross-organisational representation to co-ordinate an informed response for elected members to consider.

Risk Conversations – Rates Team

Agenda Item 5.1.4

The report was received [A&R1906/02 refers]. In speaking to the report, the Rates Team Leader summarised the risks noted in the attachments to the report, and the actions staff were taking to mitigate those risks. In responding to questions, the following points were discussed:

- Internal Promapp processes were reviewed and updated by staff to ensure these were correct. Internal audit tests were undertaken and external workshops attended to benchmark against other councils. Mr Pieterse confirmed Audit NZ also reviewed Council's processes, particularly in relation to legal advice received on reviewing rates.
- Outstanding amounts owed in relation to water meter accounts and steps taken to recover debts.

Stakeholder Engagement Strategic Risk Deep Dive
Agenda Item 5.1.5

The report was received [A&R1906/02 refers]. In speaking to the report, the Communications, Marketing & Engagement Manager highlighted, and responded to questions, on the following points:

- Risk of poor elected member performance - there was a positive working relationship between staff and elected members. Systems and relationships were in place to deal with challenges as they arose.
- Consideration of the risks arising from poor stakeholder engagement in representation and democratic processes of the Council, initiatives that could be undertaken and who has responsibility for such risk. It was noted it was for elected members to consider succession planning for the representatives on the Council's governance bodies.

ACTION: Staff to consider including stakeholder engagement in representation/democratic as a risk in the Risk Registers.

The meeting adjourned from 10:30am to 10:40am at the conclusion of the Item 5.1.5.

Internal Audit Proposals
Agenda Item 5.2.1

The report was received [A&R1906/02 refers]. In speaking to the report, the Chief Financial Officer provided an overview of the report and timing of the upcoming reviews.

Resolved: (Crs Sedgwick/Main)

THAT the Audit & Risk Committee agrees to the following programme of internal audit:

- **2019 Health & Safety Governance review;**
- **2020 Resource Consenting Revenue Process review; and**
- **2020 Rates Processes review.**

CARRIED on the voices

A&R1906/04

Interim Audit Report from Audit New Zealand
Agenda Item 5.2.2

The report was received [A&R1906/02 refers]. In speaking to the report, Mr Pieterse from Audit New Zealand, highlighted the following points:

- Statement of service performance (Annual Report) – an issue had been highlighted which, if not rectified, would result in a qualified opinion from Audit NZ. Council staff were addressing this.

- Audit NZ continued to have positive, robust discussions with Council staff.

The Chief Operating Officer and Chief Financial Officer responded to questions on the following points:

- Ms Devlin, the Committee Chairperson, had noted her expectation that the Council would continue to resolve outstanding internal audit issues.
- The digital roadmap project was underway to address the IT issues and challenges referred to in the report.
- Audit reports enabled Finance staff to keep track of staff who self-approved purchase orders. A review of the access to, and authority levels for, purchase orders would be investigated in 2020 in light of the number of new staff who had recently joined.
- Business continuity and IT disaster recovery planning – the IT disaster recovery site was successfully working. Business continuity was an outstanding issue.

Waikato District Council Zero Harm Safety Management System

Agenda Item 5.3.1

The report was received [A&R1906/02 refers]. In speaking to the report, the Zero Harm Manager highlighted, and responded to questions on, the following point:

- People leaders were required to complete at least two safety engagement conversations with their team members each month; the purpose being to discuss health, safety and wellbeing issues. Zero Harm were reviewing the level of detail when reporting on these conversations. A snapshot was reported to the Executive Leadership Team weekly, which reflected the importance of these conversations.

Annual Report Risk Assessment

Agenda Item 5.3.2

The report was received [A&R1906/02 refers]. In speaking to the report, the Chief Financial Officer highlighted, and responded to questions on, the following points:

- Property, plant & equipment - changes were expected in the three waters infrastructure asset valuations, given the work undertaken for the Watercare Services contract negotiations. The valuation amount would be shared with the Council's auditors, once known. Mr Pieterse noted Audit NZ was not expecting this to be a significant issue for the purpose of the Annual Report.
- Land valuation was undertaken separately, and there was no requirement to undertake a revaluation of Council-owned land for the purpose of the Annual Report.
- Update on the staffing of the Finance team – it was expected there would be less need to rely on casual contractors.

Procurement and Contract Management Framework Review

Agenda Item 5.3.3

The report was received [A&R1906/02 refers]. In speaking to the report, the Chief Financial Officer highlighted the following points:

- The new contract relationship management team were in place to work with the Procurement Manager.
- A preliminary gap analysis had been undertaken to assist in collating a roadmap for the roles and responsibilities of relevant staff.

Procurement Manager Report

Agenda Item 5.3.4

The report was received [A&R1906/02 refers]. In speaking to the report, the Procurement Manager, supported by the Acting General Manager Service Delivery, highlighted, and responded to questions on, the following points:

- New procurement rules from central government which would come into effect on 1 October 2019; while they are not mandatory, it was expected that the Council would align with these rules. Guidance documentation and e-learning tools from MBIE would be circulated to relevant staff.
- A range of resources were available to assist procurement staff, including sector guidance from the Officer of the Auditor-General and shared learnings from Waikato local authority procurement officers.
- The Council's Procurement Policy would be reviewed to provide broader outcomes and deliver more effective use of Council funds. It was important to ascertain how 'best practice' could be practically implemented to reflect the Council's business and objectives.

Update on Process Audit and Quality Improvement

Agenda Item 5.3.5

The report was received [A&R1906/02 refers]. The Innovation and Risk Team Leader, supported by the Corporate Planning Team Leader and Projects and Innovations Manager, highlighted the following points:

- Review of continuous improvement processes had commenced.
- Council had a register of approximately 200 internal and external policies; best practice was that policies were reviewed every three years. Revocation of redundant policies was considered as part of the review process.
- Audit Schedule (pages 248-249 of the Agenda) – captured the audits recently undertaken. Audits with completed actions would eventually be removed from the schedule.

Project Closure Report; GIS & Project Management Integration (Phase I)
Agenda Item 5.3.6

The report was received [A&R1906/02 refers]. In speaking to the report, the Risk Advisor highlighted, and responded to questions on, the following points:

- The reasons why the project was closed.
- Engagement of the GIS team across the organisation.
- Succession planning to ensure the organisation retained staff to undertake required activities.

Update on Progress against Audit Issues – June 2019
Agenda Item 5.3.2

The report was received [A&R1906/02 refers]. In speaking to the report, the Corporate Planning Team Leader confirmed three issues had been completed in the last quarter. The five remaining issues were expected to be completed by the end of 2019.

Office of the Auditor-General Draft Annual Plan 2019/20
Agenda Item 5.3.8

The report was received [A&R1906/02 refers]. The Chief Financial Officer provided a brief overview. Mr Pieterse highlighted the following points:

- Procurement remained a key issue for the OAG; Waikato District Council was in a good position relative to other councils.
- A database was being built to host 'what good looks like' on a national basis; Mr Pieterse had submitted the operation of the Audit & Risk Committee as an example of good practice.

Updated Future Work Plan and Action List
Agenda Item 5.3.9

The report was received [A&R1906/02 refers] and there was no discussion on this item.

EXCLUSION OF THE PUBLIC

Agenda Item 6

Resolved: (His Worship the Mayor/Cr Bech)**THAT the report from the Chief Executive be received;****AND THAT the public be excluded from the meeting to enable the Audit & Risk Committee to deliberate and make decisions on the following items of business:****Confirmation of Minutes dated Wednesday 13 March 2019****REPORTS****a. Register of Members' Interests – Elected Members, Staff and External Members****The general subject of the matter to be considered while the public is excluded, the reason, and the specific grounds under section 48(1) of the Local Government Official Information and Meetings Act 1987 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)(a)****Section 48(1)(a)(i)****b. Fraud Declaration****The general subject of the matter to be considered while the public is excluded, the reason, and the specific grounds under section 48(1) of the Local Government Official Information and Meetings Act 1987 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)(a)****Section 48(1)(a)(i)**

Open Meeting

To	Strategy & Finance Committee
From	Sue O’Gorman General Manager Customer Support
Date	02 September 2019
Prepared by	Brian Cathro Customer Delivery Manager
Chief Executive Approved	Y
Reference #	GOV1318
Report Title	Waikato District Library Strategy 2019-29

I. EXECUTIVE SUMMARY

The Waikato District Library Strategy 2019-29 is a key enabling document that outlines the foundations required to meet community needs now and over the next 10+ years.

The strategy provides a clear direction for where we need to head, and importantly signals at a high level where investment will be required.

In a nutshell, the proposed strategy prescribes that council will:

- Champion reading/literacy as a key enabler for thriving communities
- Expand digital offerings and promote them
- Introduce trending technology experiences to the public
- Morph to community hubs over time to encourage connected communities
- Become mobile to enable better outreach opportunities/equity of access
- Increase the knowledge and skills of staff
- Maintain and develop the assets and buildings we currently have
- Seek partnerships/providers where necessary or pragmatic to do so

It is important to note that the strategy should not and does not prohibit additional discussion or ambitious efforts in years to come. Anything deemed both desirable and a priority can and will still occur to meet changing community needs. What the strategy does signal however is that without substantial cause, efforts will not deviate from the priority areas listed.

The strategy in itself does not replace nor circumvent council’s usual planning, funding and approval processes. Implementation of significant library activities will remain subject to some/all of: activity management planning (AMPs), the long term plan process (LTP), internal project governance (PGG), and community consultation and collaboration when significant local impact is proposed/planned.

This report is seeking governance support of the proposed strategic framework and high level goals. This is necessary to provide focus for operational staff to complete with confidence both short and long term planning.

Detail of the Waikato District Library Strategy can be found in the attached full strategy document. The attached Library at a Glance is intended for quick reference only.

2. RECOMMENDATION

**THAT the report from the General Manager Customer Support be received;
AND THAT the Strategy & Finance Committee recommends to Council that
the Waikato District Library Strategy 2019-29 be adopted;**

3. BACKGROUND

Sue Sutherland Consulting was engaged to develop this strategy in collaboration with the Waikato District Council. Sue is a former President of the Library Association of NZ, former director of the National Digital Library, an inaugural member of the International Network of Public libraries, a member of the National Digital Forum and of Internet NZ. Her experience and ongoing research has ensured council's strategy considers a blend of council's vision; key staff, council and community voices; national and international best practice.

The strategy has been developed over a four month period from May to August 2019 and has involved interviews with a number of Council staff, workshops with library staff, a workshop with elected members and senior staff, and community input through an in-library survey process.

Although the formal consideration period for this strategy has been four months, library staff have contributed with a strong awareness of community needs/wishes/frustrations, collected from many thousands of frontline interactions.

Detailed Background for strategy content and proposed direction can be found in the attached document.

4. DISCUSSION AND ANALYSIS OF OPTIONS

4.1 DISCUSSION

This Waikato District Council Library Strategy has been developed to provide a clear direction for where libraries need to head over the next ten years. Its purpose is to guide

decision making, clarify why we have libraries and how they contribute to meeting the Council and community aspirations for the district.

The world of public libraries has changed dramatically over the last three decades. The speed of change reflects the acceleration of technological and societal change experienced, particularly in the western world. Libraries have now embraced their roles as pillars of the community in a much more sophisticated and overt way and see themselves as part of an overall entertainment, learning and literacy landscape.

Libraries have maintained their traditional foci on literacy and learning but the way in which services are now delivered has changed dramatically in response to the needs of our 21st century world. This is reflected in the nature of collections, the way technology is used and offered to the community, access to information and the increasing battle to determine what is “real”, the re-purposing of library spaces, the strengthening of programme offerings and the types of staff that are employed.

The strategy positions the libraries firmly within the local context: a large geographical area, with a significant rural hinterland; a number of small towns, all less than 8,000 in population; and fast growing areas in both the north of the district and in the south bordering Hamilton City.

There is no large urban centre, and no central library which can provide specialist services for the whole district. The strategy is designed to provide a whole of library approach to service provision, whilst recognising that there are local needs in the different towns.

Adoption of the strategy is deemed essential to allow operational staff to proceed with long term planning with confidence

4.2 OPTIONS

1. Recommend that the Waikato District Council Library Strategy be adopted
2. Do not recommend that the Waikato District Council Library Strategy be adopted

5. CONSIDERATION

5.1 FINANCIAL

Any non budgeted expenditure identified in the strategy will be subject to approval via the appropriate project/planning/budgeting processes.

5.2 STRATEGY, PLANS, POLICY AND PARTNERSHIP ALIGNMENT

See the Waikato District Library Strategy (pages 11 & 15) for strategic alignment

6. CONCLUSION

The Waikato District Library Strategy is deemed an essential document to encourage, enable, empower, and focus the efforts of operational staff as they seek to meet the current and future needs of council's customers.

7. ATTACHMENTS

- Waikato District Library Strategy 2019-29
- Strategy at a glance



Waikato District Council
Library Strategy
September 2019



Sue Sutherland Consulting



About this document

Sue Sutherland Consulting was engaged to develop this strategy in collaboration with the Waikato District council. It has been developed over a four month period from May to August 2019 and has involved interviews with a number of Council staff, workshops with library staff, a workshop with elected members and senior staff and community input through an in-library survey process.

Sue Sutherland and John Truesdale acknowledge with thanks the time and input of all those who contributed their thinking, insights and ideas.

Structure of the document

The document is in four main sections. The first section outlines the Strategy and includes the Libraries' aspiration and purpose, the principles which underpin our service philosophy and our organisational and service values. Four goals and four key enablers are described and the investment needed to achieve the strategy is indicated.

The second section outlines how this strategy aligns with Council's vision and goals as outlined in both the Long Term Plan 2018-2021 and the Waikato Blueprint published in 2019.

The third section outlines the context that has informed thinking to arrive at the strategy: the changes that have taken place in libraries over the last 3 decades, the major societal and technological changes and the local context.

The final section documents the output from various stakeholder and user engagement workshops and surveys and highlights key themes that have helped shaped the things we need to do to make sure our library services go on adding value to the lives of the people of the Waikato District.

The strategy on a single page is attached at the end of the document.

Cover image: Ngaruawahia, Huntly and Raglan libraries

The Waikato District Libraries strategy provides a clear direction for where we need to head over the next ten years to meet our communities' current and future needs.

It positions us firmly within our local context: a large geographical area, with a significant rural hinterland; a number of small towns, all less than 8,000 in population; fast growing areas in both the north of the district and in the south bordering Hamilton City; no large urban centre with a central library which can provide specialist services for the whole district.

The Strategy draws from current best practice in delivering library services, builds on what we have and pushes the boundaries in creating community hubs, that are technology rich, focused on inspiring readers, developing knowledge and skills, connecting communities with ideas and each other and breaking down barriers to enable everyone to access services.

It provides a framework for capitalising on new ideas and needs as they emerge over the next ten years. Nothing ambitious is excluded as a result. More importantly it is achievable with wise and intentional investment both in funding and in energy and time.

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Introduction

This Waikato District Council Libraries strategy has been developed to provide a clear direction for where libraries need to head over the next ten years. Its purpose is to guide decision making, clarify why we have libraries and how they contribute to meeting the Council and community aspirations for the district

The world of public libraries has changed dramatically over the last three decades. The speed of change reflects the acceleration of technological and societal change experienced, particularly in the western world. Libraries have now embraced their roles as pillars of the community in a much more sophisticated and overt way and see themselves as part of an overall entertainment, learning and literacy landscape.

Libraries have maintained their traditional foci on literacy and learning but the way in which services are now delivered has changed dramatically in response to the needs of our 21st century world. This is reflected in the nature of collections, the way technology is used and offered to the community, access to information and the increasing battle to determine what is “real”, the re-purposing of library spaces, the strengthening of programme offerings and the types of staff that are employed.

The strategy positions the libraries firmly within the local context: a large geographical area, with a significant rural hinterland; a number of small towns, all less than 8,000 in population; and fast growing areas in both the north of the district and in the south bordering Hamilton City. There is no large urban centre, and no central library which can provide specialist services for the whole district. The strategy is designed to provide a whole of library approach to service provision, whilst recognising that there are local needs in the different towns.

The context is addressed more fully in the section on *Context* on page 12.

A tiered approach to service delivery

We are recommending a tiered approach to service to ensure that everyone in the district has access to a full range of library services. Waikato covers a large geographical area and it's not possible for every resident to access library services by regularly visiting a physical library.

This approach acknowledges the following:

1. Our existing physical libraries provide services to five of our River Towns (as described in the Waikato Blueprint) and the coastal town of Raglan. It is expected that within the timeframe of the strategy a new library and community hub will be built at Pokeno and this will cater for growth in the north of the district. These libraries are able to deliver a full range of services to Waikato people who can visit them.
2. Following recent agreement with Hamilton City, the south-east and south-west of our district will be served through a partnership agreement with Hamilton City Libraries which will provide residents in the areas surrounding the border with access to library services. It is expected, however that contact with library services will be maintained with these residents through events and specialist services such as Waikato heritage.
3. Those without easy access to a physical library must also have access to library services. It is anticipated that a mobile service will be established to enable travel throughout the district in order to take library services to smaller villages, towns, marae, events and wherever people are gathered. Access to eServices online will complement this approach.

Our strategy

Waikato District Libraries

- Inspiring curiosity
- Enriching lives
- Connecting communities

Principles:

- Equity of access
- Freedom of information
- Trust
- Partnership



Waikato District Council values

Aspiration and purpose

The Waikato District Council vision is:

“Liveable, Thriving and Connected Communities / He noohanga aahuru, he iwi whai ora, he hapori tuuhono tahi”.

Waikato District Libraries plays an important role in helping achieve this vision. We connect people with information, ideas and stories for their personal growth and enjoyment, while building knowledge and skills. We provide opportunities and experiences for lifelong learning and creativity, and public spaces where all are welcome and communities can gather to meet, listen, watch or participate. Enabling access to the digital world and supporting people to acquire the digital skills to participate and experiment with new technologies is also part of our role.

Our aspiration is for Waikato District Libraries to be at the heart of our district: **inspiring curiosity, enriching lives and connecting communities.**

Principles

Our service is underpinned by four principles: equity of access, freedom of information, trust, and partnership

- Equity of access. Everyone living in our district has a right to access library services regardless of age, ethnicity, gender, religion, ability or socioeconomic status. If you cannot get to a library we will try and bring library services to you. Where possible we will remove barriers that make it difficult for people to access library services.
- Freedom of information. The right to know and access information is fundamental to a democratic society. Our collections will reflect diversity of opinion allowed within the law.
- Trust. We value and respect the trust placed in public libraries over the decades. We strive to provide quality service and resources to be worthy of that trust.
- Partnership. Libraries belong to the community and we will work with you to shape and deliver the services that best fit the needs of our different communities. We will work with other organisations with similar objectives, where we can make a bigger difference than by working alone.

Values

In addition our organisational values, we have three values that reflect the way we deliver our service.

- Manaakitanga – welcoming, hospitable
- Kaitiakitanga –stewardship, guardianship
- Whanaungatanga – relationships, sense of family connections

Goals

In developing our goals, we have focused on the areas where we can make the most difference and which will provide the best outcomes for the people in our district. The Council's Long-Term Plan 2018-2028, and the Waikato Blueprint (June 2019) provide the local context. Our knowledge of how library services in New Zealand and internationally are developing has shaped our thinking, as has input from stakeholders and users. We recommend further community engagement as the initiatives in the strategy are implemented. The strategy focuses on four key goals.



“When libraries are strong, communities thrive. Strong libraries build strong communities”¹.

- American Library Association



Residents at a Waikato Blueprint focus group

1. Building the reading experience

Being able to read is a foundational skill that makes so much else possible in life. We know that children who have stories read to them hear up to [1.4million](#)^{1a} more words by the time they are five, setting them up for better outcomes in education and life. As with any skill, the more it is practised the better reader a person becomes. Whether a person reads to find out something, or to lose themselves in the power of a story, or reads an instructional manual, it is all reading. We want to:

- Enable every child to be a reader
- Provide great collections for reading, listening to and viewing
- Open up new possibilities for readers
- Support young adults and adults who have reading difficulties
- Remove barriers to use such as fines and hold charges

We will continue to have a broad range of books and magazines, run programmes for all ages, support book groups, reading challenges, under 5 programmes, author talks and partner with literacy agencies. We will explore the possibility of creative writing courses.

Desired outcomes of *Building the reading experience* are:

- Increased literacy
- Best start in life for children
- Improved job prospects and productivity for our young people

2. Connecting communities

Library spaces provide the opportunity for people not only to connect with ideas and stories but also to each other. Whether that is attending a group meeting or a programme, or just having a chat with a staff member or a friend, library space provides a neutral, non-commercial environment which helps break down isolation. Each of our communities has its unique identity and our libraries should reflect that as much as possible while still retaining a consistent service across the district. The Waikato Blueprint provides many good ideas about how we can support local aspirations. We want to:

- Provide ‘cool’ spaces for recreation, engagement, creativity and learning
- Work in partnership with Iwi to deliver services for hapu and whanau
- Strengthen relationships with local groups to meet specific interests and needs
- Have programmes and events that connect the generations and the cultures
- Work closely with Hamilton City Libraries to meet the needs of residents in the south-east of our district

Desired outcomes of *Connecting Communities* are:

- Greater social cohesion and reduced isolation
- Stronger communities
- A more tolerant and inclusive society



Rotorua Library's mobile vehicle

3. Bringing the library to you

Not everyone in our district has easy access to library services. This may be because of geographic isolation or lack of transport. Others may think the library has nothing to offer them or feel shy or uncomfortable about going into the library as they were not introduced to libraries when they were young. We need to find better ways to engage with non-library users where ever they are, to show them what is available. We want to:

- Launch a mobile vehicle to service small towns, villages and take to marae and events
- Expand our eResources for online access and help users to become familiar with them
- Strengthen services to the housebound, rest homes and early childhood centres

A mobile vehicle would enable us to take reading materials and technology to small towns and villages and places that do not have easy access to a library, such as Port Waikato in the most northern part of the district. It would also enable us to visit Marae, local gathering places, and attend events to promote library service. A campaign to promote the library's eResources, backed up by tutorials to help users get connected is planned.

Desired outcomes of *Bringing the library to you* are:

- More people are able to access and benefit from services
- Greater fairness and equity of access
- Greater return on investment



Dot and Dash Kit



View Master VR Kit

Borrowable tech kits, Hamilton Libraries (above), Selwyn Libraries (below), Indiana State Library (bottom)



4. Developing knowledge and skills

Helping people learn new skills and research ideas in an informal setting is part of our role in providing lifelong learning opportunities. As well as reading, people learn by listening, watching, doing and experimenting. In today's world being proficient and safe while using digital technologies is an essential skill for everyone. As new technologies such as virtual reality (VR), augmented reality (AR) artificial intelligence (AI) and 3D printing begin to impact our lives we want to ensure our communities have opportunities to try out and experiment with them. There is a strong emphasis on young people needing to be proficient in science, technology, engineering and maths (STEM), so having a chance to try out robots, learn coding and gaming is important. There is also renewed interest in arts and crafts such as sewing. We want to:

- Develop and promote our libraries as community innovation and entrepreneurial hubs
- Provide opportunities for people to 'learn by doing'
- Help people grow their digital literacy and digital citizenship abilities
- Partner with schools and others working with young people to grow their talents

Desired outcomes of *Developing knowledge and skills* are:

- Digital inclusion and personal cyber safety
- More informed decision making
- New skills leading to new opportunities



Key enablers

For our strategy to succeed we need to focus on making some changes to our buildings; have appropriate technologies that will improve the customer experience and our efficiency; support and empower staff to achieve; and work in partnership with others to deliver more than we can alone.



Cool space for young people, Turanga, Christchurch City Libraries

“Public libraries are places where the feet can rest and the mind can soar”²

- Penny Carnaby, former National Librarian of NZ

Space

We have already begun a strategy for improving our physical facilities with a small extension to Tuakau Library and moving the Meremere Library alongside the community hall. Of the remaining libraries Te Kauwhata Library is the newest and is a good size for its population. Both Ngaruawahia and Raglan Libraries are too small for the populations they serve with very limited space for community meetings and customer activities. We recommend extensions of between 150-200m² for these two libraries.

Huntly Library is an appropriate size but needs to be reconfigured to make best use of the available space to accommodate a tech space and a larger community meeting space. The possibility of opening up the river facing wall to provide a seating area and small café as suggested through the community consultation could be explored.

By 2045 the population of Pokeno is projected to grow to 11,964 from 2132 in 2018. Planning for a new library/community hub for Pokeno will become a priority in the near future if the library is to be available for use by the time the population reaches 5-6000. Once the Tuakau library extension is complete and the projected library in Pokeno is built there should be no need for the ‘grandfather’ arrangement with Auckland City for access to Pukekohe Library. Once retail and other services are available in Pokeno residents will not have the same need to travel to Pukekohe for services.

At the same time as we make changes to the size of our libraries we need to rethink how services are delivered which will inevitably result in a reconfiguration of space. For example, as we move to self-service for circulation of materials, librarians should move out from behind a large counter or desk and stand alongside the customer to support them with the use of the library and the technology. This will affect how council customer services are delivered possibly requiring a separation of the two functions in the one space. This would address some of the issues identified in relation to privacy, etc. We need more comfortable seating, desks with power points for customers to use their own devices, group seating for meetings and small gatherings and space for activities. Décor is important and should reflect the culture of the area, with good lighting and acoustics.

We will:

- Develop a ten year plan for asset improvement and extension so that our libraries are able to fulfil their role as community hubs
- Rethink our service strategy, including the best way to deliver on the differing requirements of council and library services
- Meet the growth needs of the north of the district through a new library at Pokeno

Technology and collections



Customer using a self-issue machine

Fit for purpose technology for customers and staff is vital to delivering the strategy. Moving to RFID technology is recommended as this will enable customer self-service as well as better and more efficient circulation and collection management functions. This will free up some much-needed staff time to be used in working with customers and communities on supporting their learning. Planning for digital developments and budget for buying technologies for customer use and experience is a priority. This should include small scale technology kits for loan and technologies to use in libraries and in programmes. The technology kits for loan should be regarded as collection items. Hamilton City Libraries is already lending a variety of kits in four categories: [Create, DIY, Explore and Play](#).^{2a}

Other areas of collections development should include providing eAudio materials. This is a fast growing area in libraries and both BorrowBox and Overdrive have excellent selections. Widening the collection range and ensuring we have sufficient materials to support adult readers who have literacy difficulties is important. This is likely to require reprioritising our current budget expenditure.

We will:

- Develop a plan and budget for rolling out digital technologies for customer use, experience and loan
- Introduce RFID technologies to improve customer service and efficiency
- Establish eAudio collections and broaden our range of eCollections



Christchurch City Libraries staff member helping customer

“The most important asset of any library goes home at night – the library staff”³.

–Timothy Healy Former President of the New York Public Library 1989-1992

Staff

Staff are the lifeblood of our services. We need focused leadership and sufficient resilient, adaptable staff who have strong digital skills. Service leadership could be strengthened by the identification of specific responsibilities such as children’s services and there is a need for a person with the right digital skills and knowledge to plan, support and deliver increased digital services identified in the strategy. We also need a more co-ordinated approach to programmes that are designed to advance the goals outlined in the Strategy. Programmes will be part of delivering the outcomes of all four goal areas.

Libraries are learning organisations and as such we aspire to have a learning culture that embraces a community-engaged service model. We want to involve our communities in the design and delivery of services and get out into the community to understand needs and build relationships.

We need our people to be agile and responsive to changes as they occur in society and in people’s expectations of library services, by testing out new ideas and running pilot programmes before rolling out across the district.

As the district grows and services expand to meet demand, additional staff will be needed for Pokeno Library. A mobile vehicle will require additional resources to operate. We recommend that this is not one single driver but rather the vehicle is operated out of different locations to service the different parts of the district under the management of one of the existing librarians. In this way it becomes

part of the outreach from the individual libraries and not an entirely separate service

We will:

- Develop a learning culture that encourages and empowers staff to explore and acquire new skills and responsibilities
- Be customer-driven and focus on understanding community needs and building relationships
- Be agile and responsive to change
- Make the case for additional staff resources to address growth in service demand and to deliver on the strategy

Partnership approach

More is achieved if we work together with other groups and individuals who share similar goals, such as literacy agencies, youth workers, or those who have expertise that would benefit our users. We want to leverage expertise in Council and seek sponsors and funders for appropriate initiatives. Our agreement with Hamilton City Council is an important partnership and we will work with them to serve the residents of the southeast of our district, and on other initiatives for mutual benefit. We will be alert to opportunities for greater regional collaboration where that benefits the people of the Waikato in getting best quality library services for all.



Of primary importance is finding the best way for libraries to work in partnership with local Iwi to shape our services to meet hapu and whanau needs, particularly those of young Māori. Advice was sought from the Council's Iwi and Community Partnerships Manager on the preferred way to engage with Māori. His advice was to engage through existing council channels and not to proceed separately as Libraries. Community Boards are also a possible way to get input into the best way to implement the strategy for hapu and whanau.

We will:

- Leverage expertise in Council and locally
- Seek sponsors and funders for appropriate initiatives
- Work with other literacy, learning and social service providers for greater impact
- Work with Hamilton City Council to serve residents in the south-east

Investment

To achieve the desired the following new initiatives will require funding:

- A new mobile vehicle service
- Providing access to new and emerging technologies for both in-library use and for loan
- RFID circulation and collection management technology
- A new library/community hub in Pokeno

“A range of studies have demonstrated that the EROI in public libraries has typically been shown to lie in the range 3:1 – 5:1⁴.

- LIANZA, Valuing our libraries. September 2014

Existing services which will need some additional funding to achieve the strategy include:

- Expanding the purchase of and access to eResources
- A revamp of Huntly Library
- Possible extensions or new builds in Ngaruawahia and Raglan
- Additional staff resource

A report prepared for LIANZA on [Valuing our libraries](#) researched and reviewed studies done in Australia, the UK and America on the economic return on investment (EROI). They found that for every dollar spent on public libraries there was a return of between \$3 and \$5 dollars. Although we have no comparable New Zealand study there is every reason to believe that the results would be similar.

Aligning our strategy

The Council has indicated its priorities through the Long-Term Plan (LTP) 2018-2028, and in the Waikato Blueprint document. In terms of the five community goals outlined in the LTP, the strategy will contribute to the goals of:

Supporting our communities: Kia tautoko ki a taatou Haapori	We consider the well-being of all of our people in all our planning and activities. We support and plan for the development of complete and connected communities.	A key goal of the libraries' strategy is connecting communities through providing spaces and events where people come together.
Working together with you: Kia mahi tahi taatou	Our communities work with us so we are collectively focused on the right things at the right time.	We aspire to be customer-driven and focus on understanding community needs and building relationships
Providing value for money: Ka whai painga mo te puatea	Residents and ratepayers get value for money because we find innovative ways to deliver strategic, timely and fit for purpose infrastructure and services at the most effective cost	Libraries are part of the sharing economy supplying resources that are used many times and are not consumed by that use. We use technologies to improve efficiency and effectiveness.

The Libraries Strategy will contribute to six of the nine goals in the Waikato Blueprint.

Identity	Create a world class Waikato River corridor identity and strengthen Raglan's local character	Strong vibrant libraries that reflect the local identity
Iwi	Build on the Joint Management Agreements and other agreements, celebrate Maaori culture, and promote the use of Te Reo	Library collections in Te Reo; promotion of the language and culture through events, e.g. Matariki; taking service tasters to marae.
Communities	Strengthen, enable and connect local communities and citizens, and support those most in need	Connecting communities and providing places for meeting, learning and participation breaks down isolation; specialist services for those with literacy needs, housebound etc
Growth	Direct cohesive growth outcomes which support all community needs	Growth in the north accommodated by a new library/community hub in Pokeno; growth in the Southeast by a partnership with Hamilton City
Economy	Support the rural and urban economy, and attract more visitors, entrepreneurs, and employment uses	Providing opportunities to try and experience technologies; focusing on developing knowledge and skills of young people
Transport	Leverage value off accessibility, help those disadvantaged by a lack of transport options, prepare for future passenger rail	Taking the library to where people are, both with a mobile vehicle and expanding online access to content

Context

The strategy has been informed by information gathered from desktop research into the trends and changes in libraries; societal changes that could have an impact on communities in the district; reading relevant council and other documents to understand the future changes likely to happen in the Waikato district, and the aspirations of the council and community for its future well-being. All libraries were visited.

Libraries are an engine room of social mobility...walking into a library is often the first step a person takes out of social exclusion, unemployment and poverty⁵.

- Darren McGarvey, *Poverty Safari*

"It's also incredibly easy ... at 2 o'clock in the morning and you finish the first book in The Girl with a Dragon Tattoo series, you can just download the next one without having to wait and I think that availability is fantastic"⁶

- Book Council chief executive *Catriona Ferguson*

Library trends

The past two decades have seen some very significant changes in how people think about libraries, what libraries offer and how they deliver services.

Library mission

The fundamental purpose of public libraries has always been about ensuring that ordinary people had access to knowledge, ideas and stories, as a means to improve their ability to live, work and participate in the life of their communities. The primary avenue for this in the 19th and 20th centuries was the book, and other written information such as newspapers and periodicals. The public library gathered this information together, organised and made it available to people for loan, or for use in the library. Libraries provided space for users to research, study, read and just 'be' in this special place.

In the 21st century the purpose remains fundamentally unchanged. What has changed is the myriad ways that information is shared and made available, the different ways that people learn, other than by reading, and the nature and use of the public civic spaces provided. There has been a growing awareness by decision makers and funders of the important role that libraries have in social cohesion and connectedness, equity, breaking down barriers and transforming lives.

Collections

Information and content has moved online. EBooks, eAudio books and eMagazines are common place and libraries continue to provide access to quality subscription databases. More content is going behind paywalls and CD and DVDs are being replaced by streaming video and music. Physical books remain the mainstay in libraries although some non-fiction, particularly reference materials, are no longer published in physical formats. Libraries have broadened the range of materials in languages other than English in response to the arrival of new migrants whose first language is other than English. More titles are being published in te reo Māori, but it can still be difficult to keep up with demand. Digitisation of analogue content such as newspapers and selected heritage materials, particularly photographs, has been great for historians and family history interests.

Most libraries have moved to outsource the major part of collection supply and cataloguing resulting in shelf ready materials being delivered direct to libraries.



Café, Docklands Library, Melbourne



Browsing Books online

We want our libraries to be “powerhouses of knowledge, culture and learning in a rapidly accelerating digital world. We must be places where people can come to learn, and to solve their problems⁷,”

- Mary, Librarian from Zambia.

Spaces

Libraries have become space for people to connect, create, experience and learn. More space is given over to people activities: study, meeting, programmes, events, comfortable seating and cafes. Libraries are moving from being standalone buildings to being the anchor for community hubs, alongside other council facilities such as community and recreation centres, museums and galleries. Over the last decade there have been numerous new community libraries built in New Zealand and libraries are seen as being part of place making and urban and community regeneration.

There has been a rethink of mobile libraries. Vehicles are smaller, bringing books, technology and expertise to smaller communities and schools which do not have a physical library, or being used as promotional tasters at community events and gathering points.

Technology

Free access to the internet through public wifi and computers and technology for scanning, copying and digitising materials is common place. More recently libraries have embraced the ‘maker movement’ which provides people with opportunities to experience and experiment with new technologies such as 3D printing, virtual reality (VR), augmented reality (AR) and robotics. As well, craft and older technologies such as sewing machines are having a resurgence and many libraries are making a variety of such tools available for public use. Some libraries are even lending ‘things’ such as telescopes and sewing machines, accompanied by books and materials that encourage the person to learn about the world through experiencing as well as reading.

Services

Facilitating and delivering learning programmes and events, a renewed focus on the importance of reading for pleasure and supporting users to be digitally literate are all part of the services provided by public libraries. Self-help technologies make it easier for customers take out and return items, make payments and manage their user record. Services are more focused on meeting needs of local communities. The options are wide ranging and may include services for Māori, Pasifika, new migrants, homeless, differently abled, children and young people, seniors and housebound, business and entrepreneurs and families and whanau.

Staff

As the range of services has broadened so to have the skills and disciplines of people working in libraries. Professional librarians work alongside digital technologists, community workers and educators for example. Staff need to have a good rapport with people, be able to build relationship, have strong digital skills and understand the ethos and principles which underpin quality library service. There is a changing emphasis from sourcing scarce information to helping user find quality, trusted information from the deluge available. Library staff are facilitators, navigators, advisors, information wranglers and organisers.

"We estimate that 31 per cent of New Zealand's jobs are at a high risk of automation over the next 20 years"⁸

- Gareth Tiernan, Infometrics

"Child poverty affects us all. In social terms, it drives a wedge between those growing up with plenty and those who regularly experience hardship and social exclusion. In the future, the ongoing costs are high for society, with greater social costs, lower productivity growth and poorer economic performance"⁹.



IFLA¹⁰

Strategic policy shifts

Trends that have been driving policy changes include: people and communities at the centre of service development including co-design of services; collaboration and partnership to achieve greater benefit and collective impact; and a focus on equity leading to removal of barriers such as charges ¹² (fines and holds) which can limit use.

Social, technological and economic trends

Technology impacts

The first two decades of the 21st century have seen huge changes to how people communicate, get their information, relax and live their lives. Predictions are that these changes will continue with the development of artificial intelligence, robotics, automation and the internet of things made much more possible through 5G networks. A key concern is the impact of these technologies on jobs leading to people needing to learn new skills and retrain. For many, work is already becoming transitory, with unreliable incomes and portfolio careers, where a person has several jobs that make up full time work or contract work. The internet has made it possible for more people to work from home, or to live in one country and do work in another.

Poverty gap

The gap between rich and poor continues to get wider with a rise in a poor middle class. Poverty leads to poorer health, mental health and educational outcomes with lower literacy, and unemployment higher as a result. We are seeing greater divisiveness in society, social isolation and alienation from civil society with a breakdown in trust in our institutions and government.

Privacy and 'censorship' issues

Growing mistrust of media and information platforms and sources, is being fuelled by the 'fake news' phenomenon and the manipulation of data to deliberately misinform people and to influence readers to a particular point of view. As well there is a new form of censorship in that search engines use algorithms to surface information that already fits with the person's world view so that individuals are no longer exposed to contrary view points but are subliminally encouraged to buy goods or believe facts. Cyber security and the safety of personal data are becoming more concerning and the loss of personal privacy in an online environment is real.

Helping people discern what is real and truthful and how to be safe online is a growing role for libraries and librarians.

Migration

Worldwide people are on the move, fleeing war, violence, climate issues, poverty, religious persecution or seeking a better life for themselves and their families. New Zealand has welcomed many new immigrants and refugees, leading to a diversity of cultures and enrichment of experiences. As well as the positive aspects, the scale of migration globally is leading to a rise in nationalism,

increased racism and extremism. There is a greater need for tolerance and understanding and mechanisms to strengthen inclusiveness in society.

Māori futures

Over the past two decades we have seen the growing powerhouse of the Māori economy as Iwi have settled Treaty claims and invested in improving outcomes for their people. New ways of working in partnership with Māori have been, and continue to be, explored by central and local government. Māori values, Māori ways of doing things, the push for tino rangatiratanga, self-determination, are likely to have a stronger influence in the future as New Zealand looks to improve outcomes for Māori in education, health, prosperity and well-being.

Local issues and opportunities

Council

The Council's vision for the district is outlined in the Long Term Plan 2018-2028 is:

Liveable, Thriving and Connected Communities / He noohanga aahuru, he iwi whai ora, he hapori tuuhono tahi.

Five community goals are designed to deliver on this vision.

- Supporting our communities: Kia tautoko ki a taatou Haapori
- Building our economy: Ka hanga a taatou Oohanga
- Sustaining our environment: Kia toituu to taatou Taiao
- Working together with you: Kia mahi tahi taatou
- Providing value for money: Ka whai painga mo te puutea

More recently the Council commissioned the development of the Waikato Blueprint for the district to provide a high-level 'spatial picture' of how the district could progress over the next 30 years. It addresses the community's social, economic and environmental needs and is a tool to move from vision to strategy, and from strategy to action by setting out specific, prioritised initiatives at the district and local level.

The Blueprint identified nine themes: identity, nature, iwi, communities, growth, economy, transport, infrastructure and governance. Each area has a high level aim and a number of actions to address the particular needs identified through the process. The major issues facing the district are demographic growth, particularly in the north and south east of the district, economic development and employment, strengthening the heart of communities, providing appropriate infrastructure including community infrastructure, transport and sustainable development.

The Blueprint also has local area blueprints which provide a wealth of ideas and material about local community's needs based workshops held in the different locations.



Waikato Blueprint¹¹

Library



Tuakau Library

Current libraries

Waikato District Council provides six libraries based at Huntly, Ngaruawahia, Tuakau, Te Kauwhata, Meremere and Raglan. Huntly, Raglan and Te Kauwhata also provide Council customer services from the same building and the one team provides both services. Apart from Huntly the libraries are single story buildings and all are less than 400m². The current and projected populations of the towns are provided below.

Library	Huntly	Raglan	Ngaruawahia	Te Kauwhata	Tuakau	Meremere
Size	770m ²	373m ²	308m ²	273m ²	266m ²	51m ²
2018	7,491	3,115	5,424	1,769	4,639	564
2045	8,295	3,611	5,615	3,093	10,147	711

From: Waikato Blueprint June 2019

It should be noted that all libraries will be providing services to a wider catchment than the people who live in the towns. Nearby rural populations who come to the towns for services and shopping will also be part of the population catchment.



Te Kauwhata Library

The majority of the libraries are small and will struggle to accommodate population growth with little room for programmes and activities normally provided in a modern library. Tuakau is about to get a small extension which will cater for current growth but not the projected population for 2045.

Meremere library has just been relocated to a building adjacent to the hall and Te Kauwhata is a satisfactory size and the newest building. Both Raglan and Ngaruawahia would benefit from extensions. Huntly, is an adequate size.

Services to the remainder of the district

Waikato District Council recently renegotiated an agreement with Hamilton City Council for access to library services for residents living in the following wards: Tamahere, Newcastle, Eureka, Hukanui-Waerenga (1/3 of this ward) and Horotiu (as it directly borders Hamilton City). People living in these parts of the District tend to shop in Hamilton City and go there for services. The agreement allows residents to access the full services of Hamilton City Libraries

Waikato District Council currently has a 'grandfathered' arrangement with Auckland City Council for a group of residents who were previously part of the former Franklin District which enables those residents to access Pukekohe Library. The agreement is restricted to former residents who were members of the library only and does not apply to anyone moving into the District, or who want to start using the Pukekohe Library, if they were not previously members.

