

Notice of Meeting:

I hereby give notice that an ordinary meeting of the Council Controlled Organisations Subcommittee will be held on:

Date: Wednesday 22 April 2015
Time: 9.30am
Meeting Room: Committee Room 1
Venue: Municipal Building, Garden Place, Hamilton

Richard Briggs
Chief Executive

Council Controlled Organisations Subcommittee OPEN AGENDA

Membership

Chairperson Cr G Mallett
Members Her Worship the Mayor J Hardaker
Cr A King
Cr R Pascoe
Cr P Yeung

Quorum: A majority of members (including vacancies)

Meeting Frequency: 6 monthly or as required

Leaney Preiss
Committee Advisor

16 April 2015
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Terms of Reference:

- To oversee and provide recommendations to the Finance Committee in regard to the Council's interests in its Council Controlled Organisations (CCOs), Council Organisations (COs) and subsidiaries.
- Develop and recommend a draft policy for the appointment and remuneration of directors of CCOs and COs to the Strategy and Policy Committee by 30 March 2014.
- Approve appointments to CCO and CO boards in accordance with the Appointment and Remuneration Policy for CCOs and COs.
- Provide clear directions to Council's CCO's and CO on Council's expectations.
- Consider and approve statements of intent as prepared by the board of each CCO and CO.
- Receive CCO and CO six monthly and annual reports.
- Consider any proposed major transactions of CCOs and COs and make recommendations to the Finance Committee in relation to those major transactions.

Special Notes:

- The sub-committee may request expert advice through the Chief Executive when necessary.
- CCOs & COs covered by this committee are: Local Authority Shared Services (LASS), Waikato Regional Airport Ltd (WRAL), SODA Inc Ltd, Waikato Innovation Park Ltd (& Innovation Waikato Ltd), Vibrant Hamilton, LGFA, NZ Local Government Insurance Corporation Ltd.

Power to act:

- Approve appointments to CCO and CO boards in accordance with a policy for the
- Appointment and Remuneration of Directors of CCOs and COs.
- Approve statements of intent for each CCO and CO.

Power to recommend:

- Make recommendations to the Finance Committee in relation to any proposed major transactions of CCOs and COs.
- The sub-committee must make recommendations to the Finance Committee and/or Council in respect to any proposal to establish a CCO or CO.
- The sub-committee may make recommendations to Finance Committee and/or Strategy and Policy Committee.

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1 Apologies

2 Confirmation of Agenda

The Committee to confirm the agenda.

3 Declaration of Interest

Members are reminded of the need to be vigilant to stand aside from decision making when a conflict arises between their role as an elected representative and any private or other external interest they might have.

Committee: Council Controlled
Organisations Subcommittee

Date: 22 April 2015

Report Name: Council Controlled
Organisations (CCO)
Subcommittee - Open Minutes
- 14 October 2014

Author: Leaney Preiss

Status	<i>Open</i>
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Recommendation

That the Subcommittee confirm and adopt as a true and correct record the Open Minutes of the Council Controlled Organisations Subcommittee Meeting held 14 October 2014.

1. Attachments

- Attachment 1 - Council Controlled Organisations (CCO) Subcommittee - Open Minutes - 14 October 2014

Council Controlled Organisations Subcommittee

OPEN MINUTES

Minutes of a Meeting of the Council Controlled Organisations Subcommittee held in Committee Room 1, Municipal Building, Garden Place, Hamilton on Tuesday 14 October 2014 at 11:30am.

PRESENT

Chairperson	Cr G Mallett
Members	Her Worship the Mayor J Hardaker Cr A King Cr P Yeung

In Attendance: General Manager Events and Economic Development, Chief Financial Officer and Acting Chief Financial Officer.

Thomas Gibbons – Vibrant Hamilton Trust Chair.
 Stuart Gordon – Innovation Waikato Ltd Chief Executive Officer.
 Michael Spaans – Innovation Waikato Ltd Chairman.

Committee Advisor: Ms B Brooke.

The Chair of the Subcommittee welcomed students from WINTEC who were attending the Meeting to understand how a formal Meeting and the governance decision making process worked.

1. Apologies

Resolved: (Crs Mallett/Yeung)

That the apologies from Cr Pascoe be received and accepted.

2. Confirmation of Agenda

Resolved: (Crs Mallett/Yeung)

That the Agenda be confirmed, noting Item C3 (Waikato Regional Airport Ltd Shareholder Deed and Constitution Report) from the Public Excluded section of the Agenda be moved to be the last Item in the Open section of the Agenda. Also noting that Item 10 (Innovation Waikato Ltd and Group Annual Report for the year ended 30 June 2014) and Item 12 (Vibrant Hamilton Trust

Annual Report for the year ended 30 June 2014) may be moved to accommodate external guests.

3. Declarations of Interest

No members of the Subcommittee declared a Conflict of Interest.

4. Council Controlled Organisations Subcommittee Minutes - Open - 5 June 2014

Resolved: (Crs Mallett/King)

That the Subcommittee confirm and adopt as a true and correct record the Open Minutes of the Council Controlled Organisations Subcommittee Meeting held on 5 June 2014.

Her Worship the Mayor Hardaker joined the Meeting (11.35pm) during the above Item. She was present when the matter was voted on.

5. CCO Subcommittee Action List - Open - 14 Oct 2014

Resolved: (Crs Mallett/Yeung)

That the Report be received.

6. Emerging Director Programme Proposal

General Manager (GM) Events and Economic Development introduced the Item, explaining that the Waikato branch of the Institute of Directors were introducing a programme for emerging directors. This would help new directors, giving them the opportunity to sit on boards and be part of a real life situation.

Staff were recommending that two Council Controlled Organisations participate in the programme. He noted that programme members would only be participants on the boards with no voting or decision making ability.

Resolved: (Cr Mallett/Her Worship the Mayor Hardaker)

That:

- a) the report be received,
- b) the Subcommittee recommends for approval the participation of its CCOs (Waikato Regional Airport Limited and Waikato Innovation Park Limited) in the Institute of Directors (Waikato Branch) Emerging Directors Programme, and
- c) the Subcommittee note that while people appointed under this programme are participating as a Director, their appointment excludes any decision making ability and/or full director responsibility and therefore can sit apart from the relevant directors appointment policy that prevails.

7. Civic Assurance Half Year Report to 30 June 2014

Chief Financial Officer (CFO) took the report as read, reiterating that Council did not participate in the Civic Assurance rights issue in early 2012.

The Subcommittee discussed details around Council's shares and the shareholder agreement with Civic Assurance. Their preference would be to sell the shares as soon as possible as they did not view the investment as a long term holding. The CFO advised that the shares were unable to be sold at this point due to a lack of interested buyers.

The Subcommittee noted that it was pleasing to see the improvements that had been made by Civic Assurance.

Resolved: (Cr Mallett/Her Worship the Mayor Hardaker)
That the Report be received.

8. Vibrant Hamilton Trust Annual Report for the year ended 30 June 2014

Thomas Gibbons (Chair, Vibrant Hamilton Trust) took the report as read, noting that the Trust had been operating for three years. This was the first year that grants had been distributed from the Trust. Hamilton City Council, through the CCO Subcommittee, needed to provide guidance to the Vibrant Hamilton Trust on priority areas with regards to grant distribution.

The CFO responded to a question from Subcommittee Members concerning the formal process followed by the Trust to receive grant applications. He advised that the process was outlined in the Terms of Reference and Deed Agreement of the Trust. The Trust had to live within the means of the Deed and also meet the requirements of its Statement of Intent (SOI). The Trust was reliant on Council and Council Steering groups to recommend projects and initiatives for grants.

Her Worship the Mayor Hardaker noted that the Trust had been doing some great work and commended Mr Gibbons for his hard work as Chair.

Resolved: (Crs Mallett/Yeung)
That the Report be received.

9. Local Authority Shared Services(LASS) Limited Annual Report for the year ended 30 June 2014

CFO took the report as read, noting there were two major established operations under LASS which consisted of the Shared Services Data Service and the Waikato Regional Transportation Model. He responded to questions from Subcommittee Members concerning the Board of Directors. CFO is to feedback to LASS the Subcommittees concerns around the number of LASS Directors.

CFO to provide further information and clarity to Subcommittee Members concerning:

- Infometrics Fee (mentioned in Attachment 1 of the Report),
- Fleet Tracking System (mentioned in Attachment 1 of the Report),
- Polson Pawn Ltd (mentioned in Attachment 1 of the Report), and
- whether the Electronic Rates Notices project had been discussed with LASS.

Resolved: (Crs Mallett/Yeung)

That the Report be received.

10. New Zealand Local Government Funding Agency Ltd (LGFA) Annual Report for the year ended 30 June 2014

CFO introduced the Item, explaining he was a member of the LGFA Board and that the LGFA is entity in which Council is a shareholder and also a borrower. He responded to questions from Subcommittee Members concerning:

- Whether Council gets a lower rate of borrowing through the LGFA. CFO advised that the LGFA has had a positive effect on driving interest rates down which meant a lower rate of borrowing.
- The LGFA connection with the Treasury and what the risk to Council will be in moving from a non Treasury organisation to a Treasury organisation. CFO advised that a report would be coming to the Finance Committee covering these issues and that he would also provide further information to Subcommittee Members offline.

The CFO advised that he would be intending to stay on the LGFA board until a permanent replacement CFO had been appointed.

Resolved: (Her Worship the Mayor Hardaker/Cr King)

That the Report be received.

11. Innovation Waikato Ltd (IWL) and Group Annual Report for the year ended 30 June 2014

Stuart Gordon (Chief Executive Officer, Innovation Waikato Ltd) and Michael Spaans (Chairman, Innovation Waikato Ltd) tabled a document summarising the IWL Group Annual Report for the year ended 30 June 2014.

GM Events and Economic Development noted that the Media Statement included at the end of the tabled document had not been included in the report as at the time the report was written, the information had not been released.

Stuart Gordon outlined the key achievements for IWL as noted in the tabled document. He noted that the objectives, as set out in the Statement of Intent, had been achieved and that the financial objectives had exceeded expectations.

He responded to questions from Subcommittee Members concerning gains and losses. There was a loss with the spray drying business as delays had occurred with the wet site project. He also expanded on the losses reported on page 127 of the Agenda.

Subcommittee Members discussed where Council's future lay regarding its majority ownership of IWL.

Resolved: (Crs Mallett/Yeung)

That the Report be received.

12. Waikato Regional Airport Ltd (WRAL) Annual Report for the year 30 June 2014

CFO introduced the Item noting that he, the Chief Executive and the Chair of the Council Controlled Organisations (CCO) Subcommittee had attended WRAL's shareholders briefing Meeting.

The Chair of the CCO Subcommittee outlined that the Regional Airport was struggling slightly, but that they had some good targets and that Council were kept well informed.

GM Events and Economic Development advised that the Airport was not presently focussing on attracting an International Carrier. The only planning WRAL were doing in this area was to protect planning rights for the future. There was quite a lot of evidence that Regional Airports around the Country were shrinking which could provide future opportunities for WRAL. Most of the Airport's transactions were with Training Aircraft.

Resolved: (Cr Mallett/Her Worship the Mayor Hardaker)

That:

- a) the report be received,
- b) the WRAL Shareholder Resolutions in lieu of a 2014 Annual General Meeting be approved:
 - i) Approve the minutes of previous Annual General Meeting,
 - ii) Acceptance of 2014 Annual Report,
 - iii) That it be noted that no dividend be declared for 2013/2014,
 - iv) Mrs. M. Devlin and Mr. J. Spencer be reappointed as Directors,
 - v) Total Directors' remuneration for \$104,400 p.a. be approved,
 - vii) The appointment of the Auditor-General as auditor be noted and Directors will set the auditor's remuneration, and
 - viii) The Statement of Corporate Intent for 2014/15 be acknowledged as received.
- c) the General Manager Events and Economic Development write to Waikato Regional Airport Ltd asking the Board to report back to the Council Controlled Organisations (CCO) Subcommittee on their investigations concerning the rising prices and the volume of domestic flights out of regional airports.

Item C3 (Waikato Regional Airport Ltd (WRAL) Shareholder Deed and Constitution Report) was moved from the Public Excluded part of the Agenda to the Open part of the Agenda with the agreement of the Subcommittee.

C3. Waikato Regional Airport Ltd (WRAL) Shareholder Deed and Constitution Report – Recommendation to the Finance Committee

CFO introduced the Item and responded to questions from Subcommittee Members concerning:

- Why total assets were being used instead of total equity in the report. CFO advised that this was because of how the company was structured.
- Whether the Statement of Intent (SOI) needed to be amended to incorporate anything from the below resolution. CFO advised that he would need to look into this and come back to the Subcommittee with that information.
- Whether flight paths were designated like roads. GM Events and Economic Development advised that flight paths were designated.

Resolved: (Crs Mallett/King)

That:

- a) the report be received, and
- b) subject to agreement by all Shareholders and the re-purchase of all uncalled capital:
 - (i) the Subcommittee approves the revocation of the 2005 Deed between the Shareholders and WRAL, and
 - (ii) the Subcommittee approves the following amendments to the Constitution of WRAL:
 - i) the deletion of clause 15.2 and any consequential amendments, and
 - ii) the threshold for a major transaction is set at 10% of total assets.
- c) Staff report back to the next Council Controlled Organisations (CCO) Subcommittee Meeting on any impacted changes required to the Statement of Intent as a result of this resolution.

13. Resolution to Exclude the Public

Resolved: (Her Worship the Mayor Hardaker/Cr King)

Section 48, Local Government Official Information and Meetings Act 1987

The following motion is submitted for consideration:

That the public be excluded from the following parts of the proceedings of this meeting, namely consideration of the public excluded agenda.

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution follows.