Council customer service

All of the libraries except Ngaruawahia and Tuakau provide both library and council services at the one location. There are major council offices at both Ngaruawahia and Tuakau so council services are provided from these locations. While this is convenient for customers there are occasions when it is difficult to

balance the differing requirements of the two services. Workloads at peak council times can mean library customer needs become secondary. Privacy for council business is not always possible, and on occasions council transactions are acrimonious which is less than desirable if there are young children around.

Stakeholder and community voice

Workshops were held with elected members and staff. Storyboards were used in libraries to gather community views on what was important for libraries to be doing into the future. It is anticipated that further community engagement will happen through long term and annual planning processes.

Comments from the
Councillor workshop

“Libraries should be a multi-purpose hub, providing support for people to learn, connect and grow small business”

“We need to build the reading experience...the basics from birth... and connecting children to the written word and the quest for knowledge”

“Providing tech opportunities...virtual reality, 3D printing, gaming...for youth activation”



Sewing machine in use at Turanga, Christchurch City Libraries

Councillor workshop

A workshop for elected members was held on 10 June 2019. They were asked to identify the main barriers to use of library services. These included:

- Public perception - that libraries are just places for books, that they are elite or that they are Pakeha institutions.
- Stigma to use – libraries are old-fashioned and not ‘cool’, people are afraid to look stupid in an unfamiliar place, or because they cannot read, or read well
- Accessibility – geographic isolation and distance from a library, lack of transport, lack of parking, accessibility for people with physical challenges, opening hours
- Space – lack of community space and meeting space, configurability of space, static spaces, long counters and lack of privacy (particularly in relation to council customer service), no food or drink
- Technology – lack of access to the internet (to use library digital services), lack of technically and digitally skilled staff to enable access, not enough digital equipment in libraries, e.g. 3D printers
- Other barriers identified were lack of ability to access libraries across the Waikato; lack of alignment with other Council strategies to achieve the greatest impact.

Attendees saw libraries as sources of knowledge and learning, a social and community space, a technology hub providing support and opportunities for people to experience new technologies. Ideas for how to provide services to people who were not living near a library, or who didn’t see the library as offering them anything, included having a mobile library, or going to places such as marae to bring services to the people. Reading and literacy remained important and services for children and young people a priority.

Other ideas included: co-designing spaces and services with the community, using local knowledge to broaden programme offerings, having a seed bank, and more joined up services, working in partnerships with others.

Staff workshops

Staff identified a number of key areas where they library should be strengthening services or moving in to new areas. These included:

- Broaden library loans – as well as books look at loaning things such as baking utensils, hobby items, games; wider range of eBooks, eAudio, streaming media, and subscription databases, and promoting the collections more
- Facilitate exchange of skills – with an emphasis on using community expertise and groups to deliver programmes, e.g. sewing, arts and crafts, writing, woodwork, etc



Having a VR experience

“Café overlooking the river would be the ultimate and I would definitely use it regularly, even daily”

- Huntly user

“Cheaper scanning and printing charges, please”

- Ngaruawahia user

“Hobby items to take away, not just book borrowing”

- Ngaruawahia user

- Better utilisation of space – updated layouts, meeting rooms at all libraries for community use and programme delivery, quiet and noisier spaces
- Clearer separation of council service point from library service point – less confusing for customers, greater privacy and safer
- Programmes for all ages – ensuring the link with the collections. There was and a recognition that a small programme budget is necessary
- Taking the library to the community – not everyone has easy access to a library because of lack of transport, geographical isolation etc. There was strong support for a vehicle that could take books and technology out to communities and events
- Staying ahead of the digital curve – providing opportunities for people to experience new technologies such as 3D printing, robotics, VR – particularly young people; and using technologies such as RFID to improve customer self-help and efficiencies
- Staffing – there was a need for staff up skilling, and some new specialist roles and responsibilities across the district, e.g. children’s specialist, digital specialist
- Site specific autonomy – staff need to be able to do what works for their community within an overall strategy and plan

Staff also completed an exercise in reconfiguring Huntly Library to provide more space for activities and better arrangement of services.

Community engagement

Over a two week period in July, library staff provided customers with an opportunity to provide input into rating current and future services against a set of criteria as to their importance. The criteria were:

1=Absolute must do / 2=Good Idea / 3=Not as important, but nice to do / 4=Do not do

Twenty-seven ideas for rating were provided and participants were also given the opportunity to suggest their own ideas. All of the scores were then collated across the district using a weighted average to determine those items which were seen as having the highest priority. The results were tabulated as follows:

Collections

Books and other resources in Te Reo

More new books & magazines,

Help with searching for books and information

More E-books, Audio books and E-magazines

Access to electronic databases e.g. Ancestry, Newspapers and Encyclopaedias

Family History and Heritage resources

Streaming videos and movies

Space

Teen space,

More tables and comfortable seats,

Bigger Children’s area

Activity space for Library learning events

Public meeting room

Libraries in community hubs with other services

Café

“More art at the library”

- Tuakau User

Technology access

Computer and Wi-Fi access,

Mobile library with technology

Access to printing and scanning

Help with using technology

3D printing

Gaming and coding

Access to VR, robots and other new technologies

“Good classic fiction and nonfiction - not just new stuff - even digital”

- Raglan user

Programmes and services

Programme for babies and under 5s

Sharing of community resources

Support for seniors, migrants and job seekers

Extended housebound service for Rest homes etc

Staff one on one customer support for all services

Reading advice

“This is an awesome Library and very good service, especially for our kids and the community, very happy to be a part of a caring place”

- Huntly user

Those coloured yellow were in the top third of the ideas, blue was the second third and green was the lowest priority. Not all participants rated all items so caution is needed in interpreting these results. A number of suggestions were made by participants which are noted in the side bar.

It was disappointing not to be able to seek input from non-users. It may be that less traditional services such as access to new technologies and programmes would have ranked higher with this group.

Prior to the development of the strategy, the community in Tuakau was consulted on their preferred option for an extension to the library, and what they wanted to see in the library and this information has been taken into account.

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Strategy on a Page



Waikato District Libraries: Inspiring curiosity – Enriching lives – Connecting communities

We provide information, ideas, stories, experiences and spaces for learning, engagement and creativity, and access to the digital world anywhere, anytime

Building the reading experience



To achieve this we will:

- Enable every child to be a reader
- Provide great collections for reading, listening to and viewing
- Open up new possibilities for readers
- Support adult literacy
- Remove barriers to use, e.g. fines, holds

Connecting Communities



To achieve this we will:

- Provide 'cool' spaces for recreation, engagement, creativity and learning
- Work in partnership with iwi to deliver services for hapu & whanau
- Strengthen relationships with local groups to meet specific needs
- Have programmes and events that connect the generations & cultures

Bringing the library to you



To achieve this we will:

- Launch a mobile vehicle to take services to small towns, villages, marae and district events
- Expand eResources for online access and help users get started
- Strengthen services to the housebound, rest homes and early childhood centres

Developing knowledge & skills



To achieve this we will:

- Develop and promote our libraries as community innovation and entrepreneurial hubs
- Provide opportunities for people to 'learn by doing'
- Help people grow their digital literacy and digital citizenship abilities
- Partner with schools & others working with young people to grow their talents

Outcomes

- Increased literacy
- Best start in life for children
- Improved job prospects and productivity for our young people
- Greater social cohesion and reduced isolation
- Stronger communities
- A more tolerant & inclusive society
- More people are able to access and benefit from services
- Greater fairness & equity of access
- Greater return on investment
- Digital inclusion and personal cyber safety
- More informed decision making
- New skills leading to new opportunities

To succeed we need:

Fit for purpose spaces

- Develop a ten year plan for asset improvement and extension so that our libraries are able to fulfil their role as community hubs
- Rethink our service strategy, including the best way to deliver on the differing requirements of council and library services
- Meet the growth needs of the north of the district through a new library at Pokeno

Technology and collections

- Develop a plan and budget for rolling out digital technologies for customer use, experience and loan
- Introduce RFID technologies to improve customer service and efficiency
- Establish eAudio collections and broaden our range of eCollections

Skilled and capable staff

- Develop a learning culture that encourages & empowers staff to explore and acquire new skills and responsibilities
- Be customer-driven and focus on understanding community needs and building relationships
- Be agile and responsive to change
- Make the case for additional staff resources to address growth in service demand and to deliver on the strategy

A partnership approach

- Leverage expertise in Council and locally
- Seek sponsors and funders for appropriate initiatives
- Work with other literacy, learning and social services providers for greater impact
- Work with Hamilton City Council to serve residents in the southeast of the district
- Be alert to opportunities for greater regional cooperation where that improves services

Principles & service values

- Equity of access
- Freedom of information
- Trust
- Partnership
- Manaakitanga – hospitality, welcome
- Kaitiakitanga – guardianship, stewardship
- Whanaungatanga – relationships, sense of family connections

Key priorities

Develop a 10 year investment plan that ensures delivery of the strategy, including:

New initiatives

- A new mobile vehicle service with targeted collections, staff and technology
- Customer access to technologies such as 3D printing, VR, robotics, both to borrow and use in libraries
- RFID circulation and collection management technology for greater efficiency
- A new library/community hub in Pokeno

Existing services and resources

- Expanding the purchase of and access to eResources
- A reconfiguration and refresh of Huntly Library
- Extensions or new builds of the libraries in Ngaruawahia and Raglan
- Additional staff resource to accommodate growth in service demand

- Review how best to deliver council and library services from libraries
- Work with the Council's Funding and Partnerships Manager to seek sponsorship for the purchase and fit out of a vehicle or vehicles for mobile services



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- Review how best to deliver council and library services from libraries
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Open Meeting

To	Strategy & Finance Committee
From	General Manager Community Growth
Date	9 September 2019
Prepared by	Jane Macartney Senior Policy Planner
Chief Executive Approved	Y
Reference #	GOV1318 / 2347623
Report Title	Notice of Requirement for Rotokauri Greenway Stormwater Designation

I. EXECUTIVE SUMMARY

This report seeks retrospective approval for the submission lodged by Waikato District Council on Hamilton City Council's Notice of Requirement for the Rotokauri Greenway stormwater designation.

This submission was endorsed by the submissions sub-committee and lodged with Hamilton City Council on 2 September 2019.

2. RECOMMENDATION

THAT the report from the General Manager Community Growth be received;

AND THAT the Strategy & Finance Committee recommends to Council that Waikato District Council's submission on Hamilton City Council's Notice of Requirement for the Rotokauri Greenway (as set out in Attachment I to the staff report) be retrospectively approved;

AND FURTHER THAT the Strategy & Finance Committee recommends that Council delegates authority to the General Manager Community Growth, or his nominee, to speak to the Council's submission at the hearing for the Rotokauri Greenway Notice of Requirement.

3. BACKGROUND

Waikato District Council (WDC) has received a notice of requirement (NoR) from Hamilton City Council (HCC) to designate land for the construction and operation of a stormwater swale corridor which will function as the principal stormwater management and drainage channel in the Rotokauri area.

The project is largely within the jurisdiction of the adjoining HCC (which is subject to a separate NoR). A small portion is within the jurisdiction of WDC and is situated on privately owned land located between Exelby Road and Lake Rotokauri. The centreline of Exelby Road marks the boundaries between the two councils.

HCC developed the Rotokauri Structure Plan (RSP) in 2007-2008 and this is now embedded in the Hamilton District Plan as a framework to guide future development. The RSP identifies future land uses including residential, business and public open space, and key supporting infrastructure including transport corridors and a central green drainage corridor. The land required for the designation follows the alignment of the green central drainage corridor as shown on the RSP.

The Rotokauri Integrated Catchment Management Plan (ICMP) was finalised by HCC in 2017 and provides a framework for the management of stormwater, wastewater and water within the 788ha Rotokauri catchment to enable future development to occur in a managed way. The ICMP has been approved by WRC (in a technical certification capacity for stormwater), in accordance with the comprehensive stormwater discharge consent held by HCC. This discharge consent provides for stormwater discharges to Lake Rotokauri and expires in 2036.

The ICMP contains best practicable options (BPOs) and integrated management solutions which seek to address the main issues for the catchment and to meet generic and catchment specific objectives and targets. The BPOs and catchment management solutions for stormwater include a fundamental solution to establish a Green Corridor Network.

The NoR is the most significant means of implementing the ICMP, as it seeks to designate land for the establishment of the central green corridor as the main storage and conveyance channel for stormwater. The designation will enable future land acquisition and integration of the planned works.

4. DISCUSSION AND ANALYSIS OF OPTIONS

4.1 DISCUSSION

The following two matters have been raised in WDC's submission:

- Concern about the impact of the discharge of urban stormwater on WDC's ratepayers within the rural drainage network; and
- The benefits from improved linkages between the public walkways within the Rotokauri Greenway and the Lake Rotokauri walkway system.

4.2 OPTIONS

The NoR application has been notified by HCC on a limited basis. WDC and affected landowners were given an opportunity to lodge a submission in support or opposition with associated reasons. Council's submission sub-committee endorsed the attached submission as it needed to be lodged before this Strategy and Finance Committee meeting.

Council has the option of either withdrawing or retrospectively approving the submission. WDC is now a submitter party to this statutory process and has indicated its wish to be heard on its concerns. At a later date, HCC will provide all submitters with a hearing report prepared by an independent consultant which will contain recommended conditions if the NoR is approved.

5. CONSIDERATION

5.1 FINANCIAL

There are no financial considerations for WDC with this NoR application. If HCC is successful in designating the Rotokauri Greenway, this will enable the land to be acquired by HCC from the affected landowners through the necessary statutory process.

5.2 LEGAL

As a submitter, WDC joins the statutory NoR process as an affected party and has speaking rights at the future NoR hearing.

5.3 STRATEGY, PLANS, POLICY AND PARTNERSHIP ALIGNMENT

WDC's Trail Strategy 2016 identifies a walkway that is planned around the perimeter of Lake Rotokauri. WDC requests that HCC installs public access cycle/walkways within the Greenway designation from Exelby Road and Rotokauri Road to join onto the Rotokauri reserve walkway.

5.4 ASSESSMENT OF SIGNIFICANCE AND ENGAGEMENT POLICY AND OF EXTERNAL STAKEHOLDERS

This NoR process initiated by HCC does not trigger WDC's Significance and Engagement Policy. HCC nominated a limited notification process for this NoR which provided WDC and directly affected landowners with the opportunity to lodge submissions.

6. CONCLUSION

This report seeks retrospective approval to the submission endorsed by Waikato District Council's submission sub-committee on Hamilton City Council's Notice of Requirement for the Rotokauri Greenway. There will be an opportunity for a WDC representative to speak to this submission at the hearing. The outcome of the hearing will be reported to Council at a later date.

7. ATTACHMENTS

Waikato District Council's submission on Hamilton City Council's Notice of Requirement for the Rotokauri Greenway (dated and lodged 2 September 2019)

2 September 2019

Postal Address
Private Bag 544, Ngaruawahia 3742
New Zealand

0800 492 452
www.waikatodistrict.govt.nz


Hamilton City Council
City Planning Unit
C/- districtplan@hcc.govt.nz

Dear Sir/Madam

RE: Notice of Requirement for the Greenway Stormwater Designation Rotokauri

Please find attached a submission from the Waikato District Council in regards to the Notice of Requirement for a stormwater designation lodged by the Hamilton City Council dated the 21 May 2019.

Yours faithfully



Mayor Allan Sanson

CC: craig.sharman@beca.com

For office use only

Submission number _____

Code _____

Hamilton City Operative District Plan October 2017 Submission on the Notice of Requirement – Rotokauri Greenway

(Form 21 – Section 168A Resource Management Act 1991)

Send your completed submission form to:

Mail: Freepost 172189
City Planning Unit
Hamilton City Council
Private Bag 3010
Hamilton 3240

Email: districtplan@hcc.govt.nz

Send a copy of your submission form to:

Mail: Rotokauri Greenway NOR
c/o Beca Limited
PO Box 448
Waikato Mail Centre
Hamilton 3240, Attn: Craig Sharman

Email: craig.sharman@beca.com

Please note:

- Submissions must reach the Council on Monday 2 September 2019 by 4.00pm
- Please be aware when providing personal information that submissions may be reproduced and included in Council public documents. These are available on Council's website.

Please print and do not use pencil. Attach more pages if necessary, indicating this and attaching them securely. If you do not wish to use this form, please ensure that the same information required by this form is covered in your submission. More information is available on the "Making a Submission" info sheet.

To talk to a planner about how to make a submission, contact Mark Roberts (07 838 6618) or Aimee Taylor (07 838 6658).

This is a submission on the Notice of Requirement from Hamilton City Council for a new designation – the Rotokauri Greenway Corridor. The NOR relates to a proposal to construct and operate a stormwater swale corridor in the Rotokauri area. The corridor will function as the principal stormwater management and drainage channel in the Rotokauri area.

Full name: _____

Company name: Waikato District Council

Postal address: Private Bag 544, Ngaruawahia 3742

Email address: districtplan@waidc.govt.nz

Phone number: 0800 494 452

Contact name and address for service of person making the submission:

This is the person to which all communications from the Council about the submission will be sent. Only complete this section if the details are different to those above.

Name: Will Gauntlett

Company name: As above

Postal address: _____

Email address: _____

Phone number: _____

For office use only Submission number _____ Code _____

1. I **SUPPORT** / **OPPOSE** the Notice of Requirement (NOR) of Hamilton City Council to construct and operate the Rotokauri Greenway. *[Delete what is not applicable]*

2. **The particular part(s) of the NOR that I SUPPORT or OPPOSE are:**
[Clearly indicate which part(s) of the NOR you support or oppose or wish to have amendments made to]

See attached

3. **The reasons for making my submission are:**
[State your reasons clearly; use a separate sheet of paper if necessary]


See attached

4. **I wish the Council to make the following recommendation(s) in relation to the NOR requirement:**
[Give details, including the nature of any conditions sought. Use a separate sheet of paper if necessary]

See attached

5. I do ~~/do not~~ wish to be heard in support of my submission. *[Delete what is not applicable]*

6. If others make a similar submission I **would** / ~~would not~~ be prepared to consider presenting a joint case with them at any hearing. *[Delete what is not applicable]*



[Your signature or that of the person authorised to sign on behalf of the person making this submission]

2/09/2019

[Date]

REMINDER: SUBMISSIONS MUST REACH COUNCIL BY 4.00PM ON MONDAY 2 SEPTEMBER 2019

Attachment to submission from Waikato District Council on Notice of Requirement – Rotokauri Greenway

Waikato District Council's interest in this Notice of Requirement (NoR) relates to:

- a) Impacts of the discharge of urban stormwater on WDC ratepayers within the rural drainage network
- b) Benefits from improved linkages between the public walkways within the Greenway and the Lake Rotokauri walkway system.

Discharge of urban stormwater into a rural drainage network

The current and proposed city stormwater system at Rotokauri discharges into a rural drainage system within the Waikato District. The potential impacts of this discharge on rural properties within the drainage district are of concern to the Waikato District Council (WDC) and its ratepayers.

WDC is intent on protecting the rights of, and the impacts on, its ratepayers in the drainage district, especially those around Lake Rotokauri. WDC is also intent on protecting itself from involvement in future claims should the impacts from the Rotokauri stormwater system be greater than anticipated by Hamilton City Council (HCC).

WDC's primary concerns are;

1. Fundamentally concerned with urban stormwater discharging through rural draining networks.
2. Concerned the actual impacts of the stormwater discharge will be more than what has been modelled and that, by the time this is realised, it will be difficult to rectify.
3. HCC's and Hamilton Developer's track record of poor monitoring, compliance and maintenance of urban stormwater systems.
4. Ensuring those who benefit from a rural drainage scheme contribute to funding the network.

With regard to the points raised above, WDC cannot support action that would enable the implementation of the Integrated Catchment Management Plan (ICMP) as WDC are not yet convinced that the impacts of the proposed stormwater system on WDC ratepayers are acceptable.

WDC is concerned that the actual impact will be different than what is anticipated by the models undertaken to support the ICMP/NoR. By the time this is realised, the impacts on the rural drainage network and those landowners will be real and, furthermore, will be difficult to resolve.

WDC has concerns regarding the completion and ongoing maintenance of the stormwater system. WDC has received complaints that the city drainage channels have not been well maintained and that there are blockages within the network before they reach the WDC boundary. Additionally,

WDC has received complaints alleging that certain Hamilton subdivisions have never completed the required drainage works and as a result are sending water into the rural drainage network at rates not consistent with rural drainage.

Rural drainage networks' capital and maintenance works are funded by those that benefit from them. WDC believes this is a fair and equitable funding mechanism. WDC have not yet been convinced that the HCC will contribute its fair share to the drainage district annual funding especially as it is likely that additional capital and maintenance works will be required as a result of development within HCC.

It is for the reasons stated above, and WDC's continuing opposition to the practice of urban stormwater discharge to rural drainage networks, that it opposes the NoR.

Improved public linkages

WDC wants to see more emphasis placed on ensuring the Greenway corridor access to Rotokauri includes public cycleway and walkway access to the Rotokauri reserve and, in particular, that the access path links into the Rotokauri walkway system that WDC and the community have invested in.

Open Meeting

To	Strategy & Finance Committee
From	Tony Whittaker Chief Operating Officer
Date	30 August 2019
Prepared by	Colin Bailey Finance Manager
Chief Executive Approved	Y
Reference #	GOV1318 / 2352323
Report Title	Funding for Karioitahi Hall

I. EXECUTIVE SUMMARY

The Karioitahi Hall lost significant funding when Auckland Council discontinued charging residents for cross boundary hall rates in 2012. Waikato District Council (“Council”) funded the shortfall for the 2012/13 to 2017/18 rating years from the Long Term Plan (“LTP”) Contribution Reserve (the reserve established as part of the Franklin integration with Waikato District Council).

The Karioitahi Hall Committee has requested that the funding continue as they are struggling to operate with the funding they do receive from Council. This is because the majority of the users of the hall are situated within the Auckland boundary and cannot be charged. The alternative would be to increase the targeted rate to the remaining ratepayers, which would require a threefold increase, which is not considered equitable. Instead, it is recommended that Council fund an amount equivalent to the income previously received, from General Rates through the Grants and Donations Expenses account until a permanent alternative is considered as part of the next rating review.

2. RECOMMENDATION

THAT the report from the Chief Operating Officer be received;

AND THAT the Strategy & Finance Committee recommend to Council that the shortfall in funding of \$2,906 per annum for the 2018/19 and 2019/20 rating years for the Karioitahi Hall be funded from General Rates through the Grants and Donations Expenses account.

3. BACKGROUND

The Karioitahi hall was transferred to Council as part of the Franklin transition in 2010. The catchment area for the hall targeted rate spanned both the Waikato and Auckland boundaries. For the first few years, Auckland Council rated residents living within their jurisdiction and transferred those funds to Council. In 2012, Auckland Council ceased this practice in recognition of the fact that Council was also benefiting from its ratepayers not funding halls administered and funded by Auckland Council. This essentially means that Council ratepayers enjoy the benefit of Auckland funded halls and Auckland residents enjoy the benefits of Council funded halls. Ceasing the transfer of funds was part of a quid pro quo arrangement.

Council passed resolutions to fund the shortfall of \$2,906 for the rating years from 2012/13 to 2017/18 inclusive for the Karioitahi hall.

There is an opportunity through the next rating review to reconsider the way in which halls are funded.

The Karioitahi Hall Committee are seeking permanent funding of the \$2,906 per annum to compensate for the fact that Auckland Council are no longer contributing to the cost of operating the hall. The Karioitahi Hall Committee are in discussions with the committees of two neighbouring halls and during 2018/19 attempted to finalise a boundary realignment between all three halls that would more equitably distribute rates income to the halls. For this reason no application for funding was made. An agreement has not been finalised and is unlikely to be finalised before the next Long Term Plan is completed.

4. DISCUSSION AND ANALYSIS OF OPTIONS

4.1 DISCUSSION

The Karioitahi Hall has been significantly impacted by the decision made by Auckland Council to no longer contribute to their hall. This was part of a quid pro quo arrangement, whereby Council ratepayers enjoy the use of halls in Auckland Council jurisdiction for no charge and vice versa. This is a difficult issue that was created as a result of the Franklin District Council integration with both Auckland Council and Waikato District Council. This issue can be considered as part of the next rating review undertaken by Council.

4.2 OPTIONS

Council can decide to do the following:

- Do nothing – the hall will need to operate on \$1,450 a year which is insufficient to maintain and insure the building. This is likely to result in deterioration of the hall over time.
- Agree to fund the shortfall from an alternative source. It is suggested that General Rate funding is used for this purpose and that consideration be given to funding halls in the next rating review.

- Consider extending the boundary – a review has been done and it is unlikely that additional users who use the hall can be identified within the Waikato District Council area.

5. CONSIDERATION

5.1 FINANCIAL

At \$1,450 a year, the maintenance of the hall and its surrounds will be minimal. With minimal maintenance, the building is likely to deteriorate at a more rapid rate than expected.

5.2 LEGAL

N/A

5.3 STRATEGY, PLANS, POLICY AND PARTNERSHIP ALIGNMENT

N/A

5.4 ASSESSMENT OF SIGNIFICANCE AND ENGAGEMENT POLICY AND OF EXTERNAL STAKEHOLDERS

This does not trigger the Significance and Engagement Policy.

Internal Stakeholders have been engaged with.

6. CONCLUSION

The Karioitahi Hall Committee has requested Council consider providing additional funding support in lieu of income lost from the Franklin District Council integration into Auckland and Waikato Councils. It is proposed to fund the shortfall of \$2,906 via General Rates funding until such time as this issue can be considered through the next rating review.

7. ATTACHMENTS

NIL

Open Meeting

To	Strategy & Finance Committee
From	A Diaz Chief Financial Officer
Date	13 September 2019
Prepared by	Finance Planning & Reporting Team
Chief Executive Approved	Y
Reference #	GOV1318 / 2351509
Report Title	Financial performance summary for the period ending 31 August 2019

1. EXECUTIVE SUMMARY

This report presents year-to-date financial performance against the 2019/20 Annual Plan and those budgets carried forward from the 2018/19 financial year.

The report provides a summary of revenue and expenses, capital expenditure and key reserve balances.

2. RECOMMENDATION

THAT the report from the Chief Financial Officer be received.

3. ATTACHMENTS

Financial Performance Summary

AT A GLANCE

Performance to date is as expected, with operating and capital expenditure relatively low awaiting the construction season.

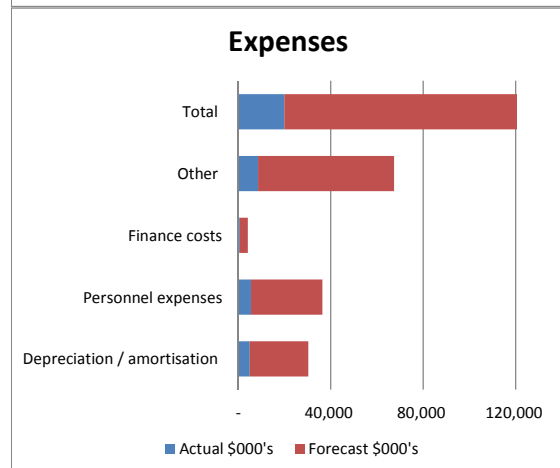
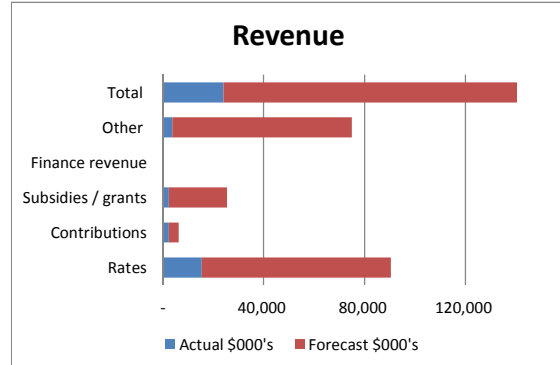
Income is tracking below budget largely due to the timing of vesting of roading assets, \$38 million of which relates to State Highway revocation.

General rate income, including Uniform Annual General Charges, is above forecasted levels by a total of \$573,000.

	Aug-19	Open Bal
Reserve Balances Summary	\$000's	\$000's
Restricted reserves	195	194
Council reserves	29,991	30,521
Development contributions	(43,259)	(44,602)
Replacement funds	21,353	19,115
Targeted rate reserves	(6,422)	(6,833)
Total	1,858	(1,605)

Key reserves (included in balances above)

	Aug-19	Open Bal
	\$000's	\$000's
Disaster recovery	537	535
Hamilton East Property proceeds	2,308	2,308
Structure plan non-growth reserve	927	921
Northgate development area	(4,275)	(4,276)
Pokeno Structure plan	(14,061)	(13,692)
Tamahere Structure plan	(1,979)	(2,020)
DW water targeted rate	(6,690)	(6,513)
DW wastewater targeted rate	(3,002)	(3,395)



FINANCIAL PERFORMANCE SUMMARY

For the period ending 31 August 2019

	Actual \$000's	FY Forecast \$000's	% usage	YTD Variance \$000's	Ref.
Revenue					
Rates	15,389	90,475	17%	(310)	1
Development and financial contributions	2,391	6,283	38%	(1,344)	2
Subsidies and grants	2,375	25,517	9%	1,877	3
Finance revenue	200	130	154%	(178)	
Other revenue	3,747	74,956	5%	8,746	4
Total revenue	24,102	197,360	12%	8,791	
Expense					
Depreciation and amortisation expense	5,051	30,301	17%	(0)	
Personnel expenses	5,580	36,401	15%	486	5
Finance costs	692	4,195	17%	7	
Other expenses	8,705	67,395	13%	2,527	6
Total operating expenses	20,029	138,293	14%	106,740	
Surplus (deficit) before tax	4,074	59,067	7%	5,771	

Year-to-date net operating surplus of \$4.1 million is \$5.8 million behind year to date expectations in overall terms.

Items to note are as follows:

Income

- Favourable - Rating income is above long term plan budget expectations for the year.
- Favourable - Contribution income is above year to date expectations. Approximately \$158,000 relates to older consents with financial contributions, with the remainder coming from development contributions (DCs). Approximately 50% of the DC income recognised relates to Pokeno and Tuakau water DC's.
- Unfavourable -Subsidy is linked to progress of physical work programmes.
- Unfavourable - The budget allows for \$54 million of roading assets to be vested with Council. \$38 million of this relates to State Highway revocation. The exact timing of transfer is not yet known.

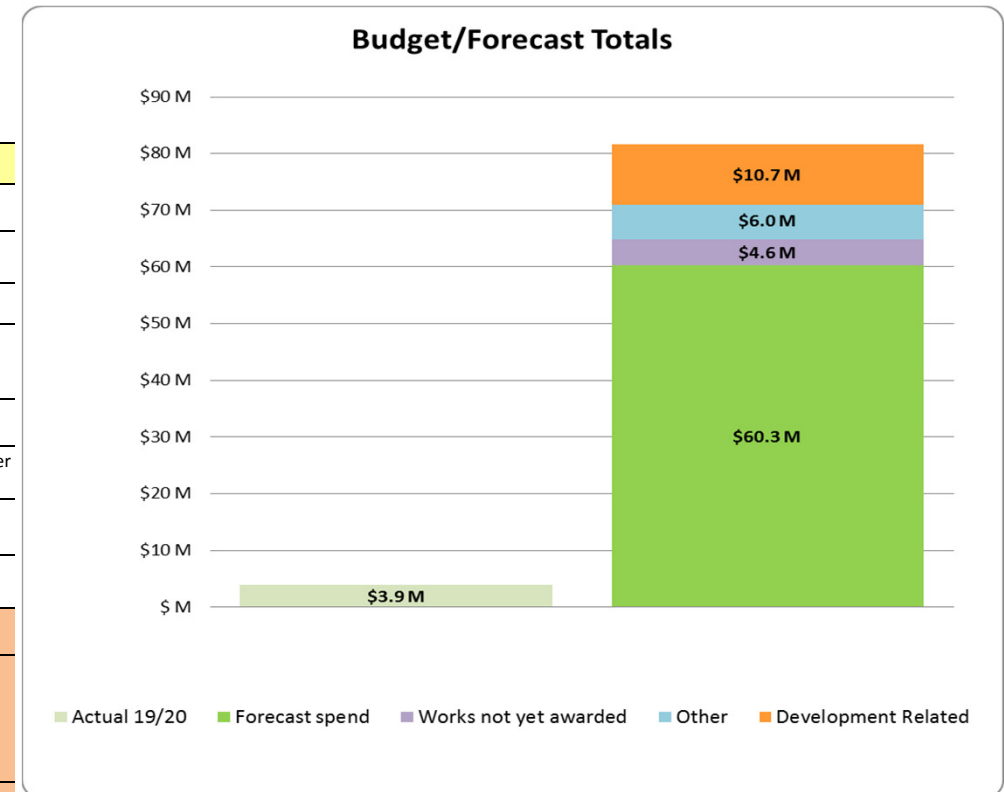
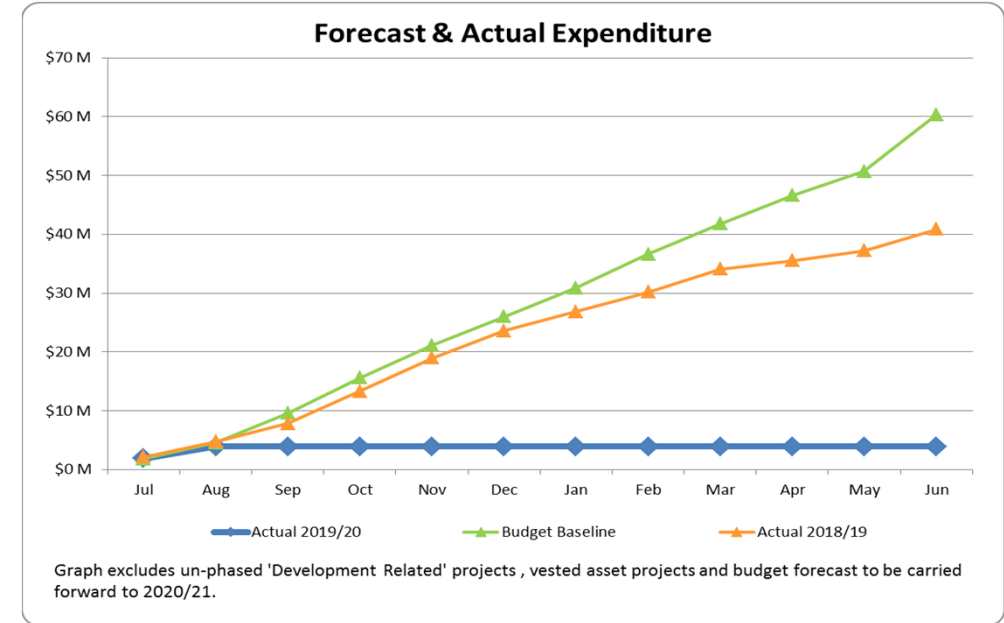
Expense

- Favourable - impact from vacancies.
- Favourable - Relative to timing of work programmes.

Net Operating Surplus (Deficit) Breakdown	Actual \$000's	FY Forecast \$000's	YTD Variance \$000's	Favourable / Unfavourable
Roadings	521	65,106	10,330	U - Timing of vested asset revenue
Water	632	(690)	(747)	F - Low levels of activity expenditure
Wastewater	1,206	328	(1,151)	F - Low levels of activity expenditure
Stormwater	158	(1,253)	(367)	F - Low levels of activity expenditure
Sustainable Communities	547	2,056	(204)	F - Timing of grant payments
Sustainable Environment	273	598	(173)	F - Lower income levels matched by lower expenditure
Governance	135	(352)	(194)	F - Timing of grant payments
Organisational Support	(507)	(6,726)	(614)	F - Low levels of activity expenditure
Total Group of Activities	2,965	59,067	6,880	
General rate usage	1,109	-	(1,109)	F - The general rate income recognised currently exceeds the amount of general rate used. This number adjusts throughout the year relative to activity expenditure
Surplus (deficit)	4,074	59,067	5,771	

Capital expenditure	Actual \$000's	FY Budget \$000's	% usage
Roadings	1,586	99,215	2%
Water	698	23,459	3%
Wastewater	87	38,353	0%
Stormwater	748	8,095	9%
Sustainable Communities (P&R, halls, pools, toilets, walkways)	496	25,899	2%
Sustainable Environment (landfills)	7	224	3%
Governance	-	-	0%
Organisational Support (plant, offices/libraries & IM)	268	9,467	3%
Total Group of Activities	3,890	204,712	2%

The "FY Forecast" relates to the first year of the LTP, including vested assets plus any carry forward works from 2018/19. The work programme has not yet been resized to reflect an achievable work programme of \$81.6 million including development related projects. This is not reflected in the budget yet.



Open Meeting

To	Strategy & Finance Committee
From	A Diaz Chief Financial Officer
Date	11 September 2019
Chief Executive Approved	Y
Reference/Doc Set #	GOV1318 / 2349108
Report Title	Local Government Funding Agency Annual Report 2019

1. EXECUTIVE SUMMARY

The attached Annual Report for the Local Government Funding Agency provides detail on the agencies performance for the 2018/19 financial year and outlines the key achievements.

2. RECOMMENDATION

THAT the report from the Chief Financial Officer be received.

3. ATTACHMENTS

- Cover letter to LGFA Guarantors
- LGFA Annual Report 2019

30 August 2019

Dear Guarantor

LGFA 2019 Annual Report

I attach our Annual Report for 2019 as background information for you.

We are pleased to highlight another strong year for LGFA that included several achievements.

1. We have made longer dated borrowing options available to an increased number of council borrowers

By 30 June 2019, LGFA had loans outstanding of \$9.31 billion to sixty-three participating councils. This is an increase over the past year of \$1.35 billion in loans and we added eight new council members to bring the number of member councils to sixty-four.

2. Significant market share of sector borrowing for the year.

For the 12-month period to 30 June 2019, LGFA provided 92.3% of the sector borrowing and we are appreciative of the support from our borrowing councils.

3. A strong financial position to provide comfort to guarantors.

The financial strength of LGFA has been enhanced with a Net Operating Profit of \$11.2 million for the 2018/19 year and Shareholder Equity of \$74.15 million as at 30 June 2019.

A copy of the Annual Report is attached, it is also be available on our website www.lgfa.co.nz . If you would like a hard copy version, please contact jane.phelan@lgfa.co.nz.

We intend holding our Annual General Meeting (AGM) on Thursday 21st November 2019 in Wellington. We will send out the Notice of AGM and Agenda by Thursday 26th September 2019.

Please do not hesitate to contact me if you have any comments or questions.

Kind regards



Mark Butcher
Chief Executive

Meeting the financing needs of New Zealand councils

**Mā te huruhuru
ka rere te manu**

Annual report
30 June 2019



NEW ZEALAND LOCAL
GOVERNMENT FUNDING AGENCY
TE PŪTEA KĀWANATANGA Ā-ROHE

Mā te huruhuru ka rere te manu is a traditional saying literally meaning ‘birds need feathers to fly’.

Its wider meaning is that ‘investment is needed for success’.

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About us

Ko ngāi mātou

Establishment

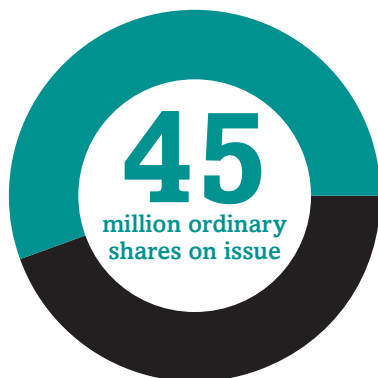
The New Zealand Local Government Funding Agency Ltd (LGFA) specialises in funding the New Zealand local government sector, the primary purpose being to provide more efficient funding costs and diversified funding sources for New Zealand local authorities. LGFA was established to raise debt on behalf of local authorities on terms that are more favourable to them than if they raised the debt directly.

Incorporated
on 1 December
2011 under the
Companies
Act 1993.

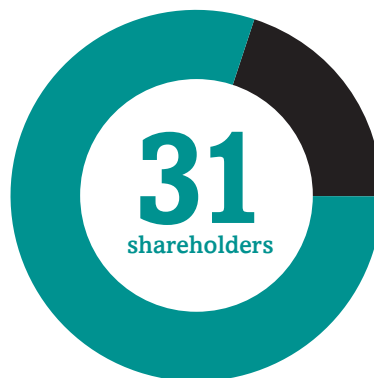
Enabled
by Local
Government
Borrowing
Act 2011

**Council-
controlled
organisation**
under the Local
Government
Act 2002.

Ownership



20 million of which
remain **uncalled**.



20%
New Zealand
Government

80%
30 councils

Share ownership is restricted
to New Zealand Government
or councils.

Guarantee structure

LGFA's securities obligations are guaranteed by the councils that are Guarantors.

LGFA is not guaranteed by the New Zealand Government.

All shareholder councils must be a Guarantor as well as any council with aggregate borrowings over \$20 million.

Credit rating

as at 30 June 2019

Domestic Currency AA+ / Foreign Currency AA (Positive Outlook)

Standard & Poor's

Domestic Currency AA+ / Foreign Currency AA (Stable Outlook)

Fitch Ratings

These credit ratings are the same as the New Zealand Government ratings.

Face value of bonds on issue

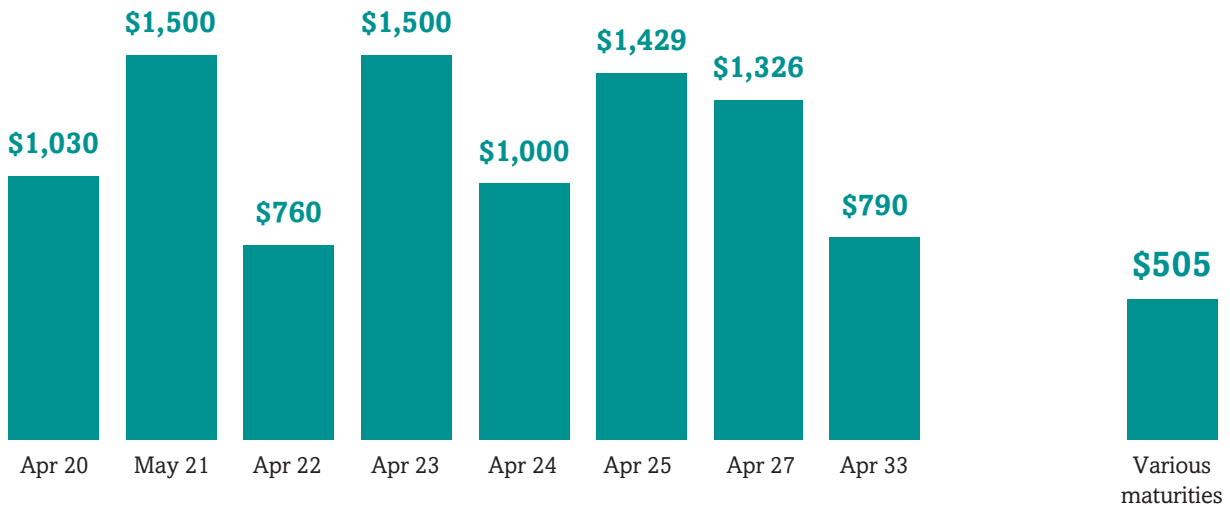
as at 30 June 2019 (NZ\$ million)

\$9,335
million

Bills on issue

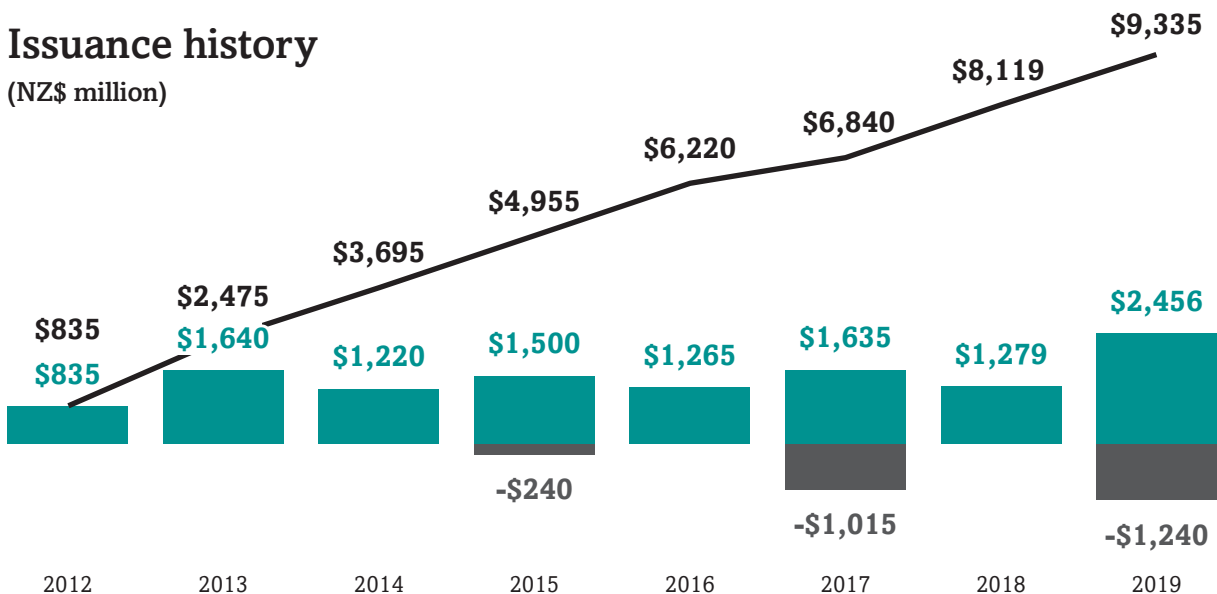
as at 30 June 2019 (NZ\$ million)

\$505
million



Issuance history

(NZ\$ million)



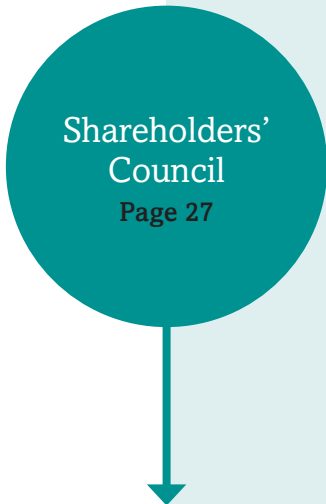
Annual funding
 Face value bonds matured
 Total face value of bonds on issue (including \$400m of treasury stock – refer note 7, page 69)

Governance overview



31 Shareholders

New Zealand Government shareholding will reduce to 11.1% if a future call is made on the uncalled capital of the 30 council shareholders.



The LGFA Shareholders' Council comprises five to ten appointees from the Council Shareholders and the New Zealand Government. The role of the Shareholders' Council is to:

- Review and report** performance of LGFA and the Board;
- Recommend** to Shareholders as to the **appointment, removal, replacement and remuneration of directors**;
- Recommend** to Shareholders as to any **changes to policies**, or the SOI, requiring their approval;
- Update Shareholders** on LGFA matters and to coordinate Shareholders on governance decisions.



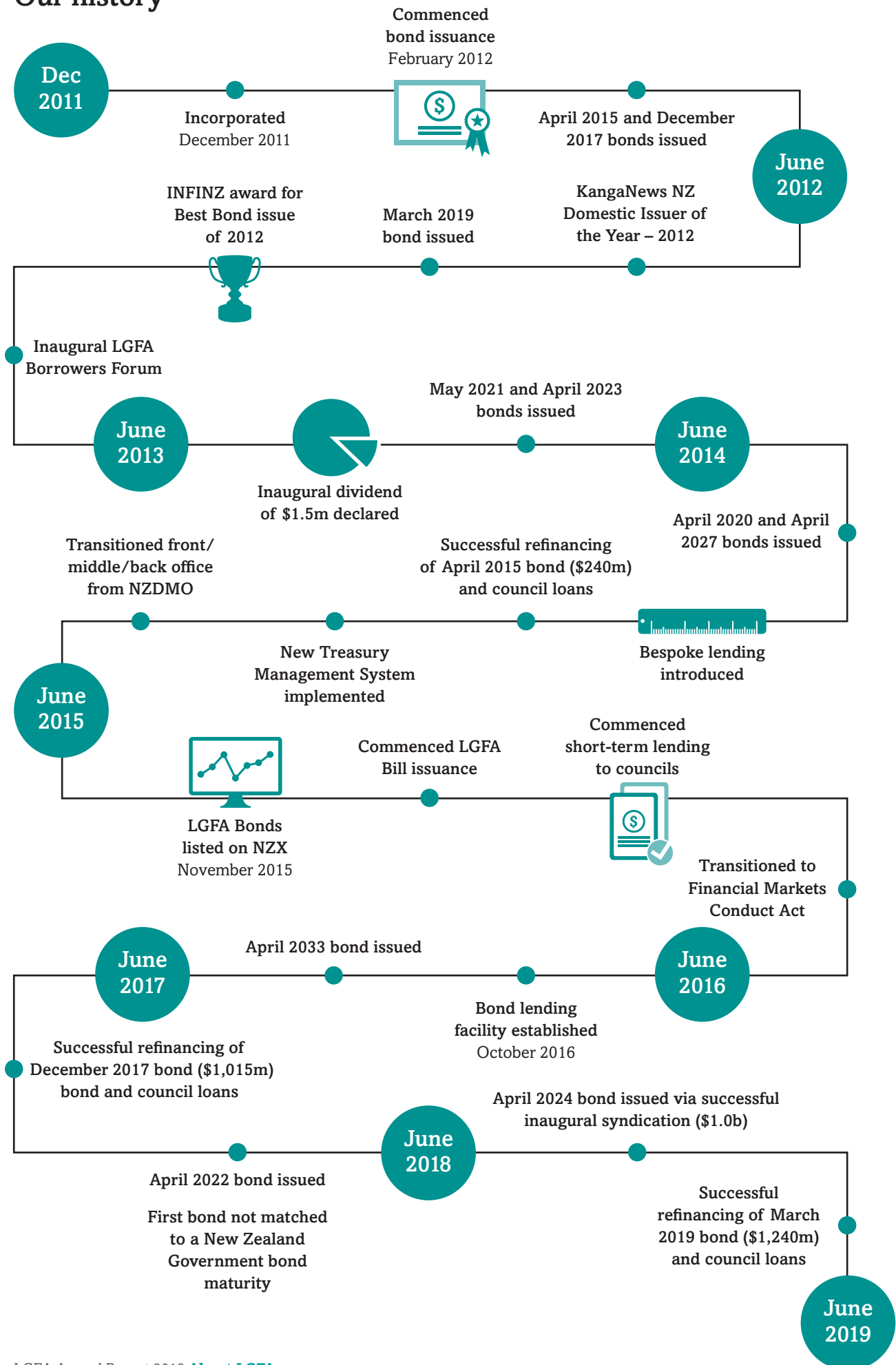
The LGFA Board is responsible for the strategic direction and control of LGFA's activities. The Board guides and monitors the business and affairs of LGFA, in accordance with the:

- Local Government Act 2002;
- Local Government Borrowing Act 2011;
- Companies Act 1993;
- LGFA's Constitution;
- LGFA Shareholder Agreement;
- LGFA Annual Statement of Intent.

The Board comprises **five independent** and **one non-independent** directors appointed by shareholders.



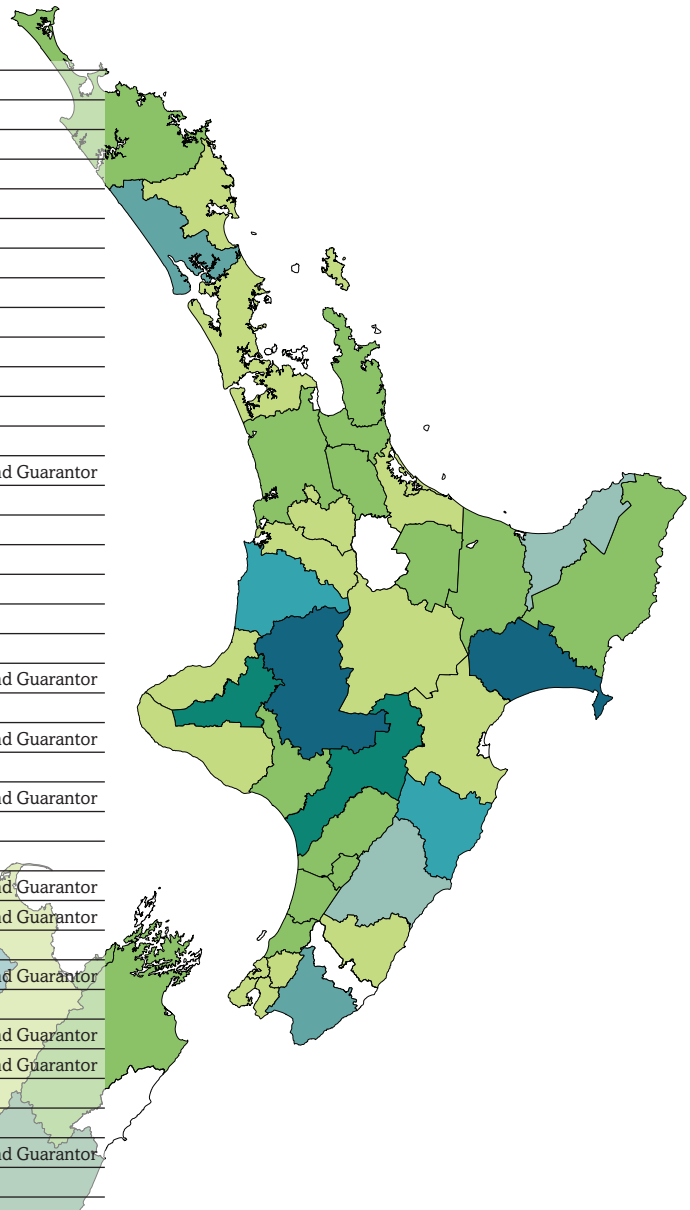
Our history



LGFA's 64 participating councils by year of joining

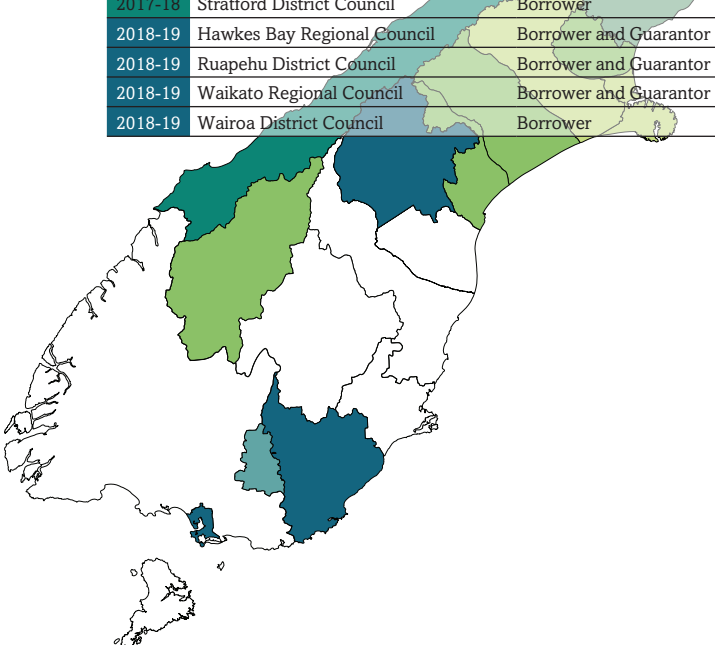
North Island

2011-12	Auckland Council	Shareholder
2011-12	Bay of Plenty Regional Council	Shareholder
2011-12	Greater Wellington Regional Council	Shareholder
2011-12	Hamilton City Council	Shareholder
2011-12	Hastings District Council	Shareholder
2011-12	Masterton District Council	Shareholder
2011-12	New Plymouth District Council	Shareholder
2011-12	South Taranaki District Council	Shareholder
2011-12	Taupo District Council	Shareholder
2011-12	Tauranga City Council	Shareholder
2011-12	Waipa District Council	Shareholder
2011-12	Wellington City Council	Shareholder
2011-12	Western Bay of Plenty District Council	Shareholder
2011-12	Whangarei District Council	Shareholder
2012-13	Far North District Council	Borrower and Guarantor
2012-13	Gisborne District Council	Shareholder
2012-13	Hauraki District Council	Shareholder
2012-13	Horowhenua District Council	Shareholder
2012-13	Hutt City Council	Shareholder
2012-13	Kapiti Coast District Council	Shareholder
2012-13	Manawatu District Council	Shareholder
2012-13	Matamata-Piako District Council	Borrower and Guarantor
2012-13	Palmerston North City Council	Shareholder
2012-13	Rotorua District Council	Borrower and Guarantor
2012-13	Thames-Coromandel District Council	Shareholder
2012-13	Waikato District Council	Borrower and Guarantor
2012-13	Whakatane District Council	Shareholder
2012-13	Whanganui District Council	Shareholder
2013-14	Horizons District Council	Borrower and Guarantor
2013-14	Upper Hutt City Council	Borrower and Guarantor
2014-15	Opotiki District Council	Borrower
2014-15	Porirua City Council	Borrower and Guarantor
2014-15	Taranaki District Council	Borrower
2015-16	Kaipara District Council	Borrower and Guarantor
2015-16	South Wairarapa District Council	Borrower and Guarantor
2016-17	Central Hawkes Bay District Council	Borrower
2016-17	Northland Regional Council	Borrower
2016-17	Waitomo District Council	Borrower and Guarantor
2017-18	Rangitikei District Council	Borrower
2017-18	Stratford District Council	Borrower
2018-19	Hawkes Bay Regional Council	Borrower and Guarantor
2018-19	Ruapehu District Council	Borrower and Guarantor
2018-19	Waikato Regional Council	Borrower and Guarantor
2018-19	Wairoa District Council	Borrower



South Island

2011-12	Christchurch City Council	Shareholder
2011-12	Otorohanga District Council	Shareholder
2011-12	Selwyn District Council	Shareholder
2011-12	Tasman District Council	Shareholder
2012-13	Ashburton District Council	Borrower and Guarantor
2012-13	Grey District Council	Borrower
2012-13	Marlborough District Council	Shareholder
2012-13	Nelson City Council	Borrower and Guarantor
2012-13	Queenstown Lakes District Council	Borrower and Guarantor
2012-13	Timaru District Council	Borrower and Guarantor
2012-13	Waimakariri District Council	Shareholder
2013-14	Hurunui District Council	Borrower and Guarantor
2015-16	Buller District Council	Borrower
2015-16	Canterbury Regional Council	Borrower and Guarantor
2015-16	Gore District Council	Borrower
2017-18	Westland District Council	Borrower
2018-19	Clutha District Council	Borrower
2018-19	Invercargill City Council	Borrower and Guarantor
2018-19	Mackenzie District Council	Borrower
2018-19	West Coast Regional Council	Borrower

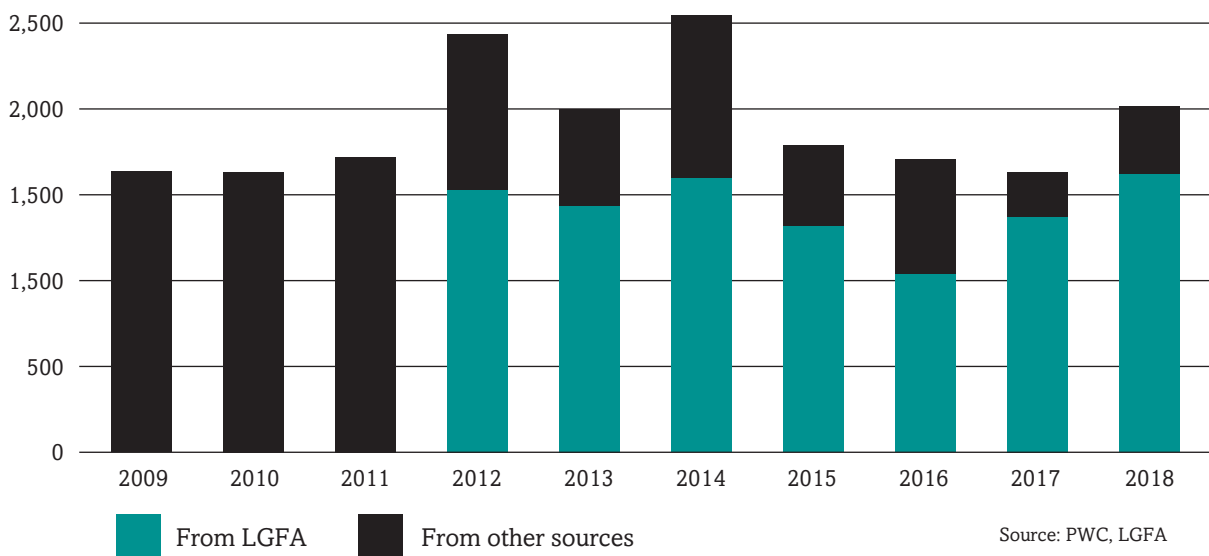


Participating councils

Borrower Type	Number of Councils	Amount Borrowed (NZ\$ million)	Percentage of Total Borrowing
Guarantors	52	9,200	98.8%
Non Guarantors	12	111	1.2%
Total	64	9,311	100.0%

Councils' borrowing

All councils (NZ\$ million) calendar year



New member Councils

LGFA welcomes the following eight councils who joined as eligible borrowers in the year ended 30 June 2019:



Message from the Chair

He karere mai i te Toihau

For the year ended 30 June 2019

“LGFA continues to meet council borrowing needs on a cost-effective basis while providing investors with a highly-rated, higher-yielding alternative to New Zealand Government Bonds”

“Kei te tutuki tonu a LGFA i ngā hiahia mino i runga i te āhua utu tōtika i a rātou e whakarato tonu ana ki ngā kaiwhakangao he āhuatanga kē nui ake te whakatauranga, nui ake hoki te whakahokinga pūtea ki tērā a ngā New Zealand Government Bonds”

Craig Stobo, Chair LGFA Board



Directors are pleased to record another period of strong financial and non-financial performance to 30 June 2019 and to highlight the following developments over the past year.

Strong financial and operational performance

LGFA total interest income for the financial year of \$361.1 million was a 5.3% increase over the 2017-18 financial year result of \$342.8 million while net operating profit of \$11.2 million for the financial year was a 5.1% decrease on the 2017-18 financial year result of \$11.8 million.

While operating profit was lower than the previous year's result, it did exceed the Statement of Intent (SOI) forecasts due to the larger than expected growth in council loans. Lower profitability was due to the lower level of interest rates reducing income on the Liquid Assets Portfolio, and the refinancing by councils of their previous higher margin loans as they matured with lower margin loans.

Expenses have been managed under budget over the past year owing to reduced utilisation of the standby facility and lower Approved Issuer Levy (AIL) payment due to fewer offshore investor holdings relative to budget. These savings were partially offset by higher legal and NZX costs associated with the record amount of council lending and associated bond issuance.

Investor relations

LGFA bonds continue to be an attractive investment for investors while LGFA has also delivered savings in borrowing costs and extended the tenor of lending available to our council borrowers.

The financial strength of LGFA was reaffirmed by credit rating agencies S&P Ratings and Fitch Ratings who both maintained LGFA's credit rating at 'AA+', which, very importantly, is the same as the New Zealand Government. In March 2019, S&P Ratings placed LGFA's local currency long-term issuer rating on positive outlook.

Borrowing activity

LGFA issued \$2.456 billion of bonds over the financial year and outstandings now total \$9.335 billion (including \$400 million of treasury stock) across eight maturities from 2020 to 2033. The amount issued during the year was significantly more than the average historical issuance amount of \$1.5 billion per financial year. The issuance highlight was the debut of an April 2024 bond by syndication which provided a new mid curve maturity for investors. The issuance of the new bond was

undertaken via a syndicate of two banks and this was a change from the previous strategy of issuing via bond tenders. The issue size of \$1 billion was a record amount issued in a single transaction by a New Zealand issuer other than the New Zealand Government. LGFA issued the new maturity to help reduce the mismatch between LGFA bond issuance and on-lending to councils, and issued via syndication because of the opportunity to cost effectively issue a large amount of bonds.

LGFA is the largest issuer of New Zealand dollar (NZD) securities after the New Zealand Government and its bonds are amongst the largest and most liquid New Zealand-dollar debt instruments available for investors. It is pleasing to note increased activity in the secondary market in LGFA bonds.

The performance of LGFA bonds over the past year was pleasing with LGFA bond spreads to New Zealand Government Bonds (NZGB) tighter on all LGFA bond maturities. While LGFA bond spreads to swap were tighter from 2023 maturities and longer, spreads were wider on the shorter-dated LGFA bonds. Outright yields declined between 63 bps (0.63%) on the 2020 maturity and 140 bps (1.40%) on the 2033 maturity over the year.

LGFA continues to issue short-dated LGFA Bills ranging in maturities from three months to twelve months through a combination of monthly tenders and private placements. Outstandings under the programme have reached \$505 million. These instruments provide a source of funding for short-dated lending to council borrowers and assist LGFA with liquidity management.

Lending to the sector

LGFA was established in December 2011 to provide long-dated borrowing, certainty of access to markets and to reduce the borrowing costs for the local government sector. The original 31 shareholders including the Crown remain as shareholders. Over the past year, eight new members were added with Clutha District, Hawkes Bay Regional, Invercargill City, Mackenzie District, Ruapehu District, Waikato Regional, Wairoa District and West Coast Regional Councils all joining. Total membership is now 64 councils, and this is expected to rise by a smaller amount in the coming year.

Long-dated lending to councils over the 2018-19 year was a record \$2.446 billion as councils refinanced their March 2019 loans, increased their borrowing to fund infrastructure and new council members utilised LGFA as a source of funding. The average tenor of long-dated borrowing by councils was 6.0 years over the 12-month period, which was longer than the prior year's 4.5 years.

Short-dated lending for terms less than 12 months has been well received by councils and as at 30 June 2019, LGFA had \$360 million of short-term loans outstanding to thirty councils.

The credit quality of the sector (and the LGFA loan book) continues to improve with 11 of councils either receiving an improved credit rating or a positive change to their rating outlooks while only two councils have a negative change. All member councils remain compliant with the LGFA lending covenants.

The sector outlook and impact on LGFA

The success of LGFA over the past six years has been in part due to its ability to evolve and adapt to meet the needs of the local government sector. This has been apparent with the introduction of short-term lending, bespoke lending and the introduction of long-dated bond maturities allowing councils to undertake long-dated borrowing. In the past year has progressed work on moving LGFA into a position where it can lend directly to Council-Controlled Organisations in the future within an appropriate framework to manage risk.

Councils have published their 2018-28 Long Term Plans in the past year and the sector is forecasting in aggregate a large increase in their potential debt levels as they look to invest in infrastructure. Some of the investment will be funded from other sources but LGFA is confident it can meet the borrowing needs of the sector. The sector is still awaiting guidance from Central Government regarding the Productivity Commission review into local government funding and financing and the review of the management of drinking water, stormwater and waste water (three waters). These may have a medium-term impact on the sector but LGFA remains comfortable in its ability to assist the sector in meeting any changes as a result of these initiatives.

Acknowledgments

The Agency's work cannot be implemented without the support of staff, directors, Shareholders Council and the New Zealand Debt Management (NZDM), all whose efforts should be acknowledged. I would like to also thank Mark Butcher, our Chief Executive for his leadership of the organisation over the past year. Directors believe the Agency's future remains positive and look forward to working with all stakeholders in the year ahead.



Craig Stobo
Chair, LGFA Board



Sewerage pipes being laid underwater in Lyttelton harbour. Christchurch City Council Newsline

Performance highlights

Putanga mahi matua

Bonds issued over the financial year

\$2.456
billion

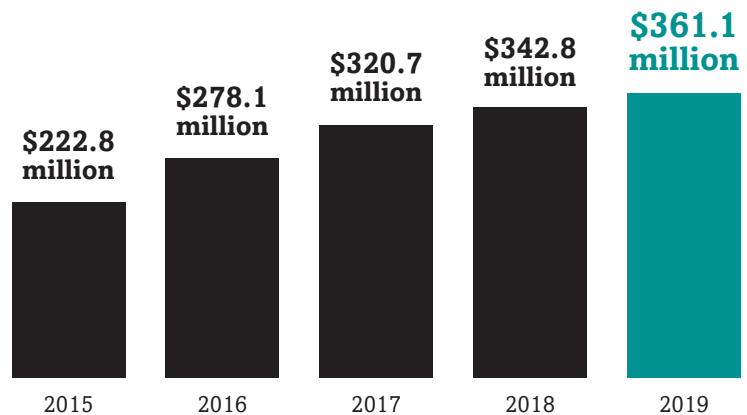
Lending to councils over the financial year

\$2.446
billion

Total interest income

\$361.1
million

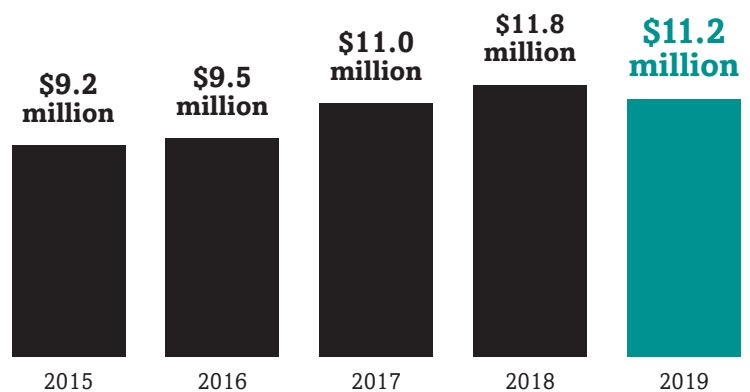
▲ **5.3%**
increase over the 2017-18 financial year



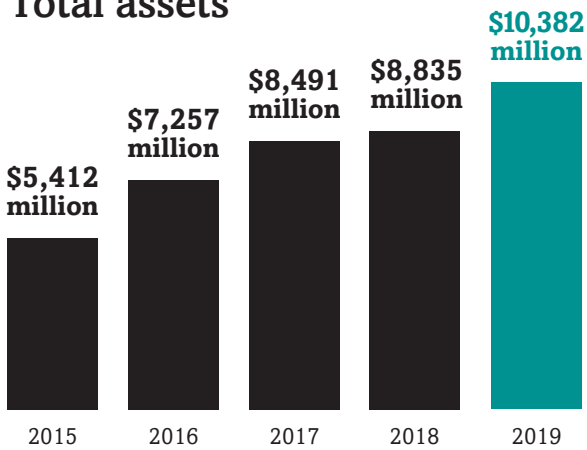
Net operating profit

\$11.2
million

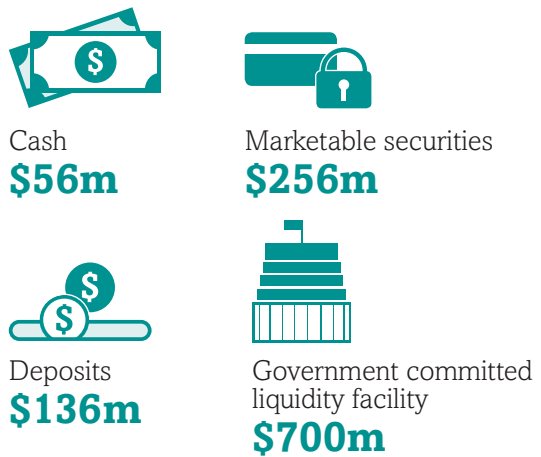
▼ **5.1%**
decrease over the 2017-18 financial year



Total assets



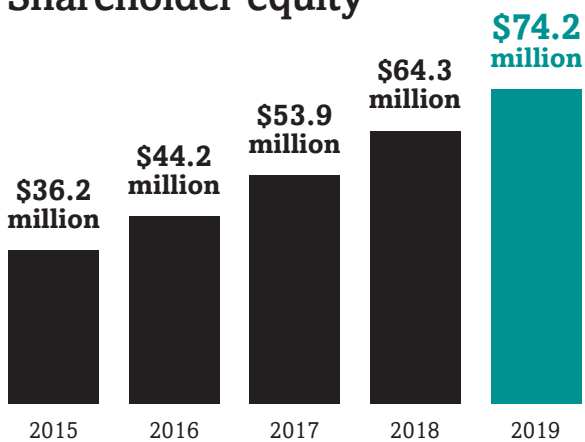
Liquidity as at 30 June 2019



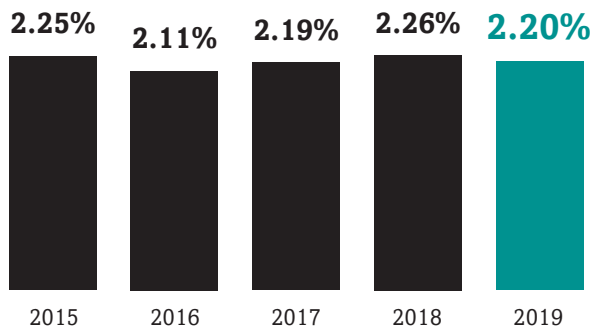
Shareholder funds 30 June 2019



Shareholder equity



Shareholder funds and borrower notes / total assets



Borrower Notes are subordinated convertible debt instruments subscribed for by borrowing councils.

Corporate governance Ārahitanga ā-rangatōpū

NZX Corporate Governance Best Practice Code

The LGFA Board is committed to ensuring LGFA demonstrates ongoing commitment to strong and sound corporate governance.

LGFA is a listed issuer on the NZX Main Board and this section sets out LGFA's compliance with the eight core principles underpinning the NZX Corporate Governance Best Practice Code 2019.

LGFA considers that its governance practices have not materially differed from the NZX Code for the year ended 30 June 2019. Areas where LGFA has implemented alternative measures to the Code are as follows:

An Issuer should establish a nomination committee to recommend director appointments to the Board.

The process for the nomination and remuneration of directors is documented in the Constitution of New Zealand Local Government Funding Agency Limited and outlined below.

An Issuer should have a remuneration committee which operates under a written charter.

The following governance documents referred to in this section are available on the LGFA website: lgfa.co.nz/about-lgfa/governance:

- LGFA Constitution
- Shareholders Agreement
- Code of Ethics
- Board Charter
- Audit and Risk Committee Charter
- Internal Audit Charter
- Diversity Policy
- Remuneration Policy

Principle 1 Code of ethical behaviour

Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation.

Code of Ethics

LGFA has adopted a formal Code of Ethics, incorporating its Conflicts of Interest Policy and Code of Conduct Policy, which sets out the standards that both directors and employees of LGFA are expected to follow to reflect the values of LGFA.

LGFA recognises impartiality and transparency in governance and administration are essential to maintaining the integrity of LGFA. Accordingly, the Conflicts of Interest Policy formally provides guidance to employees and directors of LGFA in relation to conflicts of interest and potential conflicts of interest, including specific guidance on the process for managing potential conflicts that may arise for non-independent directors. Directors and employees are expected to avoid all actions, relationships and other circumstances that may impact on their ability to exercise their professional duties.

The Code of Conduct Policy requires employees and directors to carry out their roles while maintaining high standards of integrity and conduct by clearly setting out standards for expected behaviour.

In addition, the policy sets out LGFA's commitment to behave in a fair and reasonable manner to employees, while providing a fair and safe working environment.

Protected Disclosures and Whistle Blowing

LGFA has adopted a Protected Disclosures and Whistle Blowing Policy which provides procedure, support and protection to persons who disclose information which they reasonably believe to be about serious wrong-doing in or by LGFA.

Financial Products Trading Policy

LGFA has formally adopted a Financial Products Trading Policy, which applies to all directors, employees and contractors, and details LGFA's policy on, and rules for dealing in, listed debt securities issued by LGFA and any other quoted financial products of LGFA.

To ensure an effective Board, there should be a balance of independence, skills, knowledge, experience and perspectives.

Principle 2 Board composition and performance

LGFA Board Charter

The LGFA Board has adopted a Board Charter which describes the Board's role and responsibilities and regulates the Board's procedures. The Board Charter states that the role of the Board is to ensure LGFA achieves its goals. Having regard to its role the Board will direct, and supervise the

management of, the business and affairs of LGFA, including:

- ensuring that LGFA's goals are clearly established, and that strategies are in place for achieving them (such strategies being expected to originate, in the first instance, from management);

- establishing policies for strengthening LGFA's performance;
- ensuring strategies are in place for meeting expectations set out in the current Statement of Intent and monitoring performance against those expectations, in particular LGFA's primary objective of optimising the debt funding terms and conditions for participating local authorities;
- monitoring the performance of management;
- appointing the CEO, setting the terms of the CEO's employment contract and, where necessary, terminating the CEO's employment;
- deciding on whatever steps are necessary to protect LGFA's financial position and the ability to meet its debts and other obligations when they fall due, and ensuring that such steps are taken;
- ensuring that LGFA's financial statements are true and fair and otherwise conform with law;
- ensuring that LGFA adheres to high standards of ethics and corporate behaviour; and
- ensuring that LGFA has appropriate risk management/regulatory compliance policies in place.

In the normal course of events, day-to-day management of LGFA will be in the hands of management. The Board will satisfy itself that LGFA is achieving its goals, and engaging and communicating with Shareholders' Council.

Board composition

The LGFA Board comprises five independent Directors and one non-independent Director. An independent director is a director who, within five years prior to appointment, was not an employee of any shareholder, employee of a Council-Controlled Organisation owned by a shareholder, or a councillor of any local authority which is a shareholder.

The directors of LGFA as at 30 June 2019:



Craig Stobo
Independent Chair

*BA (Hons) Economics. First Class, Otago
C.F.Inst.D
Associate Member CFA Society New Zealand*

Craig has worked as a diplomat, economist, investment banker and Chief Executive Officer of BT Funds Management (NZ) Limited. He has completed the Advanced Management Programme at Wharton Business School in Philadelphia, authored reports to the New Zealand Government on the Taxation of Investment Income (which led to the PIE regime), and the creation of New Zealand as a funds domicile. He currently chairs the listed companies Precinct Properties New Zealand Limited and AIG Insurance (NZ Board). He has directorship and private equity interests in financial services and other businesses.



John Avery
Independent Director

LLB, C.F.Inst.D

John was Managing Partner, then Chairman of Hesketh Henry. He was a director of The Warehouse Group Limited, several start-up businesses, a number of CCOs, an industry cooperative 'ITM', Regional Facilities Auckland Limited and Spider Tracks Limited. He is currently an independent director of Strategic Pay Limited and a Trustee of the Royal New Zealand Ballet.



Philip Cory-Wright
Independent Director

LLB (Hons), BCA Business Management, INFINZ (Cert), C.F.Inst.D

Philip is a solicitor of the High Court of New Zealand and Victoria. He has worked as a corporate finance adviser in New Zealand to the corporate sector on debt and equity matters for more than 30 years. He is currently a director of Powerco (from 1 October 2019), Matariki Forests, South Port New Zealand Limited and Papa Rererangi I Puketapu (New Plymouth Airport). Philip is also a strategic adviser to clients in the energy and infrastructure sectors. He was a member of the Local Government Infrastructure Expert Advisory Group tasked with advising the Minister of Local Government on improvements in local government infrastructure efficiency.



Linda Robertson
Independent Director

B.Com, Dip Banking, INFINZ (Distinguished Fellow), C.F.Inst.D, GAICD

Linda is a professional director with nearly 20 years governance experience and over 30 years experience in executive finance roles, having worked in the banking and energy sector in New Zealand. She is Chair of Pacific Radiology Group, Central Lakes Trust, Crown Irrigation Investments Ltd and Central Otago District Council Audit & Risk Committee, a director of Dunedin City Holdings Limited, Dunedin City Treasury Limited, Dunedin Stadium Property Limited and Central Lakes Direct Limited. Linda is also a member of the Treasury's Capital Markets Advisory Committee and the Treasury's Risk & Audit Committee.



Mike Timmer
Non-Independent Director

CA, BBS, BAgSci, INFINZ (Cert), M.Inst.D

Mike has worked for Citibank in its financial market section and held accountancy and treasury roles in the health sector and is presently Treasurer at the Greater Wellington Regional Council. He is Chairman of the Finance Committee of Physiotherapy New Zealand Incorporated and past Deputy Chair of the LGFA Shareholders' Council.



Anthony Quirk
Independent Director

BCA Hons (First Class), INFINZ (Fellow), AFA, M.Inst.D

Anthony is an experienced financial services sector professional with over thirty years executive experience in the sector, including nine years as Managing Director of Milford Asset Management. He has a varied portfolio of governance interests with an emphasis on areas that improve or contribute to communities. He is a Fellow of the Institute of Finance Professionals New Zealand (INFINZ) and is a former Chairman of that organisation. He was previously Chair of the Asset Management Advisory Board of the New Zealand Exchange, Deputy Chair and Board member of the New Zealand Society of Investment Analysts and a previous member of the Financial Reporting Standards Board of the New Zealand Society of Accountants.

Name of Director	Nature and extent of interest As at 30 June 2019	
Craig Stobo (Chair)	Director Precinct Properties New Zealand Limited Elevation Capital Management Limited Saturn Portfolio Management Limited Stobo Group Limited AIG Insurance NZ Limited SouthWest Trustees Limited Appello Services Limited Biomarine Group Limited Legend Terrace Limited	
John Avery	Director Strategic Pay Limited	General disclosure Stringer Trust (Trustee) Royal New Zealand Ballet (Trustee)
Philip Cory-Wright	Director South Port New Zealand Limited Matariki Forests Papa Rererangi i Puketapu (New Plymouth Airport)	
Anthony Quirk	Director Non-Executive Director and Shareholder, Milford Asset Management (and associated subsidiaries) Deputy Chair, Compass Housing NZ	General disclosure Chairman, New Zealand Water Polo
Linda Robertson	Director Dunedin City Holdings Limited Dunedin City Treasury Limited Dunedin Stadium Property Limited Central Lakes Trust (Chair) and associated subsidiaries. Crown Irrigation Investments Limited (Chair) Pacific Radiology Group Limited (Chair)	General disclosure Capital Markets Advisory Committee, The Treasury (Member) Risk & Audit Committee, The Treasury (Member) Audit & Risk Committee, Central Otago District Council (Chair)
Mike Timmer	General disclosure Officer, Greater Wellington Regional Council Chairman of Finance Committee, Physiotherapy New Zealand	

Nomination of Directors

Director nominations can only be made by a shareholder by written notice to LGFA and Shareholders' Council, with not more than three months, nor less than two months before a meeting of shareholders. All valid nominations are required to be sent by LGFA to all persons entitled to attend the meeting.

Retirement and re-election of Directors

Directors are appointed to the Board by an Ordinary Resolution of shareholders. At each Annual General Meeting, two directors must retire and, if desired, seek re-election. The directors who retire each year are one each of the independent and non-independent, who have been longest in office since their last appointment or, if there are more than one of equal term, those determined by lot, unless the Board resolves otherwise.

Director tenure

As at 30 June 2019

Director	Originally appointed	Last reappointed/ elected	Tenure	Next reappointment
Craig Stobo (Chair)	1 December 2011	21 November 2017	7 years, 7 months	November 2021
John Avery	1 December 2011	21 November 2018	7 years, 7 months	November 2022
Philip Cory-Wright	1 December 2011	24 November 2016	7 years, 7 months	November 2020
Anthony Quirk	21 November 2017	21 November 2017	1 year, 7 months	November 2021
Linda Robertson	24 November 2015	24 November 2015	3 years, 7 months	November 2019
Mike Timmer	24 November 2015	21 November 2018	3 years, 7 months	November 2019

Meetings of the Board

The table below shows attendances at Board, committee and strategy meetings by directors during the year ended 30 June 2019. In addition to the scheduled meetings, additional meetings are convened as necessary to consider specific issues.

Director	Board	Audit and Risk Committee
Craig Stobo (Chair)	6/6	--
John Avery	4/6	--
Philip Cory-Wright	5/6	4/4
Anthony Quirk	6/6	4/4
Linda Robertson (ARC Chair)	6/6	4/4
Mike Timmer	6/6	4/4

Board performance review

The Board has established an annual formal self-assessment procedure to assess director, board and committee performance. In addition, Board performance is reviewed by external consultants on a periodic basis.

Director training

As part of LGFA's commitment to ongoing director education, LGFA regularly invites directors to attend relevant industry conferences and training events, as well as organising for industry experts to attend and present to directors at Board meetings.

Diversity

The LGFA is committed to promoting a culture that supports both workplace diversity and inclusion within the organisation.

LGFA has formally adopted a Diversity Policy which applies to both LGFA employees and directors. Diversity and inclusiveness at LGFA involves recognising the value of individual differences and managing them in the workplace. Diversity in this context covers gender, age, ethnicity, cultural background, sexual orientation, religious belief, disability, education and family responsibilities.

Appointments to the LGFA Board are made in accordance with LGFA's Constitution and the Shareholders Agreement.