General subject of each matter to be considered	Reasons for passing this resolution in relation to each matter	Ground(s) under section 48(1) for the passing of this resolution

- | | | | |
|---|------------------------|--|------------------|
| C1. Council Organisations Minutes - Public Excluded - 5 June 2014 | Controlled Subommittee |) Good reason to withhold information exists under Section 7 Local Government Official Information and Meetings Act 1987 | Section 48(1)(a) |
| C2. CCO Subcommittee Action List - Public Excluded - 14 Oct 2014 | Action |) | |

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

- | | | |
|----------|--|-------------------|
| Item C1. | to prevent the disclosure or use of official information for improper gain or improper advantage | Section 7 (2) (j) |
| Item C2. | to prevent the disclosure or use of official information for improper gain or improper advantage | Section 7 (2) (j) |

The Meeting moved into Public Excluded at 12.55pm.

The Meeting was declared closed at 1.05pm.

Committee: Council Controlled
Organisations Subcommittee

Date: 22 April 2015

Report Name: Council Controlled
Organisations Subcommittee
Action List - Open - 22 April
2015

Author: Leaney Preiss

Status	<i>Open</i>
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Recommendation

That the Report be received.

1. Attachments

2. Attachment 1 - CCO Subcommittee - Open Action List - 22 April 2015

Council Controlled Organisations Subcommittee - Action List - Open

Meeting Date	Item #	Action for Monitoring	GM/Unit Responsible	Comment
14-Oct-14	8	Vibrant Hamilton Trust Annual Report for the year ended 30 June 2014 HCC, through the CCO Subcommittee need to provide guidance to the Vibrant Hamilton Trust on priority areas with regards to grant distribution.	CCO Subcommittee Members and GM's	To be noted/continuous.
	9	Local Authority Shared Services (LASS) Ltd Annual Report for the Year Ended 30 June 2014 CFO to feedback to LASS the Subcommittees concerns around the number of LASS Directors. CFO to provide further information and clarity to Subcommittee Members concerning: - Infometrics Fee (attachment 1) - Fleet Tracking System (attachment 1) - Polson Pawn Ltd (attachment 1) - whether the Electronic Rates Notices Project had been discussed with LASS.	CFO	Completed
	10	New Zealand Local Government Funding Agency Ltd (LGFA) Annual Report for the year ended 30 June 2014. Report to go to the Finance Committee covering the LGFA connection with the Treasury. CFO to also provide further information in relation to this, to Subcommittee Members offline. 19 Nov Finance Agenda Setting Meeting - Report to go back to the CCO Subcommittee and be reported back to the Finance Committee through the CCO Subcommittees Chairs Report.	CFO	Completed
	12	Waikato Regional Airport Ltd (WRAL) Annual Report for the year ended 30 June 2014 GM Events and Economic Development to write to the Waikato Regional Airport Ltd asking the Board to report back to the CCO Subcommittee on their investigations concerning the rising prices and the volume of domestic flights out of Regional Airports.	GM Events and Economic Development	In progress
	C3 (taken in open part of Meeting)	Waikato Regional Airport Ltd (WRAL) Shareholder Deed and Constitution Report. Staff to report back to the next CCO Subcommittee Meeting on any impacted changes required to the Statement of Intent (SOI) as a result of the resolution.	CFO	Completed

Committee: Council Controlled
Organisations Subcommittee

Date: 22 April 2015

Report Name: General Manager's Report

Author: Sean Murray

Report Status	<i>Open</i>
Strategy, Policy or Plan context	<i>Council Representation To External Organisations Policy, Economic Development Agenda</i>
Financial status	<i>There is not budget allocated</i>
Assessment of significance	<i>Having regard to the decision making provisions in the LGA 2002 and Councils Significance Policy, a decision in accordance with the recommendations is not considered to have a high degree of significance</i>

1. Purpose of the Report

- To inform Subcommittee members on notable developments relating to Council CCOs and follow up on any matters arising from the last meeting of the Subcommittee.

3. Recommendation from Management

That:

- The Report be received; and
- The External Funding Subcommittee be tasked to determine and notify Council's advice to the Vibrant Hamilton Trust on its grant distribution each year.

4. Attachments

- Attachment 1 - Response to queries - CCO Subcommittee 14 October 2014

6. Action items from 14 October 2014 meeting of the Subcommittee

- Information requested – Waikato Regional Airport Ltd, Local Government Funding Agencies Ltd and Local Authority Shared Services Ltd
- A memo answering specific Subcommittee queries following the October meeting was circulated to Subcommittee members via email on 27 March 2015. It is re-attached for information only.
- SODA Inc. exit of HCC shares
- The surrender of HCC's 42.3% shareholding in SODA Inc to WINTEC was executed in January 2015. The shares held no monetary value. WINTEC is now the 100% owner of that operation.
- Waikato Innovation Park Limited
- The potential dilution of shareholding or full exit of its interests in Waikato Innovation Park is the subject of a further public excluded agenda item.

13. Waikato Regional Airport – Domestic airfares comparisons
14. There was a request that the airport company investigate the matter of rising domestic airfares and a concern that Hamilton Airport was being disadvantaged with higher fares relative to other airports.
15. The following table provides a snapshot comparison of Air New Zealand’s dynamic airfare structures based on lowest fare available. The comparison is of return travel in a single day and travel over multiple days for flights to/from Christchurch and Wellington from Hamilton, Rotorua, Tauranga and Auckland.
16. Hamilton does not appear to be disadvantaged for same day travel compared to other centers however fares over multiple days show a definite skew with cheaper fares out of Auckland which benefits from high frequency schedules and larger aircraft. Anecdotally there is a view that Air New Zealand’s domestic airfares are on the rise across the total domestic network and that the cheaper fares presented in this table particularly in and out of Auckland are increasing.
17. The reality however is that airport companies and public pressure (other than to not fly) have no control over air fare setting which is a function of the airline(s) and the level of market demand.

Same day travel									
Christchurch					Wellington				
Bookings	HLZ	ROT	TRG	AKL	Bookings	HLZ	ROT	TRG	AKL
2 days out					2 days out				
To	\$263	\$171	\$229	\$229	To	\$199	\$151	\$274	\$189
From	\$309	\$251	\$349	\$499	From	\$239	\$236	\$274	\$314
1 week out					1 week out				
To	\$213	\$251	\$279	\$199	To	\$159	\$236	\$274	\$249
From	\$339	\$251	\$349	\$399	From	\$239	\$261	\$299	\$314
1 month out					1 month out				
To	\$145	\$131	\$209	\$139	To	\$139	\$236	\$114	\$169
From	\$263	\$231	\$299	\$354	From	\$219	\$261	\$274	\$249
6 weeks out					6 weeks out				
To	\$113	\$131	\$189	\$169	To	\$139	\$151	\$214	\$179
From	\$113	\$251	\$229	\$269	From	\$179	\$151	\$154	\$189
Multiple day travel									
Christchurch					Wellington				
Bookings	HLZ	ROT	TRG	AKL	Bookings	HLZ	ROT	TRG	AKL
2 days out					2 days out				
To	\$188	\$151	\$229	\$169	To	\$179	\$151	\$174	\$69
From	\$238	\$191	\$274	\$59	From	\$179	\$151	\$174	\$189
1 week out					1 week out				
To	\$213	\$211	\$189	\$139	To	\$139	\$151	\$154	\$69
From	\$189	\$151	\$249	\$69	From	\$139	\$151	\$214	\$89
1 month out					1 month out				
To	\$119	\$131	\$149	\$119	To	\$99	\$151	\$114	\$59
From	\$123	\$131	\$149	\$99	From	\$109	\$101	\$114	\$59
6 weeks out					6 weeks out				
To	\$113	\$91	\$129	\$69	To	\$99	\$151	\$114	\$49
From	\$113	\$111	\$129	\$59	From	\$99	\$151	\$79	\$49

Item 6

18. Vibrant Hamilton Trust
19. The Vibrant Hamilton Trust requires guidance from Hamilton City Council over its priority setting and decision making for annual grant distributions.
20. Council's External Funding Subcommittee (reporting to the Finance Committee) is responsible for the determination of appropriate Council initiatives that warrant application for external funding and prioritisation of these applications.
21. It would be appropriate that this Subcommittee also provides advice and direction to the Vibrant Hamilton Trust on behalf of Council. In response from a request from the Chair of the Vibrant Hamilton Trust the following recommendation is proposed:
 - *That the External Funding Subcommittee be tasked to determine and notify Council's advice to the Vibrant Hamilton Trust on its grant distribution each year.*

Signatory

Authoriser	Sean Murray, General Manager Events and Economic Development Group
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To: **CCO Subcommittee Members**

From: **Chief Financial Officer**

Subject: **Response to CCO Queries - WRAL, LGFA and LASS**

Date: **17 March 2015** File: _____

1.0 Purpose of this Memo

1.1 To provide a response to queries raised in respect of three CCO's, Waikato Regional Airport Ltd (WRAL), New Zealand Local Government Funding Agencies Ltd (LGFA), and Local Shared Service Ltd (LASS) at the CCO Subcommittee meeting on 14 October 2014.

2.0 Executive summary

2.1 The CCO Subcommittee had queried whether the resolutions adopted in respect of the WRAL shareholder deed and constitution required changes to the Statement on Intent. A response is detailed in **attachment 1**.

2.2 The CCO subcommittee required an explanation on the relationship between LGFA and the Treasury. An explanation is detailed in **attachment 2**.

2.3 The CCO Subcommittee had raised several queries in respect of the LASS annual report for the year ended 30 June 2014. HCC requested LASS to provide further information, and the current LASS CEO provided a detailed response, as outlined in **attachment 3**. Additional background information on the GPS tracking System and Printing & Mail is shown in **attachment 4**.

3.0 Recommendation

3.1 That the report be received.

4.0 Attachments

Attachment 1 WRAL

Attachment 2 LGFA

Attachment 3 LASS

Attachment 4 LASS - HCC memos re GPS Tracking and Printing & Mail

Paul Conder

Chief Financial Officer

Waikato Regional Airport Limited**Background:**

- At the CCO Sub-committee meeting on 14 October 2014 the following was resolved with respect to the WRAL Shareholder Deed and Constitution.
- “Subject to agreement by all shareholders and the re-purchase of all uncalled capital:
 - (1) The sub-committee approved the revocation of the 2005 deed between the shareholders and WRAL.
 - (2) That the sub-committee approved the following amendment to the constitution of WRAL:
 - (1) The deletion of clause 15.2
 - (2) The threshold for a major transaction is set at 10% of total assets.”

Query:

- The CCO subcommittee had asked if the Statement of Intent needed to be amended to incorporate anything from the above resolution.

Response:

- Based on reviewing the disclosure requirements of the Statement of Intent, there is no need to amend the SOI resulting from the above resolution.
- The focus of the SOI is to describe the objectives and performance targets of the entity and note any changes in accounting policies. The resolution does not affect these for the financial year 2014/15.
- However, it should be noted that the WRAL annual report for 2014/15 will not reflect uncalled capital from shareholders.

Prepared: 17 March 2015, Finance Unit.

New Zealand Local Government Funding Agencies Ltd (LGFA)

The CCO Sub-committee requested an explanation of the relationship between LGFA and the Treasury at the meeting on 14 October 2014.

Background information:

- LGFA is 20% owned by Central Government and the other 80% is owned by 31 Councils as at 30 June 2014. It is noted that LGFA is the nation second largest debt issuer after the government.
- HCC has 8.3% shareholding in LGFA as at 30 June 2014 and reflected at cost \$1.866 million.

Response:

- LGFA had contracted the New Zealand Debt Management Office (NZDMO) to provide outsourced treasury services for LGFA. The NZDMO is operating unit of the Treasury.
- The services by the NZDMO include:
 - Operational processing associated with debt issuance, lending to local authorities, settlement services, investments, hedging and measuring risk.
 - Accounting and management reporting (this will be taken in-house effective from July 2015).
 - Standby facility
- The New Zealand Debt Management Office provides a committed liquidity facility up to NZ \$1 billion in size that LGFA can draw upon to meet any exceptional and temporary liquidity shortfall. As at 30 June 2014, the undrawn liquidity facility was \$400 million.
- For the year ended 30 June 2014, LGFA incurred the following costs in respect of the NZDMO:
 - NZDMO processing fees \$154k.
 - NZDMO standby facility fee \$200k.
- The inaugural LGFA Chief Executive Philip Combes, who retired in June 2014, was the Treasurer of the NZDMO prior to taking up his role at the LGFA in January 2012.
- In addition, the current LGFA Chief Financial officer Neil Bain was previously the Head of accounting and transactional services at the NZDMO where he was responsible for managing financial accounting, forecasting and operational functions. Prior to NZDMO, Neil worked for the Reserve Bank of NZ.

Prepared: 17 March 2015, Finance Unit.

Local Shared Service Limited (LASS)

At the CCO Sub-committee meeting on 14 October 2014 the following information was requested with respect to LASS. Sally Davis (LASS CEO) provided the responses for queries 3 to 6 inclusive.

1. LASS Directors

- What is the composition of the Board?
- Response:
It was resolved on 30 June 2011 as a special resolution by all the shareholders that the constitution of the company be altered by the deletion of clause 13, and substituting the following:

13 Appointment and Removal of Directors- Number of Directors

"13.1 The board shall consist of not less than three and not more than twelve directors.

13.2 Each Local of Authority Shareholder shall appoint one director."

The current LASS Directors are the CEO's of the twelve Local Authority shareholders.

2. LASS CEO

- Who is the current LASS CEO?
- Response:
Sally Davis. Refer query 5 below, for further details.

3. Infometrics fee (page 18 Annual Report)

- Infometrics fee (expense) \$70,400- could you please describe the nature of these costs?
- Infometrics fee (recovery) \$70,400- who is paying for this service?
- Response:
This contract came into effect on 1 February 2014 for a term of 3 years, with provision to extend for a further 2 years. The contract is for the provision of an economic profile to enable councils to understand their local and regional economic performance. It comprises a database of economic indicators (e.g. GDP, employment, productivity, standard of living, workforce etc.), which is updated and maintained nationally by Infometrics, and is accessed via the web upon payment of a subscription.

Four LASS councils (HCC, Waikato, Waipa and TCDC) currently subscribe to the service and the invoice is split evenly amongst the subscribing councils. The more LASS councils who subscribe, the greater the size of the discount. The 4 councils currently receive a 20% discount.

4. Fleeting tracking system- please provide a brief on this project and the status (page 2 Annual Report)

- What does this project aim to deliver?
- What is the timeline for the project?
- How much has been spent on this project for 2014 and budget for 2015?
- How is this project funded?
- Response:
The purpose of the 'SmartTrak' project is to more effectively manage the vehicle fleet and reduce operating costs through the supply and support of a GPS tracking solution.

This project was initially a pilot undertaken by Waikato District Council (WDC), and the outcome was reported to that Council. WDC decided to proceed with the contract and other councils were offered the opportunity to join the contract at the rates negotiated by WDC.

HCC has piggy-backed on WDC's contract, which has reduced the costs of monitoring, and the price of the units and their installation. HCC has approximately 23 units installed and they cost around \$12.5K per annum. The cost is funded from the Fleet operating budget. The negotiated rates saved Hamilton City Council approximately \$4.3k per annum on existing costs.

A copy of the HCC recommendation and approval memo is attached.

5. Poison Pawn Ltd (page 23 Annual Report)

- We note the Lass Chief Executive is paid through a company Poison Pawn Ltd
- Who is the LASS Chief Executive?
- Payment for 2014 \$ 75,550 and 2013 \$146,875- What is the contract arrangement? What is expected to be paid for the 2015 year?

• **Response:**

The LASS CEO for part of the period covered by the 2013/14 Annual Report was Michael Freeman, who was on a fixed term contract under the company name of Poison Pawn. Michaels' contract concluded in December 2013.

An acting CEO (Rachael Dean) was appointed through Dial-a-CFO from January – September 2014, at which stage a new CEO on a fixed-term contract, Sally Davis, was appointed.

The forecast for the 2014/15 financial year for CEO services is \$120,000.

6. Electronic rates notice project- please provide a brief on this project and status?

- What does this project aim to deliver?
- What is the timeline for the project?
- How much has been spent on this project for 2014 and budget for 2015?
- How is this project funded?

• **Response:**

The purpose of this project is to provide digital print, mail-house and E-services, including on-line communication services and solutions, to reduce the cost of mailing out council notices (such as rates, water rates and dog registrations) to ratepayers and residents.

There is a contract with Dataprint, which was entered into via a competitive tender process run by the LASS. Waikato and Waipa District Councils have implemented the new system; Waitomo District Council is underway, and HCC is due to go live by 1 July 2015.

The project is funded from the Rates budget . The savings to Hamilton City Council on existing costs was approximately \$12.9k per annum, or \$77.7K over the life of the contract.

A copy of the report to the HCC Finance Committee is attached.

Prepared: 17 March 2015, Finance Unit.



To: Chief Executive

From: General Manager - Performance

Subject: Contract 13124 –GPS Tracking Solution – Master Agreement

Date: 11/12/13 File Reference:

1 Evaluation Report

1.1 Background

- 1.1.1 Contract 13124 - GPS Tracking Solution is a syndicated contract set up by LASS Limited with Smartrak Limited for the supply and support of GPS units.
- 1.1.2 The contract with Smartrak Limited was awarded by LASS Limited after a public tender process.
- 1.1.3 Hamilton City Council currently has Smartrak Limited providing twenty three (23) GPS units for the fleet.
- 1.1.4 Approval of the Chief Executive is sought to award this contract due to the contract term being longer than three years.

1.2 Financials

- 1.2.1 The LASS Limited contract with Smartrak Limited allows for a reduction in current charges for the capital provision of new GPS units and for a reduction in the monthly charges associated with the provision of the service.
- 1.2.2 The current monthly service charges for the GPS units are \$60.83. Under the LASS Limited contract with Smartrak Limited this will reduce to \$45.00 per month once Hamilton City Council has an additional six units (which is likely to occur from the New Year due to requirements from City Parks).
- 1.2.3 This will result in a monthly saving of \$364.09 for Council or \$4,369.08 per annum.
- 1.2.4 In addition to the existing use of the GPS there is an option to use the Smartrak Limited vehicle pool book system which is included in the costs of the units.

1.3 Recommendation

It is recommended that:

- Hamilton City Council join the LASS Limited Contract 13124 – GPS Tracking Solution ,
- the Approved Contract term is set for four and a half years until 31st July 2018,
- the Approved Contract sum is set at Eighty Five Thousand (\$83,000.00), excluding GST, comprising of approximately (\$73,000) excluding GST, the cost based on current units, plus

Ten Thousand (\$10,000), excluding GST, allowance for contingency for growth over the course of the contract.

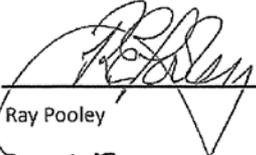
1.4 Attachments

1.4.1 Nil

Recommended by:



Blair Bowcott
General Manager Performance



Ray Pooley
Property Manager

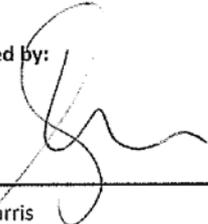


Scott Copeland
Procurement Manager



Joy Turner
Contract Supervisor

Approved by:



Barry Harris
Chief Executive

Date 13/12/13



Committee: Finance Committee **Date:** 03 July 2014
Report Name: Contract 13400 - Computer Generated Print and Mail House Services **Author:** Scott Copeland

Report Status	Open
Financial status	Approximately \$285,000 over the six years of the contract period (three years with a right of renewal of three years) Within budget allocated
Assessment of significance	Having regard to the decision making provisions in the LGA 2002 and Councils Significance Policy, a decision in accordance with the recommendations is not considered to have a high degree of significance

1. Purpose of the Report

2. The purpose of this report is to seek approval to award Contract 13400 for Computer Generated Print, Mail House and e-Services
3. Approval of the Committee is sought because the contract term is greater than the Chief Executives delegation.

4. Executive Summary

5. Contract 13400 for Computer Generated Print, Mail House and e-Services has been publically tendered by LASS on behalf of Waikato District Council, Waipa District Council, Hamilton City Council (HCC), Waikato Regional Council and Hauraki District Council.
6. The scope of the contract covers the digital printing of rates notices as well as mail house and e-services.
7. Following the evaluation of proposal received by LASS the successful respondent to the RFP was New Zealand Document Exchange Limited – trading as Dataprint.
8. The approximate value of the contract for HCC is \$48K per annum or \$286K over the contract term of six years (three with a three year right of renewal).
9. The proposed pricing under the new contract with New Zealand Document Exchange Limited trading as Dataprint offers a saving to Council of \$12.9K per annum, or 21%, on existing costs.

10. Recommendation/s from Management

11. That the report be received.
12. That Contract 13400 for Computer Generated Print, Mail House and e-Services with New Zealand Document Exchange Limited – trading as Dataprint be approved for Council to join.
13. That the Approved Contract Term is set at three years with one right of renewal of three year.

14. That the Approved Contract Sum is set at Two Hundred and Eight Six Thousand dollars (\$286,000) being the estimated total expenditure over the 6 year course of the contract.

15. Attachments

16. There are no attachments for this report.

17. Purpose and Structure of Contract

18. Contract 13400 for Computer Generated Print, Mail House and e-Services is a LASS contract for the digital printing of rates notices as well as mail house and e-services.
19. The contract runs for a term of three years with a right of renewal of three years subject to mutual agreement.

20. Evaluation Process

21. LASS issued a public Request for Proposal (RFP) for Computer Generated Print, Mail House and e-Services has been publically tendered by LASS on behalf of Waikato District Council, Waipa District Council, Hamilton City Council (HCC), Waikato Regional Council and Hauraki District Council.
22. The RFP evaluation criteria looked at Experience, Resources and Capacity, Methodology, Innovation, Implementation and Quality Assurance.
23. Non Priced Attributes had a weighting of 60% and Price 40%.
24. Four submissions were received prior to the closing time of 4pm on 3rd February 2014. These responses were from Marathon Visual Limited, New Zealand Document Exchange Limited (trading as Dataprint), Solution Dynamics Limited and Western Mailing Limited.
25. New Zealand Document Exchange Limited (trading as Dataprint) currently provides services to Hauraki District Council. Solution Dynamics Limited currently provides services to Waipa District Council, HCC and Waikato Regional Council. Western Mailing Limited provides services to Western Mailing Limited.
26. Representatives from each of the participating Councils carried out the evaluation of tenders received. The representative for Hamilton City Council was John Gibson (Revenue Manager).
27. A summary of tenders received and the results of their evaluation is as follows:

	New Zealand Document Exchange – Trading as Dataprint	Marathon Visual	Solution Dynamics	Western Mailing
Non Priced 60%	38.48%	35.95%	39.46%	37.51%
Price 40%	40.00%	32.14%	34.23%	26.98%
Total 100%	78.48%	68.09%	73.69%	64.49%
Rank	1	3	2	4

28. Additional due diligence was undertaken on the pricing submissions of the two highest ranked respondents.
29. Following evaluation by the LASS the highest ranked respondent was New Zealand Document Exchange Limited – trading as Dataprint.

30. Preferred Tenderer and Contract Sum/Term

31. Following evaluation of the responses the Tender Evaluation Team has recommended that LASS appoint New Zealand Document Exchange Limited – trading as Dataprint as the supplier of Computer Generated Print, Mail House and e-Services for an Approved Contract Term of three years with a right of renewal of three year.
32. The Approved Contract Sum should be set at Two Hundred and Eight Six Thousand Dollars (\$286,000) being the estimated of HCC expenditure over the course of the contract.
33. New Zealand Document Exchange Limited – trading as Dataprint is the incumbent provider to the Hauraki District Council. New Zealand Document Exchange Limited – trading as Dataprint's experience in understanding Local Authority business (they have implemented 20 Councils in the past two years), a willingness to work with each Council to ensure the service they provide is exactly what that Council requires, E-services including payment on-line, and price, confirmed New Zealand Document Exchange Limited – trading as Dataprint as the preferred Tenderer. Print costs, through negotiation, are fixed for the term of the contract. New Zealand Document Exchange Limited – trading as Dataprint may seek a CPI labour cost index adjustment annually. Paper, being a commodity product, is subject to price fluctuations. Therefore paper and envelopes will use open book pricing.

34. Financial implications

35. Based on current charges and usage the cost to Hamilton City Council would be \$60,599 per annum. Under the New Zealand Document Exchange Limited – trading as Dataprint charges, the cost to Council on current usage would reduce to \$47,610. This represents a cost saving of 21% on current costs.
36. This results in a saving to Council of approximately \$12,949 per annum or \$77,694 over the life of the contract.
37. Overall savings to all Councils in the region amount to over \$370K over the course of the contract and reflects the benefits of collective procurement processes.
38. It needs to be understood that, with the exception of WRC and HDC, the Councils' current cost figures are based on old technology (PDF and Pre-print), whereas the tendered price is based on new technology (digital print). Therefore the councils are able to move to a digital print platform at no additional cost, and in fact will make a considerable saving.
39. It also enables the ability to promote e-services and reduce postage and paper costs and offer payment online solutions.

40. Risk

41. Reference and credit checks have been carried out on the preferred respondent and found to be satisfactory.

Signatory

Authoriser	Richard Briggs, Chief Financial Officer
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Committee: Council Controlled Organisations Subcommittee

Date: 22 April 2015

Report Name: Civic Assurance Draft Statement of Intent 31 December 2015

Author: David Leong

Report Status	<i>Open</i>
Strategy, Policy or Plan context	<i>Monitoring performance of CCOs</i>
Financial status	<i>There is/is not budget allocated Not applicable</i>
Assessment of significance	<i>Having regard to the decision making provisions in the LGA 2002 and Councils Significance Policy, a decision in accordance with the recommendations is not considered to have a high degree of significance</i>

1. Purpose of the Report

- To present the Civic Assurance Draft Statement of Intent (SOI) for the year ending 31 December 2015 for consideration and comment.

3. Executive Summary

- As noted in the previous year, Civic Assurance has not provided financial projections in the SOI for the year ending 31 December 2015 as it would not be meaningful until Civic has re-established itself as a local government property underwriter.
- The company has indicated a profit for 2015. The company intends to re-enter the property insurance market once it has settled its Canterbury earthquake claims.
- Civic Assurance 2015 SOI includes four key performance measures and targets:
 - To resolve Civics' disputes with its reinsurers (AIG and R+V) and settle its Canterbury earthquake claims.
 - To obtain and maintain a claims paying ability rating from rating agency AM Best of 'A- (Excellent) or better.
 - To provide superannuation service to at least 90% of local authorities.
 - To continue to be an efficient and effective administration manager for Civic Property Pool, Riskpool and LAPP.
- Although Civic Assurance has requested shareholder comments on the draft 2015 SOI before 25 March 2015, Council's Finance Unit did not respond as it did not have any concerns or questions on the proposed SOI.

8. Recommendation from Management

- That the Report be received.

10. That Council provides a written response Civic Assurance, advising the CCO Subcommittee approves the draft Statement of Intent with no amendments.