Gender diversity of directors



2019
Female 1, Male 5



2018
Female 1, Male 5

Gender diversity of employees



2019
Female 2, Male 5



2018
Female 2, Male 4

Indemnities and insurance

Under LGFA's constitution, LGFA has indemnified directors for potential liabilities and costs they may incur for acts of omission in their capacity as directors. LGFA has arranged directors' and officers' liability insurance covering directors and management acting on behalf of LGFA. Cover is for damages, judgements, fines, penalties, legal costs awarded and defence costs arising from wrongful acts committed while acting for LGFA. The types of acts that are not covered are dishonest, fraudulent, malicious acts, or omissions, wilful breach of statute or regulation, or duty to LGFA, improper use of information to the detriment of LGFA, or breach of professional duty.

Principle 3 Board committees

The Board should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility.

Audit and Risk Committee

The LGFA Audit and Risk Committee is a committee of the Board.

The Audit and Risk Committee is governed by an Audit and Risk Committee Charter, which states that the purpose of the Audit and Risk Committee is to provide advice, assurance and observations to the Board relating to the effectiveness and adequacy of internal control and risk management systems, processes and activities across LGFA. It assists the Board to fulfil its duties by considering, reviewing and monitoring:

- Risk management framework and processes;
- Internal control environment and mechanisms;
- The operations and effectiveness of the internal audit function;
- Processes relating to the preparation and audit of financial statements of LGFA;

- The integrity of performance information, including financial reporting;
- The governance framework and process;
- Policies, processes and activities to ensure compliance with legislation, policies and procedures; and
- Statutory/regulatory disclosure and reporting and performance against Statement of Intent targets.

Audit and Risk Committee members are appointed by the Board. Membership comprises at least three directors, the majority of whom must be independent. The members of the Audit and Risk Committee as at the date of this Annual Report are:

- Linda Robertson (Chair)
- Philip Cory-Wright
- Anthony Quirk
- Mike Timmer

The Board should demand integrity in financial and non-financial reporting and in the timeliness and balance of corporate disclosures.

Principle 4 Reporting and disclosure

The Board is committed to ensuring the highest standards are maintained in financial reporting and disclosure of all relevant information.

The Audit and Risk Committee has responsibility to provide assurance to the Board that due process has been followed in the preparation and audit of the financial statements of LGFA and to ensure there are appropriate processes and activities to ensure compliance with relevant regulatory and statutory requirements.

LGFA has adopted a formal Continuous Disclosure Policy, the requirements of which ensure that LGFA meets the continuous disclosure requirements of the NZX Listing Rules including the disclosure for material environmental, social and governance (ESG) factors.

LGFA have adopted the GRI Sustainability Reporting Standards (GRI standards) and initiated a process for identifying material ESG factors, which will be disclosed in the 2020 Annual Report.

Principle 5 Remuneration

The remuneration of directors and the executives should be transparent, fair and reasonable.

The remuneration of the Board reflects LGFA's size and complexity and the responsibilities, skills, performance and experience of the directors. A specialist independent adviser may be used to ensure the remuneration is appropriate.

Board remuneration is determined by an Ordinary Resolution of shareholders. The current board remuneration was approved by shareholder resolution at the Annual General Meeting on 21 November 2017.

Approved Director annual fee breakdown

Position	Fees per annum	2019	2018
Board Chair		\$97,000	\$97,000
Audit and Risk Committee Chair		\$60,000	\$60,000
Director		\$55,000	\$55,000

Director remuneration

Director	2019
Craig Stobo	\$97,000
John Avery	\$55,000
Philip Cory-Wright	\$55,000
Anthony Quirk	\$55,000
Linda Robertson	\$60,000
Mike Timmer	\$55,000
Total	377,000

The remuneration of the CEO is determined by the Board and is reviewed on an annual basis taking into consideration the scope and complexity of the position with reference to the remuneration of CEOs of similar organisations. A specialist independent adviser may be used to ensure the remuneration is appropriate.

The CEO remuneration package comprises a fixed cash component of \$530,000 per annum as at 30 June 2019 (\$504,000, 2018) and an at-risk short-term incentive of up to 15% of the fixed cash component. The short-term incentive payment is made annually at the Board's discretion subject to the CEO and LGFA meeting a range of specific performance objectives for the respective financial year.

Chief Executive remuneration

	2019	2018
Salary	\$530,000	\$504,000
Taxable benefits	-	-
Subtotal	\$530,000	\$504,000
Pay for Performance STI	\$71,550	\$75,600
Total remuneration	\$601,550	\$579,600

Staff remuneration

Total remuneration	2019
\$130,000 to \$139,999	1
\$150,000 to \$159,999	1
\$240,000 to \$249,999	1
\$300,000 to \$309,999	1
\$600,000 to \$609,999	1
Total staff receiving \$100,000 or more	5

Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks.

Principle 6 Risk management

LGFA recognises that an effective risk management framework is a critical part of its business structure. LGFA is exposed to both business and treasury related risks because of its normal business activities that relate to raising and on-lending funds to local councils.

LGFA adopts the three lines of defence model to ensure that essential risk management functions are completed using a systematic approach that reflects industry best practice:

- The first line of defence relates to the operational risk and control within the business. Managers within the business are responsible for identifying controls, maintaining effective controls, assessing the controls and mitigating risks. The first line of defence establishes risk ownership within the business.
- The second line of defence relates to establishing risk control within the organisation and involves reviewing risk reports, checking compliance against the risk management framework and ensuring that risks are actively and appropriately managed.
- The third line of defence establishes risk assurance using both internal and external audit functions to highlight control weaknesses and inefficiencies to management. The audit functions provide independent assurance on the risk governance framework.

The Audit and Risk Committee assists the Board by considering, reviewing and monitoring LGFA's risk management framework and processes, and the internal control environment and mechanisms.

LGFA continually reviews its core business risks. This review process includes the identification and assessment of core business risks which are ranked using predetermined criteria for both the likelihood and potential impact of each risk. LGFA maintains a company-wide risk register which records all identified risks, potential impacts and the controls and mitigation strategies used to manage the risks.

LGFA has treasury exposures arising from its normal business activities that principally relate to the raising and on-lending of funds. A detailed description of LGFA's risk management processes for treasury exposures is detailed in the Treasury Risk Management section of this report.

Internal audit

LGFA has established an internal audit function to provide assurance that LGFA's risk management, governance and internal controls are operating effectively.

The Audit and Risk Committee has responsibility for oversight of the internal audit function, including:

- Reviewing the Internal Audit Charter, the operations of the internal audit and organisational structure of the internal audit function;
- Reviewing and approving the annual audit plan;
- Reviewing the effectiveness of the internal audit function; and
- Meeting separately with the internal auditor to discuss any matters that the Audit and Risk Committee or Internal Audit believes should be discussed privately.

Health and safety

LGFA is committed to a safe and healthy work environment and has formally adopted a Health and Safety Policy that clearly sets out the duty of directors and staff under the Health and Safety at Work Act 2015. A staff health and safety committee has been established with responsibility to continuously review health and safety issues and ongoing compliance with the Act, with reporting to the Board on health and safety issues at each Board meeting.

Principle 7 Auditors

The Board should ensure the quality and independence of the external audit process.

External audit

The external audit of LGFA is conducted in accordance with Section 14 of the Public Audit Act 2001, including the appointment of the external auditors of LGFA by the Auditor-General.

The Audit and Risk Committee has responsibility for all processes relating to the audit of financial statements, including the setting of audit fees and ensuring the independence and objectivity of the auditors.

The external audit of LGFA is conducted in accordance with a formal external audit plan which is reviewed and approved by the Audit and Risk Committee on an annual basis. The external auditor attends LGFA's Annual General Meeting.

The Board should respect the rights of shareholders and foster relationships with shareholders that encourage them to engage with the issuer.

Principle 8 Shareholder rights and relations

LGFA has 31 Shareholders, comprising the New Zealand Government (20%) and 30 councils (80%).

New Zealand Government

Auckland Council

Bay of Plenty Regional Council

Christchurch City Council

Gisborne District Council

Greater Wellington Regional Council

Hamilton City Council

Hastings District Council

Hauraki District Council

Horowhenua District Council

Hutt City Council

Kapiti Coast District Council

Manawatu District Council

Marlborough District Council

Masterton District Council

New Plymouth District Council

Otorohanga District Council

Palmerston North City Council

Selwyn District Council

South Taranaki District Council

Tasman District Council

Taupo District Council

Tauranga City Council

Thames-Coromandel District Council

Waimakariri District Council

Waipa District Council

Wellington City Council

Western Bay of Plenty District Council

Whakatane District Council

Whanganui District Council

Whangarei District Council

Foundation documents

The LGFA Constitution and the Shareholders' Agreement are foundation documents.

The LGFA Constitution defines the rights and the exercise of powers of shareholders, the acquisition and redemption of company shares, proceedings of shareholder meetings, voting at meetings and the right to demand polls, shareholder proposals and review of management.

The Shareholders' Agreement is an agreement between the Company and its shareholders which clearly defines LGFA's business, its objectives, the role of the Board, the establishment of the Shareholders' Council and the approval rights of the shareholders.

LGFA Shareholders' Council

The LGFA Shareholders' Council comprises five to ten appointees from the Council Shareholders and the New Zealand Government. The role of the Shareholders' Council comprises the following:

- Review and report performance of LGFA and the Board;
- Recommendations to Shareholders as to the appointment, removal, replacement and remuneration of directors;
- Recommendations to Shareholders as to any changes to policies, or the Statement of Intent (SOI), requiring their approval;
- Update Shareholders on LGFA matters and to coordinate Shareholders on governance decisions.

Members of the Shareholders' Council as at 30 June 2019

- Alan Adcock, Whangarei District Council, Chair
- John Bishop, Auckland Council, Deputy Chair
- Mohan de Mel, Tauranga City Council
- David Bryant, Hamilton City Council
- Kumaren Perumal, Western Bay of Plenty District Council
- Mat Taylor, Bay of Plenty Regional Council
- Martin Read, Wellington City Council
- Mike Drummond, Tasman District Council
- Carol Bellette, Christchurch City Council
- Richard Hardie/Oliver Martin, New Zealand Government

Sustainability and Social Responsibility Te Rōnakitanga me te Haepapa ā-Pāpori

The LGFA Board is responsible for corporate social responsibility and I am pleased to advise that work is currently progressing on incorporating social responsibility and sustainability as inherent components of our operational environment, as well as working to improve LGFA's non-financial disclosures.

Over the course of the coming year LGFA will continue developing its environmental, social and governance responsibilities and practices, including identifying the material topics that reflect LGFA's economic, environmental and social impacts, or that substantively influence the assessments and decisions of stakeholders.

For the first time, this year LGFA have incorporated Global Reporting Initiative (GRI) standards in preparing our Annual Report and a GRI index has been included as an appendix (Page 80).

As at the date of this report, work is still progressing on identifying and reporting on the material topics that reflect LGFA's significant economic, environmental and social impacts. It is anticipated that this work will be complete for inclusion in the 2020 Annual Report.

The GRI Sustainability Reporting Standards (GRI Standards) are the first and most widely adopted global standards for sustainability reporting and our objective is that future reports will be prepared in accordance with the GRI standards.

Craig Stobo
Chair, LGFA Board

LGFA staff assisted BNZ staff with planting of Kauri trees in the Coromandel region in June 2019. The planting commemorated BNZ's association with the Kauri 2000 Trust and the issue of LGFA's first syndicated bonds. BNZ was the Arranger to the issue.

Kauri 2000 evolved out of a project to mark the start of the new millennium with a goal to plant 2000 kauri. To date the Trust has planted over 50,000 kauri on the Coromandel Peninsula and continues to plant kauri throughout the Coromandel. The Kauri 2000 Trust is a non-profit charitable trust, established in 2000 and registered in New Zealand under the Charities Act 2005.



Enhancing local community wellbeing

Te whakarei i te oranga hapori ā-rohe

LGFA's investment in local government enables councils to generate value through projects that create wellbeing in their local communities. Wellbeing is underpinned by social, environmental and economic capitals. Enhancing community wellbeing builds on this capital and generates value including economic and/or social benefits, safety, resilience, or environmental benefits. Two examples of local government investments in community wellbeing follow.

The Thames-Coromandel District Council



Clean green travel

The Thames-Coromandel District Council's 'Coromandel Electric Vehicle Touring Loop' comprises a network of fast-charging stations at various locations around the Coromandel which puts most of the district within range of electric vehicle travel.

The chargers, which can charge an electric vehicle (EV) in about 20 minutes, have been installed thanks to a collaboration between our Council, Powerco, ChargeNet NZ and the Energy Efficiency Conservation Authority.

Establishing EV infrastructure in the Thames-Coromandel District creates community wellbeing through the economic benefits of EV tourism, environmental benefits of electric mobility and through future-proofing the community's travel choices.

The Thames-Coromandel District Council was a finalist in the 2019 Local Government New Zealand (LGNZ) EXCELLENCE Awards for Environmental Well-being award which recognises projects that enhance the environmental well-being of their community.

Pictured is Mayor Sandra Goudie at the launch of the Scenic Touring Route in December 2017.



Better Lighting, safer communities

Hamilton's streets are now better-lit, safer and cheaper to illuminate thanks to the installation of 16,000 LED customised streetlights.

The project saved Hamilton City Council (HCC) \$250,000 in reduced power and maintenance in the first year, and \$550,000 in the second year. It has made major health and road safety improvements and protected the things Hamiltonians value most.

It has also changed national lighting specifications which, over time, will drive fundamental change in the way New Zealanders see and experience light. The work from HCC has been universally praised by environmentalists, health professionals, lighting experts and astronomers and most importantly, the wider community.

Finally, the project has done the most important thing of all. It has directly contributed to Hamilton City Council's core purpose, "to improve the well-being of all Hamiltonians".



Treasury risk Management Whakahaeretanga ā-mōrearea

LGFA funds itself through domestic and international wholesale and retail debt capital markets, with the funds raised on-lent to participating New Zealand Local Authority borrowers. LGFA activities are governed by the Local Government Borrowing Act 2011, the Local Government Act 2002, and the Companies Act 1993. In addition, the company is required to comply with 'Foundation Policies' outlined in the Shareholders Agreement. Any change to the Foundation Policies require shareholders' consent.

The LGFA risk management framework uses an approved risk identification and assessment framework to actively monitor and manage all treasury and financial risks using best practice risk management principles, processes and practices.

LGFA has treasury exposures arising from its normal business activities that principally relate to the raising and on-lending of funds. LGFA manages treasury exposures under a Board-approved Treasury Policy. The objectives for the Treasury Policy are to:

- Effectively manage treasury risks within approved compliance limits to protect LGFA's capital position and Net Interest Margin over time.
- Fund participating local authorities in the most cost-effective manner and in accordance with the operating principles, values and objectives of the LGFA.
- Protect LGFA's assets and prevent unauthorised transactions.

- Promote professional expertise of financial and management control to all external parties.
- Minimise operational risk by maintaining adequate internal controls, systems and staffing competencies.
- Provide timely reporting to the LGFA Board with meaningful and accurate reporting of interest rate exposures, liquidity, asset and liability maturity, funding, counterparty credit, performance and Policy compliance.

Specific treasury exposures relate to liquidity, interest rate/market risk, foreign exchange, counterparty credit, operational and lending risks.

Liquidity risk

Liquidity risk refers to the potential inability of LGFA to meet its financial obligations when they become due, under normal or abnormal/stressed operating conditions.

Liquidity risk is managed using a forecasted cashflow approach measured over 30-day, 90-day and one-year periods. LGFA is required to maintain sufficient liquidity (comprising a government standby facility and holdings of cash and liquid investments) to support 12 months operating and funding commitments.

Interest rate risk / market risk

Interest rate risk is the risk that financial assets may re-price/mature at a different time and/or by a different amount than financial liabilities.

Market risk is managed using Value at Risk (VaR) and Partial Differential Hedge (PDH) limits to mitigate the potential change in value of the balance sheet due to changes in interest rates.

- PDH risk measures the sensitivity of a portfolio to a one basis point change in underlying interest rates. For example, a PDH of NZD\$40,000 means that the portfolio value will increase by NZD \$40,000 for a one basis point fall in interest rates.
- Value at Risk is used to measure market risk. The VaR model calculates the potential amount LGFA's portfolio could be expected to lose 5% of the time over a given time period. It is calculated using historical changes in underlying risk variables and applying those changes to the current portfolio.

LGFA measures VaR over a daily time horizon with a 95% confidence interval. A daily 95% VaR exposure of \$100,000 means that there is a 5% chance that the portfolio could potentially lose more than \$100,000 over the next business day.

Counterparty credit risk

Counterparty credit risk is the risk of financial loss to LGFA (realised or unrealised) arising from a counterparty defaulting on an investment, security and/or financial instrument where LGFA is a holder or party.

Counterparty credit risk is managed through:

- Counterparty limits for investments. These are determined as a function of the term of investment, liquidity and credit quality of the counterparty (as measured by credit rating).
- Counterparty risk on derivative contracts is mitigated by utilising the Treasury (New Zealand Debt Management) as the counterparty to derivative contracts.

Investment is restricted to approved financial investments listed in the Treasury Policy.

Foreign currency risk

Exposure to foreign exchange could exist if LGFA accesses foreign capital markets for funding purposes.

Foreign exchange risk is managed through a requirement for LGFA to fully hedge back to floating rate NZD the full amount and term of all foreign currency funding and cash flows.

Operational risk

Operational risk, with respect to treasury management, is the risk of financial and/or reputation loss because of human error (or fraud), negligent behaviour, system failures and inadequate procedures and controls.

Operational risk is managed using internal controls and procedures across LGFA's operational functions. Segregation of duties between staff members who have the authority to enter transactions with external counterparties and the staff who control, check and confirm such transactions is a cornerstone internal control principle.

Financial instruments are not entered into if the systems, operations and internal controls do not satisfactorily support the measurement, management and reporting of the risks.

Lending risk

LGFA provides debt funding solely to New Zealand Local Government councils i.e. the Local Government borrowing counterparty will be the Council itself and will not be any Council-Controlled Organisation, Council-Controlled Trading Organisation, Council joint venture or partially-owned entity.

The LGFA Board have ultimate discretion on approving term funding to councils.

All Local Authorities that borrow from LGFA:

- Provide debenture security in relation to their borrowing from LGFA and related obligations, and (if relevant), equity commitment liabilities to LGFA and (if relevant) guarantee liabilities to a security trustee approved for LGFA's creditors.
- If the principal amount of a Local Authority's borrowings is at any time equal to, or greater than, NZD 20 million, then it is required to become a party to a deed of guarantee and an equity commitment deed.
- Issue securities (bonds/floating rate notes/commercial paper) to LGFA (i.e. not enter into facility arrangements).
- Comply with their own internal borrowing policies.
- Comply with the financial covenants outlined in the following table, provided that:
 - Unrated Local Authorities or Local Authorities with a long-term credit rating lower than 'A' equivalent can have bespoke financial covenants that exceed the:
 - Lending policy covenants outlined in the following table only with the approval of the Board;
 - Foundation policy covenants outlined in the following table only with the approval of an Ordinary Resolution of shareholders.

Financial covenant	Lending policy covenants Non-rated councils	Foundation policy covenants Rated councils
Net debt / total revenue	<175%	<250%
Net interest / total revenue	<20%	<20%
Net interest / annual rates income	<25%	<30%
Liquidity	>110%	>110%

- Local Authorities with a long-term credit rating of 'A' equivalent or higher can have bespoke financial covenants that exceed the foundation policy covenants only with the approval of an Ordinary Resolution of shareholders.
- Any Board or Ordinary Resolution approval of bespoke financial covenants will only be provided after a robust credit analysis and any approval must also include bespoke reporting and monitoring arrangements.
- Non-compliance with the financial covenants will either preclude a council from borrowing from LGFA or, in the case of existing council, borrowers trigger an event of review. An event of default will occur if (among other things) a council fails to meet an interest or principal payment (subject to grace periods). An event of default will enable LGFA to accelerate all loans to the defaulting council.
- Total revenue is defined as cash earnings from rates, government grants and subsidies, user charges, interest, dividends, financial and other revenue and excludes non-government capital contributions, e.g. developer contributions and vested assets.
- Net debt is defined as total consolidated debt less liquid financial assets and investments.
- Liquidity is defined as external debt plus committed loan facilities plus liquid investments divided by external debt.
- Net interest is defined as the amount equal to all interest and financing costs less interest income for the relevant period.
- Annual rates income is defined as the amount equal to the total revenue from any funding mechanism authorised by the Local Government (Rating) Act 2002 together with any revenue received from other local governments for services provided and for which the other local governments rate.

Financial covenants are measured on Council only, not consolidated group (except Auckland Council, or if specifically requested by any other council).

To minimise concentration risk, LGFA requires that no more than the greater of NZD 100 million or 33% of a Council's borrowings from LGFA will mature in any 12-month period.

Auckland Council is limited to a maximum of 40% of LGFA's total Local Government assets.



The Whitcombe Valley Road project will widen the road and lengthen the seal to the Iconic Hokitika Gorge.
Westland District Council

Performance against objectives

Tutukinga mahi ki ōna whāinga

The statement of service performance details LGFA's performance against the objectives and targets set out in the LGFA Statement of Intent 2018-19 (SOI)

Performance against primary objectives

This section sets out LGFA's performance for the year ended 30 June 2019 against the two primary objectives set out in the 2018-19 SOI.

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

- i. **Providing savings in annual interest costs for all Participating Local Authorities on a relative basis to other sources of financing;**

LGFA aims to minimise its issuance margin over swap rates to provide cost-effective funding to councils. The LGFA margin to swap will depend upon several factors including the relative demand and supply of high grade bonds, general credit market conditions, performance of New Zealand Government bonds and swap rates, investor perceptions of LGFA and the issuance volume and tenor of LGFA bonds.

2018-19 performance objectives

The SOI set out two primary performance objectives and eight additional objectives for LGFA for the year ended 30 June 2019:

Primary objectives

1. LGFA will operate with the primary objective of optimising the debt funding terms and conditions for Participating Local Authorities. Among other things this includes:
 - i. Providing savings in annual interest costs for all Participating Local Authorities on a relative basis to other sources of financing;
 - ii. Making longer-term borrowings available to Participating Local Authorities;
 - iii. Enhancing the certainty of access to debt markets for Participating Local Authorities, subject always to operating in accordance with sound business practice; and
 - iv. Offering more flexible lending terms to 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. This includes
 - i. LGFA will review each Participating Local Authority's financial position, its financial headroom under LGFA policies and endeavour to visit each Participating Local Authority on an annual basis;
 - ii. LGFA will analyse finances at the Council group level where appropriate;
 - iii. LGFA will review its debt covenant methodology and assessment of council financial position at group vs parent. LGFA will present its findings to councils at the

LGFA Shareholder-Borrower Day, including a comparison of LGFA methodology to that of the credit rating agencies;

- iv. 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; and
- v. LGFA will take a proactive role to enhance the financial strength and depth of the local government debt market

Additional objectives

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 SOI;
2. Provide at least 50% of aggregate long-term debt funding to the Local Government sector;
3. 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 SOI;
4. Take appropriate steps to ensure compliance with the Health and Safety at Work Act 2015;
5. Maintain LGFA's credit rating equal to the New Zealand Government sovereign rating where both entities are rated by the same Rating Agency;
6. Achieve the Financial Forecasts (excluding the impact of AIL) set out in section 4 of the SOI;
7. Meet or exceed the Performance Targets outlined in section 5 of the SOI; and
8. Comply with its Treasury Policy, as approved by the Board.

Given that LGFA tends to match fund its on-lending to councils where possible, i.e. tends to issue bonds in a similar tenor and volume as its on-lending, then LGFA only has influence over investor perception amongst the above factors that determine LGFA spreads to 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 (spread widening). It is also very

difficult to find an appropriate benchmark to measure performance against.

LGFA spreads to swap have consistently narrowed since it first began issuing bonds in February 2012 and over the past year, spreads to swap as measured by secondary market levels have widened on the shorter LGFA bond maturities and narrowed on the long-dated maturities.

LGFA bond margin to swap Basis points	As at 30 June 2019	As at 30 June 2018	Spread movement increase (reduction)
15-Mar-19	n/a	4	n/a
15-Apr-20	11	5	6
15-May-21	15	11	4
14-Apr-22	22	20	2
15-Apr-23	30	34	(4)
15-Apr-24*	37	n/a	n/a
15-Apr-25	41	53	(12)
15-Apr-27	46	54	(8)
14-Apr-33	67	79	(12)

* The first tranche of the 2024 bond was issued in March 2019.

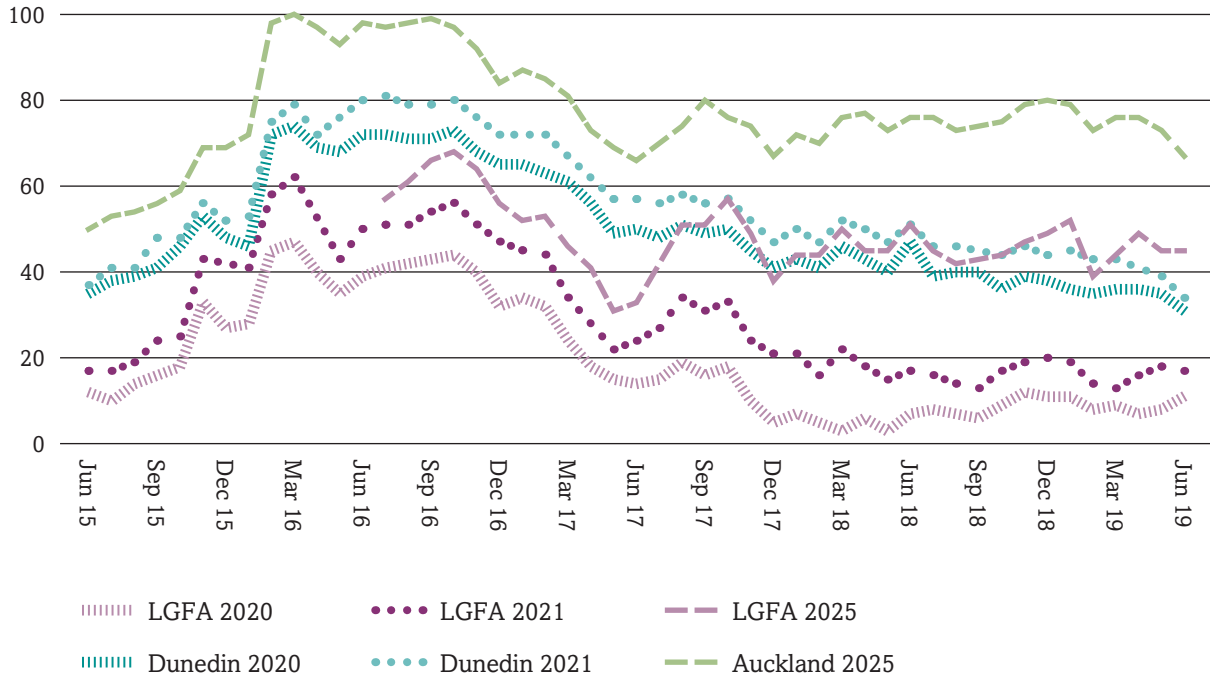
Some of the movement is due to the changes in the spread between swap rates and NZ Government Bond (NZGB) yields as over the same period LGFA spreads to NZGB have narrowed for all maturities.

LGFA bond margin to NZGB Basis points	As at 30 June 2019	As at 30 June 2018	Spread movement increase (reduction)
15-Mar-19	n/a	30	n/a
15-Apr-20	35	37	(2)
15-May-21	36	44	(8)
14-Apr-22	42	53	(11)
15-Apr-23	51	69	(18)
15-Apr-24*	59	n/a	n/a
15-Apr-25	65	83	(18)
15-Apr-27	70	83	(13)
14-Apr-33	92	104	(12)

* The first tranche of the 2024 bond was issued in March 2019.

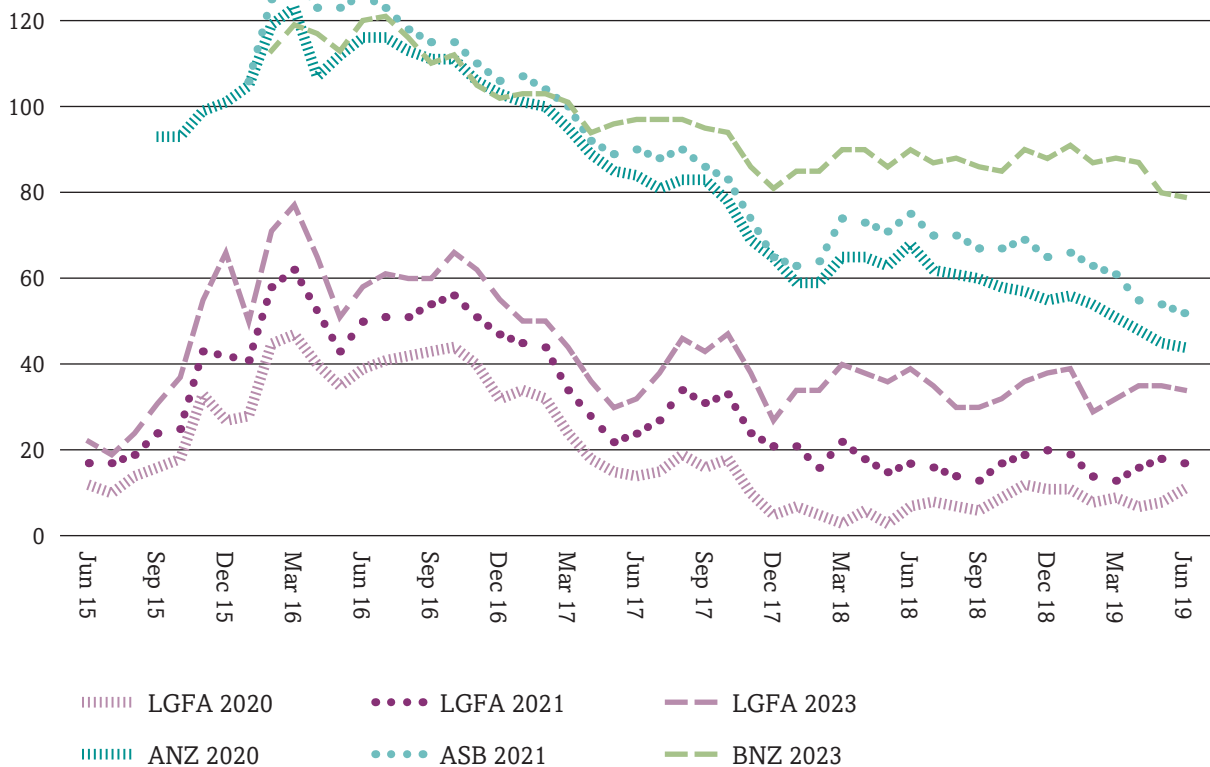
LGFA continues to provide savings in borrowing cost for councils relative to other sources of borrowing. LGFA compares secondary market spreads on its bonds to those of Auckland Council and Dunedin City Treasury (as a proxy for councils borrowing in their own name) and a mix of banks (as a proxy for general market conditions).

Secondary market credit spread to swap for LGFA and council bonds (basis points)



Source: Bloomberg, LGFA

Secondary market credit spread to swap for LGFA and bank bonds (basis points)



Source: Bloomberg, LGFA

From the table below, based upon secondary market spread as at 30 June 2019, LGFA saved AA-rated councils an estimated 7 bps to 9 bps depending upon the term of maturity. This compares to savings of between 10 bps and 21 bps a year ago. The savings are less than a year ago due to (i) the relative size of issuance between LGFA and the two councils over the past year (ii) in the current low interest rate environment, investors have been seeking additional yield and the contraction in margins has been greater for higher yielding bonds.

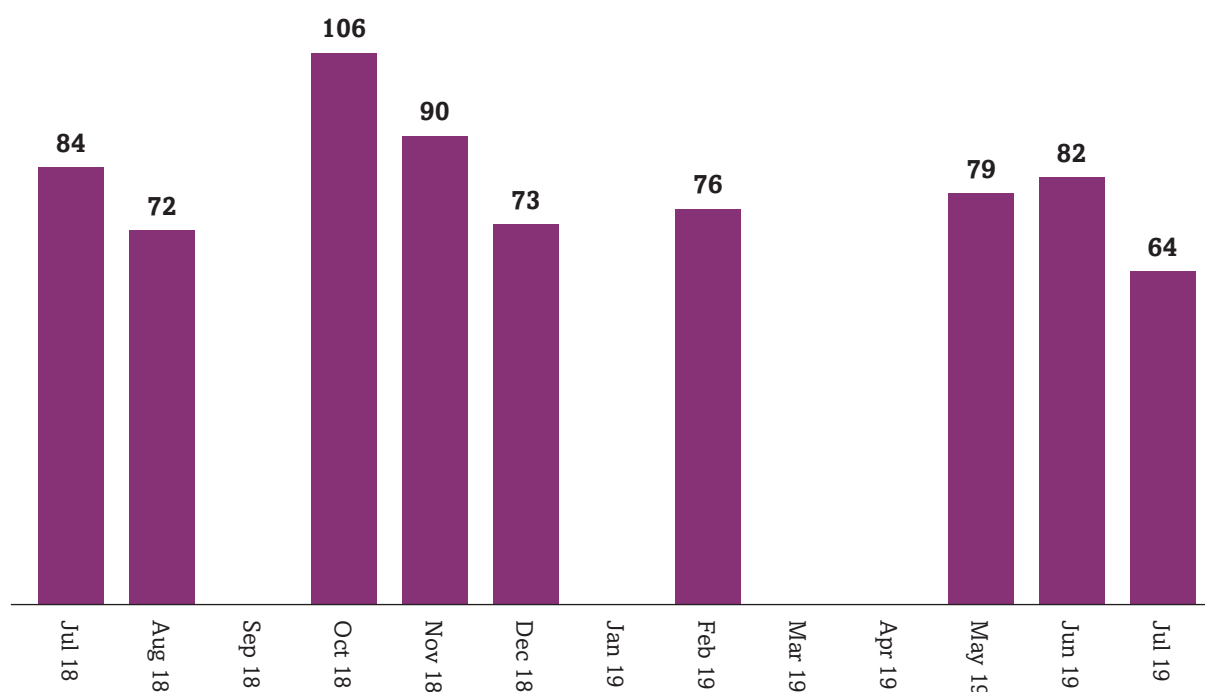
30 June 2019	Dunedin 2020	Dunedin 2021	Auckland 2022	Auckland 2025	Auckland 2025
AA-rated councils' margin to swap	29	34	39	58	73
Less LGFA margin to swap	(11)	(15)	(22)	(41)	(53)
LGFA Gross Funding Advantage	18	19	17	17	20
Less LGFA Base Margin	(10)	(10)	(10)	(10)	(10)
Total Saving	8	9	7	7	10

ii. Making longer-term borrowings available to Participating Local Authorities;

The average borrowing term (excluding short-dated borrowing) for the 12-month period to June 2019 by council members was 6.0 years and this was longer than the average borrowing term of 4.5 years for the prior year. The lengthening in term was due

to councils reacting to the narrowing in borrowing spreads and low outright yields. However, the length of borrowing remains short relative to the 2015/16 year (7.8 years) and 2016/17 year (8.1 years) and relative to the forecast increase in sector projected debt levels in the future combined with low interest rates.

Average total months to maturity – on-lending to councils



While LGFA provides councils with the ability to borrow from LGFA for terms from one month to 14 years, it is up to the councils to determine their preferred term of borrowing.

In March 2019 LGFA commenced the issuance of a 5-year bond (April 2024) and this shorter maturity was, for the second consecutive year, against the previous trend of introducing a new longer-dated bond each financial year. The decision to issue

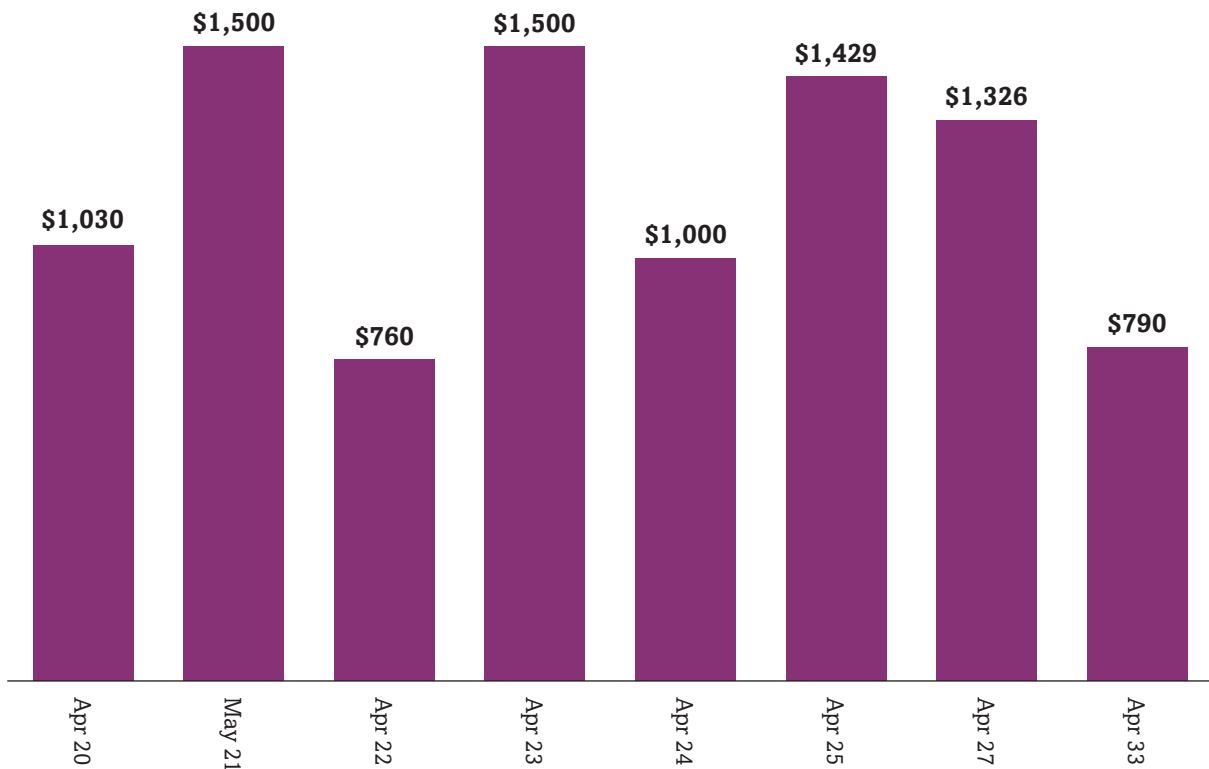
a new mid-curve bond maturity was made to reduce the mismatch between bond issuance and council on-lending. However, with the ongoing issuance of the April 2033 LGFA bond, councils can borrow on a bespoke basis out to 14 years.

The following chart shows the total LGFA bond outstandings, including treasury stock, by maturity as at 30 June 2019.

LGFA bonds on issue (NZ\$ million)

As 30 June 2019 : NZ\$9,335 million

Includes NZ\$400 million treasury stock



iii. Enhancing the certainty of access to debt markets for Participating Local Authorities, subject always to operating in accordance with sound business practice;

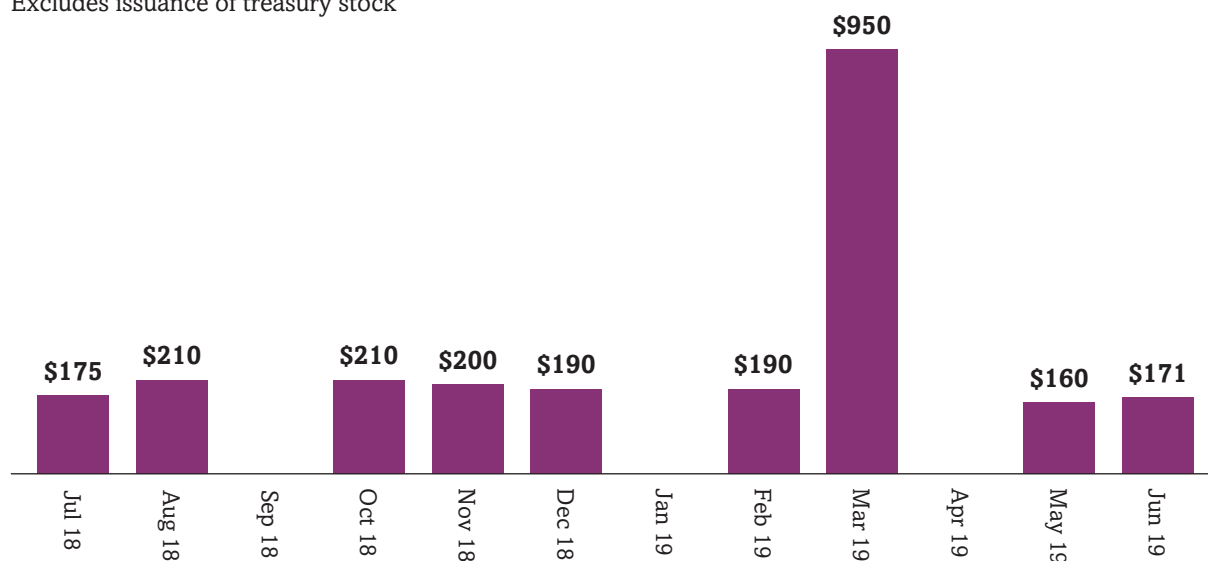
LGFA listed its bonds on the NZX Debt Market in November 2015 and this has led to greater awareness and participation in LGFA bonds by domestic retail and offshore investors. Average turnover on the NZX Debt Market since listing has been \$11 million per month or 8% of the total turnover of the NZX Debt Market. Turnover has remained at lower than normal levels over the past twelve months as retail investors are more attracted to higher term deposit rates.

LGFA commenced the issuance of LGFA Bills for terms of three months and six months in late 2015. Because of this issuance, LGFA has offered short-term loans of less than one year to councils since 2015. As at 30 June 2019, LGFA has short-term loans outstanding to 29 councils of \$360 million funded by LGFA Bills on issue of \$505 million.

LGFA held eight bond tenders during the 12-month period to 30 June 2019, with an average tender volume of \$188 million and a range of \$160 million to \$210 million in size. LGFA also issued \$1.0 billion of an April 2024 maturity via syndication in March 2019. This was LGFA's first syndicated issue.

LGFA bond issuance by tender (NZ\$ million)

Excludes issuance of treasury stock



All tenders were successful although in general, demand was less than in previous years due to lower interest rates and tighter spreads to NZGBs. The average bid-coverage ratio across the eight bond tenders was 2.6 times and this compared to the average of 3.1 times for the sixty-four bond tenders held since LGFA first commenced issuance in February 2012.