11. Attachments

12. Attachment 1 - Civic Assurance Letter and Draft Statement of Intent for year ended 31 Dec 2015.

13. Key Issues

14. Background
15. As result of the Canterbury earthquakes (September 2010, February 2011 and June 2011), Civic Assurance withdrew from the insurance property underwriting business after July 2011. The company has made losses for each of the financial years ending 31 December 2010, 2011, 2012 and 2013.
16. As at 31 December 2013, Civic Assurance had a significant claims liability of \$590m (\$829m 2012), and reinsurance receivable of \$588m (\$820m in 2012) which has been disputed by its reinsurers AIG and R +V.
17. Civic won its reinsurance arbitration against AIG (held in March 2014), and is awaiting the result from its reinsurance arbitration with R +V held in December 2014.
18. HCC previously had a 3.17% shareholding in Civic Assurance as at 31 Dec 2011. This shareholding was diluted to 1.8379% when a rights issue in early 2012 raised \$4.2 million of new capital, which HCC did not participate in. HCC's investment in Civic (202,726 shares) was valued at \$227,729 as at 30 June 2014 (based on the net equity of Civic at the year ended 31 December 2013).
19. Civic has made good progress with settling its Canterbury earthquake claims. A settlement figure has been agreed with Environment Canterbury. The company expects a settlement to be reached with Christchurch City Council later this year.
20. The Civic Assurance Annual Report for year ended 31 December 2014 is not expected to be available until 31 May 2015. As this point in time there is no indication of the results for the year, apart from the CEO's comment that the draft accounts show a profit.
21. Refer to Civic Assurance's Chief Executive covering letter and SOI - as per Attachment 1.

Signatory

Authoriser	Paul Conder, Chief Financial Officer
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18 FEB 2015

Civic Assurance

PROTECTING COMMUNITY ASSETS

Mr Richard Briggs
Chief Executive
Hamilton City Council
Private Bag 3010
HAMILTON 3240

16 February 2015

Dear Richard,

Statement of Intent for 2015

Civic is making good progress with settling its Canterbury earthquake claims. A settlement figure has been agreed with Environment Canterbury and I am optimistic that a settlement will be reached with Christchurch City Council later this year. Civic can then get 'back to business'. Comments or suggestions from shareholders before 25 March on Civic's draft 2015 Statement of Intent as enclosed will be gratefully received.

Last year was a better-than-expected year for Civic and our draft accounts for 2014 show a profit; we are also budgeting for a profit for 2015. Civic won its reinsurance arbitration against AIG (held in March 2014) and is awaiting the result from its reinsurance arbitration with R+V held in December 2014, which from Civic's point of view seemed to go well.

LAPP, Riskpool and SuperEasy are in good heart. The LAPP Fund at \$17.5 million is rebuilding nicely, which is excellent news: membership with LAPP over the long term works out at less than half the cost of paying insurance premiums. I expect Riskpool membership to again increase this year. Funds under management in Civic's SuperEasy and SuperEasy KiwiSaver schemes now exceed \$214 million.

For the 30 June 2015 renewals, motor and civil defence cover will be placed through CPP (Civic Property Pool), which is 100% reinsured with 'A' rated reinsurers. This will be an important step to re-establishing Civic in the local government insurance market. Please ensure your broker seeks a quote from Civic and support us if you can.

Yours sincerely

Tim Sole
Chief Executive
DDI: 04-978-1254
Email:

Civic Assurance,
tim.sole@civicassurance.co.nz

PO Box 5521, Wellington 6145,

<http://www.civicassurance.co.nz>

Tel: (04) 978 1250 Fax: (04) 978 1260

New Zealand Local Government Insurance Corporation Ltd

Item 7

Attachment 1



**NEW ZEALAND LOCAL GOVERNMENT
INSURANCE CORPORATION LIMITED**
trading as Civic Assurance

DRAFT STATEMENT OF INTENT

FOR THE YEAR ENDED 31 DECEMBER 2015

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1.0 Mission Statement

Mission Statement of Civic Assurance
To provide insurance, risk-financing and superannuation solutions to the local government sector

2.0 Corporate Goals

The specific goals of the Company are:

- 2.1 To operate as a sound and successful business.
- 2.2 To be the primary supplier of insurance, risk-financing and superannuation services to the local government sector.
- 2.3 To investigate and facilitate, as appropriate, new products and markets in insurance, risk-financing and superannuation.
- 2.4 To regain a claims paying ability rating of A- or better.

Civic Assurance

-3-

3.0 Nature and Scope of Activities

Civic's primary role is to provide insurance, risk-financing and superannuation services to the local government sector.

- 3.1 For traditional insurance, the Company has always offered and intends to offer in the future:
 - Competitive prices.
 - An honest and fair process for managing claims.
 - Products from which the profits are returned to the sector through the Company's local government shareholders.
- 3.2 The Company provides administration, reinsurance, accounting, and a range of other services to Civic Property Pool, Riskpool and LAPP.
- 3.3 The Company provides superannuation services for local government and local government staff via SuperEasy and SuperEasy KiwiSaver.
- 3.4 The Company investigates and facilitates as appropriate new insurance, risk-financing and superannuation services and/or markets that it believes will prove beneficial to its shareholders and the local government sector.
- 3.5 In a modest and selective way the Company provides sponsorship for a range of local government activities at regional and national level.

4.0 Profits, Dividend Policy & Projections

The Company historically has three main sources of revenue: insurance premiums, investment income, and fees from providing administration and accounting services. The profit outlook is as follows:

Profits from providing insurance: These will take a while to rebuild following the Company's withdrawal from the property insurance market after it was unable to secure suitable reinsurance terms for 1 July 2011. The Company intends to re-enter the property insurance market once it has settled its Canterbury earthquake claims.

Profits from investment income: An environment of lower interest rates and investment returns inevitably means less investment income. Civic's investment return is strongly influenced by the investment performance of its nine-story office block at 114 Lambton Quay, Wellington.

Profits from providing administration and accounting services: The fee income generated contributes significantly to Civic's overheads. This source of revenue will continue to increase as the SuperEasy funds under management continues to increase.

Until such time that Civic has re-established itself as a local government property underwriter, it is not meaningful to provide financial projections.

5.0 Performance Targets and Measures

- 5.1 To resolve Civic's disputes with its reinsurers and settle its Canterbury earthquake claims.
- 5.2 To obtain and maintain a claims paying ability rating from rating agency AM Best of 'A- (Excellent)' or better.
- 5.3 To provide superannuation services to at least 90% of local authorities.
- 5.4 To continue to be an efficient and effective administration manager for Civic Property Pool, Riskpool and LAPP.

6.0 Reporting to Shareholders

- An annual report for 2014 by 31 May 2015 containing:
 - A review of the Company's operations by Directors
 - Statement of Financial Performance
 - Statement of Movements in Equity
 - Statement of Financial Position
 - Statement of Cash Flows
 - Notes to the Financial Statements
 - Auditor's Report on the above Financial Statements
- A report on the first half of 2015 by 30 September 2015 containing:
 - A review of the Company's operations during the half year
 - Unaudited half-yearly accounts

7.0 Acquisitions

Any acquisition which is equivalent to 50% or more of the Company's assets will fall under the definition of a "major transaction" in the Company's constitution and approval of the shareholders will be sought in accordance with the constitution. Any acquisition which is equivalent to 25% or more but less than half of the Company's assets will fall under the definition of a "minor transaction" in the Company's constitution, and consultation with shareholders will take place.

8.0 Transactions with Related Parties

The Company has 67 local authority shareholder members plus TrustPower (holding 1.24% at 1 January 2015). The Local Government Superannuation Trustee Limited and Local Government Mutual Funds Trustee Limited are wholly owned subsidiaries of the Company. Because it is sharing management resources, the Local Authority Protection Programme (LAPP) and Civic Property Pool are also considered to be related parties. Transactions with shareholder members include a wide range of insurances, other risk-financing services, and superannuation related financial services.

Charges from shareholder members and charges to shareholder members will be made for services provided as part of the normal trading activities of the Company and its subsidiaries. Transactions with shareholder members are on a wholly commercial basis.

Committee: Council Controlled Organisations Subcommittee **Date:** 22 April 2015

Report Name: LASS Draft Statement of Intent 2015/16 & Half Year Report to December 2014 **Author:** David Leong

Report Status	<i>Open</i>
Strategy, Policy or Plan context	<i>Monitoring performance of CCOs</i>
Financial status	<i>There is/is not budget allocated Not applicable</i>
Assessment of significance	<i>Having regard to the decision making provisions in the LGA 2002 and Councils Significance Policy, a decision in accordance with the recommendation is not considered to have a high degree of significance</i>

1. Purpose of the Report

2. To present the Local Authority Shared Service Ltd (LASS) Draft Statement of Intent (SOI) for year ended 30 June 2016 for consideration and comment.
3. To present the LASS Half Year Report to 31 December 2014.

4. Executive Summary

5. Half Year Report to 31 December 2014

6. LASS made a deficit of \$228k for the six months to 31 December 2014, which is \$55k unfavourable compared to the budgeted deficit of \$173k.
7. The forecast deficit for the full year 2014/15 is \$476k, which is \$50k favourable compared to the budget deficit for the full year 2014/15 of \$526k.
8. LASS has met 12 of the 15 performance measures for the six months (refer detail on page 6 and 7 of the Half Year Report -refer *Attachment 2*).

9. Draft Statement of Intent 2015/16

10. LASS has projected a net deficit of \$427k for 2016, of which \$437k is attributable to depreciation/amortisation, a non-cash item. The projected net deficits are lower for 2017 and 2018. Key financial highlights for 2015/16 and the two subsequent years are summarised in section 23 below.
11. LASS has provided eleven performance measures and targets on page 5 to 7 of the SOI- refer *Attachment 1*. These performance measures and targets relate to the levels of services that are current or new initiatives.
12. The LASS Directors will continue to seek new opportunities of shared services, either from internal investigations or from Council or CEO initiatives that are presented to the Board with a sound business case.

13. Recommendations from Management

That:

- a. The Report be received; and
- b. Council provides a written response to LASS, advising the CCO Subcommittee approves the draft SOI with no amendments.

14. Attachments

15. Attachment 1 - LASS Draft Statement of Intent for 2015/16
16. Attachment 2 - LASS Half Year Report to 31 December 2014

17. Key Issues

18. Draft Statement of Intent 2015/16

19. LASS currently has four major initiatives under the LASS umbrella, plus a support role for the collaborative workstreams of the Waikato Mayoral Forum. The four major initiatives are: Share Valuation Data Service (SVDS), Waikato Regional Transportation Model (WRTM), joint procurement initiatives and the Waikato Regional Aerial Photography (WRAPS). Further detail on the initiatives is outlined on page 2 and 3 of the SOI- refer *Attachment 1*.
20. The Waikato Mayoral Forum currently has six working parties to investigate collaborative opportunities in the areas of governance, spatial planning, two waters, roading, economic development and bylaws and policies.
21. The key financial highlights for the SOI are summarised below:

	Budget 2016 \$'000	Budget 2017 \$'000	Budget 2018 \$'000
Revenue	2,294	1,648	1,680
Expenditure	2,284	1,129	1,670
Earnings before interest, tax, dep & amort (EBITDA)	10	10	10
Depreciation/amortisation	437	328	109
Surplus/(deficit)	(427)	(318)	(99)
Total assets	866	485	389
Total liabilities	229	167	170
Net equity	637	318	219
Net equity/Total assets %	73.6%	65.6%	56.3%
Capital expenditure	10	10	10

22. Total revenue budgeted of \$2,294k for 2016 (\$1,337k for 2015 budget), includes \$1,111k for Mayoral Forum Funding (\$248k for 2015 budget). Total revenue is budgeted for 2017 and 2018 at lower level of \$1,648k and \$1,680k respectively. The budget for Mayoral Forum Funding is budgeted at lower level of \$452k for each of the years 2017 and 2018.
23. As LASS is funded by the shareholding Councils, the company does not project any external debt or interest cost, or payment of dividends.
24. LASS operates on a breakeven cash basis and any surplus cash is used to fund capital expenditure.
25. The projected capital expenditure for 2016 to 2018 is relatively minor, with \$10k budgeted for each of the three years. This relates to SVDS enhancements which are recovered from individual councils.

26. A total of eleven performance measures and targets are summarised on page 5 to 7 of the SOI- under the headings procurement, collaborative projects, existing LASS contracts, cash flow, cost control, reporting, Waikato Mayoral Forum, SVDS, WRTM, shareholder survey, and review of benefits- refer *Attachment 1*.

27. Half Year Report to 31 December 2014

28. The key financial highlights for the half year are summarised below:

	Actual 6 mths to 31/12/14 \$'000	Budget 6 mths to 31/12/14 \$'000	Budget 12 mths to 30/06/15 \$'000	Forecast 12 mths to 30/06/15 \$'000
Revenue	924	782	1337	2552
Expenditure	942	719	1391	2605
Earnings before interest, tax, dep & amort (EBITDA)	(18)	63	(54)	(53)
Depreciation/amortisation	210	236	472	423
Surplus/(deficit)	(228)	(173)	(526)	(476)
Total assets	2,356	1,275	942	n/a
Total liabilities	1,044	88	77	n/a
Net equity	1,312	1,217	865	n/a
Net equity/Total assets %	55.7%	95.5%	91.8%	n/a
Capital expenditure	8	40	79	15

29. LASS provides a Profit and Loss statement at overall group level and separately for company administration and each of the major work streams (SVDS, WRTM, Waikato Mayoral Forum, Procurement of Shared Services, Information Technology and Professional Services Panel) - refer pages 10 to 17 of the Half Year Report - *Attachment 2*. In addition an overall Balance Sheet and Cash Flow is provided - refer pages 18 to 19 of the Half Year Report - *Attachment 2*.

30. Overall revenue for the six months of \$924k, was \$142k favourable to the budget of \$782k.

31. Overall expenditure for the six months of \$942k was \$223k unfavourable to the budget of \$719k.

32. LASS shows a deficit for the six months of \$228k which is \$55k unfavourable to the budgeted deficit of \$173k.

33. LASS has provided a commentary on key variances for the half year- refer pages 8 and 9 of the Half Year Report - *Attachment 2*.

Signatory

Authoriser	Paul Conder, Chief Financial Officer
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value beyond boundaries™

**DRAFT
STATEMENT OF INTENT
FOR 2015/16**

30 June 2015

Local Authority Shared Services Limited

Introduction

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

Objectives of LASS

During the early 2000s, the relationship between the local authorities within the Waikato Region continued to strengthen. As a result of this, it was considered desirable to set up a structure under which shared services could operate to provide strategic or other advantages to the local authorities involved. Of the structures considered, the Local Authority Shared Services Limited (LASS) was chosen, as it was considered the most appropriate mechanism to provide the Councils in the Waikato Region with a vehicle to operate shared services.

LASS provides a mechanism to develop and procure services which are available to be joined by any shareholder that chooses to do so. It also provides a company structure for any Council that wishes to develop new services, under which they can develop and promote services to other local authorities and external parties.

As part of providing a mechanism for supporting shared services and collaborative opportunities within the region, LASS also provides support to the Waikato Mayoral Forum and the working parties established by.

Nature and Scope of Current Activities

There are currently four major initiatives operating under the LASS umbrella, plus a support role for the collaborative workstreams of the Waikato Mayoral Forum.

1. **Shared Valuation Data Service (SVDS).** This operational system is providing timely and accurate valuation data to member Councils and shareholders. The SVDS has become the accepted valuation database for the region. The revenue shown in the financial statements is based on the assumption that there will continue to be external commercial sales of the SVDS data. However, central government or council decisions on open data provision could reduce or eliminate the commercial sale of SVDS data in the future.
2. **Waikato Regional Transportation Model (WRTM).** This model became fully operational in February 2010. This model provides accurate information to Councils and external users (for a charge) for their transport modelling requirements. The WRTM is the only recognised strategic transport modelling resource in the Waikato Region, and is jointly funded by the NZ Transport Agency.
3. **Joint Procurement Initiatives.** LASS is a party to a number of joint procurement contracts between the company, shareholding Councils and suppliers. Some contracts (e.g. insurance brokerage services; various collective insurance policies; courier and postal services; historic aerial photography) involve all of the shareholding councils. Other joint procurement contracts have been negotiated, involving only some of the shareholding councils (e.g. the Professional Services Panel; computer-generated print, mailhouse and e-services). Further procurement opportunities are continually being

identified, and a number are currently under active investigation (e.g. asset valuation services; pipe procurement).

4. The **Waikato Regional Aerial Photography Service (WRAPS)**. WRAPS was set up in the 1990s for the supply of colour, digital, ortho-rectified, aerial photography for the Waikato Region. So far, there have been three WRAPS contracts – 2002, 2007 and 2012. In 2012, the WRAPS members were the councils of the Waikato Region, plus the Department of Conservation and Waikato University. The next contract is due in 2016/17. Discussions are currently being held with other parties to assess their willingness to join the syndicate. Both Land Information New Zealand (LINZ) and the NZ Transport Agency (NZTA) have indicated potential interest, which would reduce the cost to the participating councils. WRAPS became a LASS-managed project in December 2014.

The establishment of the **Waikato Mayoral Forum** in 2012 resulted in the creation of five working parties to investigate collaborative opportunities in the areas of governance, spatial planning, two waters, roading, and economic development. An additional work stream for bylaws and policies was created in 2013. (Note: The governance workstream is currently in abeyance, and the two waters project is now being run by a consortium comprising Hamilton City, Waikato and Waipa District Councils.) Each working party is led by a Council CEO in conjunction with a group of Mayors/Chairperson from the Waikato Mayoral Forum. LASS provides administrative and financial support to both the Forum and the working parties. The LASS CEO is a member of the roading governance group (RATA).

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

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

Based on feedback from the shareholding Councils and the CEO Forum, the LASS Directors will continue to discuss their role in the development of business cases for shared services at Board meetings. The Directors are mindful of the political environment, and see the investigation of possible future shared services as a key focus of their role.

Process for Future Developments

All new proposed shared services involving LASS will have a business case developed for consideration by the Directors. New services will only be adopted where the business case shows that they provide sufficient benefit to the shareholders, that the benefits exceed any benefits associated with other proposals, and where there are sufficient resources available to progress the initiative. (If there are insufficient resources, the initiative may be deferred and reconsidered at such time that resources can be made available.)

Benefits may include, but are not limited to, greater strategic capacity, mitigation of risk, development of intellectual property, protection of Council data, improved levels of service, efficiencies and/or reduced cost. All proposals shall be presented to the shareholding councils for approval prior to implementation. Further approvals may be required at various phases

during the development of a shared service or if material changes to the original proposal are thought desirable as the initiative is developed.

Governance

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

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

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

Directors

The current Directors of LASS are:

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

Activities for which the Board seeks Compensation

Additional shared services may be developed during the year that this Statement of Intent is current. Any such services will only be delivered by LASS after the Directors have considered a business case, including the proposed budget, and agreed that the proposed new service meets the objectives of LASS.

Any ongoing activities to identify, develop and procure shared services will be budgeted for in advance, subject to a business case, and either funded and/or staffed by individual Councils without LASS involvement, or agreed by the Directors to be funded by the LASS and/or utilising LASS resources with consequent recovery from participating Councils.

Shareholders will continue to contribute to the operational costs of the LASS on an annual basis.

Performance Targets

To ensure that the Company continues to operate effectively and efficiently, the performance targets for 2015/16 are as follows:

TARGET	METHOD	MEASURE
Procurement Joint procurement initiatives for goods and services for LASS councils will be investigated and implemented.	Procurement is from sources offering best value, service, continuity of supply, and/or opportunities for integration.	A minimum of three new procurement initiatives investigated per annum and business cases developed if considered appropriate. Initiatives which are implemented shall provide financial savings and/or improved service levels to the participating councils. New suppliers are awarded contracts according to the LASS Financial Delegations Policy.
Collaborative Projects Priorities for collaboration are identified, business cases are developed for the highest priority projects, and the projects are implemented.	The focus is on shared services which will benefit all councils.	A minimum of three priority projects for collaboration are identified per annum. If considered of value, business cases are developed for approval by the Board, and the projects are implemented.
Existing LASS Contracts Existing contracts are managed and renegotiated as required.	Appointed vendors deliver on the terms of their contracts and deliver value to the shareholders.	The LASS Contracts Register is maintained and managed. Contracts which are due for renewal are tested for competitiveness and either renegotiated or tendered through a competitive process.
Cashflow The company shall maintain	The Financial Accountant	Monthly financial statements

a positive cashflow position.	reviews cashflow monthly. The LASS Board reviews the financial statements quarterly.	show a positive cashflow position.
Cost Control Administration expenditure shall be managed and monitored.	The Financial Accountant and Chief Executive review expenditure monthly. The LASS Board reviews financial statements quarterly.	Administration expenditure shall not exceed budget by more than 5%, unless prior approval is obtained from the Board.
Reporting Six monthly reports provided to Shareholders.	The Chief Executive prepares a written report for the LASS Board every meeting. One 6-monthly and one Annual Report are prepared for shareholders.	The Board shall provide a written report on the business operations and financial position of the LASS to the Shareholders every six months. Note that every second report shall be the Annual Report, which includes a report that all of the statutory requirements of the LASS are being adhered to.
Waikato Mayoral Forum The company shall provide administrative support and updates on Mayoral Forum workstreams to the Mayoral Forum.	Mayoral Forum projects shall be managed financially through the LASS. Updates on Mayoral Forum projects shall be co-ordinated by the LASS Chief Executive. Note: The current approved workstreams are: <ul style="list-style-type: none"> • Roothing (RATA) • Economic Development • Regulatory Bylaws and Policies • Waters • Waikato Spatial Plan 	The Mayoral Forum is regularly updated on the progress of each approved workstream. Approved invoices for Mayoral Forum projects are paid by the 20 th of the month following their receipt.
Shared Valuation Data Services (SVDS) The SVDS is reliable, well maintained and available to all users.	A Contract Manager is appointed for SVDS. Contract Manager monitors performance of contractor and reports quarterly to the SVDS Advisory Group.	The SVDS is available to users at least 99% of normal working hours. All capital enhancement work is supported by a business case and

		approved by the SVDS Advisory Group. The SVDS Advisory Group meets at least 6-monthly.
Waikato Regional Transport Model (WRTM) The WRTM is reliable, well maintained and available to all users.	A Contract Manager is appointed for WRTM. Contract Manager monitors performance of the model supplier (currently Traffic Design Group) and reports quarterly to the WRTM Project Advisory Group.	All modelling reports requested from the model supplier are actioned within the agreed timeframe, scope and budget. A report by the Contract Manager on any new developments and on the status of the model is provided to the LASS Board at least every six months. 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.
Shareholder Survey Shareholders are satisfied with the performance of LASS.	An annual survey of shareholders is undertaken to assess satisfaction levels with LASS.	A survey of shareholders is undertaken each year, and the results are reported to all shareholders.
Review of Benefits Shareholders are informed of the benefits being provided to shareholding councils by LASS.	The benefits of LASS (including financial and non-financial achievements) are regularly analysed and reported to shareholders.	Information on the financial and non-financial benefits being achieved by LASS are included in the 6-monthly and Annual Report to shareholders.

Policy Statements

Changes to NZ Accounting Standards

The NZ Accounting Standards Board recently released new accounting standards that will apply to LASS. LASS must transition to these new standards for the year ended 30 June 2015. The first step has been to determine which reporting tier LASS sits under. The Directors have determined that LASS should be classified as Tier 2.

Statement of Accounting Principles

Financial statements are for a company wholly owned by the 12 local authorities within the Waikato Region, in the proportion of one share per local authority. Financial statements will be prepared in accordance with the requirements of the Local Government Act 2002, which

includes the requirement to comply with the New Zealand Generally Accepted Accounting Practice (NZ GAAP), the Financial Reporting Act 1993 and the NZ Financial Reporting Standard No. 42.

Specific Accounting Principles

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

- Accounts Receivable are to be stated at their expected realisable value after writing off any known bad debts and providing for doubtful debts.
- Investments are to be valued at the prevailing market value.
- Fixed assets are to be recorded at cost, less accumulated depreciation.

Intangible Assets

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

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

Impairment Testing

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

Balance Sheet Ratios

The Local Government Act 2002 requires the Statement of Intent to include the projected ratio of shareholders' funds to total assets within the Forecast Statement of Financial Position.

LASS is budgeted to have an accumulated shareholders fund of \$637,041 at 30 June 2016, which relates to 73.6% of total assets. The only liabilities of the LASS are trade creditors.

The Forecast Financial Statements for 2015/16 are attached to this Statement of Intent.

Procedures for the Purchase and Acquisition of Shares

The Board will give approval before LASS subscribes for, purchases, or otherwise acquires shares in any company or other organisation, which is external to the group.

Inventories

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

Taxation

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

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

As the current shared services are on a cost recovery basis, it is not envisaged that any dividends will be paid.

Value of Shareholders' Investment

The Directors' estimate of the commercial value of the shareholders' investment in the LASS is equal to the shareholders equity in the company. Reassessment of the value of this shareholding shall be undertaken on or about 1 April each year.

Compensation

Directors of the LASS will not receive any fees or expenses for work undertaken on behalf of the LASS.

As the basis of funding for LASS, payment will be sought from all local authorities that receive services from LASS.

Information to be provided to Shareholders

The company will deliver the following information to shareholders:

- Within two months of the end of the first half of the financial year, a 6-monthly report, including a Statement of Financial Performance, a Statement of Changes in Equity, a Statement of Financial Position, and a Statement of Cashflows and Service Performance.
- Within three months of the end of the financial year, an audited Statement of Financial Performance, Statement of Changes in Equity, Statement of Financial Position, a Statement of Cashflows and Service Performance, plus a summary of how the company has fared against its objectives, its prospects for the next financial year, and a report on the company's medium to long-term plans.

Review of Statement of Intent

The Directors shall approve by 1 March of each year a Draft Statement of Intent for consideration by the shareholders.

The Directors must consider any comments on the Draft Statement of Intent that are made to it by the shareholders within two months of 1 March, and shall deliver the completed Statement of Intent to the shareholders by 30 June.