LGFA bond tender results by maturity	2018-19 annual issuance amount (NZ\$ million)	LGFA tender average bid coverage ratio	LGFA tender average successful bid range
15 March 2019	Nil	n/a	n/a
15 April 2020	Nil	n/a	n/a
15 May 2021	30	3.17x	0 bps
14 April 2022	440	2.26x	1.0 bps
15 April 2023	21	2.81x	0 bps
15 April 2024*	1,000	n/a	n/a
15 April 2025	410	3.18x	1.9 bps
15 April 2027	220	2.30x	2.9bps
14 April 2033	385	2.10x	5.0 bps
Across all LGFA maturities	1506	2.6x	1.8bps

* \$1.0 billion issued via syndication.

The successful bid range (difference between the highest and lowest successful bid yield) for each maturity at each tender averaged between 0 bps and 5 bps with an average successful bid range of 1.8 bps across all maturities and all tenders over the year.

LGFA issued \$1.0 billion of a new 15 April 2024 bond in March 2019 via its first syndication. Previous years' issuance had been by tenders. The syndication was timed to coincide with the large amount of LGFA, NZGB and Kauri bond maturities that month.

iv. Offering more flexible lending terms to Participating Local Authorities.

Councils can currently access flexible lending conditions by using the short-term lending and bespoke lending products. Short-term lending is for loans between 30 days and 364 days while bespoke lending is where councils can borrow for any term between one year and the longest-dated LGFA bond maturity (currently 14 April 2033) on any drawdown date. Therefore, council members can borrow for terms ranging from 30 days to almost 14 years at any time they wish to drawdown.

Bespoke lending into non-LGFA bond maturity dates for council members has continued to grow in popularity over the past year. During the 12-month period to 30 June 2019, LGFA lent \$1.102 billion on a bespoke maturity basis across 111 individual loans. This was 45% of total term lending to council members over that period.

Short-term borrowing by councils as at 30 June 2019 was \$360 million comprising borrowing from 29 councils for terms between one and 12 months.

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 headroom under LGFA policies and endeavour to 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. All councils were compliant with LGFA financial covenants as at 30 June 2018 and a copy of each council's borrowing position and compliance with LGFA covenants was provided to LGFA shareholders and non-shareholder guarantors in December 2018. LGFA assigns an internal credit rating to each of its council members as part of the review exercise.

LGFA management met with 47 individual councils over the 12-month period to 30 June 2019.

ii. LGFA will analyse finances at the Council group level where appropriate;

LGFA reviews the financial position of each council on a parent basis except for Auckland Council where LGFA analyses the financial statements at both parent and group level. This is because Auckland Council is the only council to deliver a wide range of its essential services on a group basis.

iii. LGFA will review its debt covenant methodology and assessment of council financial position at group vs parent. LGFA will present its findings to councils at the LGFA Shareholder-Borrower Day, including a comparison of LGFA methodology to that of the credit rating agencies;

LGFA has undertaken an assessment of councils' financial position on a group basis but has yet to present the comparison to the credit rating agency methodologies because both rating agencies (S&P Ratings and Fitch Ratings) had changed their methodology in 2019.

iv. 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 DIA, OAG, LGNZ, SOLGM, Treasury and the Productivity Commission during the 2018-19 year to discuss sector issues. LGFA participated in sector-wide risk and audit forums.

v. LGFA will take a proactive role to enhance the financial strength and depth of the local government debt market.

LGFA management aim to meet with the management team of each council at least once a year. LGFA also presented to elected officials at councils prior to joining to advise them of their obligations.

LGFA have been involved in discussions between Central Government agencies around Infrastructure Funding and Financing to assist both Central and Local Government with this workstream.

LGFA presented at various capital market conferences and regularly met with banks and investors.

Performance against additional objectives

In addition to the two primary performance objectives, LGFA has eight performance objectives which complement the primary objectives. This section sets out LGFA's performance for the year ended 30 June 2019 against the additional objectives set out in the 2018-19 Statement of Intent.

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 SOI;

The LGFA Board has the sole discretion to set the dividend and the policy is to pay a dividend that provides an annual rate of return to shareholders equal to LGFA's cost of funds plus 2%.

On 27 August 2019, the directors of LGFA declared a dividend for the year to 30 June 2019 of \$1,155,000 (\$0.0462 per share). This is calculated on LGFA's cost of funds for the 2018-19 year of 2.62% plus a 2% margin. This is lower than the previous year dividend of \$0.0514 per share.

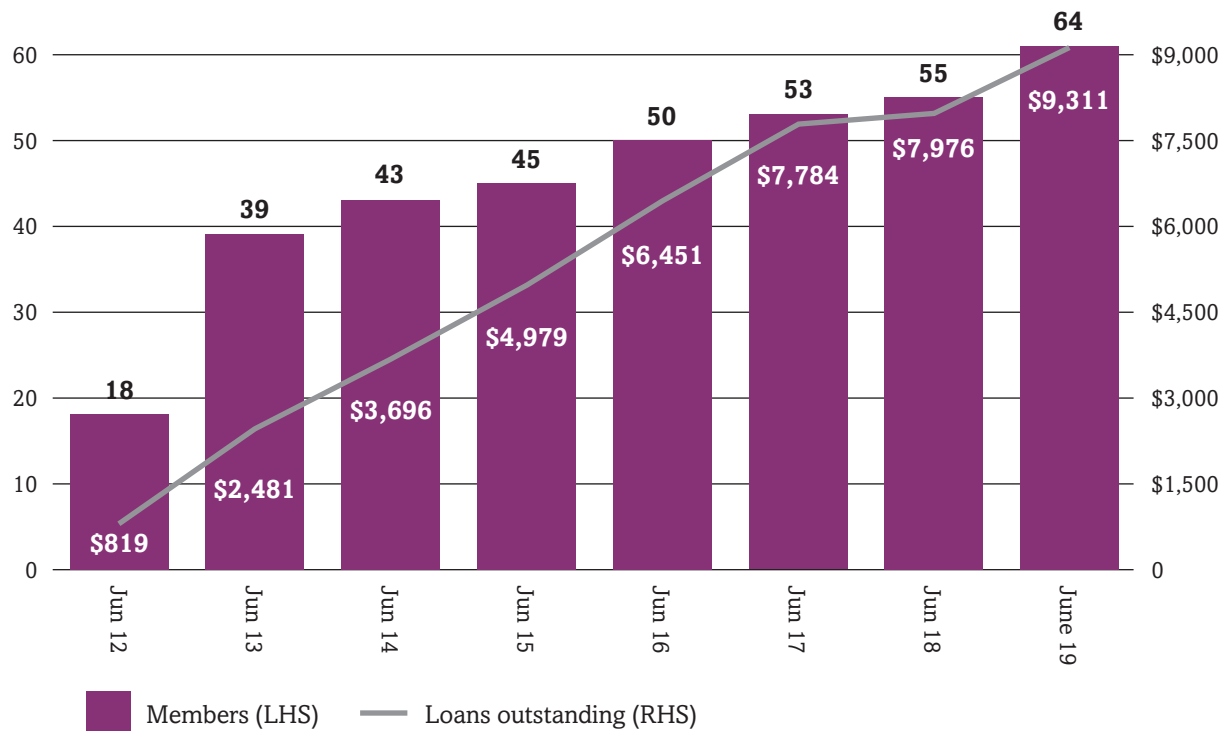
The impact from the current low interest rate environment is that LGFA has a lower cost of funds. While council borrowers benefit from lower borrowing costs, the dividend payment calculated on the above guidance is lower than it would otherwise be in an environment of higher interest rates.

2.2 Provide at least 50% of aggregate long-term debt funding to the Local Government sector.

Eight councils joined LGFA in the 12-month period to June 2019, bringing the total number of council members to 64. Ruapehu District, Waikato Regional, Hawkes Bay Regional and Invercargill City Councils joined as guarantor borrowers while Clutha District, Mackenzie District, Wairoa District and West Coast Regional Councils joined as non-guarantor borrowers.

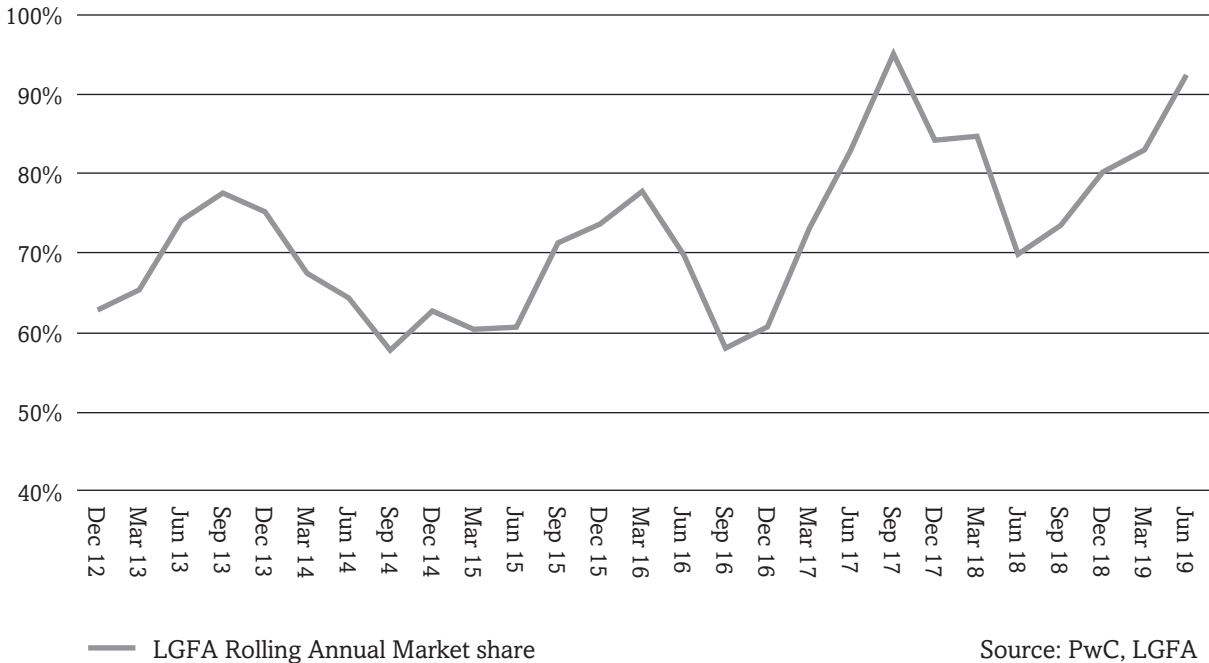
Councils have strongly supported LGFA by joining as members and borrowing from LGFA. As at 30 June 2019, 63 participating councils have so far borrowed from LGFA.

LGFA council members and nominal loans outstanding (NZ\$ million)



The following chart shows LGFA's share of new local government long-term debt issuance and is derived from survey data provided by PwC. LGFA's share of long-term borrowing by the sector including non-members of LGFA was 92.3% for the 12-month period to 30 June 2019.

LGFA council members and LGFA loans outstanding



2.3 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 SOI;

Issuance and operating expenses for the 12-month period to 30 June 2019 were \$7.558 million which is \$0.175 million below SOI forecast. This variance is the consequence of:

- Issuance and on-lending costs (excluding Approved Issuer Levy payments) at \$2.579 million were \$0.263 million above budget. Lower fees than budgeted relating to the NZDMO facility were offset by higher NZX costs and legal costs. A larger amount of bond issuance and short-term lending increased these costs relative to budget.
- Operating costs at \$3.271 million were \$0.076 million below budget due to lower travel, governance and overhead costs, partially offset by additional legal costs relating to LGFA progressing its work on the ability to lend to CCOs.
- Approved Issuer Levy payments of \$1.708 million were less than forecast of \$2.070 million by \$0.362 million due to a lower level of LGFA bonds holdings by offshore investors relative to budget.

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

LGFA has a Health and Safety Staff Committee and reporting on health and safety issues are made to the LGFA board on a regular basis by the Risk and Compliance Manager. There were no health and safety incidents during the 2018-19 year.

2.5 Maintain LGFA's credit rating equal to the New Zealand Government sovereign rating where both entities are rated by the same Rating Agency;

LGFA has credit ratings from S&P Global Ratings (S&P) and Fitch Ratings (Fitch) and meets with both agencies each year. Meetings were held in July 2018 with S&P and in September 2018 with Fitch.

On 4 February 2019, S&P placed LGFA's long-term credit rating on positive outlook, following their decision to place the long-term credit rating of the New Zealand Government on positive outlook the previous week.

On 18 November 2018, Fitch reaffirmed LGFA's long-term credit rating as AA+ and classified LGFA as a corporate mission, government related entity (GRE) under its GRE rating criteria. Fitch equalises LGFA's ratings with those of the New Zealand Government.

Both the S&P and Fitch ratings reports are available on LGFA's website (www.lgfa.co.nz/for-investors/ratings).

Both the S&P and Fitch ratings are the same as, and are capped by, New Zealand Government's credit ratings.

2.6 Achieve the Financial Forecasts (excluding the impact of AIL) set out in section 4 of the SOI;

For the 12-month period to 30 June 2019, Net Interest Income was \$0.151 million above budget while expenses were \$0.175 million below budget. Net Operating Gain of \$11.201 million was \$0.326 million above budget but \$0.601 million (5.1%) below the Net Operating Gain for the equivalent prior period.

In \$ million	30 June 2019 Actual	30 June 2019 SOI Forecast
Net interest revenue	18.76	18.6
Issuance and operating expenses excluding Approved Issuer Levy (AIL)	5.85	5.67
Approved Issuer Levy (AIL)	1.71	2.1
Net Operating Gain	11.2	10.9

2.7 Meet or exceed the Performance Targets outlined in section 5 of the SOI.

LGFA achieved one of its four performance targets in the 12-month period to 30 June 2019

Issuance and operating expenses (excluding AIL) exceeded budget by \$0.180 million for the 12-month period to 30 June 2019. Higher legal and NZX listing costs associated with larger bond issuance than forecast (due to higher council lending than forecast) have contributed to these costs exceeding budget.

LGFA changed its base lending margin for long-dated lending to a standard 10 bps margin regardless of the borrowing term from 1 July 2018. The average base margin target of 10 bps is not achieved by 0.1 bps when combined with the long-dated lending margin across the 12-month period to 30 June 2019 with short-dated lending outstanding as at 30 June 2019. The short-dated lending margins are higher than 10 bps because it is an all-in borrowing margin over BKBM (including the LGFA cost of borrowing).

LGFA have been unable to improve estimated interest cost savings for councils borrowing through LGFA compared to councils borrowing in their own name compared to the levels at the start of the financial year. This objective remains difficult to achieve as the spread between what councils borrow at over LGFA borrowing cost will naturally narrow as the borrowing term approaches maturity. The record volume of council borrowing has led to LGFA issuing a record amount of bonds in the financial year so while LGFA borrowing spreads have narrowed, they have not narrowed as much as the spread for other borrowers.

LGFA's volume of council lending is above the SOI forecast by \$1.157 billion due to both the larger amount of both short-term and long-term borrowing by councils through LGFA.

Performance targets

2018-19 performance targets	Target	Result for 12-month period to 30 June 2019	Outcome
The average margin above LGFA's cost of funds charged to the highest rated Participating Local Authorities for the period	<= 0.10%	0.101% (0.10% for long-term and 0.106% for short-term)	✘ Due to increase in short-term lending where the margin includes LGFA cost of borrowing.
LGFA's annual issuance and operating expenses (excluding AIL) for the period	<=\$5.67 million	\$5.85 million	✘ Due to additional NZX listing and legal fees associated with larger than forecast bond issuance and council lending.
Total lending to Participating Local Authorities	>= \$8,105 million	\$9.262 billion	✔
LGFA will demonstrate the savings to council borrowers on a relative basis to other sources of financing.	Improvement since prior year end relative to borrowing by councils directly.		✘ Due to a lack of single name issuance by councils and record issuance of LGFA bonds, these factors have created a supply-demand imbalance and reduced savings to councils.
	Council borrowing spreads as at June		
	2018: 2019 maturity 11 bps 2021 maturity 19 bps 2025 maturity 10 bps	2019: 2019 maturity n/a 2021 maturity 9 bps 2025 maturity 7 bps	

2.8 Comply with its Treasury Policy, as approved by the Board.

There was one compliance breach during the 12-month period to 30 June 2019 where a council had inadvertently breached the following Treasury Policy limit

“To minimise concentration risk, the LGFA will require that no more than the greater of \$NZD100 million or 33% of a council's borrowings from the LGFA will mature in any 12-month period.”

The limit breach was discovered and then escalated to both the LGFA Board and Shareholder Council in May 2019. The breach occurred because a council had borrowed 100% of its financing through LGFA in short-dated loans (less than one year) and the LGFA management process had not picked up short-dated borrowing within this limit. This limit when established in 2012 was originally intended to monitor long-dated borrowing. It should be noted that the limit breach was not the fault of the council. LGFA worked with the council to extend some of their short-term borrowing into long-dated funding to resolve the breach in June 2019.

Financial statements

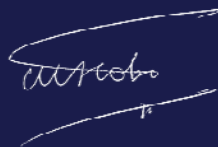
Taukī pūtea

In the opinion of the directors of the New Zealand Local Government Funding Agency Limited, the financial statements and notes on pages 49 to 72:

- Comply with New Zealand generally accepted accounting practice (GAAP), New Zealand equivalents to International Financial Reporting Standards (NZIFRS) as appropriate for profit-oriented entities and give a true and fair view of the financial position of the Company as at 30 June 2019, 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 Markets Conduct Act 2013 and the Financial Reporting Act 2013.

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



Craig Stobo
Chair, LGFA Board
30 August 2019



Linda Robertson
Chair, Audit and Risk Committee
30 August 2019

Statement of comprehensive income

For the year ended ended 30 June 2019 in \$000s

	Note	Year ended 2019	Year ended 2018
Interest income			
Cash and cash equivalents		490	627
Marketable securities		4,118	3,116
Deposits		3,887	5,475
Derivatives		104,568	105,229
Loans to local government		248,015	228,381
Fair value hedge ineffectiveness	2c	-	-
Total interest income		361,078	342,828
Interest expense			
Bills		9,519	8,401
Bond repurchase transactions		358	240
Bonds		328,907	311,944
Borrower notes		3,535	3,278
Total interest expense		342,319	323,863
Net interest income		18,759	18,965
Operating expenses			
Issuance and on-lending expenses	3	4,287	4,182
Operating expenses	4	3,271	2,981
Total expenses		7,558	7,163
Net operating profit		11,201	11,802
Total comprehensive income		11,201	11,802

Statement of changes in equity

For the year ended 30 June 2019 in \$000s

	Note	Share capital	Retained earnings	Total equity
Equity as at 30 June 2017		25,000	28,878	53,878
Net operating profit			11,802	11,802
Total comprehensive income for the year			11,802	11,802
Transactions with owners			-	-
Dividend paid on 20 September 2017			(1,390)	(1,390)
Equity as at 30 June 2018		25,000	39,290	64,290
Adjustment on adoption of NZ IFRS 9			(57)	(57)
Net operating profit			11,201	11,201
Total comprehensive income for the year			11,201	11,201
Transactions with owners			-	-
Dividend paid on 7 September 2018			(1,285)	(1,285)
Equity as at 30 June 2019	12	25,000	49,149	74,149

Statement of financial position

As at 30 June 2019 in \$000s

	Note	2019	2018
Assets			
Financial assets			
Cash and bank balances		56,198	50,281
Marketable securities		255,715	231,420
Deposits		136,216	201,114
Derivatives in gain	2d	622,559	375,371
Loans to local government	5	9,310,617	7,975,728
Non-financial assets			
Prepayments		570	561
Other assets	14	457	609
Total assets		10,382,332	8,835,084
Equity			
Share capital		25,000	25,000
Retained earnings		49,149	39,290
Total equity		74,149	64,290
Liabilities			
Financial liabilities			
Payables and provisions		563	444
Bills	6	503,225	473,421
Bond repurchases	9	24,625	6,183
Derivatives in loss	2d	12,926	54,286
Bonds	7	9,612,394	8,101,004
Borrower notes	8	154,168	135,108
Non-financial liabilities			
Accrued expenses		282	348
Total liabilities		10,308,183	8,770,794
Total equity and liabilities		10,382,332	8,835,084

Statement of cash flows

For the year ended 30 June 2019 in \$000s

	Note	Year Ended 2019	Year Ended 2018
Cash Flow from Operating Activities			
Cash applied to loans to local government	11	(1,330,360)	(191,878)
Interest paid on bonds issued		(385,850)	(356,416)
Interest paid on bills issued		(9,516)	(8,400)
Interest paid on borrower notes		(2,874)	(2,648)
Interest paid on bond repurchases		(341)	(239)
Interest received from loans to local government		244,079	228,463
Interest received from cash & cash equivalents		490	627
Interest received from marketable securities		3,742	3,453
Interest received from deposits		4,786	5,310
Net interest on derivatives		160,664	149,898
Payments to suppliers and employees		(7,420)	(7,066)
Net cash flow from operating activities	10	(1,322,601)	(178,896)
Cashflow from Investing Activities			
Sale/(purchase of) marketable securities		(24,513)	(104,115)
Sale/(purchase of) deposits		64,000	(51,000)
Net Cashflow from Investing Activities		39,487	(155,115)
Cashflow from Financing Activities			
Cash proceeds from bonds issued	11	1,255,337	221,120
Cash proceeds from bills issued		29,802	125,241
Cash proceeds from/(applied to) bond repurchases		18,425	(5,778)
Cash proceeds from borrower notes		18,400	2,863
Dividends paid		(1,285)	(1,390)
Cash applied to derivatives		(31,647)	(7,683)
Net Cashflow from Financing Activities		1,289,032	334,373
Net (Decrease) / Increase in Cash		5,918	362
Cash, Cash Equivalents and Bank overdraft at beginning of year		50,281	49,919
Cash, Cash Equivalents and Bank overdraft at end of year		56,198	50,281

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 as at and for the year ended 30 June 2019.

These financial statements were authorised for issue by the Directors on 30 August 2018.

b. Statement of compliance

LGFA is an FMC reporting entity under the Financial Markets Conduct Act 2013 (FMCA). These financial statements have been prepared in accordance with that Act and the Financial Reporting Act 2013. LGFA's bonds are quoted on the NZX Debt Market.

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) and 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

NZ IFRS 9. New Zealand Equivalent to International Financial Reporting Standard 9. Financial Instruments.

NZ IFRS 9 (2014) is effective for the fiscal year commencing 1 July 2018.

NZ IFRS 9 replaces NZ IAS 39 Financial Instruments: Recognition and Measurement and sets out the requirements for hedge accounting and impairment for financial assets and liabilities. LGFA early adopted NZ IFRS 9 (2010) for the classification and measurement of financial instruments at commencement of business in 2012.

LGFA has elected to apply NZ IFRS 9 (2014) on a retrospective basis. Comparative information has not been restated as there has not been a material impact. Instead, the impact of adopting the new standard is reflected in opening equity on 1 July 2018.

Hedge accounting

There has been no change to accounting policy for hedge accounting as LGFA's current fair value hedge accounting meets the requirements of NZ IFRS 9.

Impairment

NZ IFRS 9 prescribes an expected credit loss impairment model which replaces the incurred loss impairment model in NZ IAS 39. The expected credit loss model requires LGFA to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

LGFA has not previously incurred any credit losses under the incurred loss impairment model (NZ IAS 39) and the introduction of the expected credit loss model (NZ IFRS 9) has not had a material impact on the measurement of LGFA's financial assets.

The changes to LGFA's accounting policies for expected credit losses on financial assets are set out below.

Methodology to determine expected credit losses

As at 30 June 2019, LGFA deemed that there had been no significant increase in credit risk since initial recognition for any financial asset and calculated the loss allowance for these instruments at an amount equal to 12-month expected credit losses, using the estimated probability of default multiplied by the estimated recovery rate.

The estimated probability of default is based on the Standard & Poor's' (S&P) Annual Global Default Study. Individual securities were assigned a probability of default over the 12-month period year based on their S&P, Fitch or Moody's credit rating. Unrated local authorities were assigned a shadow credit rating of A+, based on all complying with LGFA's financial covenants as at 31 December 2018, and S&P rating methodology where all New Zealand local authorities who have a credit rating from S&P are rated between AA and A+.

The estimated recovery rate is assigned using the S&P recovery rating scale. All local authorities were assigned a category of 1+, based on LGFA holding security over a council's rates which, in the event of a default, would give a statutory manager the legal right to impose a targeted rate to recover the principal and interest owing. All other financial assets were assigned a recovery rate based on the industry category and average S&P recovery rates for the security type.

The Treasury (New Zealand Debt Management) was assigned a category of 1+ for derivatives in gain.

Early adoption standards and interpretations

LGFA has not early adopted any standards.

New standards adopted

NZ IFRS 15. Revenue from Contracts with Customers.

NZ IFRS 15 has been adopted from 1 July 2018. There has been no impact on the financial statements.

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.

NZ IFRS 16 Leases

NZ IFRS 16 becomes effective from 1 July 2019 and will not have a material impact on the financial statements.

Change in presentation. Statement of financial position

LGFA has changed the order of presentation of assets and liabilities in the Statement of financial position to reflect the order of liquidity for financial assets and liabilities. The change in presentation has been applied to both the current reporting period as well as associated comparatives.

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 expected credit loss assessment is performed for all financial assets and is calculated as either:

- Credit losses that may arise from default events that are possible within the next 12 months, where no significant increase in credit risk has arisen since acquisition of the asset, or
- Credit losses that may arise from default events that are possible over the expected life of the financial asset, where a significant increase in credit risk has arisen since acquisition of the asset.

Impairment losses on financial assets will ordinarily be recognised on initial recognition as a 12-month expected loss allowance and move to a lifetime expected loss allowance if there is a significant deterioration in credit risk since acquisition.

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 (three to seven 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, and 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 2a 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.

2 Analysis of financial assets and financial liabilities

a. Categories of financial instruments

Derivative financial instruments are the only instruments recognised in the statement of financial position at fair value.

Derivative financial instruments are valued under level 2 of the following hierarchy.

- *Level 1* – Quoted market prices: Fair value based on quoted prices in active markets for identical assets or liabilities.
- *Level 2* – Valuation techniques using observable market inputs: Fair value based on a valuation technique using other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
- *Level 3* – Valuation techniques using significant non-observable market inputs: Fair value based on a valuation technique using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of derivative financial instruments is determined using a discounted cash flow analysis. Interest rates represent the most significant assumption used in valuing derivative financial instruments. The interest rates used to discount estimated cash flows are based on the New Zealand dollar swap curves at the reporting date.

Financial instruments recognised in the statement of financial position at amortised cost

Fair values of financial instruments not recognised in the statement of financial position at fair value are determined for note disclosure as follows:

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.

Cash and bank, trade and other receivables, trade and other payables

The carrying value of cash and bank, trade and other receivables, trade and other payables approximate their fair value as they are short-term instruments.

Marketable securities and bonds

The fair value of bonds and marketable securities are determined using the quoted price for the instrument (Fair value hierarchy level 1).

Deposits

The fair value for deposits is determined using a discounted cash flow analysis. The interest rates used to discount the estimated cash flows are based on current market interest rates (Fair value hierarchy level 2).

Loans to local government

The fair value of loans to local government authorities is determined using a discounted cash flow analysis. The interest rates used to discount the estimated cash flows are based on LGFA bond yields at the reporting date plus an appropriate credit spread to reflect the counterparty's credit risk (Fair value hierarchy level 2).

Borrower notes

The fair value of borrower notes is determined using a discounted cash flow analysis. The interest rates used to discount the estimated cash flows are based on LGFA bond yields at the reporting date (Fair value hierarchy level 2).

Fair value of financial assets and financial liabilities

The fair value of financial assets and financial liabilities, together with the carrying amounts shown in the statement of financial position, are shown in the table below.

As at 30 June 2019 in \$000s	Financial liabilities at amortised cost	Financial assets at amortised cost	Financial assets measured at fair value in accordance with NZ IFRS 9	Fair value
Financial assets				
Cash and bank balances	-	56,198	-	56,198
Trade and other receivables	-	-	-	-
Marketable securities	-	255,715	-	257,124
Deposits	-	136,216	-	137,355
Derivatives	-	-	622,559	622,559
Loans to local government	-	9,310,617	-	9,640,053
	-	9,758,746	622,559	10,713,289
Financial liabilities				
Payables and provisions	563	-	-	563
Bills	503,225	-	-	503,451
Bond repurchases	24,625	-	-	24,625
Derivatives	-	-	12,926	12,926
Bonds	9,612,394	-	-	9,727,610
Borrower notes	154,168	-	-	155,935
	10,294,975	-	12,926	10,425,110

As at 30 June 2018 in \$000s	Financial liabilities at amortised cost	Financial assets at amortised cost	Financial assets measured at fair value in accordance with NZ IFRS 9	Fair value
Financial assets				
Cash and bank balances	-	50,281	-	50,281
Trade and other receivables	-	-	-	-
Marketable securities	-	231,420	-	225,570
Deposits	-	201,114	-	202,061
Derivatives	-	-	375,371	375,371
Loans to local government	-	7,975,728	-	8,224,666
	-	8,458,543	375,371	9,077,949
Financial liabilities				
Payables and provisions	444	-	-	444
Bills	473,421	-	-	473,467
Bond repurchases	6,183	-	-	6,183
Derivatives	-	-	54,286	54,286
Bonds	8,101,004	-	-	8,172,546
Borrower notes	135,108	-	-	134,956
	8,716,160	-	54,286	8,841,882

b. Financial risk management

The Board of Directors has overall responsibility for carrying out the business of LGFA in accordance with risk management policies, including those relating to investing, lending, borrowing and treasury activities. The use of financial instruments exposes LGFA to financial risks, the most significant being market risk, credit risk, and liquidity risk. The exposure and management of these risks is outlined below.

Market risk

Market risk is the risk that changes in market prices will affect LGFA's income or value of financial instruments. The most significant market risk which LGFA is exposed to is interest rate risk. LGFA has no significant exposure to foreign exchange risk.

Interest rate risk

Interest rate risk is the risk that future cash flows or the fair value of financial instruments will decrease because of a change in market interest rates. LGFA is exposed to interest rate risk through its interest-bearing financial assets and liabilities.

Interest rate risk is managed using Value at Risk (VaR) and Partial Differential Hedge (PDH) limits to mitigate the potential change in value of the balance sheet due to changes in interest rates. PDH risk measures the sensitivity of a portfolio to a one basis point change in underlying interest rates, whereas VaR measures the expected loss for a given period with a given confidence.

The table below indicates the earliest period in which the interest-bearing financial instruments reprice.

As at 30 June 2019 in \$000s	Face value	Less than 6 months	6 months - 1 year	1-2 years	2-5 years	Over 5 years
Financial assets						
Cash and bank Balances	56,198	56,198	-	-	-	-
Marketable securities	253,972	203,850	40,122	10,000	-	-
Deposits	135,000	55,000	80,000	-	-	-
Loans to local government	9,262,858	8,030,980	16,520	452,700	284,700	477,958
Financial liabilities						
Bills	(505,000)	(480,000)	(25,000)	-	-	-
Bond repurchases	(24,604)	(24,604)	-	-	-	-
Derivatives	-	(7,715,000)	938,750	1,027,500	2,828,750	2,920,000
Bonds	(8,935,000)	-	(980,000)	(1,450,000)	(3,110,000)	(3,395,000)
Borrower notes	(142,027)	(122,333)	(248)	(7,243)	(4,555)	(7,647)
Total	101,398	4,091	70,144	32,957	(1,105)	(4,689)

As at 30 June 2018 in \$000s	Face value	Less than 6 months	6 months - 1 year	1-2 years	2-5 years	Over 5 years
Financial assets						
Cash and bank Balances	50,281	50,281	-	-	-	-
Marketable securities	226,593	152,196	26,897	27,500	20,000	-
Deposits	199,000	130,000	69,000	-	-	-
Loans to local government	7,927,441	6,709,699	300,500	12,500	568,000	336,742
Financial liabilities						
Bills	(475,000)	(475,000)	-	-	-	-
Bond repurchases						
Derivatives	-	(6,454,200)	936,200	938,750	2,516,250	2,063,000
Bonds	(7,719,000)	-	(1,240,000)	(980,000)	(3,119,000)	(2,380,000)
Borrower notes	(123,062)	(103,690)	(4,696)	(200)	(9,088)	(5,388)
Total	86,253	9,286	87,901	(1,450)	(23,838)	14,354

Interest rate sensitivity

Changes in interest rates impact the fair value of fixed rate assets and liabilities, cash flows on floating rate assets and liabilities, and the fair value and cash flows of interest rate swaps. A change of 100 basis

points in interest rates at the reporting date would have increased/(decreased) profit or loss and equity by the amounts shown in the following table. This analysis assumes that all other variables remain constant.

For the period ending 30 June in \$000s	2019		2018	
	100 bps increase \$000s	100 bps decrease \$000s	100 bps increase \$000s	100 bps decrease \$000s
Fair value sensitivity analysis				
Fixed rate assets	-	-	-	-
Fixed rate liabilities	(369,387)	376,054	276,613	(281,357)
Derivative financial instruments	369,387	(376,054)	(276,613)	281,357
	-	-	-	-
Cash flow sensitivity analysis				
Variable rate assets	76,708	(76,708)	64,806	(64,806)
Variable rate liabilities	(1,227)	1,227	(1,037)	1,037
Derivative financial instruments	(79,320)	79,320	(66,432)	66,432
	(3,839)	3,839	(2,663)	2,663

Credit risk

Credit risk is the risk of financial loss if a counterparty to a financial instrument fails to meet its contractual obligations. LGFA is exposed to credit risk through its lending and investing activities.

Credit risk associated with lending activities is managed by requiring local authorities that borrow from LGFA to meet specific credit lending criteria and to provide security against the borrowing. The LGFA's credit risk framework restricts credit exposures to specific counterparties.

Credit risk associated with investing activities, excluding on-lending, is managed by only investing with New Zealand Government Agencies or counterparties that meet a minimum credit rating of A (Standard & Poor's equivalent). The LGFA's credit risk framework limits concentrations of credit risk for any single counterparty.

Exposure to credit risk

LGFA monitors the concentration of credit risk by the type of counterparty. The carrying value and maximum exposure to credit risk at the reporting date, before taking account of collateral or other credit enhancements, for significant counterparty types are shown in the table below.

As at 30 June 2019 in \$000s	NZ government agencies	NZ local authorities	NZ registered banks	Other counter- parties	Total carrying value
Financial assets					
Cash and bank balances	55,679	-	520	-	56,198
Trade and other receivables	-	-	-	-	-
Marketable securities	40,962	48,668	135,397	30,488	255,715
Deposits	-	-	136,216	-	136,216
Derivatives	609,632	-	-	-	609,632
Loans to local government	-	9,310,617	-	-	9,310,617
	706,273	9,359,285	272,333	30,488	10,368,378

As at 30 June 2018 in \$000s	NZ government agencies	NZ local authorities	NZ registered banks	Other counter- parties	Total carrying value
Financial assets					
Cash and bank balances	49,773	-	508	-	50,281
Trade and other receivables	-	-	-	-	-
Marketable securities	60,988	43,807	109,544	17,081	231,420
Deposits	-	-	201,114	-	201,114
Derivatives	321,085	-	-	-	321,085
Loans to local government	-	7,975,728	-	-	7,975,728
	431,846	8,019,535	311,166	17,081	8,779,628

Collateral and credit enhancements

LGFA holds collateral against borrowings from local authorities in the form of debenture securities and guarantees.

Credit quality of financial assets

All financial assets are neither past due nor impaired. The carrying value of the financial assets is expected to be recoverable.

Liquidity risk

Liquidity risk is the risk that LGFA will encounter difficulty in meeting the obligations of its financial

liabilities. LGFA manages liquidity risk by holding cash and a portfolio of liquid assets to meet obligations when they fall due. LGFA is required by policy to maintain sufficient liquidity (comprising a committed liquidity facility and holdings of cash and liquid investments) to meet all operating and funding commitments over a rolling 12-month period.

The Treasury (New Zealand Debt Management) provides a committed liquidity facility that LGFA can draw upon to meet any exceptional and temporary liquidity shortfall. As at 30 June 2019, the undrawn committed liquidity facility was \$700 million (2018: \$600 million).

Contractual cash flows of financial instruments.

The contractual cash flows associated with financial assets and liabilities are shown in the table below.

As at 30 June 2019 in \$000s	On demand	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total contractual cash flows	Total carrying value
Financial assets							
Cash and bank balances	56,198	-	-	-	-	56,198	56,198
Trade and other receivables							
Marketable securities	-	127,363	52,615	80,815	-	260,793	255,715
Deposits	-	-	138,543	-	-	138,543	136,216
Loans to local government	-	279,328	936,604	5,556,479	3,583,112	10,355,524	9,310,617
Financial liabilities							
Payables and provisions	(563)	-	-	-	-	(563)	(563)
Bills	-	(330,000)	(175,000)	-	-	(505,000)	(503,225)
Bond repurchases	-	(24,628)	-	-	-	(24,628)	(24,625)
Bonds	-	-	(1,338,293)	(5,495,770)	(3,838,283)	(10,672,345)	(9,612,394)
Borrower notes	-	(332)	(10,820)	(92,580)	(65,981)	(169,713)	(154,168)
Derivatives	-	(42,732)	183,130	358,542	154,427	653,366	609,632
	55,635	8,998	(213,220)	407,487	(166,724)	92,176	73,403

As at 30 June 2018 in \$000s	On demand	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total contractual cash flows	Total carrying value
Financial assets							
Cash and bank balances	50,281	-	-	-	-	50,281	50,281
Trade and other receivables	-	-	-	-	-	-	-
Marketable securities	-	114,836	59,305	61,268	-	235,409	231,420
Deposits	-	50,880	152,905	-	-	203,786	201,114
Loans to local government	-	236,487	1,460,213	4,447,506	2,859,147	9,003,353	7,975,728
Financial liabilities							
Payables and provisions	(444)	-	-	-	-	(444)	(444)
Bills	-	(375,000)	(100,000)	-	-	(475,000)	(473,421)
Bond repurchases	-	(6,184)	-	-	-	(6,184)	(6,183)
Bonds	-	(31,000)	(1,558,213)	(4,981,825)	(2,747,625)	(9,318,663)	(7,878,765)
Borrower notes	-	-	(23,639)	(74,147)	(52,889)	(150,675)	(135,108)
Derivatives	-	(15,961)	152,202	333,394	106,640	576,275	321,085
	49,837	(25,942)	142,774	(213,803)	165,273	118,138	285,707

c. Hedge accounting

LGFA is exposed to interest rate risk from fixed rate borrowing and variable rate lending to councils. LGFA uses interest rate swaps to manage this interest rate risk. For hedge accounting purposes, LGFA has designated these swaps in fair value relationships to its fixed rate borrowing and council loans.

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.

For the year ended ended 30 June in \$000s	2019 Gain/(loss)	2018 Gain/(loss)
Hedging instruments – interest rate swaps	312,996	58,487
Hedged items attributable to the hedged risk – fixed rate bonds	(312,996)	(58,487)
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 or loans) 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.

d. Offsetting

NZ IAS 32: Financial Instruments Presentation allows financial assets and liabilities to be offset only when there is a current legally enforceable right to set off the amounts and there is an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously. LGFA does not offset any amounts. The amounts subject to an enforceable master netting arrangement or similar agreement that are not offset in the statement of financial position are detailed in the table below.

As at 30 June 2019 in \$000s	Derivative assets	Derivative liabilities
Gross amounts	622,559	12,926
Amounts offset	-	-
Carrying amounts	622,559	12,926
Amounts that don't qualify for offsetting	-	-
Financial assets and liabilities	(12,926)	(12,926)
Collateral	-	-
Net Amount	609,633	-

As at 30 June 2018 in \$000s	Derivative assets	Derivative liabilities
Gross amounts	375,371	54,286
Amounts offset	-	-
Carrying amounts	375,371	54,286
Amounts that don't qualify for offsetting	-	-
Financial assets and liabilities	(54,286)	(54,286)
Collateral	-	-
Net Amount	321,085	-

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.

For the year ended 30 June in \$000s	2019	2018
NZDM facility fee	644	706
NZX	455	333
Rating agency fees	596	575
Legal fees for issuance	493	233
Regulatory, registry, other fees	147	106
Trustee fees	100	100
Approved issuer levy ¹	1,708	1,975
Information Services	144	154
	4,287	4,182

1. The amount of Approved Issuer Levy is a function of the number of the offshore holders of certain LGFA bond maturities.