Local Authority Shared Services					
Company Summary					
For the Year Ended 30 June 2016					
	Budget 2014/15	Budget 2015/16	Variance to Jun-15 Budget	Budget 2016/17	Budget 2017/18
Income					
Company Administration Member Charges	87,146	169,550	82,404	183,795	189,024
Recovery of Admin Costs	44,405	62,236	17,831	54,102	55,570
SVDS Member Charges	561,516	281,068	(280,448)	282,804	297,669
SVDS Data & Software Sales	125,964	192,000	66,036	196,704	201,681
TA Valuation Services Recovery	0	78,500	78,500	80,423	82,458
SVDS Enhancements Recovery	0	10,000	10,000	10,245	10,504
WRTM Member Charges	56,702	112,918	56,216	110,855	113,709
WRTM External User Recovery	0	12,000	12,000	12,294	12,605
Mayoral Forum Funding	248,370	1,111,000	862,630	452,000	452,000
N3 Membership Fee Recovery	18,000	18,000	0	18,000	18,000
ValueFinancials Fee Recovery	46,750	46,750	0	46,750	46,750
Insurance Brokerage Fee Recovery	147,500	147,500	0	147,500	147,500
Infometrics Recovery	0	51,200	51,200	51,200	51,200
WRAPS Recovery	0	0	0	0	0
Historical Aerial Photos Recovery	0	0	0	0	0
Interest Received	800	2,000	1,200	1,700	1,700
Total Income	1,337,153	2,294,722	957,569	1,648,373	1,680,370
Operating Expenditure					
Company Admin Operating Expenditure	213,955	233,286	19,331	239,097	245,794
SVDS Operating Expenditure	609,637	552,068	(57,569)	560,431	582,308
WRTM Operating Expenditure	106,702	124,918	18,216	123,149	126,314
Mayoral Forum Operating Expenditure	248,370	1,111,000	862,630	452,000	452,000
Procurement Operating Expenditure	212,250	263,450	51,200	263,450	263,450
Total Operating Expenditure	1,390,914	2,284,722	893,808	1,638,128	1,669,866
Earnings before interest, tax and depreciation/ amortisation (EBITA)					
	(53,761)	10,000	63,761	10,245	10,504
Non-Cash Operating Expenditure					
Company Admin Non-Cash Expenditure	171	171	(0)	171	171
SVDS Non-Cash Expenditure	143,725	109,699	(34,026)	109,699	109,699
WRTM Non-Cash Expenditure	328,122	328,122	0	218,748	0
Total Non-Cash Operating Expenditure	472,017	437,992	(34,026)	328,618	109,870
Earnings before interest and tax (EBIT)					
	(525,778)	(427,992)	97,787	(318,372)	(99,365)
Net Surplus (Deficit) before tax					
	(525,778)	(427,992)	97,787	(318,372)	(99,365)
Company Admin Net Surplus (Deficit) before tax	(82,575)	(171)	82,404	(171)	(171)
SVDS Net Surplus (Deficit) before tax	(65,082)	(99,699)	(34,617)	(99,453)	(99,195)
WRTM Net Surplus (Deficit) before tax	(378,122)	(328,122)	50,000	(218,748)	0
Mayoral Forum Net Surplus (Deficit) before tax	0	0	0	0	0
Procurement Net Surplus (Deficit) before tax	0	0	0	0	0
Net Surplus (Deficit) before tax	(525,778)	(427,992)	97,787	(318,372)	(99,365)
Capital Expenditure					
Enhancements	78,643	10,000	(68,643)	10,245	10,504
Total Capital Expenditure	78,643	10,000	(68,643)	10,245	10,504

Local Authority Shared Services						
Company Admin						
For the Year Ended 30 June 2016						
Notes	Budget 2014/15	Budget 2015/16	Variance to Jun-15 Budget	Budget 2016/17	Budget 2017/18	
Income						
Company Administration Member Charges	1	87,146	169,550	82,404	183,795	189,024
Recovery of Admin Costs		44,405	62,236	17,831	54,102	55,570
Mayoral Forum Interest		0	1,500	1,500	1,200	1,200
Total Income		131,551	233,286	101,735	239,097	245,794
Expenses						
Accounting/ Financial Services	2	17,510	27,500	9,990	28,174	28,805
External Accounting/ Financial Services		3,998	4,000	2	4,098	4,190
Audit Fees		15,500	15,349	(151)	15,725	16,077
IT Services		45	92	47	94	96
Bank Charges		438	280	(158)	287	293
Printing, Stationery & Postage		250	0	(250)	0	0
Legal Fees		2,560	2,500	(60)	2,561	2,619
Value Financials Licence Fee		2,250	2,600	350	2,600	2,600
Sundry Expenses		500	750	250	750	750
Insurance		2,048	2,800	752	2,869	2,933
Shared Services Contractors		156,000	156,000	0	160,000	165,000
Company Secretary Fees		11,856	11,415	(441)	11,695	11,957
Mileage Costs	3	1,000	10,000	9,000	10,245	10,474
Total Expenses		213,955	233,286	19,331	239,097	245,794
Earnings before interest, tax and depreciation/ amortisation (EBITA)	4	(82,404)	0	82,404	0	0
Non-Cash Expenses						
Depreciation		171	171	(0)	171	171
Earnings before interest and tax		(82,575)	(171)	82,404	(171)	(171)
Net Surplus (Deficit) before tax		(82,575)	(171)	82,404	(171)	(171)

Notes

- 1) 2014/15 Member Charges were reduced by prior year surpluses.
- 2) Financial services have increased due to additional workload from new initiatives.
- 3) Increased mileage costs for shared services contractor.
- 4) Prior year surpluses utilised to offset member charges

Local Authority Shared Services						
Shared Valuation Data Service For the Year Ended 30 June 2016						
Notes	Budget 2014/15	Budget 2015/16	Variance to Jun-15 Budget	Budget 2016/17	Budget 2017/18	
Income						
SVDS Member Charges	1	561,516	281,068	(280,448)	282,804	297,669
TA Valuation Services Recovery	2	0	78,500	78,500	80,423	82,458
SVDS Enhancements Recovery	3	0	10,000	10,000	10,245	10,504
SVDS Data & Software Sales	4	125,964	192,000	66,036	196,704	201,681
Interest Received - SVDS		800	500	(300)	500	500
Total Income		688,280	562,068	(126,212)	570,677	592,812
Expenses						
Hosting Contract		69,509	49,200	(20,309)	50,405	51,681
Software Contract		117,965	95,000	(22,965)	97,328	99,790
Management Services		381,711	271,500	(110,211)	278,152	285,189
TA Valuation Services		0	78,500	78,500	80,423	82,458
Consultancy Fees		16,000	16,000	0	16,000	16,000
Software Support Contingency		0	6,250	6,250	6,462	6,681
Insurance		1,500	1,500	0	1,537	1,576
Legal Fees	5	0	0	0	0	8,000
Secretarial Services		0	3,000	3,000	3,074	3,149
On charge of LASS Admin Costs		22,952	31,118	8,166	27,051	27,785
Total Expenses		609,637	552,068	(57,569)	560,431	582,308
Earnings before interest, tax and depreciation/ amortisation (EBITA)						
		78,643	10,000	(68,643)	10,245	10,504
Non-Cash Expenses						
Depreciation	6	143,725	109,699	(34,026)	109,699	109,699
Earnings before interest and tax		(65,082)	(99,699)	(34,617)	(99,453)	(99,195)
Net Surplus (Deficit) before tax						
		(65,082)	(99,699)	(34,617)	(99,453)	(99,195)
Capital Expenditure						
Enhancements	3	78,643	10,000	(68,643)	10,245	10,504
Total Capital Expenditure		78,643	10,000	(68,643)	10,245	10,504
Total Cash Expenditure (Opex, Interest & Capital)						
		688,280	562,068	(126,212)	570,677	592,812

Notes

- 1) 2014/15 Member Charges were reduced by prior year surpluses. Member charges from 2015/16 onwards are reduced due to new contracts negotiated.
- 2) Valuation Services to now be billed to LASS and then recovered, rather than individual council due to new contract terms.
- 3) Enhancement work to be recovered by individual councils.
- 4) Increase due to new contract with Headway.
- 5) Legal fees budget for 2017/18 to tie in with contract review terms.
- 6) Decrease in depreciation due to change to the life of the NBV of the SVDS asset by an additional 5 years.

Local Authority Shared Services						
Waikato Regional Transport Model For the Year Ended 30 June 2016						
	Notes	Budget 2014/15	Budget 2015/16	Variance to Jun-15 Budget	Budget 2016/17	Budget 2017/18
Income						
WRM Member Charges	1	56,702	112,918	56,216	110,855	113,709
External User Recovery		0	12,000	12,000	12,294	12,605
Total Income		56,702	124,918	68,216	123,149	126,314
Expenses						
WRM Project Manager		18,000	18,000	0	18,441	18,908
Minor Model Upgrades		30,000	30,000	0	30,735	31,513
Peer Review		5,000	30,000	25,000	30,735	31,513
Annual Scheduling of Works Review		4,500	4,500	0	4,610	4,727
Insurance		2,000	1,300	(700)	1,332	1,366
External User Costs		0	10,000	10,000	10,245	10,504
Tendering for WRM Contract		25,000	0	(25,000)	0	0
On charge of LASS Admin Costs		22,202	31,118	8,916	27,051	27,785
Total Expenses		106,702	124,918	18,216	123,149	126,314
Earnings before interest, tax and depreciation/ amortisation (EBITA)	1	(50,000)	0	50,000	0	0
Non-Cash Expenses						
Depreciation	2	328,122	328,122	0	218,748	0
Earnings before interest and tax		(378,122)	(328,122)	50,000	(218,748)	0
Net Surplus (Deficit) before tax		(378,122)	(328,122)	50,000	(218,748)	0

Notes

- 1) 2014/15 Member Charges were reduced by prior year surpluses. Prior year surpluses utilised to offset member charges
2) WRM asset to be fully depreciated by February 2017

Local Authority Shared Services						
Mayoral Forum Projects						
For the Year Ended 30 June 2016						
Notes	Budget 2014/15	Budget 2015/16	Variance to Jun-15 Budget	Budget 2016/17	Budget 2017/18	
Income						
	241,370	990,000	748,630	425,000	425,000	
Spatial Plan						
Economic Development	0	0	0	0	0	
Waters	0	0	0	0	0	
Roading (RATA)	0	0	0	0	0	
Policy & Bylaws	0	114,000	114,000	20,000	20,000	
Meeting Expenses	7,000	7,000	0	7,000	7,000	
Total Income	248,370	1,111,000	862,630	452,000	452,000	
Expenses						
	241,370	990,000	748,630	425,000	425,000	
Spatial Plan						
Economic Development	0	0	0	0	0	
Waters	0	0	0	0	0	
Roading (RATA)	0	0	0	0	0	
Policy & Bylaws	0	114,000	114,000	20,000	20,000	
Meeting Expenses	7,000	7,000	0	7,000	7,000	
Total Expenses	248,370	1,111,000	862,630	452,000	452,000	
Earnings before interest, tax and depreciation/ amortisation (EBITA)						
	0	0	0	0	0	
Earnings before interest and tax						
	0	0	0	0	0	
Net Surplus (Deficit) before tax						
	0	0	0	0	0	

Notes

- 1) Revised total project budget of \$990,000, includes an additional \$330,000 for plan development in 15/16 (decision to be made 16-Feb), and \$400,000 to cover:
- Consultant resource to represent the interests of Maori on the Joint Committee
 - Non-LG members remuneration for meetings
 - Increase in scope for community engagement to reflect greater expectations of greater community engagement from non-LG members
 - Improved opportunities for central Government engagement resulting from this project
- Implementation phase from 1 Jul 16 - midpoint of \$350-500K proposal from J.Bevan - subject to outcome of Waikato Plan.
- 2) No new budget for Rooding workstream, but participating councils are committed to fund from existing council budgets.
- 3) Policy & Bylaws - includes \$94,000 in 2015/16 for Regional Infrastructure Technical Specifications work.

Local Authority Shared Services						
Procurement of Shared Services						
For the Year Ended 30 June 2016						
Notes	Budget 2014/15	Budget 2015/16	Variance to Jun-15 Budget	Budget 2016/17	Budget 2017/18	
Income						
	18,000	18,000	0	18,000	18,000	
	46,750	46,750	0	46,750	46,750	
	147,500	147,500	0	147,500	147,500	
1	0	51,200	51,200	51,200	51,200	
	0	0	0	0	0	
	0	0	0	0	0	
	0	0	0	0	0	
2	0	0	0	0	0	
3	0	0	0	0	0	
Total Income	212,250	263,450	51,200	263,450	263,450	
Expenses						
	18,000	18,000	0	18,000	18,000	
	46,750	46,750	0	46,750	46,750	
	147,500	147,500	0	147,500	147,500	
1	0	51,200	51,200	51,200	51,200	
	0	0	0	0	0	
	0	0	0	0	0	
	0	0	0	0	0	
2	0	0	0	0	0	
3	0	0	0	0	0	
Total Expenses	212,250	263,450	51,200	263,450	263,450	
Earnings before interest, tax and depreciation/ amortisation (EBITA)	0	0	0	0	0	
Earnings before interest and tax	0	0	0	0	0	
Net Surplus (Deficit) before tax	0	0	0	0	0	

Notes

- 1) Infometrics not budgeted for in 2014/15 but actual costs were incurred.
- 2) WRAPS working party are currently developing the tender document and is unknown at this stage what the costs will be and if they will be paid and recovered through LASS.
- 3) Historical Aerial Photos working party are currently developing the tender document and is unknown at this stage what the costs will be and if they will be paid and recovered through LASS.

Local Authority Shared Services					
Balance Sheet					
For the year ended 30 June 2016					
Notes	Budget 2014/15	Budget 2015/16	Variance to Jun-15 Budget	Budget 2016/17	Budget 2017/18
CAPITAL					
Shares - SVDS	1,607,001	1,607,001	0	1,607,001	1,607,001
Shares - WRTM	1,350,000	1,350,000	0	1,350,000	1,350,000
Profit and Loss	(1,566,237)	(1,891,968)	(325,731)	(2,319,960)	(2,638,332)
Plus Current Year Operating Surplus/(Deficit)	(525,778)	(427,992)	97,786	(318,372)	(99,365)
TOTAL CAPITAL FUNDS	864,986	637,041	(227,945)	318,669	219,304
ASSETS					
CURRENT ASSETS					
Prepayments	1,868	2,990	1,122	2,990	2,990
Accounts Receivable	3,557	15,167	11,610	15,329	15,703
RWT On Interest	224	560	336	476	476
Local Authority Shared Services 00	6,731	0	(6,731)	0	0
Local Authority Shared Services On-Call	47,103	392,935	345,832	321,817	335,115
GST Paid	(9,522)	(30,568)	(21,046)	(21,249)	(31,649)
TOTAL CURRENT ASSETS	49,960	381,084	331,124	319,364	322,635
NON-CURRENT ASSETS					
SVDS - Intangible Asset	1 3,142,359	3,080,875	(61,484)	3,091,120	3,101,624
WRTM - Intangible Asset	2,296,855	2,296,855	0	2,296,855	2,296,855
MoneyWorks Software	1,195	1,195	0	1,195	1,195
Accumulated Depreciation	2 (4,548,273)	(4,894,039)	(345,766)	(5,222,656)	(5,332,526)
TOTAL NON-CURRENT ASSETS	892,136	484,886	(407,250)	166,514	67,148
NET ASSETS	942,096	865,971	(76,126)	485,878	389,783
LESS CURRENT LIABILITIES					
Accounts Payable	67,035	218,953	151,918	156,987	160,029
Accounts Payable Accrual	10,075	9,977	(98)	10,221	10,450
TOTAL CURRENT LIABILITIES	77,110	228,929	151,819	167,209	170,479
NET WORKING CAPITAL	864,986	637,041	(227,945)	318,669	219,304

Notes

- 1) Lower enhancement work expected to be done on the SVDS asset in 2014/15.
 2) Decrease in depreciation due to change to the life of the NBV of the SVDS asset by an additional 5 years.

Local Authority Shared Services					
Statement of Cashflows					
For the year ended 30 June 2016					
	Budget 2014/15	Budget 2015/16	Variance to Jun-15 Budget	Budget 2016/17	Budget 2017/18
Cashflows from Operating Activities					
Interest Received	500	2,000	1,500	1,700	1,700
Receipts from Other Revenue	1,184,191	2,219,122	1,034,931	1,602,408	1,632,277
Payments to Suppliers	(1,329,850)	(2,070,569)	(740,719)	(1,645,991)	(1,611,255)
Taxes Paid	(224)	(560)	(336)	(476)	(476)
Goods & Services tax (net)	(3,173)	38,421	41,594	(18,514)	1,556
Net cash from operating activities	(148,556)	188,415	336,971	(60,873)	23,802
Purchase of Intangible Assets	(78,643)	(10,000)	68,643	(10,245)	(10,504)
Net cash from investing activities	(78,643)	(10,000)	68,643	(10,245)	(10,504)
Net increase in cash, cash equivalents and bank accounts	(226,899)	178,415	405,314	(71,118)	13,298
Opening cash and cash equivalents and bank overdrafts	280,733	214,520	(66,213)	392,935	321,817
Closing cash, cash equivalents and bank accounts	53,834	392,935	339,101	321,817	335,115
Summary of Bank Accounts					
BNZ - Cheque a/c	6,731	0	(6,731)	0	0
BNZ - Call a/c	47,103	392,935	345,832	321,817	335,115
Closing Balance of Bank	53,834	392,935	339,101	321,817	335,115



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SIX MONTHLY REPORT TO SHAREHOLDERS

1 July 2014 to 31 December 2014

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Local Authority Shared Services Limited –6 Monthly Report

The Waikato Local Authority Shared Services Limited (LASS) was incorporated in December 2005. This report covers the 6-month period from 1 July to 31 December 2014, as required by Section 66 of the Local Government Act 2002.

Objectives of LASS

LASS was established principally to provide the Councils in the Waikato Region with a vehicle to procure shared services. It provides a mechanism for the development of new services which are available to be joined by any shareholder that chooses to do so.

Since the early-mid 2000s, the relationship between local authorities within the Waikato Region has continued to strengthen. This has been demonstrated most recently by the development of a number of new initiatives under the stewardship of the Mayoral Forum. LASS provides administrative and financial support services to the Mayoral Forum, to enable the successful implementation of these projects.

The shareholders have identified that improvements could be made in a number of areas: by implementing shared services related to back-office activities; shared procurement providing cost savings; streamlining of work processes; and service improvements. A range of initiatives which could benefit from being managed by LASS continue to be considered by working groups of staff from the shareholding councils.

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

- Improved level and quality of service
- Co-ordinated approach to the provision of services
- Reductions in the cost of services
- The development of new initiatives
- Standardisation of service levels
- Opportunities for all Councils, irrespective of location or size, to benefit from joint initiatives
- Leverage provided by economies of scale resulting from a single entity representing all Councils and leveraging procurement opportunities.

These gains have been realised by shareholders in the Shared Valuation Data Service (SVDS), the Waikato Regional Transport Model (WRTM), and a variety of joint procurement services (e.g. insurance and postal services).

The ability of LASS to contribute to a greater extent in terms of shared services and also at a strategic collaboration level has also been the subject of discussion at the Waikato Mayoral Forum.

The Directors have been tasked with identifying ways to progress these initiatives. This will involve resourcing and funding a range of initiatives that will potentially extend the services currently offered by LASS.

The LASS Directors continue to seek new opportunities, either from internal investigations or from Council or CEO initiatives that are presented to the Board with a sound business case.

New services that are intended to be initiated under the LASS umbrella will only be adopted where a business case shows that they provide some form of benefit to the shareholders. The benefits that may be gained include the development of intellectual property through new business services, protection of Council data, improved levels of service and/or reduced cost. All proposals will be presented to the Shareholders for approval prior to their implementation.

Nature and Scope of Current Activities

Currently, three major services operate under the LASS umbrella, a number of shared service procurement contracts are in place, new initiatives are under investigation, and LASS is providing a support role for the collaborative initiatives of the Waikato Mayoral Forum. These activities are described in more detail below.

The **Shared Valuation Data Service (SVDS)** continues to provide timely and accurate valuation data to member Councils and shareholders. The SVDS has become the accepted valuation database in the region. The management contracts for this service have been under review over the past 6 months, and significant savings have been realised, which will come into effect in the second half of this financial year, following finalisation of the contract negotiations. New contracts to sell the data are currently under negotiation, which will bring in new revenue and further reduce the cost of operating this activity.

The **Waikato Regional Transportation Model (WRTM)** became fully operational in February 2010. This model provides accurate information to Councils for their transport modelling requirements. Third parties also contract to LASS to use the model (for a charge). The WRTM is the only recognised strategic transport modelling resource in the Waikato Region, and is jointly funded by the NZ Transport Agency. The contract with the model's operations supplier is currently under review and the contract will be re-tendered during the second half of this calendar year.

The **Waikato Regional Aerial Photography Service (WRAPS)** was set up in the 1990s for the supply of colour, digital, ortho-rectified, aerial photography for the Waikato Region. So far, there have been three WRAPS contracts – in 2002, 2007 and 2012. In 2012, the WRAPS members were the councils of the Waikato Region, plus the Department of Conservation and Waikato University. The next contract is due in 2016/17. A working party has been set up to consider the most appropriate technology to be used and the most efficient method for contracting the capture of both rural and the urban imagery. Discussions are currently being held with other parties to assess their willingness to join the syndicate. Both Land Information New Zealand (LINZ) and the NZ Transport Agency (NZTA) have indicated potential interest, which would reduce the cost to the participating councils. WRAPS became a LASS-managed project in December 2014.

LASS is also a party to a number of **procurement contracts** which provide value to the participating councils. These include a joint contract between LASS, all of the shareholding Councils and AON Ltd for **insurance brokerage services** as well as a variety of collective insurance policies. Considerable cost savings in insurance premiums were achieved at the annual review earlier this year.

Through negotiation with the insurers, a premium saving of 15% was achieved for the Group's **Material Damage / Business Interruption Insurance** cover. The total premium pool has been reduced from \$1,785,000 to \$1,520,000 (both figures excluding EQC, Fire Service Levy and GST), representing a saving of \$265,000 to the participating councils. All other terms and conditions, such as policy excess levels, remain unchanged from last year.

The insurer for the Group's **Motor Vehicle Fleets** was seeking an increase in premium from \$295,000 to \$360,000 for the Group policy. However, Aon obtained an alternative proposal from another provider, which reduced the cost to \$269,100, a saving of \$26K. While this represented a significant saving over last year, it must be noted that the current market conditions are unlikely to continue long term and Aon are not able to make any commitment about this level of premium saving being sustainable.

Under the LASS umbrella, a new syndicate is currently being formed by those councils in the Waikato region who wish to partner with Land Information NZ (LINZ) to scan the **Waikato Historic Aerial Photos** archive. The LINZ Crown archive contains over 500,000 historic aerial photo negatives captured by surveys flown over New Zealand between 1936 and 2005. These images are now starting to degrade; if they are not digitised soon, they will be lost forever. The images show land use changes across NZ. Councils have many interests in this information, including the identification of:

- Illegal resource consent developments
- Potentially contaminated sites, such as orchards, sheep dips, timber treatment plants. (Regional Councils are legally required by the National Environmental Standard to deliver contaminated land information to District Councils for inclusion in HAIL registers)
- Areas where vegetation has changed, assisting with natural hazard information such as changes to geothermal sites, water quality from farm runoff, and changes to coastal areas due to accretion, erosion or the impact of mining
- Changes in land use, e.g. dairy and forestry land conversions or coal mining.

Each shareholding council has yet to decide whether or not to participate in this new LASS project, which will include a subsidy of over \$40K from LINZ.

A new shared services contract for **computer-generated print, mail-house and e-Services** was initiated on 1 June 2014, with five councils initially participating (Waikato Region, Hamilton City, Waipa, Waikato and Hauraki Districts) and enjoying immediate cost-savings. Waitomo District are about to pilot using the contract for water billing. A Joining Agreement is available, at no cost, should other shareholding councils wish to participate.

A tender process for a **Professional Services Procurement (PSP) Panel** for a wide variety of professional services was undertaken last calendar year and contracts were established during the first half of this financial year. The Panel eliminates the need for the four participating councils (Hamilton City, Waikato Region, Waikato and Waipa Districts) to tender for professional services and provides preferential consultancy rates. A Joining Agreement is available, at no cost, should other shareholding councils wish to participate.

All shareholding councils are currently participating in a 5-year **postal and courier services** contract with NZ Post, which expires on 28 February 2016, with the option of two one-year extensions.

Following a review by KPMG of the IT strategies of the shareholding councils last year, a **Waikato IT Managers group** has been established, chaired by the LASS CEO. A number of initiatives are currently under investigation, which will be developed into business cases if they are considered to have merit. The focus is on back-office functions, including the development of more on-line services.

A number of other shared services procurement initiatives are currently under investigation and will be reported on later.

The **Waikato Mayoral Forum** initially established five working parties to investigate collaborative opportunities in the areas of planning (Waikato Spatial Plan), three waters, roading, economic development and policy and bylaws. Each working party is led by a Council CEO in conjunction with a group of Mayors/Chair from the Waikato Mayoral Forum. The three waters workstream is now being developed further by a syndicate of three councils – Hamilton City, Waikato and Waipa Districts.

LASS provides administrative support to the Mayoral Forum, and the CEO assists some of these working parties (e.g. she is a member of the RATA Governance Group). LASS also administers the collective funding for each of these workstreams, invoicing each of the participating councils and paying all of the approved invoices.

Based on feedback from shareholding Councils and the CEO Forum, the LASS Directors continue to discuss their role in the development of business cases for shared services at their Board meetings. Directors are mindful of the current political environment, and see the continuing investigation of possible shared services as a key focus of their role.

After a 9-month gap with a temporary contractor, a new part-time LASS CEO was appointed in September 2014, to replace Michael Freeman, who resigned in December 2013. The new CEO (an independent contractor, Sally Davis) continues to promote, facilitate and encourage the availability of the resources required to advance collaboration across the shareholding Councils. However, the staff time and effort which has been required to prepare the Council's Long-Term Plans (LTPs) has slowed progress over the past few months. Once the LTPs are completed, it is anticipated that further progress will be achieved in the latter part of this year.

Service Performance

The **Shared Valuation Data Service (SVDS)** has continued to operate effectively in supplying timely and accurate information and is considered to be operating in a "steady state". No interest has been shown by councils outside the region to join. Therefore, the Advisory Group has undertaken a review of the development roadmap and scaled down future planned development. Any further development will require a business case prior to proceeding, which has reduced future costs.

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

- Competition in the Waikato valuation market, with a resultant improved level of service
- Significantly improved data quality, and a minimum of errors
- Standardisation of information and the removal of processing inefficiencies
- Quicker and more efficient access to data
- Far greater collaboration between the user Local Authorities.

The Contract Manager and the Advisory Group are to be congratulated on their excellent management of this important operation.

The **Waikato Regional Transport Model (WRTM)** remains fully operational, and is currently being updated to include the latest census data. The WRTM service contract was initially let on a 3+1+1 basis and is due for renewal in February 2015. However, as the census data update will not be completed until March 2015, the current service contract with the Traffic Design Group will be rolled over until the end of the 2015 financial year, when the WRTM service contract will be publicly tendered.

A review of the Terms of Reference for the WRTM Advisory Group, the scope of the Contract Manager's role, and the terms of the new contract with the modelling supplier will be undertaken in the first half of 2015, prior to re-tendering the contract.

Third party requests for modelling services are being received and actioned on a cost recovery basis. The development and maintenance of the WRTM model as the foremost supplier of transport data continues to be the objective of the LASS Directors. This service will continue to collect data to verify the model, and the model will be run to provide information that can be utilised for both regional and local planning. The model is an important input to the development of the Waikato Spatial Plan.

Performance Measures

The following performance measures were included in the Statement of Intent for the 2014/15 financial year. An update on their status as at 31 December 2014 is shown in the table below.