4 Operating expenses

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

For the year ended 30 June in \$000s	2019	2018
Consultants	205	188
Directors fees	377	377
Insurance	65	60
Legal fees	84	88
Other expenses	796	743
Auditors' remuneration		
Statutory audit	96	87
Advisory services	-	-
Personnel	1,648	1,418
Recruitment	-	20
	3,271	2,981

5 Loans to local government

As at 30 June in \$000s	2019		2018	
	Short-term loans	Loans	Short-term loans	Loans
Ashburton District Council	10,025	27,465	5,015	25,603
Auckland Council	-	2,422,898	-	2,101,357
Bay of Plenty Regional Council	90,974	50,631	-	-
Buller District Council	-	20,013	-	20,014
Canterbury Regional Council	6,006	32,108	-	30,103
Central Hawkes Bay District Council	-	2,027	-	2,027
Christchurch City Council	27,110	1,721,759	85,273	1,573,566
Clutha District Council	-	5,020	-	-
Far North District Council	-	40,149	-	40,130
Gisborne District Council	5,982	42,819	-	37,275
Gore District Council	6,011	13,059	6,014	11,064
Greater Wellington Regional Council	-	401,676	-	306,302
Grey District Council	4,978	15,305	-	20,446
Hamilton City Council	-	356,737	-	366,483
Hastings District Council	-	105,985	1,957	75,280
Hauraki District Council	-	38,192	-	38,156
Hawkes Bay Regional Council	-	2,509	-	-
Horizons Regional Council	-	35,182	-	20,035
Horowhenua District Council	11,006	85,780	6,008	72,868
Hurunui District Council	-	32,140	-	23,098
Hutt City Council	-	179,746	4,996	152,802
Invercargill City Council	25,093	30,095	-	-
Kaipara District Council	999	44,189	4,925	40,174
Kapiti Coast District Council	-	210,804	-	205,754
Manawatu District Council	-	68,229	-	61,180
Marlborough District Council	26,545	73,252	17,297	63,237
Masterton District Council	-	50,248	-	52,234
Matamata-Piako District Council	2,546	21,597	-	27,599
Nelson City Council	-	65,264	-	60,239
New Plymouth District Council	-	99,535	-	74,324
Northland Regional Council	-	9,728	-	8,634
Opotiki District Council	-	5,125	-	5,163
Otorohanga District Council	-	3,048	-	6,120
Palmerston North City Council	10,024	104,439	10,028	82,317

5 Loans to local government (cont)

As at 30 June in \$000s	2019		2018	
	Short-term loans	Loans	Short-term loans	Loans
Porirua City Council	-	86,894	-	61,754
Queenstown Lakes District Council	20,076	85,644	10,096	75,954
Rangitikei District Council	-	3,013	-	-
Rotorua District Council	2,817	180,186	-	150,266
Ruapehu District Council	3,027	13,070	-	-
Selwyn District Council	5,097	10,053	-	15,021
South Taranaki District Council	-	80,383	-	62,278
South Wairarapa District Council	-	20,023	-	17,629
Stratford District Council	1,003	13,570	-	4,513
Tararua District Council	4,020	21,104	2,011	15,064
Tasman District Council	25,380	127,172	10,007	109,006
Taupo District Council	-	115,452	-	125,430
Tauranga City Council	9,963	432,609	-	362,308
Thames-Coromandel District Council	-	51,244	-	45,175
Timaru District Council	17,568	67,313	12,524	67,331
Upper Hutt City Council	4,975	38,174	4,976	31,638
Waikato District Council	-	80,400	-	80,382
Waikato Regional Council	-	22,120	-	-
Waimakariri District Council	10,010	135,872	20,024	105,818
Waipa District Council	-	15,013	-	13,016
Wairoa District Council	1,514	3,519	-	-
Waitomo District Council	10,055	30,093	10,066	25,086
Wellington City Council	-	533,151	-	395,384
West Coast Regional Council	1,985	5,608	-	-
Western Bay Of Plenty District Council	-	90,478	-	105,426
Westland District Council	-	18,688	2,998	14,361
Whakatane District Council	5,008	57,298	6,011	48,220
Whanganui District Council	-	73,408	5,005	73,367
Whangarei District Council	9,976	122,543	9,971	132,516
	359,771	8,950,846	235,202	7,740,526

As at 30 June 2019, \$428.2 million of loans to local government are due to mature within 12 months. This comprises all short-term loans and \$68.4 million of loans.

6 Bills on issue

As at 30 June 2019 in \$000's	Face value	Unamortised premium	Accrued interest	Total
4 July 2019	25,000	-	(4)	24,996
10 July 2019	85,000	-	(41)	84,959
17 July 2019	25,000	-	(23)	24,977
29 July 2019	25,000	-	(35)	24,965
5 August 2019	25,000	-	(48)	24,952
14 August 2019	50,000	-	(109)	49,891
23 August 2019	45,000	-	(117)	44,883
11 September 2019	50,000	-	(174)	49,826
4 October 2019	25,000	-	(124)	24,876
9 October 2019	25,000	-	(125)	24,875
7 November 2019	25,000	-	(168)	24,832
13 November 2019	25,000	-	(159)	24,841
4 December 2019	25,000	-	(203)	24,797
11 December 2019	25,000	-	(180)	24,820
22 January 2020	25,000	-	(266)	24,734
	505,000	-	(1,775)	503,225

As at 30 June 2018 in \$000's	Face value	Unamortised premium	Accrued interest	Total
11 July 2018	50,000	-	(27)	49,973
27 July 2018	25,000	-	(36)	24,964
2 August 2018	125,000	-	(210)	124,790
6 August 2018	25,000	-	(47)	24,953
15 August 2018	50,000	-	(121)	49,879
23 August 2018	25,000	-	(72)	24,928
12 September 2018	50,000	-	(199)	49,801
26 September 2018	25,000	-	(121)	24,879
10 October 2018	25,000	-	(146)	24,854
31 October 2018	25,000	-	(177)	24,823
14 November 2018	25,000	-	(192)	24,808
12 December 2018	25,000	-	(232)	24,768
	475,000	-	(1,579)	473,421

7 Bonds on issue

Bonds on issue do not include \$400 million face value of issued LGFA bonds subscribed by LGFA and held as treasury stock. Refer Note 9: Treasury stock and bond repurchase transactions.

As at 30 June 2019 in \$000's	Face Value	Unamortised premium	Accrued interest	Fair value hedge adjustment	Total
15 April 2020	980,000	(2,674)	6,185		
15 May 2021	1,450,000	40,569	11,111		
14 April 2022	710,000	5,876	4,161		
15 April 2023	1,450,000	56,972	16,778		
15 April 2024	950,000	(3,895)	4,497		
15 April 2025	1,379,000	(38,648)	7,978		
15 April 2027	1,276,000	51,179	12,080		
14 April 2033	740,000	(35,533)	5,520		
Total	8,935,000	73,848	68,311	535,236	9,612,394

As at 30 June 2018 in \$000's	Face Value	Unamortised premium	Accrued interest	Fair value hedge adjustment	Total
15 March 2019	1,240,000	8,990	18,196		
15 April 2020	980,000	(5,904)	6,185		
15 May 2021	1,420,000	57,960	10,882		
14 April 2022	270,000	(223)	1,582		
15 April 2023	1,429,000	67,183	16,535		
15 April 2025	969,000	(44,090)	5,606		
15 April 2027	1,056,000	35,890	9,997		
14 April 2033	355,000	(31,672)	2,648		
Total	7,719,000	88,134	71,631	222,239	8,101,004

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 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.

Each month, LGFA notifies the market the amount of outstanding repurchase transactions and LGFA bonds held as treasury stock.

As at 30 June 2019, bond repurchase transactions comprised:

		30 June 2019 Bond repurchase trades	30 June 2018 Bond repurchase trades
15 March 2019	5% coupon	-	1,035
15 April 2020	3% coupon	-	4,076
15 May 2021	6% coupon	-	-
14 April 2022	2.75% coupon	15,535	-
15 April 2023	5.5% coupon	-	-
15 April 2024	2.25% coupon	-	-
15 April 2025	2.75% coupon	-	-
15 April 2027	4.5% coupon	5,837	1,072
14 April 2033	3.5% coupon	3,252	-
		24,625	6,183

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

For the year ended 30 June in \$000s		2019	2018
Net profit/(loss) for the period		11,201	11,802
Cash applied to loans to local government	11	(1,330,360)	(191,878)
Non-cash adjustments			
Amortisation and depreciation		(3,579)	1,082
Working capital movements			
Net change in trade debtors and receivables		62	(9)
Net change in prepayments		(9)	(17)
Net change in accruals		(66)	(28)
Net Cash From Operating Activities		(1,322,752)	(179,048)

11 2018/19 Bond issuance and loans advanced

During the 12-months ended 30 June 2019, the gross nominal value of bonds issued and loans advanced were significantly higher than prior years:

Bonds issued: \$2,456m (2018: \$1,229m)

Loans advanced: \$2.446m (\$2018 1,088m)

12 Share Capital

As at 30 June 2019, 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. Ordinary shares have a face value of \$1 per share.

Shareholder information

Registered holders of equity securities as at 30 June	2019		2018	
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	3,731,958	8.3%	3,731,958	8.3%
Greater Wellington Regional Council	3,731,958	8.3%	3,731,958	8.3%
Tasman District Council	3,731,958	8.3%	3,731,958	8.3%
Tauranga City Council	3,731,958	8.3%	3,731,958	8.3%
Wellington City Council	3,731,958	8.3%	3,731,958	8.3%
Western Bay of Plenty District Council	3,731,958	8.3%	3,731,958	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%
Whakatane District Council	200,000	0.4%	200,000	0.4%
Whanganui District Council	200,000	0.4%	200,000	0.4%
	45,000,000	100%	45,000,000	100%

Capital management

LGFA's capital is equity, which comprises share capital and retained earnings. The objective of managing LGFA's equity is to ensure LGFA achieves its goals and objectives for which it has been established, whilst remaining a going concern.

Dividend

LGFA paid a dividend of \$1,285,000 on 7 September 2018, being \$0.0514 per paid up share (2018: \$1,390,000 on 20 September 2017, being \$0.0556 per paid up share).

13 Operating Leases

	2019	2018
Less than one year	108,728	121,533
Between one and five years	119,094	262,770
Total non-cancellable operating leases	227,823	384,303

14 Other assets

As at 30 June in \$000s	2019	2018
Property, plant and equipment	-	-
Intangible assets ¹	457	609
Total other assets	457	609

1. Intangible assets comprise acquired and internally developed software costs incurred on the implementation of LGFA's treasury management system.

15 Capital commitments

As at 30 June 2019, there are no capital commitments.

16 Contingencies

There are no contingent liabilities at balance date.

17 Related parties

Identity of related parties

LGFA is related to the local authorities set out in the Shareholder Information in note 12.

LGFA operates under an annual Statement of Intent with the respective local authorities that sets out the intentions and expectations for LGFA's operations and lending to 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 purchase of LGFA borrower notes by participating councils. Refer note 8.

The Treasury (New Zealand Debt Management) provides LGFA with a committed credit facility and is LGFA's derivatives counterparty.

Transactions with key management personnel:

Salaries \$904,300 (2018: \$849,969)

Fees paid to directors are disclosed in operating expenses in Note 4.

18 Subsequent events

Subsequent to balance date, LGFA has issued \$670 million in bonds through one tender and a syndication.

Subsequent to balance date, on 27 August 2019, the Directors of LGFA declared a dividend of \$1,155,000 (\$0.0462 per paid up share).



Kopeopeo Canal was classified as one of the most contaminated waterways in the country. Technology that senses the depth required to be dug was used to remove contaminated sediment.
Bay of Plenty Regional Council



INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY LIMITED'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2019

The Auditor-General is the auditor of New Zealand Local Government Funding Agency Limited (the company). The Auditor-General has appointed me, Brent Manning, using the staff and resources of KPMG, to carry out the audit of the financial statements and performance information of the company on his behalf.

Opinion

We have audited:

- the financial statements of the company on pages 49 to 72, that comprise the statement of financial position as at 30 June 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the company on pages 36 to 47.

In our opinion:

- the financial statements of the company on pages 49 to 72:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2019; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Accepted Accounting Practice (NZ GAAP) and they comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards (IFRS); and
- the performance information of the company on pages 36 to 47 presents fairly, in all material respects, the company's actual performance compared against the performance targets and other measures by which performance was judged in relation to the company's objectives for the year ended 30 June 2019.

Our audit was completed on 30 August 2019. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of



misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at \$74 million determined with reference to a benchmark of company Total Assets. We chose the benchmark because, in our view, this is a key measure of the company's performance. In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of a reasonably knowledgeable person ('qualitative' materiality).

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the readers as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements.

The key audit matter	How the matter was addressed in our audit
Existence and impairment of loans	
<p>Refer to Note 5 to the Financial Statements.</p> <p>The loans LGFA has provided to local government make up over 90% of total assets. The loans are recognised at amortised cost and the nature of the counterparties is such that we do not consider these loans to be at high risk of significant misstatement. However, based on their materiality, and the judgement involved in assessing the credit worthiness of counterparties they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> - understanding the processes in place to assess borrowers and to record loan transactions. This included evaluating the control environment in place at LGFA. - agreeing the 30 June 2019 loan balances to external confirmations received from NZ Clear. - assessing the borrowers' compliance with financial covenants. <p>We did not identify any material differences in relation to the existence or impairment of loans.</p>
Application of hedge accounting	
<p>Refer to Note 2 of the Financial Statements.</p> <p>LGFA enters into derivatives (interest rate swaps) to manage interest rate risk related to issuing fixed rate bonds. Fair value hedge accounting is applied where specific requirements are met around documentation of the hedge relationship and the relationship is demonstrated as being an effective hedge. Hedge accounting is complex, particularly in the area of whether the requirements (both initial and ongoing) for its application are met. Should the requirements for hedge accounting not be met, LGFA could experience significant volatility in the Statement of Comprehensive Income from changes in the fair value of the derivatives.</p> <p>Due to the size of the derivative positions and the complexity of hedge accounting we consider this to be a key audit matter.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> - agreeing the terms of the derivatives to the confirmation provided by the derivative counterparty. - using our treasury valuation specialists we independently recalculated the fair value of all of the derivatives recorded by LGFA. - ensuring the hedge documentation supporting the application of hedge accounting was in accordance with relevant accounting standards. - determining that management's hedge effectiveness calculations were correctly performed using appropriate source information. <p>We did not identify any material differences in relation to the application of hedge accounting.</p>

Responsibilities of the Board of Directors for the financial statements and the performance information

The Board of Directors is responsible on behalf of the company for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for preparing the performance information for the company.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board of Directors is responsible on behalf of the company for assessing the company's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Board of Directors intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Local Government Act 2002 and the Financial Markets Conduct Act 2013.

Responsibilities of the auditor for the audit of the financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the performance information.

For the budget information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to the company's statement of intent.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We evaluate the appropriateness of the reported performance information within the company's framework for reporting its performance.



- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 4 to 35, but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the company in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1(Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with, or interests in, the company.

Brent Manning
KPMG
On behalf of the Auditor-General
Wellington, New Zealand

Greater Wellington Regional Council's vehicle purchasing policy prioritises electric vehicles. EVs keep staff connected around the region while lowering the Council's carbon emissions.



Other disclosures

Whākitanga

Waivers from NZX Limited (NZX)

LGFA's fixed rate bonds are quoted on the NZX Debt Market (LGFA Bonds). NZX has granted LGFA a number of waivers from the NZX Listing Rules dated 1 October 2017.

Waiver from Rule 5.2.3

NZX has granted LGFA a waiver from NZX Listing Rule 5.2.3 to the extent that this requires the LGFA Bonds to be held by at least 100 members of the public holding at least 25% of the number of securities of that class issued.

The waiver from NZX Listing Rule 5.2.3 was provided on the conditions that:

- LGFA clearly and prominently disclose the waiver, its conditions and its implications in its annual reports and in each profile or Offering Document for the LGFA Bonds;
- LGFA will disclose market liquidity as a risk in each offering document (excluding any offering document referred to in paragraph (f) of the definition of "Offering Document" under NZX Listing Rule 1.6.1) for the LGFA Bonds; and
- the nature of LGFA's business and operations do not materially change from its business and operations as at the date of the waiver decision.

The effect of the waiver is that the LGFA Bonds may not be widely held and there may be reduced market liquidity in the LGFA Bonds.

Effective from 1 July 2019, LGFA ceased to rely on this waiver as a result of its transition to the revised

NZX Listing Rules dated 1 January 2019 (Revised Rules). The equivalent rules in the Revised Rules are not applicable to LGFA as an issuer of debt securities.

Waiver from Rule 6.3.2

NZX has granted LGFA a waiver from NZX Listing Rule 6.3.2 so that the deemed date of receipt of notices for a holder of LGFA Bonds who has supplied LGFA with an address outside of New Zealand, will be five working days after that notice is posted to that physical address.

Effective from 1 July 2019, LGFA ceased to rely on this waiver as a result of its transition to the Revised Rules. The equivalent rule in the Revised Rules is not applicable to LGFA as an issuer of debt securities.

Donations

No donations were made by LGFA during the year ended 30 June 2019.

Net Tangible Assets

Net tangible assets per \$1,000 of listed bonds as at 30 June 2019 is \$7.95 (2018: \$7.92).

Earnings per security

Earnings per security as at 30 June 2019 is \$1.20 (2018: \$1.45).

Amount per security of final dividends

Not applicable

Spread of Quoted Security holders

Holding range	Holder count	Holder Count %	Holding Quantity	Holding Quantity %
10,000 to 49,999	380	45.89	9,819,000	0.11
50,000 to 99,999	152	18.36	10,781,000	0.12
100,000 to 499,999	184	22.22	37,648,000	0.4
500,000 to 999,999	38	4.59	26,090,000	0.28
1,000,000 to 9,999,999,999,999	74	8.94	9,250,662,000	99.1
Total	828	100	9,335,000,000	100.01



LGFA Staff, from left: Andrew Michl, Ariadne Clarke, Mark Butcher, Jane Phelan, Sumitha Kaluarachi, Koshick Ranchhod, Neil Bain



LGFA Board of Directors, from left: Mike Timmer, Anthony Quirk, Linda Robertson, Craig Stobo, Philip Cory-Wright, John Avery

Appendix: Sustainability Tāpiritanga

GRI Index

As part of LGFA's commitment on improving non-financial disclosures in relation to social responsibility and sustainability, LGFA has chosen to incorporate Global Reporting Initiative (GRI) standards when preparing this annual report.

As at the date of this report, work is still progressing on identifying and reporting on the material

topics that reflect LGFA's significant economic, environmental and social impacts. It is anticipated that this work will be complete for inclusion in the 2020 Annual Report.

The GRI index below shows where in this report information can be found about the indicators that are relevant to LGFA's business operations.

Disclosure title	Reference/Disclosure
102-1. Name of the organisation	Page 4
102-2. Activities, brands, products and services	Pages 4-9
102-3. Location of headquarters	Page 81
102-4. Location of operations	Page 81
102-5. Ownership and legal form	Pages 4,53
102-6. Markets served	Pages 4-6, 11-12, 36-47 New Zealand
102-7. Scale of the organisation	Pages 4-9, 14-15, 22,51
102-8. Information on employees and other workers	Pg 24,79
102-9. Supply chain	Pages 4-9
102-10. Significant changes to the organisation and its supply chain	None.
102-11. Precautionary Principle or approach	N/A
102-12. External initiatives	Pg 16
102-13. Membership of Associations	Financial Service Providers Register
102-14. Statement from senior decision-maker	Pages 11-12, 28
102-16. Values, principles, standards, and norms of behavior	Pages 16-17, 25
102-40. List of stakeholder groups	Not reported, to be disclosed in 2020 Annual Report
102-41. Collective bargaining agreements	None
102-42. Identifying and selecting stakeholders	Not reported, to be disclosed in 2020 Annual Report
102-43. Approach to stakeholder engagement	Not reported, to be disclosed in 2020 Annual Report
102-44. Key topics and concerns raised	Not reported, to be disclosed in 2020 Annual Report
102-45. Entities included in the consolidated financial statements	Page 49
102-46. Defining report content and topic Boundaries	Not reported, to be disclosed in 2020 Annual Report
102-47. List of material topics	Not reported, to be disclosed in 2020 Annual Report

102-48. Restatements of information	None.
102-49. Changes in reporting	N/A (first year of reporting).
102-50. Reporting period	1 July 2018 to 30 June 2019.
102-51. Date of most recent report	2019 Annual Report.
102-52. Reporting cycle	Annual.
102-53. Contact point for questions regarding the report	lgfa@lgfa.co.nz
102-54. Claims of reporting in accordance with the GRI Standards	Not currently compliant.
102-55. GRI content index	Page 80
102-56. External assurance	None.
Topic disclosures	Reference/Disclosure
Diversity and equal opportunity	
103. Disclosure on management approach	Page 22
405-1. Diversity of governance bodies and employees	Page 22
Occupational health and safety	
103. Disclosure on management approach	Page 25

Directory

Rārangi tauwaea



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AUCKLAND

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NEW ZEALAND LOCAL
GOVERNMENT FUNDING AGENCY
TE PŪTEA KĀWANATANGA Ā-ROHE

www.lgfa.co.nz

Open Meeting

To	Strategy & Finance Committee
From	A Diaz Chief Financial Officer
Date	11 September 2019
Chief Executive Approved	Y
Reference #	GOV1318/ 2348615
Report Title	Approved Counterparty Review

I. EXECUTIVE SUMMARY

Treasury related transactions can only be entered into with organisations specifically allowed for under Council's Treasury Risk Management Policy.

Counterparties and limits are approved on the basis of long-term and short-term credit ratings of A- and above, and A2 or above respectively. Limits are spread across a number of Counterparties to manage credit exposure. Counterparty limits are reported quarterly, while credit ratings are reviewed on an ongoing basis with any material credit downgrades dealt with immediately. The Standard & Poors ratings are reported to the committee every six months and any changes noted.

The current credit ratings (updated 4 March 2019) are shown in the table below:

	Long Term		Short Term		Within Policy?
	S&P	Policy	S&P	Policy	
ANZ Bank	AA-	A-	A-1+	A2	✓
ASB Bank	AA-	A-	A-1+	A2	✓
Bank of New Zealand	AA-	A-	A-1+	A2	✓
HSBC	AA-	A-	A-1+	A2	✓
Westpac	AA-	A-	A-1+	A2	✓

There has been no change since the ratings were last reported.

2. RECOMMENDATION

THAT the report from the Chief Financial Officer be received.

3. ATTACHMENTS

NIL

Open Meeting

To	Strategy & Finance Committee
From	A Diaz Chief Financial Officer
Date	11 September 2019
Chief Executive Approved	Y
Reference #	GOV1318 / 2350582
Report Title	Council Controlled Organisations Annual Reports

I. EXECUTIVE SUMMARY

Council has three Council Controlled Organisations (“CCO’s”). These organisations independently manage facilities and deliver services.

Council’s Annual Report contains information on why each investment is held and details of the expected returns if any. This report summarises the performance of each CCO against the Statement of Intent objectives. The Annual Reports for the Waikato Regional Airport Limited and Waikato Local Authority Shared Services Limited are attached to this report. However, the draft Annual Report for the Waikato Wellbeing Trust is not attached to this report as it has not yet been received by the Trustees. The Annual Report will be presented to the Trust at the end of September, and will be received by Council following adoption at the Trust’s December Annual General Meeting.

Strada Corporation Limited

As an exempt CCO, Strada no longer prepares a Statement of Intent, and is not required to have their Annual Report audited. The financial statements are prepared by Council staff based on data provided by Strada staff during the year and are yet to be formally approved for release by the Directors.

Waikato Regional Airport Limited

Council has a 15.625 per cent shareholding in the airport, which is considered a strategic asset. The airport also operates a tourism subsidiary which aims to promote the region to tourists. Council contributes separately to this entity.

The core purpose and key objective for the year has been to operate the airport in an efficient and compliant manner whilst maintaining a viable aeronautical business.

The group achieved the majority of the financial targets and all of the non-financial targets included in their Statement of Intent. The strong financial position also enabled a dividend to be declared.

The performance against the Statement of Intent is summarised in the table below:

Agreed Measures	Statement of Intent	Actual 2018/19	Target met
Earnings before interest, taxation and depreciation (EBITDA)	\$3.400M	\$3.964M	
Net surplus/(deficit) after tax	\$127K	\$615K	
Shareholders' funds to total assets	65.00%	78.00%	
Percentage of non-landing charges revenue to total revenue	74.00%	68.00%	
Total liabilities/shareholders' funds: (debt/equity ratio)	35:65	22:78	
Net operating cashflow	\$1.900M	\$2.310M	
Net investing cashflow	(\$4.300M)	(\$2.610M)	
Funding Titanium Park Limited	\$900K	\$1.041M	
Net cashflow (operating & investing)	(\$1.400M)	(\$300K)	
Net debt maximum	\$18.000M	\$13.695M	
Interest rate cover	4.0	7.5	

Waikato Local Authority Shared Services Limited (“WLASS”)

The 12 local authorities have worked closely together over the years on mutually beneficial joint projects. The company generates saving through economies of scale, additional purchasing power and the ability to recover costs.

WLASS is in operation to:

- Enable Waikato councils to collectively be more effective as a region on the national stage;
- To encourage central government investment;
- Achieve effectiveness and efficiency gains;
- Reduce duplication of effort and eliminate waste;
- Make it easier for customers to engage with councils in the region;
- Promote and contribute to the development of best practice; and
- Promote business transformation to improve customer experience.

The performance against the Statement of Intent is provided in the table below:

Agreed Measures	Statement of Intent	Target met
Joint procurement initiatives will be investigated and implemented	Implement the recommendations of the Procurement review New suppliers are awarded contracts through a competitive tender process	
Priorities for collaboration are developed and high priority projects implemented	Minimum of three collaborative projects identified Business cases of value are developed for approval and implemented	
Existing contracts are managed and renegotiated as required	Contracts register is maintained Contracts for renewal are tested for competitiveness and renegotiated or tendered through a competitive process	
The company shall maintain a positive cash flow position	The WLASS board will review the financial statements quarterly	
Administration expenditure shall be managed and monitored	Administration expenditure shall not exceed budget by more than 5% without board approval	
Six monthly reports are provided to shareholders	A written report on the business operations and financial position to be provided every six months Every second report is the annual report with statutory requirements adhered to	
The company shall provide administrative support to the Mayoral forum	Approved invoices for mayoral forum projects are paid by the 20th of the month following receipt	
The shared valuation data services is reliable, well maintained and available	SVDS is available to users at least 99% of normal working hours SVDS advisory group meets at least six monthly The Annual Business Plan is accepted by the advisory group by 31 March 2019	
The long-term provision of SVDS services is achieved	Milestones for implementing long term provision of SVDS services are being achieved	
Key performance indicators of the insurance brokerage contract are achieved	Strategic advice received is assessed as satisfactory in the annual shareholder survey Day-to-day service is assessed as satisfactory in the annual shareholder survey	

Agreed Measures	Statement of Intent	Target met
Deliver better data for decision making across the region, enabling consistent best practice	<p>Reports are provided quarterly</p> <p>Procurement complies with WLASS and NZTA requirements</p>	
Data supplied by contractors is of good quality and meet requirements	<p>Present to a national conference annually</p> <p>At least two RATA good practice guidance documents produced</p>	
Waikato regional transport model is reliable, well maintained and available	<p>Modelling reports requested are actioned by the supplier within the agreed scope, time and budget</p> <p>A status report from RATA on the model status is provided six monthly</p> <p>The quality complies with NZTA guidelines and is independently reviewed when updated</p>	
Waikato Building consent group actively pursue improvements	<p>People capability is achieved through recruitment and training programmes</p> <p>Industry compliance results in lower requests for further information and percentages of rejection.</p> <p>Full participation in building cluster projects and programmes</p>	
	<p>Quality assurance measured by accreditation, annual audits and customer services is achieved</p> <p>Funding requirements met by each council</p> <p>Report six monthly on the group's activities</p>	
	<p>Consistency in service delivery measured by customer surveys</p> <p>Risk management is visible through regular risk register reviews</p>	
	Planning for growth in the sub-region is co-ordinated and collaborative	<p>Phase 2 of the Future Proof Strategy is adopted by December 2018</p> <p>The overall Future Proof work programme is delivered within approved budget</p>
Shareholders are satisfied with the performance of WLASS	A shareholder survey is conducted and reported on annually	
Aligned Resource Planning project is implemented	Common forms are in place for all Councils by December 2018	

Agreed Measures	Statement of Intent	Target met
Shareholders are informed of the benefits being provided	Information on non-financial and financial benefits are reported on six monthly The WLASS website is regularly maintained and updated	

Waikato District Community Wellbeing Trust (“the Trust”)

The Trust distributes funds that:

- Promote the social, environmental and cultural wellbeing of the Waikato district and its communities; and
- Deliver on the aspirations and community outcomes of the Waikato district identified and promoted by the community and endorsed by the Waikato District Council.

The Trust’s Annual Report will be adopted at their December Annual General Meeting, subject to final sign-off from Audit New Zealand. As such, the on-site audit will not be undertaken in time for adoption by the Trust before the end of the triennium. In terms of the impact on Council’s audit the Trust is not considered to be material. There is an on-going timing delay between Council’s financial year end and the delivery of audit reports from KiwiWealth which means audit opinion cannot be issued within statutory timeframes. A breach of section 67 of the Local Government Act 2002 is noted in the Trust’s Annual Report.

The draft performance against the Statement of Intent is provided in the table below:

Agreed Measures	Statement of Intent	Target met
Governance: To comply with the terms of the Trust Deed and in particular with the duties of the Trust as set out in clause 11 of the Deed.	Undertake an annual legal review of compliance with the Trust Deed no later than two months after the end of each financial year.	
Investment: To adhere to the Trust’s <i>Management of Investment Portfolio and Distribution Policy</i> . To review on an annual basis the investment mandate and the performance of the portfolio manager.	At each quarterly meeting review compliance with the Trust’s <i>Management of Investment Portfolio and Distribution Policy</i> during that quarter.	

Agreed Measures	Statement of Intent	Target met
<p>Fund disbursement:</p> <p>As per the <i>Management of Investment Portfolio and Distribution Policy</i>, to distribute a total grant disbursement that does not exceed 50% of the accumulated retained net income after allowing for accumulated expenses, inflation movements and prior year distributions.</p>	<p>A distribution process is undertaken that distributes the annual fund to eligible recipients in accordance with funding targets set by the Trustees in accordance with the <i>Management of Investment Portfolio and Distribution Policy</i> for the current year.</p>	
	<p>Six-monthly reports are received from all successful applicants within the required timeframe.</p>	

2. RECOMMENDATION

THAT the report from the Chief Financial Officer be received.

3. ATTACHMENTS

Annual Reports:

- Waikato Regional Airport Limited
- Waikato Local Authority Shared Services



Waikato Regional Airport Limited

Annual Report & Consolidated Financial Statements

For the year ended 30 June 2019

Waikato Regional Airport Limited

Annual Report & Consolidated Financial Statements

For the year ended 30 June 2019

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Waikato Regional Airport Limited

Consolidated Statement of Comprehensive Revenue and Expense

Year ended 30 June 2019

		2019	2018
		\$ '000	\$ '000
Revenue			
Operating revenue	2A	10,484	8,594
Land sales		2,575	2,242
Other gains/(losses)	2B	1,123	1,746
		14,182	12,582
Expenses			
Operating expenses		(3,903)	(3,457)
Cost of land sales		(1,573)	(1,279)
Employee benefits expense		(2,617)	(2,265)
Depreciation & amortisation	3A, 3B	(2,538)	(2,438)
Finance costs		(530)	(503)
		(11,161)	(9,942)
Net surplus/(deficit) before tax		3,021	2,640
Tax expense	4A	(692)	(260)
Net surplus/(deficit) after tax		2,329	2,380
Other comprehensive revenue & expense			
Revaluation of property, plant & equipment, net of tax		10,270	-
		10,270	-
Total comprehensive revenue & expense		12,599	2,380

The accompanying notes form part of these financial statements

Waikato Regional Airport Limited

Consolidated Statement of Changes in Equity

Year ended 30 June 2019

	Share Capital \$ '000	Retained Earnings \$ '000	Revaluation Reserves \$ '000	Total \$ '000
Opening Balance - 1 July 2017	14,860	20,963	46,934	82,757
Net surplus/(deficit) after tax	-	2,380	-	2,380
Other comprehensive revenue & expense	-	-	-	-
Disposal of revalued property, plant & equipment	-	49	(49)	-
Total comprehensive revenue & expense	-	2,429	(49)	2,380
Dividends paid to shareholder	-	(200)	-	(200)
Closing Balance - 30 June 2018	14,860	23,192	46,885	84,937
Opening Balance - 1 July 2018	14,860	23,192	46,885	84,937
Net profit/(loss) after tax	-	2,329	-	2,329
Other comprehensive income	-	-	10,270	10,270
Disposal of revalued property, plant & equipment	-	53	(53)	-
Total comprehensive income	-	2,382	10,217	12,599
Dividends paid to shareholder	-	(250)	-	(250)
Closing Balance - 30 June 2019	14,860	25,323	57,102	97,285

The accompanying notes form part of these financial statements

Waikato Regional Airport Limited
Consolidated Statement of Financial Position
As at 30 June 2019

		2019 \$ '000	2018 \$ '000
Current Assets			
Cash and cash equivalents	5B	811	22
Trade and other receivables		1,322	631
Inventories		110	92
Development property	3C	10,858	9,157
		13,101	9,902
Non Current Assets			
Property, plant and equipment	3A	92,830	75,397
Investment property	3D	17,132	21,456
Intangible & other non-current assets	3B	1,157	962
		111,119	97,815
Total Assets		124,220	107,717
Current Liabilities			
Trade and other payables	4B	3,721	1,938
Employee entitlements		382	322
Borrowings	5B	96	96
		4,199	2,356
Non Current Liabilities			
Borrowings	5B	14,410	13,071
Deferred tax liability	4A	8,326	7,353
		22,736	20,424
Total Liabilities		26,935	22,780
Net Assets		97,285	84,937
Equity			
Share capital		14,860	14,860
Retained earnings		25,323	23,192
Revaluation reserves		57,102	46,885
Total Equity	5A	97,285	84,937

Authorised for issue by the Board of Directors on 5 September 2019

Director

Director

The accompanying notes form part of these financial statements

Waikato Regional Airport Limited
Consolidated Statement of Cash Flows
Year ended 30 June 2019

	2019	2018
	\$ '000	\$ '000
Operating activities		
Receipts from operations	13,152	10,857
Payments to suppliers and employees	(6,251)	(5,716)
Payments for construction of development property	(3,198)	(1,217)
Payment of interest	(530)	(502)
Payment of income taxes	(863)	(662)
Net cash from/(used in) operations	2,310	2,760
Investing activities		
Receipts from sale of property, plant and equipment	606	721
Purchases of property, plant & equipment	(2,499)	(877)
Purchases of investment properties	(46)	(4,554)
Purchases of intangible assets	(122)	-
Acquisition of business combination	(549)	-
Net cash from/(used in) investment activities	(2,610)	(4,710)
Financing activities		
Receipts from/(repayments of) borrowings	1,339	2,114
Payments of dividends	(250)	(200)
Net cash from/(used in) financing activities	1,089	1,914
Net change in cash for the period	789	(36)
Add opening cash and cash equivalents balance	22	58
Closing cash and cash equivalents	811	22

5B

The accompanying notes form part of these financial statements

Waikato Regional Airport Limited

Notes to the Consolidated Financial Statements

Year ended 30 June 2019

Section One: About our annual report

This section of notes explains how we have prepared the financial statements and the general accounting policies we have applied. More specific policies and judgements we have made are explained in sections 2-4.

1A Reporting entity

Waikato Regional Airport Limited owns and operates Hamilton Airport. It's consolidated financial statements include the results of the Company and its wholly owned subsidiaries:

- Titanium Park Limited, conducts commercial and industrial property development around the airport precinct.
- Hamilton & Waikato Tourism Limited, is the Waikato region's official Regional Tourism Organisation and promotes the region as a business and leisure tourism destination both nationally and internationally.
- Waikato Regional Airport Hotel Limited, commenced operating the Hamilton Airport Hotel & Conference Centre in May 2019.

1B Basis of preparation

These consolidated financial statements have been prepared to comply with:

- Companies Act 1993
- Local Government Act 2002
- Airport Authorities Act 1966

The financial statements are prepared in accordance with Generally Accepted Accounting Practice, which in the case of the Group is the Public Benefit Entity standards for Public Sector organisations that have less than \$30 million annual expenditure ("Tier 2 PBE Standards"). The Group is eligible to apply Tier 2 PBE Standards, including the Reduced Disclosure Regime as it is not publicly accountable or large.

In preparing the consolidated financial statements, transactions including revenues, expenses and loans occurring between entities and balances owing/receivable between entities at year end in the Group have been eliminated. Individual entity financial statements are adjusted if necessary to comply with the Group's accounting policies upon Consolidation.

The financial statements are presented in New Zealand Dollars and rounded to the nearest thousand dollars unless otherwise stated. The Group does not routinely enter into material transactions denominated in foreign currencies.

Except as disclosed in the Notes to the Financial statements, all amounts have been recorded using the historical cost measurement basis, on the assumption the Group is a going concern. All amounts presented are shown exclusive of GST, except for amounts owing or receivable where the balance is inclusive of GST.

1C Specific Accounting Policies

Accounting policies adopted by the Group and critical estimates and judgements made in preparing these financial statements are detailed further in the accompanying notes, in addition to those outlined below.

All accounting policies have been applied consistently to both the current reported period balances and the comparative amounts, and there have been no changes in accounting policies in the current year. Certain amounts have been restated from previous periods to comply with current year presentation.

Critical estimates and judgements

In preparing financial statements that comply with NZ IFRS RDR, the Company has made certain estimates and judgements which have a material impact on the amounts reported, in particular the valuation of Property, Plant & Equipment (Note 3A), cost of Development Property (Note 3C); valuation of investment Property (Note 3D); recognition and measurement of assets acquired in business combinations (Note 3E); and provisions and contingencies in respect of Infrastructure Development (Note 4C).

Waikato Regional Airport Limited

Notes to the Consolidated Financial Statements

Year ended 30 June 2019

(i) Land Sales

Revenue from sale of development property is recognised when the significant risks and rewards of ownership have passed to the purchaser. This ordinarily coincides with settlement by the purchaser. Upon recognising the sale of development property, the cost of that property is expensed to net surplus/(deficit).

(ii) Employee benefit expense & Employee entitlements

Employee benefit expense includes all salaries, wages and performance bonuses paid to staff; contributions to post-employment benefit schemes (e.g. Kiwi Saver). The Group's expense also includes PAYE income tax and other deductions made by the Group. Amounts owing to staff, and any deductions collected but not yet paid, are recognised within the Employee entitlements liability. All Employee entitlements including performance bonus schemes are expected to be settled in the next twelve months, so no discounting adjustment is made.

(iii) Finance Costs

Finance costs include interest incurred on Borrowings and other similar charges. Finance costs are expensed except to the extent they relate to borrowings specifically incurred to finance construction of qualifying assets, in which case the Finance costs are capitalised as part of the asset's cost. Qualifying assets typically take more than 6 months to construct. Upon completion of the asset construction, capitalisation of further Finance costs ceases.

(iv) Trade and other receivables

Trade and other receivables are recorded at their expected realisable value, net of an allowance for balances where collection appears doubtful. Balances receivable by the Group are not subject to any material uncertainty around collection at 30 June 2019.

(v) Inventory

Inventories include consumables for use in the Group's operations which are recorded at cost, and goods for re-sale in the Group's retail outlets which are recorded at lower of cost or net realisable value when it is identified the selling price will be less than their cost. There have been no material write downs of inventory in the current or previous period.

(vii) Impairment of non-financial assets

All assets not already recorded at fair value are reviewed for indicators of impairment when there are indicators that asset's value may not be recoverable. An impairment loss is recognised when an asset's recoverable value is less than its current carrying value. Impairment losses are recognised in net surplus/(deficit) except to the extent a loss relates to a reduction in the fair value of an asset previously revalued through the Asset Revaluation Reserve, in which case the revaluation reserve is reduced. The recoverable value of an asset is the greater of its disposal value or value in use, being its depreciated replacement cost.

Waikato Regional Airport Limited

Notes to the Consolidated Financial Statements

Year ended 30 June 2019

Section Two: About our performance for the year

This section provides information about how we performed for the year including how we derived our revenue and earnings, and how we performed against our Statement of Intent.

2A Operating Revenue

Operating revenue from exchange transactions is recognised when the underlying goods or services have been provided to the customer. Rental income from property leased to customers by the Group is recognised on a straight line basis over the lease term. Amounts received from customers in advance of the underlying goods or services being delivered are deferred initially and recognised as a liability.

Revenue from non-exchange transactions arise when there is no obligation to deliver goods or services directly in return to the funding provider. Revenue is only deferred if there are other substantive performance obligations yet to be met or conditions to return unspent amounts to the funding provider.

	2019 \$ '000	2018 \$ '000
Aeronautical, landing and passenger charges	3,350	2,595
Leases, rentals and concessions	2,160	2,014
Car parking charges	2,184	1,951
Retail trading and other	1,085	337
Total exchange revenue	8,779	6,897
Regional Tourism Organisation funding	1,705	1,697
Total non-exchange revenue	1,705	1,697
Total operating revenue	10,484	8,594

2B Other gains/(losses)

		2019 \$ '000	2018 \$ '000
Gain on revaluation of investment property	3D	285	1,595
Gain on disposal of property, plant and equipment	3A	838	151
		1,123	1,746

Waikato Regional Airport Limited

Notes to the Consolidated Financial Statements

Year ended 30 June 2019

2C Our performance against our financial targets set in our Statement of Intent (Our Statement of Service Performance)

	2019			2018		
	Actual \$ '000	Target \$ '000	Met	Actual \$ '000	Target \$ '000	Met
Earnings performance targets						
Net surplus/(deficit) after tax	615	127	✓	(36)	(366)	✓
Earnings before tax, interest, depreciation & amortisation (EBITDA)	3,964	3,400	✓	3,023	2,374	✓
Percentage of non-landing charges to total revenue (at least)	68%	74%	✗	85%	76%	✓
Interest coverage ratio	7.5	4.0	✓	6.0	5.0	✓
Cash flow and funding performance targets						
Net operating cash flow	2,310	1,900	✓	2,760	1,700	✓
Net investing cash flow	(2,610)	(4,300)	✓	(4,710)	(1,500)	✗
Titanium Park Limited funding	1,041	900	✗	0	0	✓
Net cash flow (operating & investing)	(300)	(1,400)	✓	(1,950)	200	✗
Net debt maximum	13,695	18,000	✓	13,145	13,000	✗

All earnings and profitability financial performance targets exclude the effect of land sales (and land cost of sales) and revaluation gains and losses recognised in net surplus/(deficit) after tax unless otherwise stated.

Due to higher than anticipated aeronautical revenues as a result of passenger growth and renegotiation of commercial charges, the Group achieved higher landing charge revenue than budgeted, when compared to non-landing charge revenues.

Titanium Park required more funding than anticipated due to timing of land sale settlements.

Waikato Regional Airport Limited

Notes to the Consolidated Financial Statements

Year ended 30 June 2019

2C Our performance against our financial targets set in our Statement of Intent (Our Statement of Service Performance)

	2019			2018		
	Actual \$ '000	Target \$ '000	Met	Actual \$ '000	Target \$ '000	Met
Shareholder value performance targets						
Shareholder funds to total assets (at least)	78%	65%	✓	79%	76%	✓
Total liabilities/shareholders funds (better than)	22:78	35:65	✓	26:74	35:65	✓
Net profit before tax, interest and revaluations to total assets	2.8%	0.5%	✓	n/a	n/a	n/a
Net profit before tax, interest and revaluations to shareholder funds	3.6%	0.5%	✓	n/a	n/a	n/a
Net profit after tax, interest and revaluations to total assets	2.0%	0.1%	✓	n/a	n/a	n/a
Net profit after tax, interest and revaluations to total assets	2.6%	0.1%	✓	n/a	n/a	n/a

All earnings and profitability financial performance targets exclude the effect of land sales (and land cost of sales) and revaluation gains and losses recognised in net surplus/(deficit) after tax.

All financial performance target results were better than planned due to higher than forecast passenger activity driving an increase in revenues. Certain cash flow and funding key performance targets were not met due to the unbudgeted acquisition of the Hamilton Airport Hotel & Conference Centre building, but was in line with the Group's property strategy.

Waikato Regional Airport Limited

Notes to the Consolidated Financial Statements

Year ended 30 June 2019

2D Our performance against our non-financial targets set in our Statement of Intent (Our Statement of Service Performance)

Performance Target	Comment	Met	
		2019	2018
Facilitate health & safety meetings every 2 months with representatives from each company department.	Health & Safety committee meetings are undertaken on a monthly basis	✓	✓
Zero WorkSafe notifiable accidents/injuries.	There were no notifiable incidents in either 2018 or 2019	✓	✓
Independently review and audit the health and safety system each year.	An independent audit of the Group's health and safety framework was undertaken and all recommendations were implemented	✓	✓
To achieve airport certification standards required by the Civil Aviation Authority (CAA) as evidenced by CAA audit reports.	The airport continues to meet all relevant CAA certification standards	✓	✓
Ensure airport is operationally available for all scheduled passenger services (except for uncontrollable events).	There have been no incidences of scheduled flights being operationally impacted by controllable events	✓	✓
Facilitate noise management meetings every 4 months in accordance with the noise management plan.	Regular meetings have been facilitated every 4 months	✓	✓
Collect, document and act (where viable) on customer feedback forms to continuously monitor and improve customer experience. Maintain a database to ensure recurring negative feedback is promptly acted upon.	A database is maintained of all feedback forms received. Feedback forms are provided to relevant departments and considered in planning for future improvement and upgrade projects.	✓	✓

Section Three: About our assets

This section provides information about the assets we own, how much they are worth and how we value and report them on an ongoing basis.

3A Property, Plant and Equipment

Classes of Asset

Property plant and equipment comprises the following classes of assets:

- Land owned by the Group for use in its own operations or retained for strategic purposes
- Buildings owned by the Group for use in its own operations or retained for strategic purposes
- Airport infrastructure, including runways, taxiways, apron areas, reticulated systems, internal roading and carpark
- Other plant and equipment, including motor vehicles, general plant and equipment, computer & IT equipment and furnishings

Initial recognition

Items of property, plant and equipment are recognised initially at cost. Assets under construction (work in progress) are recognised at cost and are not depreciated until available for use.

Subsequent measurement

- Land is revalued to fair value determined from market based evidence of similar land.
- Buildings and Airport infrastructure are revalued on a depreciated replacement cost basis except for the Airport Hotel & Conference Centre building which is valued on a market value basis.

Valuations are undertaken when the Group estimates there has been a material change in fair value, and at least every 5 years. All valuations are undertaken by independent, professional valuers with experience in the types of assets the group owns. Telfer Young Waikato undertake land valuations (last valuation: 2019), Beca Valuations Limited undertake all building and aeronautical infrastructure (last valuations: buildings 2019, infrastructure 2016), except for the Airport Hotel & Conference Centre Hotel Buildings which are valued by James Lange LaSalle (last valuation: 2018).

Changes in fair value are recognised within Other comprehensive revenue & expense except where a revaluation results in a carrying value below the asset's cost, in which case decreases below cost are recognised in net surplus/(deficit) for the period.

Depreciation

Except for land, the cost or valuation of all items of property, plant and equipment are depreciated over their estimated useful lives on a straight line basis

- Buildings - 4-59 years
- Airport infrastructure - 4-79 years
- Other plant and equipment - 2-50 years

Disposals

Upon disposal of an asset, any gain or loss arising between the disposal proceeds and carrying value is recognised in net surplus/(deficit). Any revaluation reserve attributable to the asset is transferred directly to retained earnings.

Waikato Regional Airport Limited

Notes to the Consolidated Financial Statements

Year ended 30 June 2019

3A Property, Plant and Equipment (continued)

	Land	Buildings	Airport Infrastructure	Other Plant & Equipment	Total
	\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
Cost/Valuation					
Cost/Valuation at 1 July 2017	36,670	18,795	22,499	4,571	82,535
Additions	54	69	166	554	843
Disposals	(518)	-	-	(173)	(691)
Revaluation	-	-	-	-	-
Cost/Valuation at 30 June 2018	36,206	18,864	22,665	4,952	82,687
Cost/Valuation at 1 July 2018	36,206	18,864	22,665	4,952	82,687
Additions	3,448	3,501	935	1,138	9,022
Disposals	(978)	-	-	(13)	(991)
Revaluation	6,530	4,077	-	-	10,607
Cost/Valuation at 30 June 2019	45,206	26,442	23,600	6,077	101,325
Depreciation					
Accumulated Depreciation 1 July 2017	-	(393)	(1,491)	(3,302)	(5,186)
Depreciation Expense	-	(395)	(1,527)	(349)	(2,271)
Disposals	-	-	-	167	167
Revaluation	-	-	-	-	-
Accumulated Depreciation 30 June 2018	-	(788)	(3,018)	(3,484)	(7,290)
Accumulated Depreciation 1 July 2018	-	(788)	(3,018)	(3,484)	(7,290)
Depreciation Expense	-	(397)	(1,574)	(367)	(2,338)
Disposals	-	-	-	13	13
Revaluation	-	1,120	-	-	1,120
Accumulated Depreciation 30 June 2019	-	(65)	(4,592)	(3,838)	(8,495)
Carrying Value					
30 June 2018	36,206	18,076	19,647	1,468	75,397
30 June 2019	45,206	26,377	19,008	2,239	92,830

At 30 June 2019, airport infrastructure of \$252,000 (2018: \$78,000), other plant & equipment \$401,000 (2018: \$140,000) and buildings of \$500,000 (2018: \$21,000) remained under construction and were not in use or depreciated.

Included in additions for the year ended 30 June 2019 is \$2,855,000 of buildings and \$1,800,000 of land re-classified from Investment property. Additions also include \$205,000 of Other plant & equipment acquired under the Airport Hotel & Conference Centre business combination. More detail is given in Note 3E.

Additions of land for the year ended 30 June 2019 also include \$423,000 of land reclassified from development property (2018: \$0).

Waikato Regional Airport Limited

Notes to the Consolidated Financial Statements

Year ended 30 June 2019

3B Intangible and other assets

Intangible and other assets comprise:

- Aeronautical designations are consents issued by local authorities that provide regulatory protection for the Group to undertake activities such as extend the airport runway and install approach lighting on neighbouring properties. Assets are recognised initially at the cost obtaining consent from the local authorities, and amortised on a straight line basis over the period of the consents which are between 10 and 15 years (between 2 and 7 years remaining).
- Other intangibles have arisen primarily from the acquisition of the Hamilton Airport Hotel & Conference Centre business. They reflect the benefit to the Group of acquiring the hotel with standing contracts and forward bookings from customers and are amortised on a straight line basis over the length of the remaining lives of the contracts which are normally up to 3 years. During the year ended 30 June 2019 \$272,000 of other intangible assets were recognised in the business combination transaction.
- Other assets that are recognised initially at the cost of acquisition and amortised on a straight line basis over the expected life of the underlying asset.

	Designations \$ '000	Other Intangibles \$ '000	Other Assets \$ '000	Total \$ '000
Cost				
Cost at 1 July 2017	1,394	-	184	1,578
Additions	-	-	-	-
Disposals	-	-	-	-
Cost at 30 June 2018	1,394	-	184	1,578
Cost at 1 July 2018	1,394	-	184	1,578
Additions	-	394	-	394
Disposals	-	-	-	-
Cost at 30 June 2019	1,394	394	184	1,972
Amortisation				
Accumulated Amortisation 1 July 2017	(332)	-	(110)	(442)
Amortisation Expense	(165)	-	(9)	(174)
Disposals	-	-	-	-
Accumulated Amortisation 30 June 2018	(497)	-	(119)	(616)
Accumulated Amortisation 1 July 2018	(497)	-	(119)	(616)
Amortisation Expense	(163)	(27)	(9)	(199)
Disposals	-	-	-	-
Accumulated Amortisation 30 June 2019	(660)	(27)	(128)	(815)
Carrying Value				
30 June 2018	897	-	65	962
30 June 2019	734	367	56	1,157

Waikato Regional Airport Limited

Notes to the Consolidated Financial Statements

Year ended 30 June 2019

3C Development Property

The Group, through its subsidiary Titanium Park Limited, undertakes the development of commercial and industrial property for sale. Land held by the Group for development is recognised initially at cost, or carrying value on the date it is designated for development if previously held as Investment property, or Property, plant and equipment. The balance of Development Property includes the costs of land plus costs such as roading and utilities infrastructure as well as consents from regulatory authorities needed to develop subdivisions and interest capitalised on borrowings used to finance development.

Development property is carried at the lower of its cost or its fair value less cost to sell. Fair value less cost to sell is determined by the Group based on contracted future sales prices, and estimates of market value of land not committed to future sale, taking into account sales activity of comparable properties and typical costs incurred in completing sales.

	2019	2018
	\$ '000	\$ '000
Opening balance	9,157	9,219
Development costs capitalised	3,666	1,217
Reclassification to property, plant and equipment	(392)	-
Less cost of development property sold	(1,573)	(1,279)
	10,858	9,157

At 30 June 2019, the Group has 24.6 hectares (2018: 27.5 hectares) available for development and sale.

3D Investment property

Investment properties are land and buildings owned by the Group and held for capital appreciation, or primarily for earning rental income under operating leases. Investment properties are recognised initially at cost then subsequently measured to fair value annually, with changes recognised in net surplus/(deficit).

Fair value is determined by independent, professional valuers Telfer Young Waikato who have experience in the type of Investment properties owned by the Group. Valuations are derived from comparable market data for similar properties. In the case of the Hamilton Airport Hotel & Conference Centre building, no comparable market data existed at 30 June 2018. Specialist hotel valuers James Lange LaSalle valued the property based on estimates of future cash flows and rates of return typical of leasehold investments in hotels. During the year ended 30 June 2019, the building was reclassified to Property, plant & equipment.

	2019	2018
	\$ '000	\$ '000
Opening balance	21,456	15,307
Acquisitions & additions	46	4,554
Redesignation of investment property	(4,655)	-
Changes in fair value	285	1,595
	17,132	21,456

During the year ended 30 June 2019, \$4,655,000 of investment property was redesignated as property, plant and equipment due to it now being occupied by the Group.

Waikato Regional Airport Limited

Notes to the Consolidated Financial Statements

Year ended 30 June 2019

3E Business Combination

On 13 May 2019, the Group completed the acquisition of the Hamilton Airport Hotel & Conference Centre business via its wholly owned subsidiary Waikato Regional Airport Hotel Limited. The Group owned the Land on which the Hotel was situated and acquired the Buildings during the 2018 Financial Year. Jet Park Hotels have been appointed by the Group to manage the Hotel, however the Group consolidates the results of the Hotel due to the Group being the sole shareholder and ultimate decision maker of the Hotel business, including having the ability to appoint and remove the Manager.

The Group employed all existing staff and acquired the following assets/(liabilities) at their fair values:

	2019 \$ '000
Property, plant and equipment	205
Intangible assets	272
Inventories	12
Deferred tax asset arising on acquisition	65
Employee entitlements	(5)
Fair value of acquired assets and liabilities	549

As the consideration paid equalled fair value of assets and liabilities acquired, no goodwill arose on acquisition.

The Group incorporated Waikato Regional Airport Hotel Limited on 9 April 2019 and consolidated this entity for the 3 month period up to 30 June 2019. As the hotel business was acquired on 13 May 2019, the entity only actively traded for 7 weeks of the year during which time it contributed (\$200,000) to the Group's net surplus before tax.

Waikato Regional Airport Limited

Notes to the Consolidated Financial Statements

Year ended 30 June 2019

Section Four: About our obligations and commitments

This section details the future liabilities and commitments we have, and how we have measured and calculated them.

4A Income Tax

Income tax is recognised in net profit/(deficit) except to the extent it relates to items recognised in equity. Income tax expense or the period comprises current tax and deferred tax. Current tax is the estimated income tax payable based on the current period taxable income, plus any adjustments to income tax payable in respect to prior periods.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax losses used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised. Deferred tax assets are recognised only when it is probable they will be utilised against future taxable income.

Income Tax Expense	2019		2018	
	\$ '000		\$ '000	
Net surplus/(deficit) before tax		3,021		2,640
Income tax at Group's tax rate	28.0%	(846)	28.0%	(739)
Effect of tax exempt income	(3.6%)	109	(18.6%)	492
Effect of expenditure non-deductible for tax purposes	13.4%	(404)	15.9%	(420)
Adjustments in respect of prior periods	(0.9%)	26	0.8%	(20)
Current tax expense	36.9%	(1,115)	26.0%	(688)
Effect of temporary differences (deferred tax expense)	(14.0%)	423	(16.2%)	428
Total tax expense	22.9%	(692)	9.8%	(260)

Movement in Deferred Tax Assets/(Liabilities)	1 July 2017	Recognised in Surplus	Other Movements	30 June 2018
Property, plant and equipment	(7,814)	421	-	(7,393)
Employee entitlements	26	2	-	28
Other	7	5	-	12
	(7,781)	428	-	(7,353)

	1 July 2018	Recognised in Surplus	Other Movements	30 June 2019
Property, plant and equipment	(7,393)	392	(1,401)	(8,402)
Employee entitlements	28	(7)	-	21
Other	12	38	5	55
	(7,353)	423	(1,396)	(8,326)

Waikato Regional Airport Limited

Notes to the Consolidated Financial Statements

Year ended 30 June 2019

4B Trade and other payables

Trade and other payables are recorded initially at their fair value. All amounts are interest free, and expected to be settled in the next accounting period.

	2019	2018
	\$ '000	\$ '000
Trade payables and accrued expenses	1,892	1,048
Provisions	632	632
Revenue received in advance	714	26
Income tax payable	483	232
	3,721	1,938

4C Infrastructure Development

Due to the nature of property development undertaken by the Group via its subsidiary Titanium Park Limited, the Group has a number of actual and potential future obligations to construct (or contribute to the construction of) water supply and reticulation, waste water facilities and roading infrastructure around the Hamilton Airport precinct.

Provisions are recognised at the Company's best estimate of future costs in relation to commitments where a present obligation has arisen, discounted for the expected timing of the construction or contribution being made. The initial cost of a provision is capitalised as part of the asset to which it relates with subsequent changes in the provision due to discounting reflected in net surplus/(deficit).

Contingent liabilities are recognised where there is less certainty about the timing, amount or likelihood of a future commitment, and when no present obligation exists. The Group's best estimate of the potential future commitment is disclosed where practicable, but not included within its balance sheet.

Provisions	2019	2018
	\$ '000	\$ '000
Opening balance	632	632
Additional obligations and commitments capitalised	-	-
Other changes recognised in net surplus/(deficit)	-	-
	632	632

Contingent liabilities	2019	2018
	\$ '000	\$ '000
Waipa District Council - water supply upgrade contribution	502	502
NZTA State Highway 21 - intersection upgrade contribution	unknown	unknown

The estimate of costs in relation to the NZTA State Highway 21 Intersection cannot be reliably estimated as the eventual intersection design is dependent on future traffic flow and generation which are outside the control of the Group.

Waikato Regional Airport Limited

Notes to the Consolidated Financial Statements

Year ended 30 June 2019

4D Commitments

At 30 June 2019, the Group had capital commitments of \$1,071,000

4E Events subsequent to balance date

During July 2019, the Group entered into an agreement to acquire the Mavis Aero Lounge Café situated in the airport terminal.

Waikato Regional Airport Limited

Notes to the Consolidated Financial Statements

Year ended 30 June 2019

Section Five: About how we are funded and our shareholder value

This section gives information about our shareholders including their shareholdings and how their interest in the Group has grown in value.

5A Equity**Share Capital**

The shareholding of Waikato Regional Airport Limited at 30 June 2019 was:

	Ordinary Shares	Percentage
Hamilton City Council	2,486,752	50.0%
Waipa District Council	777,110	15.6%
Waikato District Council	777,110	15.6%
Matamata Piako District Council	777,110	15.6%
Otorohonga District Council	155,422	3.2%
	4,973,504	100.0%

There were no changes in shareholding during the year (2018: none). All shares are fully paid and carry equal rights to vote and share the net assets of the Company. The shares have no par value, nor any fixed dividend rights.

Asset Revaluation Reserve

The accumulated, unrealised gains in asset revaluation are accumulated in the Asset revaluation reserve and are attributable the following asset classes:

	2019 \$ '000	2018 \$ '000
Land	34,712	28,235
Buildings	7,832	4,092
Airport Infrastructure	14,558	14,558
	57,102	46,885

Waikato Regional Airport Limited

Notes to the Consolidated Financial Statements

Year ended 30 June 2019

5B Cash and Borrowings

Cash and cash equivalents comprise cash on hand and bank accounts held with reputable retail banks in New Zealand. This balance also includes overdraft facilities used for working capital purposes and set off facilities between account balances among Group entities.

Borrowings are longer term debt facilities held with retail banks in New Zealand used to finance capital and investment requirements.

Borrowings	2019 \$ '000	2018 \$ '000
Current portion - due within 12 months	96	96
Non-current portion - due between 12 and 24 months	12,671	96
Non-current portion - due between 24 and 36 months	1,739	12,975
Total drawn borrowing facilities	14,506	13,167
Undrawn bank overdraft facilities	1,050	1,050
Undrawn term borrowing facilities	6,494	4,810
Total unutilised borrowing and overdraft facilities	7,544	5,860

The weighted average interest rate on borrowings at year end was 4.07% (2018: 4.17%). All borrowings and overdraft facilities are held with the Bank of New Zealand and are secured by way of a general security agreement and mortgages over certain land, buildings, investment properties.

Waikato Regional Airport Limited

Notes to the Consolidated Financial Statements

Year ended 30 June 2019

Section Six: Corporate Governance and Management

Section Six provides details about remuneration provided to the Group's Directors and Key Management Personnel, as well as details of transactions that took place with related parties

6A Related parties

The following transactions took place with entities and individuals related to the Group

	2019	2018
	\$ '000	\$ '000
Remuneration		
Directors	219	259
Number of directors	11	12
Key Management Personnel	1,001	831
Number of personnel (full time equivalent)	6	5
Other		
Transactions in which directors declared an interest	199	169

Transactions carried out between the Group and its related parties arise from interests declared by directors. These transactions were for purchases of IT-related goods and services in the normal course of the Group's business.

Waikato Regional Airport Limited

Corporate Information

Year ended 30 June 2019

6B Directors Holding Office

	Director Fees	
	2019	2018
	\$ '000	\$ '000
Waikato Regional Airport Limited		
John Spencer CNZM (Chair, resigned 30 April 2019)	38	45
Barry Harris (Chair, appointed 1 March 2019)	13	-
Annabel Cotton	30	30
Carlos Da Silva	30	30
Margaret Devlin	30	30
Titanium Park Limited		
Margaret Devlin (Chair) - (2019: 4 months)	6	18
Carlos Da Silva - (2019: 4 months)	6	18
Graham Dwyer - (2019: 4 months)	6	18
Waikato Regional Airport Hotel Limited (incorporated 9 April 2019: 3 months)		
John Spencer CNZM (Chair, resigned 30 April 2019)	-	-
Barry Harris (Chair)	-	-
Annabel Cotton	-	-
Carlos Da Silva	-	-
Margaret Devlin	-	-
Hamilton & Waikato Tourism		
Annabel Cotton - Chair	18	18
Simon Douglas	12	12
Steven Gow (appointed January 2019)	6	-
Richard Leggat (appointed January 2019)	6	-
Mark Morgan	-	-
Malcolm Phillips (resigned May 2018)	-	11
Don Scarlet (retired December 2018)	6	12
Karleen Turner Puriri	12	12

From 1 November 2018, the Directors of the Parent Company (WRAL) became the Directors of Titanium Park Limited under a common Board of Directors. From this point forward, the Directors were no longer separately remunerated by Titanium Park Limited. The common Board of Directors also included Waikato Regional Airport Hotel Limited from April 2019; the Directors receive no separate remuneration from this entity.

In addition to Director Fees paid, Margaret Devlin received payment for other advisory services of \$8,000 (2018: nil) and Graham Dwyer \$41,000 (2018: \$24,000). Annabel Cotton received \$5,000 (2018: \$5,000) for Chairing the Group's Audit & Risk Committee.

Waikato Regional Airport Limited

Corporate Information

Year ended 30 June 2019

6C Employee Remuneration

The numbers of employees outlined below received remuneration including salaries and performance bonuses exceeding \$100,000:

	2019	2018
\$330,000-\$339,999	1	-
\$290,000-\$299,999	-	1
\$190,000-\$199,999	1	1
\$170,000-\$179,999	1	-
\$160,000-\$169,999	-	1
\$140,000-\$149,999	1	-
\$100,000-\$109,999	1	-

6D Auditor

Pursuant to the Local Government Act 2002, Audit New Zealand is the auditor of the Group on behalf of the Auditor General. Audit New Zealand were paid \$119,000 for the audit of the Group and subsidiary financial statements (2018: \$89,000).



Annual report 2019

The enabler for Councils to provide their services in the most effective and efficient way

Handwritten signature/initials

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Chair & CEO report

Transforming WLASS

It has been a landmark year for the evolution of the company. Following a strategic review, the company's operating model has changed - it is now employing staff for the first time in its history as part of transforming into a service delivery agent.

A further enabler for the transformation is an agile, skills-based governance structure. Shareholders unanimously supported a change to the Board structure, reducing it from twelve to six members, including an independent Chair. This change took effect from 1 July and we are pleased to see the appointment of Peter Stubbs into the Chair role.

While these changes require additional, upfront investment from shareholding Councils, the company recognises that overall Councils must be better off. With its performance measures for the coming year the company commits to identifying shared service opportunities that, once implemented, will deliver savings that ensure that outcome is realised.

Another year of achievements

WLASS has continued to make significant advances during the year with several projects coming to fruition.

The aligned resourcing consent project was completed, making business in Waikato easier by aligning resource consent process documentation so that the consent process is more efficient and user friendly. The forum continues to meet and is now considering ways to enhance the offering which include taking the consenting process on-line.

The three-year energy management programme, in collaboration with the Energy Efficiency Conservation Authority, was successfully concluded. That programme has, over its duration, seen energy management projects that have delivered annual energy savings of 3.62GWh and annual cost savings of \$446k. On the back of this success, WLASS will continue to deliver energy and carbon management savings under a new programme that commenced 1 July.

The Waikato Data Portal went live in April. You can see it here [\(https://datawaikatolass.opendata.arcgis.com/\)](https://datawaikatolass.opendata.arcgis.com/). The portal provides a single location for customers to access data shared by the Councils.

We implemented a regional Health & Safety Management framework together with a suite of best practice documents covering various aspects of health and safety, from emergency preparedness and hazard and risk management, to health monitoring and training.

We also completed a regional procurement framework and now have a toolkit to ensure best practice procurement processes are undertaken as efficiently as possible, by leveraging established templates and guidelines.

Keeping with procurement, a project was undertaken to establish a new professional service panel covering consultants supporting physical works. Council participation has increased from four to eight councils and the response from the market was significant. The panel sees consultants engaged on pre-agreed terms which significantly reduces the time and effort required of councils, and the

consultants, when engaging on particular work. The value to councils based on the previous panel, is expected to be significant.

This year, Future Proof entered a new phase of its evolutionary journey, with the expansion of the partnership and introduction of a new significant workstream. In March 2019, the Future Proof Implementation Committee approved a milestone paper on 'Future Proof Looking Forward', recommending that the Future Proof framework be adapted to bring in the Hamilton to Auckland Corridor Plan as a significant workstream, and that Central Government, Auckland Council and Auckland Iwi be invited to join the partnership.

Financial position


Financially, WLASS remains in a strong position with cash reserves of \$1.46m and equity of \$1.28m.

Our thanks

We would like to take this opportunity to acknowledge the efforts of those directors who have stepped down, either as part of the Board restructure or simply with their departure from the council:

Langley Cavers, Hauraki District Council (to 30 June 2019)
 Dave Clibbery, Otorohanga District Council (to 1 March 2019)
 Garry Dyet, Waipa District Council (to 30 June 2019)
 Craig Hobbs, South Waikato District Council (to 28 October 2018)
 Don McLeod, Matamata-Piako District Council (to 30 June 2019)
 Chris Ryan, Waitomo District Council (to 30 June 2019)
 Ben Smit, South Waikato District Council (12 March 2019 to 30 June 2019)
 Geoff Williams, Rotorua Lakes Council (to 30 June 2019)
 Tanya Winter, Otorohanga District Council (12 March 2019 to 30 June 2019)

They have left the company well positioned to meet its vision of being the enabler for Councils to provide their services in the most effective and efficient way.



Gavin Ion
 WLASS Chair (outgoing)



Kelvin French
 Chief Executive

WLASS objectives

The objectives of WLASS are to:

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

WLASS achievements

2019 has built on the earlier achievements of the company which are set out in the document [Collaboration in Action](#).

The WLASS Transformation project

The WLASS Transformation project delivers on the recommendations of a strategic review undertaken in late 2017 recommending the transformation of WLASS into a service delivery agent, with the capability and capacity to physically deliver services on behalf of the shareholding councils.

The recommendations in that report have been implemented during the year. Most significantly, WLASS has, for the first time, employed a full-time chief executive and business analyst to help drive the development of opportunities and provide thought leadership to councils.

The transformation has also seen a significant change to the Board structure. Historically being made up of a representative from each shareholding council, the Board has been reduced to six members including an independent Chair (to be appointed). This will make the Board more agile and help the company have a greater commercial focus.

Collaborating on digital transformation

The WLASS Board approved a business case to develop a digital strategy across councils. The digital strategy is focused on finding opportunities for collaboration on digital initiatives between Waikato councils. More particularly, its objectives are to:

- Build closer connections between WLASS working parties to ensure opportunities for digital collaboration are more readily recognised, captured and actioned;
- Enable and promote increased business information sharing between councils;
- Identify and recommend joint initiatives that will inform and advance digital collaboration;
- Promote business transformation to improve customer experiences; and
- Achieve effectiveness and efficiency gains through collaboration.

With a focus on the customer a new WLASS working party, the Customer Interface Group, comes together to discuss how councils can collaborate to improve the user experience.

The Waikato Data Portal

The Waikato Data Portal, phase 1 of the Regional Geospatial Collaboration roadmap, was delivered in April 2019, ahead of schedule with more datasets at go-live than anticipated. The portal is a single centralised place where customers will experience consistent processes for data discovery and access, and improved channels for communicating their data needs. Three stakeholder Information Sessions were held to showcase the portal. New datasets continue to be added to the site with the

current total at 369 datasets across 5 councils, ensuring customers can more easily access data and enabling faster decision-making.

Phase 2 of the roadmap is underway. This phase seeks to achieve two key outcomes: the alignment of geospatial data from the different WLASS councils and providing users with a means to view this aligned data

Collaboration Agreement with the Energy Efficiency Conservation Authority (EECA)

WLASS's 3-year Collaboration Agreement with EECA to promote the development, implementation and communication of energy efficiency and renewable opportunities across the Waikato councils, and for each of the councils to implement energy management best practice concluded this year. Participating councils have achieved annual savings estimated at \$446,000.

Under a new initiative WLASS will continue to provide an energy and carbon management programme to nine councils.

Professional services panel

WLASS's established Professional Services Panel (PSP) expires 31 July 2019. Throughout the first half of 2019 the panel has been remarketed. The new panel, applying from 1 August 2019, is significantly expanded, involving more than three times the suppliers and eight councils (previously four). The principle purpose of establishing the panel is to provide value to councils in two key ways:

- Securing discounted rates from consultants; and
- Eliminating the time, cost and effort otherwise required of councils to procure services in the future for each piece of work.

Road Asset Technical Accord (RATA)

RATA provides roading asset management services to enable and facilitate effective, strategic roading investment decision-making. Councils saving as a result of RATA initiatives are estimated at \$2.8m across the past five years, through joint procurement, training support, the deferral of physical works due to better data analysis and decision-making processes, and more appropriate asset lives being used in depreciation calculations.

Future Proof

Future Proof has entered a new phase of its evolutionary journey, with a proposed expansion of the partnership and the introduction of a new workstream. In March 2019, the Future Proof Implementation Committee approved a milestone paper on 'Future Proof Looking Forward'. The paper recommended that the Future Proof framework be adapted to bring in the Hamilton to Auckland Corridor Plan as a significant workstream, and that Central Government, Auckland Council and Auckland Iwi be invited to join the partnership. Most key initiatives for the Hamilton to Auckland Corridor Plan are underway with work continuing throughout 2019.

Three waters collaboration

The 'waters' sector is facing significant change due to a number of external and internal influences. It is anticipated that Central government will seek to implement a more rigorous regulatory framework.

WLASS's business unit, Roading Asset Technical Accord (RATA), has investigated the opportunity for a sub-regional collaboration on three waters activities, supported by nine councils. From that initial

investigation it is evident there are opportunities for increased collaboration. These opportunities initially relate to:

1. Consistent document templates to support better reporting;
2. Increased information sharing through collaborative, effective forum meetings;
3. Training and recruitment;
4. Consistent asset valuations; and
5. Collaborative procurement – materials/equipment/laboratory services.

The business case underpinning the opportunity is being presented to the WCLASS Board in the second half of 2019.

Aligned resource consent planning

The Waikato Resource Consent Forum has been meeting on a 3-monthly basis. The members are using to forum to discuss planning issues they are facing in their areas. Tompkins Wake have agreed to provide planning related presentations at the forum meetings at no cost and the forum members particularly commented that these presentations provide good value to the forum. MFE's Relationship Manager, Partnerships and Engagement for the Waikato region has been invited to attend Forum meetings to brief members on what is occurring in the resource management space at the ministry.

Two additional forms are in the process of being prepared and the group is considering next steps in the implementation and action plan.

LiDAR

In February 2019 the Board approved the procurement of a regional Light Detection and Ranging (LiDAR) data set as part of a Land Information NZ nation-wide initiative. That initiative is supported by funding from the Provisional Growth Fund and additional co-funding partners have been sought. LiDAR is essential to decisions involving the physical world. It helps to drive regional economic growth and spur new investment across the region by enabling councils and businesses to more efficiently plan and develop housing, road and water infrastructure, as well as better prepare for hazards such as flooding, landslides and erosion.

It is expected that the contract will begin late November/early December.




By the numbers



Summary financial results for the year:

	2019 (000's)	2018 (000's)	Change
Total income	4,513	4,470	1%
Net surplus before tax	253	227	11.5%
Cash on hand	1,460	1,570	-7.0%

Performance measures







Key:



Achieved		The performance measure has been met in its entirety
Partially achieved		Good progress is being made toward meeting the performance measure, but it has not yet been met (e.g. delivering the targeted result may span multiple years or there is some room for improvement)
Not achieved		The performance measure has not been met

TARGET	MEASURE	OUTCOME	
<p>Procurement Joint procurement initiatives for goods and services for WLASS councils will be investigated and implemented.</p> <p><u>Method</u> Procurement is from sources offering best value, service, continuity of supply, and/or opportunities for integration.</p>	<p>The Procurement Specialist has developed standard regional procurement policies, templates and procedures and provided training in each council by the end of the financial year.</p>	<p>Achieved: The regional procurement framework and toolkit were completed, with training provided to participating councils across three workshops held in March 2019. [New measure]</p>	
	<p>New suppliers are awarded contracts through a competitive tender process.</p>	<p>Achieved: The professional services panel was re-tendered during the year (contracts take effect from 1 August 2019). Any new suppliers are procured in line with the company's procurement policy. [2018: Achieved]</p> <p>In consultation with workstream managers, contracts with existing suppliers that are due for renewal are assessed as to whether they continue to offer best value, service or continuity of supply. 24 supplier contracts were entered into (five relating to joint procurement).</p>	






<p>Collaborative Projects Priorities for collaboration are identified, business cases are developed for the highest priority projects, and the projects are implemented.</p> <p><i>Method</i> 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>Achieved: Projects identified and progressed through the year were:</p> <ul style="list-style-type: none"> - LiDAR: A project to establish regional LiDAR supported by PGF funding. Business case approved in principle - Professional Services Panel: A project to re-market and establish a panel of consultants across eight disciplines under an agreed framework to streamline procurement of their services - Energy & Carbon Management: A programme to support councils in energy and carbon management. Business case approved - A regional Health and Safety Management Framework and best practice documents were implemented - Regional reporting indicators for safety performance were approved <p>Business cases were prepared where Board approval and council funding was required.</p> <p>The customer interface group was established to provide council staff engaging with customers with a forum to collaborate and consider opportunities to use digital technology to improve the customer experience.</p> <p>In addition, nine collaborative opportunities are at various stages of development. <i>[2018: Achieved]</i></p>
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<p>One 6-monthly and one Annual Report are prepared for shareholders.</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>Achieved [2018: Achieved]</p>	
<p>Waikato Mayoral Forum The company shall provide administrative support to the Mayoral Forum work streams and to the Mayoral Forum.</p> <p><i>Method</i> 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>Achieved [2018: Achieved]</p>	
<p>Shared Valuation Data Services (SVDS) The SVDS is reliable, well maintained and available to all users.</p> <p><i>Method</i> A Contract Manager is appointed for SVDS.</p> <p><i>The Contract Manager monitors performance of the contractors and reports quarterly to the SVDS Advisory Group.</i></p> <p><i>Risks associated with the SVDS are well managed.</i></p> <p><i>The long-term provision of SVDS services is achieved.</i></p>	<p>The SVDS is available to users at least 99% of normal working hours.</p> <p>The SVDS Advisory Group meets at least 6-monthly.</p> <p>The Annual Business Plan is accepted by the Advisory Group by 31 March 2019, and includes consideration of strategic and operational risks, a disaster recovery plan, and a business continuity plan.</p> <p>The timetable and milestones for implementing the long-term provision of SVDS Services (as agreed by the Board), are being achieved.</p>	<p>Achieved: the SVDS has been available 100% for users during normal business hours. [2018: Achieved]</p> <p>Achieved: Four meetings held in August, November, March and May. [2018: Achieved]</p> <p>Achieved [New measure]</p> <p>Not achieved: The project has begun. However, data load issues and complexities has caused project delays of approx. six months. There is no increase in total project cost, but the delay has meant that the existing SVDS support is needed longer than anticipated, with associated cost increases. The revised end date is now March 2020. [New measure]</p>	   

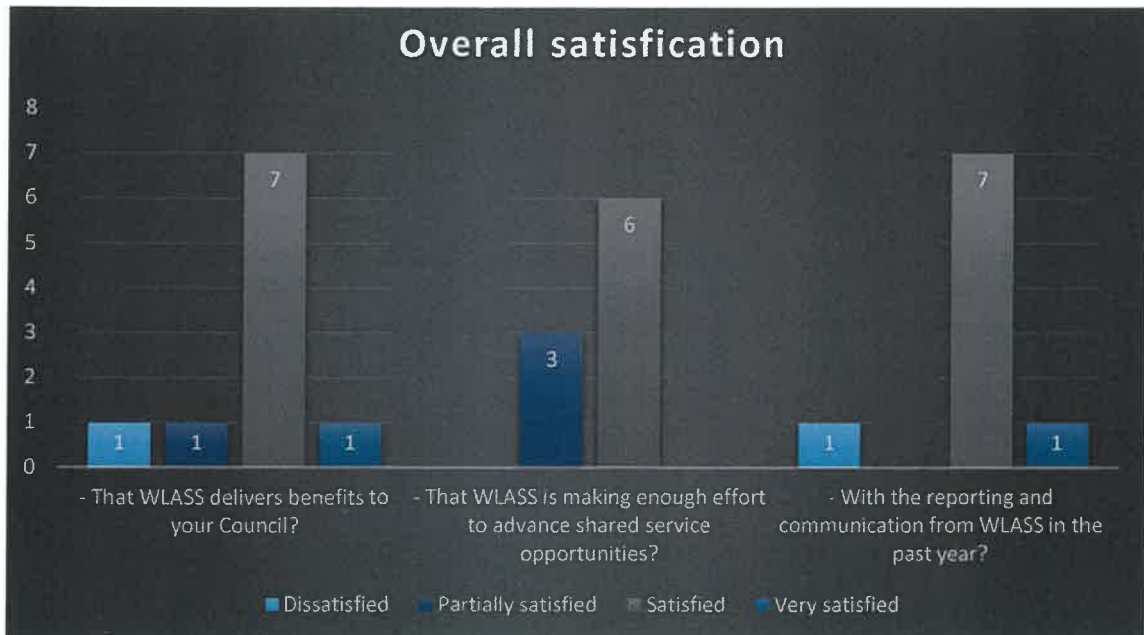
<p>Waikato Regional Transport Model (WRTM) The WRTM is reliable, well maintained and available to all users.</p> <p><i>Method</i> RATA manages the WRTM on behalf of the participating councils and monitors the performance of the model supplier (currently Stantec).</p> <p>RATA reports quarterly to the 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 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>Achieved: All reports received and shared with WRTM User Group [2018: Achieved]</p> <p>Achieved: Bi-annual reports provided to WLASS Board [2018: Achieved]</p> <p>Achieved: Model endorsed by NZTA. Peer review recommendations being progressed (scenario testing of medium land use) [2018: Achieved]</p>	
<p>Waikato Building Consent Group Provide strategic direction and actively pursue improvements in Building Control across the Waikato region.</p> <p><i>Method</i> Implement the strategic priorities detailed in the "Build Waikato" May 2017 strategic review document.</p>	<p>Milestones for the five strategic review work streams are achieved for:</p> <ul style="list-style-type: none"> • Digital experience and technology: a common online customer experience. Success is defined as user friendly, convenient, quick, end-to-end management and communication, measured by customer surveys and systems comparisons. <p>• People capability. Success is defined as a successful recruitment and training programme, measured by</p>	<p>Achieved: On track with both TCDC and Waipa having successfully implemented the preferred online Alpha One System. Waitomo DC is committed to implementing in the 2019/20 year and MPDC and HDC are finalising their procurement process with Alpha One in the mix. ODC is also committed to implementing Alpha One and this will probably be in 2020/21 financial year. Well on track with achieving a common processing system. Works is programmed for 2019/20 to revitalise our web site to enhance the digital experience. [New measure]</p> <p>Partially achieved: we have scoped a programme of work to approach secondary schools and tertiary students</p>	

<p><i>Fulfil the roles and responsibilities set out in clause 9 of the WBCG's Memorandum of Understanding, 2016.</i></p>	<p>compliance with BCA Reg. 8 -11.</p> <ul style="list-style-type: none"> • Quality assurance. Success is defined as continued accreditation and increased service consistency, measured by accreditation outcomes, BCA annual audits, and customer surveys. • Lift industry competency and compliance. Success is measured by increased industry compliance, with reduced RFIs, and reducing percentages of application or building consent rejection. • Central government: engagement and legislative influence. Success is measured by legislative submissions and outcomes. <p>There is a common understanding and buy-in by all BCAs for the WBCG vision and actions that are taken to achieve this vision, measured by:</p> <ol style="list-style-type: none"> i. Full participation in WBCG projects and programmes ii. Audits demonstrating implementation and compliance with the agreed QA systems iii. Consistency in service delivery, measured by customer surveys. <p>Risk management is visible through regular reviews of the Risk Register.</p>	<p>before the end of the 2019/20 year looking at a cadet type scheme <i>[New measure]</i></p> <p>Achieved: On track with successful IANZ audits for both WDC and MPDC with good feedback on the cluster QA overall. A review of our QA offering will be undertaken in 19/20. <i>[New measure]</i></p> <p>Partially achieved: Work has been scoped for a programme to engage industry in the 2019/20 year. The Tech Committee will be continuing to work on consistency across councils on RFI's to enhance a consistent customer experience. <i>[New measure]</i></p> <p>Achieved: Cluster submission to Building Reform Act was delivered – was very similar to that put together by LGNZ. <i>[New measure]</i></p> <p>Partially achieved: Good participation in the projects when required but could improve. <i>[New measure]</i></p> <p>Achieved <i>[New measure]</i></p> <p>Not achieved: No customer survey this year – customer experience will be a key focus for 2019/20. <i>[New measure]</i></p> <p>Not achieved: Lack of awareness of risk register – will be in the programme of</p>	
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	<p>All funding requirements are met by each of the participating councils.</p> <p>Minimum of two reports presented to the WLASS Board on the Group's activities.</p>	<p>work for the new Strategic Manager. [New measure]</p> <p>Achieved: Requested funding received in a timely manner by participating councils [New measure]</p> <p>Achieved: Activity reported to the Board in September and December 2018 and February 2019. [2018: Achieved]</p>	 
<p>Future Proof Planning for growth in the sub-region is co-ordinated and collaborative.</p> <p><i>Method</i> Joint preparation and input into Phase 2 of the Strategy update.</p>	<p>Phase 2 of the Future Proof Strategy is adopted by the Future Proof Implementation Committee no later than December 2018.</p>	<p>Not achieved: The draft Future Proof Strategy (phase 2) was reported to the Future Proof Implementation Committee and submitted to MfE in December 2018. However, work has been deferred due to other processes currently underway, namely the Hamilton to Auckland Corridor Plan, review of NPS on Urban Development Capacity, Waikato Proposed District Plan, and sub-regional industrial land study. The phase 2 Strategy is expected to be completed in 2020. [New measure]</p>	
<p>The Future Proof budget is well managed and monitored.</p> <p><i>Method</i> Bi-monthly reports presented to Waikato Plan and Future Proof Chief Executive Group, and six monthly and annual reports to WLASS Board.</p>	<p>The overall Future Proof work programme is delivered within the approved budget.</p>	<p>Not achieved: The Future Proof work programme to the end of 2018/19 ran slightly over budget. However, this was as a result of an approved increase in scope associated with the Hamilton to Auckland Corridor Plan. The deficit is covered by the cash reserves from the previous year. [New measure]</p>	
<p>Future Proof influences and inputs into District Plan, Regional Plan, growth strategy and any other planning processes which manage growth within the sub-region and neighbouring regions.</p>	<p>Future Proof makes submissions (using RMA and Local Government processes), on District Plans, LTPs, growth management planning documents, and any central government initiatives which have the potential to</p>	<p>Achieved: Future Proof made a submission on the Proposed Waikato District Plan in 2018 and has been working closely with Waikato District on their District Plan and supporting strategic planning documents. Future Proof has also been working</p>	

<p><i>Method</i> <i>Future Proof works collaboratively and provides input into the planning work undertaken by all FP partners and any other relevant planning authorities.</i></p>	<p>impact growth management planning in the sub-region.</p>	<p>with the Waikato Regional Council on upcoming changes to the Regional Policy Statement. <i>[New measure]</i></p>	
<p>Aligned Resource Consent Planning Project Implementation of the Aligned Resource Consent Planning project is underway during 2018/19.</p> <p><i>Method</i> <i>Progress on implementation of common forms and other initiatives is reported to shareholders on a regular basis.</i></p>	<p>Common forms are in place for all Councils involved by December.</p>	<p>Achieved: The suite of initial forms has been completed and is live.</p> <p>The forum continues to meet on a 3-monthly basis to discuss planning issues. Two additional forms are being prepared and the group is considering next steps in the implementation and action plan. <i>[New measure]</i></p>	●
<p>Shareholder Survey Shareholders are satisfied with the performance of WLASS.</p> <p><i>Method</i> <i>An annual survey of shareholders is undertaken to assess satisfaction levels with WLASS.</i></p>	<p>A survey of shareholders is undertaken each year, and the results are reported to all shareholders.</p>	<p>Achieved: The survey was undertaken in the second half of the year with response received from all shareholders <i>[2018: five respondents – 42%]</i>. Results of the survey are included in this annual report for shareholders. <i>[2018: Achieved]</i></p>	●
<p>Review of Benefits Shareholders are informed of the benefits being provided to shareholding councils by WLASS.</p> <p><i>Method</i> <i>The benefits of WLASS (including financial and non-financial achievements) are regularly analysed and reported to shareholders.</i></p>	<p>Information on the financial and non-financial benefits being achieved by WLASS are included in the 6-monthly and Annual Report to shareholders.</p> <p>The WLASS website is regularly maintained and updated.</p>	<p>Achieved: Benefits and achievements have been reported in the half-yearly report, this annual report and the statement of intent published in June 2019. <i>[2018: Achieved]</i></p> <p>Achieved: Relevant information and publications are included on the website. <i>[New measure]</i></p>	● ●

Shareholder survey results



Each year WLASS surveys its shareholders to gauge the extent to which it is delivering on its objectives and meeting customer expectations. There was a strong response rate to this year's survey. Overall, councils are happy with the progress the company is making. There is a great deal of anticipation of what can be achieved under the new operating model.

Other key themes coming through from responses were:

- Councils recognise that success will be dependent on a greater level of support from councils for transformational initiatives;
- There is a sense among some that WLASS may have too many active initiatives. This could dilute progress in priority areas.

Board and management have taken the responses on board and will build the feedback into future activity.

Independent Auditor's Report

To the readers of Waikato Local Authority Shared Services Limited's financial statements and performance information for the year ended 30 June 2019

The Auditor-General is the auditor of Waikato Local Authority Shared Services Limited (the company). The Auditor-General has appointed me, David Walker, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and performance information of the company on his behalf.

Opinion

We have audited:

- the financial statements of the company on pages 22 to 42, that comprise the statement of financial position as at 30 June 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the company on pages 8 to 16.

In our opinion:

- the financial statements of the company on pages 22 to 42:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2019; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand in accordance with Public Benefit Entity Reporting Standards Reduced Disclosure Regime; and
- the performance information of the company on pages 8 to 16 presents fairly, in all material respects, the company's actual performance compared against the performance targets and other measures by which performance was judged in relation to the company's objectives for the year ended 30 June 2019.

Our audit was completed on 6 September 2019. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the performance information, and we explain our independence.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board of Directors for the financial statements and the performance information

The Board of Directors is responsible on behalf of the company for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for preparing the performance information for the company.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board of Directors is responsible on behalf of the company for assessing the company's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Board of Directors intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Local Government Act 2002.

Responsibilities of the auditor for the audit of the financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the performance information.

For the budget information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to the company's statement of intent.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We evaluate the appropriateness of the reported performance information within the company's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 3 to 7, and 17 but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the company in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1(Revised): *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with, or interests in, the company.

A handwritten signature in black ink, appearing to read 'D Walker' with the year '2019' written below it.

David Walker
Audit New Zealand
On behalf of the Auditor-General
Auckland, New Zealand



**Financial Statements
for the year ended 30 June 2019**

[Handwritten signatures]

Waikato Local Authority Shared Services Limited

Financial statements - 30 June 2019

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Waikato Local Authority Shared Services Limited
Statement of comprehensive revenue and expense
For the year ended 30 June 2019

Statement of comprehensive revenue and expenditure

For the year ended 30 June 2019

	Note	Actual 2019 \$	Budget 2019 \$	Actual 2018 \$
Revenue				
SVDS Data Sales		508,912	410,583	408,244
Grants		31,418	35,000	35,000
Interest		13,134	14,000	21,958
Other revenue	5	<u>3,959,827</u>	<u>3,538,496</u>	<u>4,004,889</u>
Total revenue		<u>4,513,291</u>	<u>3,998,079</u>	<u>4,470,091</u>
Expenditure				
Personnel Costs	7	149,459	-	-
Depreciation and amortisation expense	11,12	67,314	163,616	163,616
Other expenses	6	<u>4,043,366</u>	<u>4,783,445</u>	<u>4,079,619</u>
Total operating expenditure		<u>4,260,139</u>	<u>4,947,061</u>	<u>4,243,235</u>
Surplus/(deficit) before tax		253,152	(948,982)	226,856
Income tax expense	10	-	-	-
Surplus/(deficit) after tax		<u>253,152</u>	<u>(948,982)</u>	<u>226,856</u>
Total comprehensive income		<u>253,152</u>	<u>(948,982)</u>	<u>226,856</u>

The accompanying notes form part of these financial statements
Explanations of major variances against budget are provided in note 23



Waikato Local Authority Shared Services Limited
Statement of changes in equity
For the year ended 30 June 2019

Statement of changes in equity

For the year ended 30 June 2019

	Actual 2019 \$	Budget 2019 \$	Actual 2018 \$
Balance at 1 July	1,026,530	1,363,922	799,673
Total comprehensive revenue and expense	<u>253,152</u>	<u>(948,982)</u>	<u>226,856</u>
Balance at 30 June	16 <u>1,279,683</u>	<u>414,940</u>	<u>1,026,530</u>
Total equity attributable to:			
Equity holders of Waikato Local Authority Shared Services Limited	<u>1,279,683</u>	<u>414,940</u>	<u>1,026,530</u>
Balance at 30 June	<u>1,279,683</u>	<u>414,940</u>	<u>1,026,530</u>

The accompanying notes form part of these financial statements
Explanations of major variances against budget are provided in note 23

Waikato Local Authority Shared Services Limited
Statement of Financial Position
As at 30 June 2019

Statement of financial position

As at 30 June 2019

	Note	Actual 2019 \$	Budget 2019 \$	Actual 2018 \$
ASSETS				
Current assets				
Cash and cash equivalents	9	1,459,803	266,317	1,570,003
Exchange trade and other receivables	8	793,750	449,687	407,156
Non-exchange trade and other receivables	8	76,126	9,817	157,057
Other financial assets		-	-	81,000
Prepayments		212,087	2,784	149,905
Total current assets		2,541,766	728,605	2,365,121
Non-current assets				
Property, plant and equipment	11	4,799	-	-
Intangible assets	12	97,071	-	163,592
Total non-current assets		101,870	-	163,592
Total assets		2,643,636	728,605	2,528,713
LIABILITIES				
Current liabilities				
Payables and deferred revenue	14	1,341,397	313,665	1,502,183
Employee benefits	15	22,556	-	-
Total current liabilities		1,363,953	313,665	1,502,183
Non-current liabilities				
Total non-current liabilities		-	-	-
Total liabilities		1,363,953	313,665	1,502,183
Net assets		1,279,683	414,940	1,026,530
EQUITY				
Contributed capital	16	2,957,001	2,957,001	2,957,001
Retained earnings	16	(1,677,318)	(2,542,061)	(1,930,471)
Total equity		1,279,683	414,940	1,026,530

These financial statements have been authorised for issue by the Board of Directors on 6 September 2019.


 Director
 6 September 2019


 Director
 6 September 2019

The accompanying notes form part of these financial statements
Explanations of major variances against budget are provided in note 23



Waikato Local Authority Shared Services Limited
Cash flow statement
For the year ended 30 June 2019

Cash flow statement

For the year ended 30 June 2019

	Actual 2019 \$	Budget 2019 \$	Actual 2018 \$
Cash flows from operating activities			
Interest Received	16,114	14,000	19,075
Receipts from other revenue	4,031,703	4,074,061	4,680,206
Payments to suppliers and employees	(4,241,295)	(4,873,425)	(4,032,901)
Taxes received / (paid)	5,746	-	(6,426)
Goods and services tax received / (paid)	2,123	(119,905)	(43,897)
Net cash flow from operating activities	<u>(185,609)</u>	<u>(905,269)</u>	<u>616,057</u>
Purchase of property, plant and equipment	(5,592)	-	-
Settlement of term deposits with maturities greater than 3 months	81,000	-	-
	<u>75,408</u>	<u>-</u>	<u>-</u>
Net cash flow from investing activities	<u>75,408</u>	<u>-</u>	<u>-</u>
Net (decrease)/increase in cash and cash equivalents	(110,201)	(905,269)	616,057
Cash and cash equivalents at the beginning of the year	<u>1,570,003</u>	<u>1,171,586</u>	<u>953,948</u>
Cash, cash equivalents, and bank overdrafts at the end of the year	<u>9 1,459,802</u>	<u>266,317</u>	<u>1,570,005</u>

The accompanying notes form part of these financial statements
 Explanations of major variances against budget are provided in note 23

Handwritten signatures and initials

1 Statement of accounting policies

1.1 Reporting entity

Waikato Local Authority Shared Services Limited ("the Company") is a Company incorporated in New Zealand under the Companies Act 1993 and is domiciled in New Zealand. The Company is controlled by the councils listed on the directory page of these accounts. The company is a Council Controlled Organisation as defined under section 6 of the Local Government Act 2002 (LGA), by virtue of each of the shareholding Council's right to appoint the Board of Directors.

The primary objective of the Company is to provide the Waikato region's local authorities with a vehicle to develop shared services that demonstrate a benefit to the ratepayers and provide those services to local authorities.

The Company has designated itself as a public benefit entity (PBE) for financial reporting purposes.

The financial statements of the Company are for the year ended 30 June 2019. The financial statements were authorised for issue by the Board of Directors on the 6 September 2019.

2 Summary of significant accounting policies

2.1 Basis of preparation

The financial statements have been prepared on the going concern basis, and the accounting policies have been applied consistently throughout the period.

Statement of Compliance

The financial statements of the Company have been prepared in accordance with the requirements of the LGA, which include the requirement to comply with generally accepted accounting practice in New Zealand (NZ GAAP).

The financial statements have been prepared in accordance with and comply with Tier 2 PBE Standards reduced disclosure regime (RDR).

WLASS is eligible to report in accordance with the Tier 2 PBE accounting standards RDR as it:

- is not publicly accountable;
- has expenses more than \$2 million, but less than \$30 million.

The accounting policies set out below are consistent with the prior year.

Measurement base

The financial statements have been prepared on a historical cost basis.

Presentation currency and rounding

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest dollar unless otherwise stated. The functional currency of the Company is New Zealand dollars.

Budget figures

The budget figures are those approved by the Board of Directors in the 2018/19 Statement of Intent. The budget figures have been prepared in accordance with NZ GAAP, using accounting policies that are consistent with those adopted by the Company in preparing the financial statements.

2.2 Goods and services tax

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

The net amount of GST recoverable from, or payable to, the Inland Revenue (IR) is included as part of receivables or payables in the statement of financial position.

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

2 Summary of significant accounting policies (continued)

Commitments and contingencies are disclosed exclusive of GST.

3 Critical accounting estimates and assumptions

In preparing the financial statements the Company has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year have been included below.

3.1 Intangible assets

Useful lives and residual values

At each balance date the Company reviews the useful lives and residual values of its intangible assets. Assessing the appropriateness of useful life and residual value estimates of intangible assets requires the Company to consider a number of factors such as the expected period of use of the asset by the Company, and expected disposal proceeds from the future sale of the asset.

An incorrect estimate of the useful life or residual value will impact the amortisation expense recognised in the income statement, and carrying amount of the asset in the balance sheet. The Company minimises the risk of this estimation uncertainty by reviewing that the asset technology is still relevant and there is no alternative options to recreate the asset at a lower price.

Impairment of intangible assets

Intangible assets measured at cost that have a finite useful life are reviewed 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 assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an assets fair value less costs to sell and value in use.

If an assets carrying amount exceeds its recoverable amount, the asset is regarded as impaired and the carrying amount is written-down to the recoverable amount. The total impairment loss is recognised in the surplus or deficit. The reversal of an impairment loss is recognised in the surplus or deficit.

4 Change of accounting estimate

(a) Revision of useful lives of intangible assets

At year end the estimated total useful lives to Waikato LASS of the SVDS and WRTM intangible assets were revised. The net effect of the changes in the current financial year was a decrease in amotisation expense of \$97,071.

Revised estimated useful lives are: SVDS - March 2020, WRTM - June 2023. The effect of amortisation for future years are as follows:

Year ending 30 June	\$
2020	53,321
2021	14,583
2022	14,583
2023	14,583

5 Revenue

Accounting policy

(i) Revenue

Revenue comprises the fair value of the considerations received or receivable for the sale of goods and services, excluding Goods and Services Tax, rebates and discounts and after eliminating sales within the Company. No provisions have been recorded as all revenue and trade receivables are expected to be received.

(ii) Other Revenue

Member charges for all activities are recognised when invoiced to the user, i.e. Councils. The recorded revenue is the net amounts of the member charges payable for the transaction. Contributions received for projects that were not completed in a financial year are recognised when the Company provides, or is able to provide, the service for which the contribution was charged. To the extent the service has not been delivered, contributions for that service are recorded as revenue in advance.

	Actual 2019 \$	Actual 2018 \$
<u>Non-exchange revenue</u>		
Member Charges	<u>2,110,470</u>	<u>1,970,549</u>
<u>Exchange revenue</u>		
Procurement	439,023	717,960
Information Technology	106,613	93,453
Energy Management	116,800	172,914
Shared Valuation Data Services	80,189	80,189
Road Asset Technical Accord	567,405	584,087
Waikato Regional Transport Model	5,011	5,136
Waikato Plan	371,940	221,498
Waikato Building Consent Group	85,205	79,852
Future Proof	25,765	66,470
Waikato Mayoral Forum	51,406	12,781
Total exchange revenue	<u>1,849,357</u>	<u>2,034,340</u>
Total other revenue	<u>3,959,827</u>	<u>4,004,889</u>

6 Other expenses

Operating leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset to the lessee. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

	Actual 2019 \$	Actual 2018 \$
Audit fees	21,220	20,910
Company Administration	266,310	242,853
Procurement	572,823	749,153
Information Technology	106,267	93,131
Energy Management	123,519	119,474
Shared Valuation Data Services	510,919	522,267
Road Asset Technical Accord	1,155,313	1,245,925
Waikato Regional Transport Model	70,041	46,378
Waikato Building Consent Group	391,912	297,370
Future Proof	557,377	507,880
Waikato Mayoral Forum	39,406	12,781
Waikato Plan	225,044	221,497
Rental expense relating to operating leases	3,215	-
Total other expenses	<u>4,043,366</u>	<u>4,079,619</u>

7 Personnel costs

Accounting policy

Defined contribution schemes

Employer contributions to KiwiSaver, the Government Superannuation Fund, and other defined contribution superannuation schemes are accounted for as defined contribution schemes and are recognised as an expense in the surplus or deficit when incurred.

	Actual 2019 \$	Actual 2018 \$
Salaries and wages	145,357	-
Defined contribution plan employer contributions	4,102	-
Total personnel costs	149,459	-

The total remuneration (including any non-financial benefits) paid or payable for the year to the Chief Executive was \$74,540.

8 Receivables

Accounting policy

Short-term receivables are recorded at the amount due, less any provision for uncollectability.

Receivables are initially measured at nominal or face value. Receivables are subsequently adjusted for penalties and interest as they are charged and impairment losses. Non-current receivables are measured at the present value of the expected future cash inflows.

Debtors are amounts due from customers. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

	Actual 2019 \$	Actual 2018 \$
Gross trade and other receivables	179,247	88,729
Related Party Receivables (note 19)	633,150	407,156
Accrued Interest on Short Term Deposits and Call Accounts	-	2,980
GST Refund Due	56,481	58,604
IRD - RWT Tax	998	6,744
Total debtors and other receivables	869,876	564,213

Exchange

Receivables from exchange transactions

793,750 407,156

Non-exchange

Receivables from non-exchange transactions

76,126 157,057

Total debtors and other receivables

869,876 564,213

9 Cash and cash equivalents

Accounting policy

Cash and cash equivalents include cash on hand, deposits held at call with banks, with original maturities of three months or less, and bank overdrafts.

	Actual 2019 \$	Actual 2018 \$
Cash at bank	1,459,803	1,570,003

The carrying value of cash at bank, call deposits, and term deposits with maturities less than three months approximates their fair value.

10 Income tax

Accounting policy

Income tax expense includes components relating to both current tax and deferred tax.

Current tax is the amount of income tax payable based on the taxable surplus for the current year, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted at balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the statement of financial position and the corresponding tax bases used in the computation of taxable profit.

Deferred tax is measured at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at balance date. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable surpluses will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit.

Current and deferred tax is recognised against the surplus or deficit for the period, except to the extent that it relates to a business combination, or to transactions recognised in other comprehensive income or directly in equity.

	Actual 2019 \$	Actual 2018 \$
Components of income tax expense:		
Current tax expense	-	-
Adjustments to current tax in prior years	-	-
Deferred tax expense	-	-
Tax expense	-	-
Relationship between tax expense and accounting profit:		
Net surplus (deficit) before tax	253,152	226,856
Tax at 28%	70,883	63,520
Non-taxable in calculating taxable income		
Non-deductible expenditure	444	-
Other timing adjustments	-	45,812
Non-taxable income	-	-
Prior year adjustment	-	-
Deferred tax adjustment	-	(45,806)
Tax losses not recognised	(71,327)	(63,526)
Tax expense	-	-

	PPE & Intangible assets \$	Employee entitlements \$	Provisions \$	Tax losses \$	Total \$
Balance at 1 July 2017	(91,618)	-	-	91,618	-
Charged to surplus or deficit	45,806	-	-	(45,806)	-
Balance at 30 June 2018	(45,812)	-	-	45,812	-
Charged to surplus or deficit	18,557	2,418	-	(20,974)	-
Balance at 30 June 2019	(27,255)	2,418	-	24,838	-

A deferred tax asset has not been recognised in relation to tax losses of \$1,819,752 (2018: 2,074,000).

11 Property, plant and equipment

Accounting policy

Property, plant, and equipment consist of:

(i) *Operational assets*

Operational assets – These include land, buildings, plant and equipment, and motor vehicles.

Additions

The cost of an item of property, plant, and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant, and equipment other than land, at rates that will write-off the cost (or valuation) of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

Class of PP&E	Estimated useful life	Depreciation rates
IT equipment	3 years	33%

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year end.

Council 2019	Carrying amount 1 Jul 2018 \$	Current year additions \$	Current year depreciation \$	Carrying amount 30 Jun 2019 \$
Operating assets				
<u>At cost & valuation</u>				
IT equipment	-	5,592	(793)	4,799
Total	<u>-</u>	<u>5,592</u>	<u>(793)</u>	<u>4,799</u>

12 Intangible assets

Accounting policy

Software acquisition and development

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs that are directly associated with the development of software are recognised as an intangible asset.

Costs associated with maintaining computer software are recognised as an expense when incurred.

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life.

Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in the surplus or deficit.

The useful lives and associated amortisation rates of major classes of intangible assets have been estimated as follows:

Computer Software 5 to 7 years 14 to 20%

	Actual 2019 \$	Actual 2018 \$
Computer Software		
Balance at 1 July	5,363,366	5,363,366
Disposals	-	-
Balance at 30 June	<u>5,363,366</u>	<u>5,363,366</u>
Accumulated amortisation and impairment losses		
Balance at 1 July	5,199,774	5,036,158
Amortisation as per Income statement	66,521	163,616
Impairment losses	-	-
Balance at 30 June	<u>5,266,295</u>	<u>5,199,774</u>
Carrying Amounts		
Balance at 1 July	163,592	327,208
Balance at 30 June	97,071	163,592

Intangible assets include the Shared Value Data Services (SVDS) computer software, the Waikato Regional Transport Model (WRTM) and MoneyWorks computer software.

The carrying amount of the SVDS asset as at 30 June 2019 is \$38,738 (2018: \$90,421).

The carrying amount of the WRTM asset as at 30 June 2019 is \$58,333 (2018: \$72,916).

The carrying amount of the MoneyWorks asset as at 30 June 2019 is \$0 (2018: \$256).

13 Other financial assets

Accounting policy

Investments in bank deposits are measured at fair value plus transaction costs.

At each balance sheet date the Company assesses whether there is any objective evidence that an investment is impaired. Any impairment losses are recognised in the income statement.

	Actual 2019 \$	Actual 2018 \$
Current		
Term deposits with maturities greater than 3 months	-	81,000
Non-Current		
Term deposits with maturities greater than 3 months	-	-
Balance as at 30 June	<u>-</u>	<u>81,000</u>

14 Payables and deferred revenue

Accounting policy

Short-term creditors and other payables are recorded at their face value.

	Actual 2019 \$	Actual 2018 \$
Current		
Trade payables and accrued expenses	633,279	511,579
Related party payables (note 19)	118,450	248,994
Deferred revenue	589,668	741,610
Total creditors and other payables	<u>1,341,397</u>	<u>1,502,183</u>
Exchange		
Trade payables	611,547	659,338
Accrued expenses	140,182	101,235
Deferred revenue	589,668	741,610
Total creditors and other payables from exchange transactions	<u>1,341,397</u>	<u>1,502,183</u>
Non-exchange		
Total creditors and other payables from non-exchange transactions	<u>-</u>	<u>-</u>

Trade and other payables are non-interest bearing and are normally settled on 30-day terms, therefore the carrying value of trade and other payable approximates their fair value.

Contributions received for projects that were not completed in a financial year are recognised as deferred revenue until the Company provides, or is able to provide, the service for which the contribution was charged.

15 Current liabilities - Employee benefits liabilities

Accounting policy

Short-term employee entitlements

Employee benefits expected to be settled within 12 months after the end of the period in which the employee renders the related service are measured based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave earned to, but not yet taken at balance date, and sick leave.

A liability for sick leave is recognised to the extent that absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date, to the extent it will be used by staff to cover those future absences.

A liability and an expense are recognised for bonuses where there is a contractual obligation or where there is a past practice that has created a constructive obligation.

Presentation of employee entitlements

Sick leave, annual leave, vested long service leave, and non-vested long service leave and retirement gratuities expected to be settled within 12 months of balance date, are classified as a current liability. All other employee entitlements are classified as a non-current liability.

Superannuation schemes

Defined contribution schemes

Obligations for contributions to KiwiSaver are accounted for as defined contribution superannuation schemes and are recognised as an expense in the surplus or deficit when incurred.

	Actual 2019 \$	Actual 2018 \$
Current portion		
Annual leave	8,635	-
Wages	13,921	-
Total current portion	<u>22,556</u>	<u>-</u>

16 Reconciliation of equity

Accounting policy

Equity is the shareholders interest in WLASS and is measure as the difference between total assets and total liabilities. Equity is disaggregated and classified into the following components:

Contributed equity

Contributed equity is the net asset and liability position at the time the company was formed. The allocation of capital amongst shareholders is explained in this note.

Retained earnings

Retained earnings is the company's accumulated surplus or deficit since formation.

	Actual 2019 \$	Actual 2018 \$
Total equity		
Contributed equity	2,957,001	2,957,001
Retained earnings	<u>(1,677,318)</u>	<u>(1,930,471)</u>

Waikato Local Authority Shared Services Limited
Notes to the financial statements
30 June 2019
(continued)

16 Reconciliation of equity (continued)

Balance at 30 June 2019	1,279,683	1,026,530
(a) Contributed equity		
Shares on Issue	3,413,569	3,413,569
Uncalled capital	(456,568)	(456,568)
Balance 30 June 2019	2,957,001	2,957,001
Balance at 1 July 2018	2,957,001	2,957,001
Shares Issued	-	-
Balance 30 June 2019	2,957,001	2,957,001
(b) Retained earnings		
Balance at 1 July 2018	(1,930,470)	(2,157,327)
Surplus/(deficit) for the year	253,152	226,856
Balance 30 June 2019	(1,677,318)	(1,930,471)

The Company has issued 2,186,581 (2018 - 2,186,581) shares. The SVDS shares have been fully called and paid for at \$1.00 per share. The WRTM shares have been fully called and paid for at \$10.00 per share. The table below details the different types of shares and their value per share.

Shares are called when notice is given to shareholders by the Board of Directors.

Income	Ordinary Shares	SVDS Shares	WRAPS Shares	WRTM Shares
Hamilton City Council	1	220,514	79,152	50,625
Hauraki District Council	1	40,215	2,864	-
Matamata Piako District Council	1	56,380	4,708	4,500
Otorohanga District Council	1	-	5,716	-
Rotorua Lakes Council	1	126,703	7,516	-
South Waikato District Council	1	42,571	4,916	-
Taupo District Council	1	-	21,652	4,500
Thames Coromandel District Council	1	108,015	6,476	2,250
Waikato District Council	1	106,674	9,376	11,250
Waikato Regional Council	1	803,500	287,872	50,625
Waipa District Council	1	78,748	3,780	11,250
Waitomo District Council	1	23,681	10,540	-
	12	1,607,001	444,568	135,000
	1,000	1	1	10
	12,000	1,607,001	444,568	1,350,000
	(12,000)	-	(444,568)	-
	-	1,607,001	-	1,350,000

General Rights of Ordinary, SVDS, and WRAPS Shares

The rights conferred by section 36(1) of the Companies Act 1993 on holders of shares in the Company are altered as set out below:

- (a) For Ordinary, SVDS and WRAPS shares the holders are entitled to participate in certain services to be provided by the Company, in terms that reflect their investment.
- (b) Service shares (SVDS and WRAPS) do not have any right to share in the distribution of the surplus assets of the Company except to the extent provided for in Schedule 1 of the Company's constitution or in accordance with the terms of issue of those shares pursuant to Clause 6 of the Company's constitution.
- (c) Except as provided in section 177 of the Act and Clause 6.1 of the Company's constitution, no class of service shares shall have any voting rights.

16 Reconciliation of equity (continued)

General Rights of WRTM shares

The following rights and obligations are hereby conferred on each WRTM shareholder:

- (a) A right to one vote prior to further WRTM service shares being issued.
- (b) A right to one vote on the application of any surpluses arising from the WRTM service (after NZTA have been allocated 40 per cent [or a portion based on NZTA's proportion of the total cost at the time] of any surpluses.)
- (c) The right to receive monetary benefits that the Company generates through the sale of outputs of the WRTM service in proportion to the apportionment of the development costs as at that time after 40 per cent (or a portion based on NZTA's proportion of the development cost at the time) of the monetary benefits have been allocated to NZTA.
- (d) No right to share in the distribution of the surplus assets of the Company except to the extent provided for in (c) above.
- (e) No right to share in dividends authorised by the Company except to the extent provided for in (c) above.

17 Commitments

Operating leases

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset.

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

Non-cancellable operating expenses

	Actual 2019 \$	Actual 2018 \$
Not later than one year	<u>322,989</u>	<u>291,667</u>
Total non-cancellable operating leases	<u>322,989</u>	<u>291,667</u>

18 Contingencies

As at 30 June 2019 the Company had no contingent liabilities or assets (2018 - \$0)

Waikato Local Authority Shared Services Limited
Notes to the financial statements
30 June 2019
(continued)

19 Related party transactions

The Company is controlled by the councils listed on the directory page.

Transactions with key management personnel

Key management personnel include the Chief Executive and directors. Directors receive no remuneration. Expenditure paid to the Chief Executive(s) was for the provision of Chief Executive services.

	Actual 2019 \$	Actual 2018 \$
KRF Consulting - WLASS Chief Executive (June 2018 - March 2019)	144,404	9,825
Chief Executive Remuneration	74,540	-
Jowett Consulting - WLASS Chief Executive (July 2017 - April 2018)	-	134,133
Total key management personnel compensation	<u>218,944</u>	<u>143,958</u>

Related party disclosures have been made for transactions with related parties that are within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those that it is reasonable to expect the entity would have adopted if dealing with that individual or entity at arm's length in the same circumstances.

Related parties have been limited to the directors, shareholders and company related roles. The following transactions were carried out with related parties:

	Actual 2019 \$	Actual 2018 \$
Income		
Hamilton City Council	684,485	696,771
Hauraki District Council	242,217	262,921
Matamata Piako District Council	265,565	303,686
Otorohanga District Council	146,490	218,981
Rotorua Lakes Council	69,138	79,150
South Waikato District Council	202,851	169,688
Taupo District Council	115,592	64,888
Thames Coromandel District Council	268,865	315,616
Waikato District Council	583,011	550,926
Waikato Regional Council	490,506	496,952
Waipa District Council	471,646	661,908
Waitomo District Council	182,225	242,298
	<u>3,722,591</u>	<u>4,063,785</u>

The income disclosed above includes revenue received relating to the 2018/19 financial year and revenue received which has been transferred to deferred revenue for 2019/20.

	Actual 2019 \$	Actual 2018 \$
Expenses		
Hamilton City Council	71,800	64,320
Taupo District Council	4,240	-
Waikato District Council	364,889	264,363
Waikato Regional Council	142,432	87,646
Waipa District Council	632,990	601,384
Waitomo District Council	-	2,356
	<u>1,216,351</u>	<u>1,020,069</u>

Expenses are related to services provided by the related parties.

The figures above exclude invoices from Councils that relate to bills paid on behalf of WLASS; Hamilton City Council \$0 (2018 - \$16,500), Waikato District Council \$0 (2018 - \$3,678) and Waikato Regional Council \$0 (2018 - \$12,942).

19 Related party transactions (continued)

	Note	Actual 2019 \$	Actual 2018 \$
Advances			
<i>Trade & Other Receivables</i>			
	8	-	-
Hamilton City Council		79,572	90,672
Hauraki District Council		23,770	24,463
Matamata Piako District Council		72,455	41,919
Otorohanga District Council		10,271	34,753
Rotorua Lakes Council		-	-
South Waikato District Council		31,643	18,867
Taupo District Council		7,422	13,766
Thames Coromandel District Council		20,091	20,642
Waikato District Council		236,373	46,330
Waikato Regional Council		20,518	9,378
Waipa District Council		95,688	85,097
Waitomo District Council		35,347	21,269
		<u>633,150</u>	<u>407,156</u>
<i>Amounts outstanding at year end:</i>			
Hamilton City Council	14	-	13,970
Jowett Consulting - Chief Executive		-	-
KFRConsulting Ltd - Chief Executive		-	11,299
Waikato District Council		85,199	42,130
Waikato Regional Council		32,939	10,111
Waipa District Council		312	171,484
		<u>118,450</u>	<u>248,994</u>

20 Director and executive disclosures

No Directors fees or other remuneration was paid to Directors during the year. (2018: \$0).

21 Events occurring after the balance date

There have been no events after balance date.

22 Financial instruments

The Company has policies to manage the risks associated with financial instruments. The Company is risk averse and seeks to minimise exposure from its treasury activities.

(a) Market risk

Fair value interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Company's exposure to fair value interest rate risk is limited to short-term bank deposits.

Cash flow interest rate risk

22 Financial instruments (continued)

(a) Market risk (continued)

Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes in market interest rates. Borrowings and investments issued at variable interest rates expose the Company to cashflow interest rate risk.

The Company currently has no variable interest rate debt or investments.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is not exposed to currency risk, as it does not enter into foreign currency transactions.

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Company's exposure to fair value interest rate risk is limited to short-term bank deposits.

(b) Credit risk

Credit risk is the risk that a third party will default on its obligation to the Company, causing the Company to incur a loss.

Due to the timing of its cash inflows and outflows, the Company invests surplus cash with registered banks.

The Company has processes in place to review the credit quality of customers prior to the granting of credit.

The Company's maximum credit exposure for each class of financial instruments is represented by the total carrying amount of cash equivalents (note 7), investments (note 10), and trade receivables (note 8). There is no collateral held as security against these financial instruments, including these instruments that are overdue or impaired.

The Company has no significant concentrations of credit risk, as it has a large number of credit customers and only invests funds with registered banks with specified credit ratings.

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty raising funds to meet commitments as they fall due.

Prudent liquidity risk management implies maintaining sufficient cash and liquid assets, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Company aims to maintain flexibility in funding by keeping committed credit lines available.

In meeting its liquidity requirements, the Company maintains a target level of investments that must mature within specified timeframe's.

The maturity profiles of the Company's interest bearing investments and borrowings would be disclosed in the notes, if the Company had any.

(d) Financial instrument categories

	Note	2019 \$	2018 \$
FINANCIAL ASSETS			
Loans and receivables			
Cash and cash equivalents	9	1,459,803	1,570,003
Receivables	8	869,876	564,213
Other financial assets	13	-	81,000
Total loans and receivables		<u>2,329,679</u>	<u>2,215,216</u>
FINANCIAL LIABILITIES			
Financial liabilities at amortised cost			
Payables and deferred revenue	14	1,341,397	1,502,183
Total financial liabilities at amortised cost		<u>1,341,397</u>	<u>1,502,183</u>

23 Explanation of major variances against budget

Explanations for major variations from the Company's budget figures in the statement of intent to 30 June 2019 are as follows:

Statement of comprehensive revenue and expense

Two new data sales contracts in 2018/19 meant SVDS data sales are \$98k higher than budget.

Company administration revenue was higher as an additional \$80k was raised for the company transformation.

RATA revenue was higher as the high speed data collection contract of \$249k was not budgeted for.

Mayoral forum revenue was greater than budget due to revenue of \$47k being received for the waters collaboration project.

Waikato LASS now has three employees therefore this year we had personnel costs of \$149k which were not budgeted for.

Waikato Plan expenditure was under budget by \$295k due to a delayed start on two key projects and the implementation phase of Waikato Plan being under budget.

SVDS expenditure is under budget by \$321k. This is due to the SaaS implementation not being complete in the 2018/19 year which had a knock on effect to the other SaaS expenses.

Waikato Building Consent Group expenditure is under budget by \$126k. The strategic review was expected to be completed in the 2018/19 year however this project is still ongoing.

Statement of Changes in Equity

The items as noted above have meant that the Company has made a gain of \$253k against a budgeted loss of \$949k.

Statement of Financial Position

The current assets are higher due to the cash balance being \$939k greater than the budgeted \$631k as a result of the increased profit noted above.

WLASS does not budget for having end of year receivables.

Current liabilities are higher than budgeted due to deferred revenue not being budgeted for.

Prepayments are higher due to two unbudgeted invoices for \$147,500 and \$60,700 - Insurance Broking and Service Fee and IDS license fee.

Intangible assets are higher than budget due to the useful lives of the SVDS and WRTM intangible assets being revised to March 2020 and June 2023 respectively.

Statement of Cash Flows

Payment to suppliers is less than budgeted due to the reasons noted above.

Open Meeting

To	Strategy & Finance Committee
From	Clive Morgan General Manager Community Growth
Date	12 September 2019
Prepared by	Stacey Solomon Corporate Planner
Chief Executive Approved	Y
Reference #	GOV1318 / 2348483
Report Title	Presentation of the Annual Report and Summary 2018/19

I. EXECUTIVE SUMMARY

The purpose of this report is to seek feedback from the Strategy & Finance Committee on the Annual Report and Summary 2018/19 prior to staff presenting the final Annual Report and Summary to Council for adoption.

The Local Government Act 2002 (LGA) requires Council to adopt its Annual Report and Summary by 31 October each year. The Annual Report 2018/19 compares the actual activities and performance of Council against the intended activities and performance of the Council as specified in the Long Term Plan 2018-28 (LTP). The Annual Report and Summary 2018/19 are reporting on the first year of the current LTP.

Audit New Zealand have completed their onsite audit and we expect to receive an unmodified audit opinion with verbal clearance by the time of the Committee meeting.

Staff will present the Annual Report and Summary 2018/19 at the Council meeting on 7 October 2019 for adoption.

2. RECOMMENDATION

THAT the report from the General Manager Community Growth be received;

AND THAT the Strategy & Finance Committee:

- a. provide feedback to staff on the Annual Report 2018/19 and Summary; and
- b. note that the final audited Annual Report 2018/19 and Summary will be presented to the Council for adoption at its 7 October 2019 meeting.

3. BACKGROUND

The Local Government Act 2002 requires Council to adopt its Annual Report and Summary by 31 October each year. The Annual Report is the Council's accountability document to its ratepayers and the wider community for each financial year (1 July – 30 June). In general terms, the Annual Report tells the community how we are delivering on our strategic direction and vision (liveable, thriving and connected communities). More specifically, it tells them:

- How we performed on the work programme and levels of service we set out in our Annual Plan (which is derived from the LTP), and KPIs which are established in the LTP
- How we performed financially (ie: what did we do with the funds we received, what the balances of our assets and liabilities are, and what our cash position is, etc).

4. DISCUSSION AND ANALYSIS OF OPTIONS

4.1 Non-financial performance

Council's projects, activities and associated budgets are divided into eight separate groups of activities and reported in the Statement of Service Provision as part of the Annual Report. These eight groups of activities are:

- Governance;
- Sustainable Communities: Customer and Partnership Focus, Economic Development, Emergency Management, Grants and Donations, and Parks and Facilities;
- Sustainable Environment: Animal Control, Building Quality, Environmental Health, Strategic and District Planning, and Solid Waste;
- Roading;
- Stormwater;
- Wastewater;
- Water Supply; and
- Organisational Support.

Council also has 79 performance measure targets across all of these activity groups which are reported back to the community through the Annual Report.

Some of these performance targets are measured through residents' opinions or through the Resident Satisfaction Survey. Other performance targets are measured based on how well Council responds to customer requests, information which is captured through our service request system. Council reports on progress every quarter against these performance targets and measures.

In the Annual Report, we present to our customers how well we have performed against these targets using a colour coding system. For those targets that we have met or

exceeded, we have indicated this through a green dot, those where we are on track towards the target but haven't quite made it (within 5%) are represented by an amber dot, and some targets that have not been met are represented by a red dot.

For the 2018/19 year, we are reporting that out of the 79 measures, we have achieved 59, 5 are on track, 11 have not been achieved, 2 we are yet to receive results from our consultants on (at the time of writing this report), and 2 have not been measured.

4.2 Financial performance

The Council's budgeted income for this financial year was \$137 million, against which actual income earned was \$149 million, a positive variance of \$12 million. Found and vested assets, which are largely unbudgeted, account for the majority of the variance, along with additional contributions received from development.

The Council's operational expenditure budget was \$125 million of which actual operational expenditure was \$158 million. This includes significant asset write-offs of \$31 million which are not a budgeted item and interest rate swap valuation losses of \$8 million. Taking this into account Council incurred \$6 million less than what was budgeted for 2018/19. This variance against budget relates mainly to lower personnel costs, delayed depreciation and amortisation costs along with lower contractor spend tied to relative progress of work programmes. As expected such a significant amount of asset write-off has had a direct impact on the operating deficit position of \$9 million.

The capital programme relates to the 2018/19 projects as well as prior year projects still to be completed. It should be noted that the Annual Report depicts this actual progression against the 2018/19 budget only. In real terms, the \$55 million spend delivered 35 per cent of the entire work programme.

Variance in capital work programmes can arise for various reasons; differences in construction prices, related timing of subdivision activity within the district, adverse weather resulting in delays, public consultation timeframes, reliance on multi-party funding for some large projects and negotiations over land purchase. In the 2018/19 year it was further impacted as we delayed physical works in the three waters space, notably the Housing Infrastructure Fund projects in Te Kauwhata, as we worked through contract negotiations with WaterCare Service limited.

\$92 million of capital works budget has been carried forward to the 2019/20 financial year. While this is significantly higher than the carry forward amount in the prior year, a quarter of these projects relate to development projects outside the direct control of Council in terms of timing (\$23 million) with a further \$16 million of work in progress but not completed before the end of the financial year.

Debt at the end of June 2019 was \$80 million, \$37 million lower than the forecast of \$117 million.

In addition to specifying debt limits, the Council's financial strategy stipulated benchmarks for rates increases going forward. These measures are in place to ensure accountability to the public with respect to rates increases and management of debt. The Council were

successful in achieving both the rates affordability and debt affordability measures set for 2018/19.

5. CONSIDERATIONS

5.1 Legal

The Annual Report and Summary 2018/19 is prepared in accordance with section 98 of the Local Government Act 2002, and must be adopted within four months of the end of the financial year. The report must be publicly available within one month of adoption.

5.2 Engagement

This year the Annual Report Summary has been developed as a self-contained section at the front of the Annual Report. We are also developing a page on our website that will present the Summary in a more interactive way to our residents and ratepayers. Previously the Summary has been prepared as a newsheet style document and circulated hardcopy to households in the district.

The main rationale for the change to digital presentation of the Summary is to increase cost effectiveness. To support this, an article will be included in the October/November 2019 LINK newsletter encouraging people to view the Summary on the website. Hardcopies of the Annual Report and Annual Report Summary will be made available at all of our libraries and service centres.

6. ATTACHMENTS

Draft Annual Report and Summary 2018/19 – *to be circulated under separate cover.*

Open Meeting

To	Strategy & Finance Committee
From	Gavin Ion Chief Executive
Date	16 September 2019
Prepared by	Lynette Wainwright Committee Secretary
Chief Executive Approved	Y
Reference #	GOV1318
Report Title	Exclusion of the Public

I. EXECUTIVE SUMMARY

To exclude the public from the whole or part of the proceedings of the meeting to enable to the Strategy & Finance Committee to deliberate and made decisions in private on public excluded items.

2. RECOMMENDATION

THAT the report from 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 28 August 2019

Receipt of Minutes - Audit & Risk Committee dated 27 June 2019

REPORTS**a. Request by Builtsmart Limited for a Private Plan Change for an area of land in Huntly South – Plan Change 22**

The general subject of the matter to be considered while the public is excluded, the reason, and the specific grounds under section 48(1) of the Local Government Official Information and Meetings Act 1987 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:
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Section 7(2)(a)(i), (ii)
Section 7(2)(b)(i)

Section 48(1)(a)

b. Waikato District Council / Hamilton City Council Governance Meeting 19 August 2019

The general subject of the matter to be considered while the public is excluded, the reason, and the specific grounds under section 48(1) of the Local Government Official Information and Meetings Act 1987 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:
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Section 7(2)(i)
Section 7(2)(j)

Section 48(1)(a)