Performance Measure	Actual Outcome
The Statement of Intent is informed by the annual survey and independent benefits review.	A survey of shareholders will be undertaken in the second half of the financial year. The Benefit Review is scheduled for the second half of this financial year.
Cost Control: Administration expenditure shall not exceed that budgeted by more than 5% unless prior approval is obtained from the Directors.	Achieved. Actual expenditure to 31 December 2014 was \$1,311 favourable to budget.
Cashflow: The company maintains an overall positive cashflow position.	Achieved. Cash, cash equivalents and bank accounts at 31 December 2014 were \$869,816. A major contributor to this is the timing of funding received for Mayoral Forum projects.
Reporting: The Board will provide a written report on the business operations and financial position of the LASS on a six monthly basis.	Achieved. Six monthly report is being provided.
Statutory Adherence: There will be an annual report to directors that all statutory requirements of the LASS are being adhered to.	Achieved. To the Directors knowledge, all LASS's statutory requirements are being adhered to.
SVDS Availability: That SVDS is available to users at least 99% of normal working hours.	Achieved. Availability to users as at 31 December 2014 was 99.5%.
SVDS Sales Data Delivery: That at least 98% of agreed timelines are met for sale and property files that have been delivered to the FTP server for access to customers.	Achieved. At 31 December 2014, 100% of agreed timelines had been met.
SVDS Major Enhancement Development Hours: All Capital enhancement development work is supported by a business case approved by the Advisory Group.	Achieved.
WRTM: That all required modelling reports are actioned within the required timeframe.	Achieved. All timeframes are being met.

WRM: That the base model adheres to "Screenline Validation Standards" as set out in the NZTA Economic Evaluation Manual as indicated by an external independent peer review.	Achieved. The last peer review was completed in 2012 based on the 2006 version of the model. The review confirmed that these standards were being met. An extensive peer review is scheduled to be undertaken following the 2013 update of the model (using the new census data), with the report due to be completed by the end of 2015.
WRM: That a full report on progress of the model be provided to the LASS Board twice each year.	Achieved. A report was provided to the October and December 2014 LASS Board meetings.
Insurance: The key performance indicators from Appendix 4 of the brokerage contract are met.	Achieved. Performance is currently on track and will be reported fully at the end of the financial year.
Advice to the Waikato Mayoral Forum: In response to requests from shareholders, the Company will provide regular reports and updates to the Waikato Mayoral Forum regarding progress with shared service initiatives.	Achieved. An update on each of the Mayoral Forum workstreams was provided to the October and November 2014 Mayoral Forum meetings.
Independent Benefit Review Plan update: The independent benefit review plan will be reviewed, updated and signed off by the LASS Board by 31 May of the year immediately preceding the year the plan relates to.	The first Benefit Review is scheduled for the second half of this financial year.
Independent Benefit Reviews: Those reviews timetabled in the plan for the current year be completed by the end of the year.	In progress. The first Benefit Review is scheduled to be reported to the Board in the second half of this financial year.

LASS Financial Position

Expenditure for the LASS Company has been assessed on the basis of the direct cost of management and the Directors' governance role. The Directors have directed that these costs be kept to a minimum.

The LASS Company expenditure for this period was \$942,176 against a budget of \$719,285. The variance was due to three main factors:

- 1) Operating costs for SVDS were \$39,856 above budget due to software support expenditure being higher and enhancement costs lower due to the focus on TA revaluations
- 2) WRTM operating costs were higher by \$80,704 due to the timing of the completion of the model update from the census
- 3) Additional operating costs of \$92,814 were incurred for Shared Service initiatives via the Waikato Mayoral Forum; this was unbudgeted due to the unknown status of the projects at the time of approving the budget.

Revenue was also above budget at \$924,380 compared to a budget of \$781,877. The additional revenue was a result of unbudgeted revenue received for SVDS data and software sales, and the recovery of costs for the WRTM model update for the census.

Overall, revenue was lower than expenditure by \$17,796 against a budget of revenue exceeding expenditure by \$62,592. The timing of the Mayoral Forum project costs was the main contributor.

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

Outcome of 2014 Audit

Audit New Zealand issued an unmodified audit opinion on 1 September 2014. The auditors noted that the NZ Accounting Standards Board has recently released new accounting standards that will apply to LASS. LASS must transition to these new standards for the year ended 30 June 2015. The actions necessary to achieve this transition are currently underway.

SVDS Financial Position

The full year forecast currently predicts an out-turn of \$49,250 favourable against the budget. After taking into account Capital expenditure, Cash expenditure is expected to be \$114,086 favourable to budget, giving an overall forecast cash surplus of \$114,086 for the year. The main contributing factors to the forecast cash surplus are:

- Unbudgeted new revenue of \$61,500
- Reduced expenditure, due to new contracts being negotiated with Intergen (savings of \$41,464 for four months), and with RVSL (savings of \$29,231 for three months) – note these savings will be reflected in the 2015/16 SOI.
- Reduced depreciation of \$48,807, due to the change in the life of the net book value of the SVDS asset by an additional five years.

Third quarter member charges will be reduced by \$50,000 to use up prior year surpluses. It is currently considered likely that the fourth quarter member charges will be able to be offset by the forecast cash surplus, but this decision will be made closer to the end of the financial year.

The operating costs for SVDS were \$345,425 against a year-to-date budget of \$305,569. Revenue gained from the external sale of data during this period was \$73,929, so the balance of expenditure for this period is being met through user charges.

The cost of enhancements (additional to the operating costs noted above) over this period was \$7,776.

The percentage of Intergen time spent on Capital enhancements this financial year has been lower than budgeted due to the focus on TA revaluations over the last four months.

WRTM Financial Position

The net operating deficit as at 31 December was \$40,667. The depreciation charge for this six month period was \$164,061. Income was primarily from shareholder cost recovery of \$80,461.

It is expected that all budgeted expenditure will be recovered from shareholders. Forecasted expenditure is \$161,877 above budget due to the WRTM census update being budgeted to have been completed in 2014/15, however due to delays in the project it is now expected to be completed in March 2015.

Directors

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

Director	Position	Director Appointed By
Gavin Ion (Chair)	Chief Executive, Waikato District Council	Waikato District Council
Geoff Williams	Chief Executive, Rotorua District Council	Rotorua District Council
Chris Ryan	Chief Executive Officer, Waitomo District Council	Waitomo District Council
Vaughan Payne	Chief Executive, Waikato Regional Council	Waikato Regional Council
Langley Cavers	Chief Executive, Hauraki District Council	Hauraki District Council
Barry Harris# / Richard Briggs*	Chief Executive(s), Hamilton City Council	Hamilton City Council
David Hammond	Chief Executive, Thames-Coromandel District Council	Thames-Coromandel District Council
Garry Dyet	Chief Executive, Waipa District Council	Waipa District Council
Don McLeod	Chief Executive Officer, Matamata-Piako District Council	Matamata-Piako District Council
Craig Hobbs	Chief Executive, South Waikato District Council	South Waikato District Council
Rob Williams	Chief Executive Officer, Taupo District Council	Taupo District Council
Dave Clibbery	Chief Executive Officer, Otorohanga District Council	Otorohanga District Council

Barry Harris resigned at the September 2014 Board meeting.

*Richard Briggs attended his first Board meeting in October 2014.

Appendix 1

Management Accounts for period ended 31 December 2014

Company Summary

Local Authority Shared Services Ltd
Management Accounts for the Period Ended 31 December 2014
Company Summary

	Notes	Year to Date			Full Year		
		Actual YTD	Budget	Variance	Budget	Forecast	Last Year
Income							
Company Administration Member Charges		87,146	87,146	0	87,146	87,146	169,549
Recovery of Admin Costs		22,203	22,203	0	44,405	44,405	44,232
SVDS Member Charges		280,758	280,759	(2)	561,517	511,517	457,200
SVDS Data & Software Sales		73,929	62,982	10,947	125,964	187,464	123,166
WRTM Member Charges		80,461	56,702	23,759	56,702	216,913	214,969
External Users - WRTM		666	0	666	0	666	38,428
Mayoral Forum Funding		216,999	124,185	92,814	248,370	1,222,396	535,866
N3 Membership Fee Recovery		0	0	0	18,000	18,000	18,000
ValueFinancials Fee Recovery		0	0	0	46,750	46,750	44,006
Insurance Brokerage Fee Recovery		147,500	147,500	0	147,500	147,500	147,501
Infometrics Fee Recovery		0	0	0	0	51,200	70,400
Debt Management Solutions Recovery		7,880	0	7,880	0	7,880	0
SISP Funding		0	0	0	0	0	99,999
Professional Services Panel Funding		0	0	0	0	0	79,300
Interest Received		6,839	400	6,439	800	10,696	14,160
Total Income		924,380	781,877	142,503	1,337,154	2,552,533	2,056,776
Operating Expenditure							
Company Admin Operating Expenditure		98,869	100,180	1,311	213,955	219,650	224,086
SVDS Operating Expenditure		345,425	305,569	(39,856)	609,638	620,695	615,998
WRTM Operating Expenditure		122,555	41,851	(80,704)	106,702	268,579	298,896
MF Operating Expenditure		216,999	124,185	(92,814)	248,370	1,222,396	535,866
Procurement Operating Expenditure		155,380	147,500	(7,880)	212,250	271,330	279,907
SISP Operating Expenditure		181	0	(181)	0	181	87,533
PSP Operating Expenditure		2,767	0	(2,767)	0	2,767	78,373
Total Operating Expenditure		942,176	719,285	(222,891)	1,390,915	2,605,597	2,120,658
Earnings before interest, tax and depreciation/ amortisation (EBITA)		(17,796)	62,592	(80,388)	(53,761)	(53,064)	(63,882)
Non-Cash Operating Expenditure							
Company Admin Non-Cash Expenditure		85	86	1	171	171	171
SVDS Non-Cash Expenditure		46,614	71,863	25,249	143,725	94,918	102,880
WRTM Non-Cash Expenditure		164,061	164,061	0	328,122	328,122	328,122
Total Non-Cash Operating Expenditure		210,760	236,009	25,249	472,018	423,211	431,173
Earnings before interest and tax		(228,556)	(173,417)	(55,139)	(525,779)	(476,275)	(495,055)
Net Surplus (Deficit) before tax		(228,556)	(173,417)	(55,139)	(525,779)	(476,275)	(495,055)
CA Net Surplus (Deficit) before tax		16,041	9,083	6,958	(82,575)	(79,374)	(5,979)
SVDS Net Surplus (Deficit) before tax		(36,922)	(33,290)	(3,631)	(65,082)	(15,832)	(134,589)
WRTM Net Surplus (Deficit) before tax		(204,728)	(149,210)	(55,518)	(378,122)	(378,122)	(371,175)
MF Net Surplus (Deficit) before tax		0	0	0	0	0	3,294
Procurement Net Surplus (Deficit) before tax		0	0	0	0	0	0
SISP Net Surplus (Deficit) before tax		(181)	0	(181)	0	(181)	12,466
PSP Net Surplus (Deficit) before tax		(2,767)	0	(2,767)	0	(2,767)	927
Net Surplus (Deficit) before tax		(228,556)	(173,417)	(55,139)	(525,779)	(476,275)	(495,055)
Capital Expenditure							
SVDS Enhancements		7,776	39,322	(31,546)	78,643	15,000	68,960
Total Cash Expenditure (Opex, Interest & Capital)		7,776	39,322	(31,546)	78,643	15,000	68,960

Company Administration

Local Authority Shared Services Ltd
Management Accounts for the Period Ended 31 December 2014
Company Admin

	Notes	Actual YTD	Year to Date Budget	Variance	Budget	Full Year Forecast	Last Year
Income							
Company Administration Member Charges		87,146	87,146	0	87,146	87,146	169,549
Recovery of Admin Costs		22,203	22,203	0	44,405	44,405	44,232
Interest Received CA	1	5,646	0	5,646	0	8,896	4,497
Total Income		114,995	109,349	5,646	131,551	140,447	218,278
Expenses							
Accounting/ Financial Services	2	15,463	9,760	(5,703)	17,510	27,360	24,823
External Accounting/ Financial Services		1,520	1,780	260	3,998	3,998	3,396
Audit Fees		0	0	0	15,500	15,500	14,806
IT Services		92	45	(47)	45	92	75
Recruitment Fees	3	277	0	(277)	0	277	17,433
Meeting Expenses		195	0	(195)	0	400	264
Bank Charges		175	219	44	438	438	269
Printing, Stationery & Postage		0	150	150	250	0	0
Interest Paid		0	0	0	0	0	30
Advertising		0	0	0	0	0	1,628
Legal Fees		0	1,500	1,500	2,560	2,560	1,238
VauleFinancials Licence Fee		0	0	0	2,250	2,500	2,632
Accommodation		0	0	0	0	0	750
Sundry Expenses		272	250	(22)	500	500	422
Insurance		2,525	2,048	(477)	2,048	2,525	2,350
Shared Services Contractors	4	72,471	78,000	5,529	156,000	146,906	141,485
Secretarial Services	5	1,785	0	(1,785)	0	7,500	3,481
Wages	5	0	5,928	5,928	11,856	0	7,652
ACC Levies		0	0	0	0	0	63
Mileage Costs	4	4,094	500	(3,594)	1,000	9,094	883
Other Expenses		0	0	0	0	0	165
Fixed Asset Write Off		0	0	0	0	0	241
Total Expenses		98,869	100,180	1,311	213,955	219,650	224,086
Earnings before interest, tax and depreciation/ amortisation (EBITA)	6	16,126	9,169	6,957	(82,404)	(79,203)	(5,808)
Non-Cash Expenses							
Depreciation		85	86	(1)	171	171	171
Earnings before interest and tax		16,041	9,083	6,958	(82,575)	(79,374)	(5,979)
Net Surplus (Deficit) before tax		16,041	9,083	6,958	(82,575)	(79,374)	(5,979)
Cash Surplus							
Less prior year surpluses deducted	6	0	0	0	(82,404)	(82,404)	0
Cash Surplus/ (Deficit)		16,126	9,169	4,335	0	3,202	(5,808)

Notes

- 1) Interest received from revenue received in advance for the Mayoral Forum projects is used to offset administrative costs incurred.
- 2) Accounting Services are higher than budget due to unbudgeted additional time spent on Mayoral Forum administrative duties.
- 3) Recruitment fees are for the recruitment of a new company secretary.
- 4) These costs include the CEO contract and contractors associated with procurement projects. A portion of the budget for Shared Service Contractors has been reallocated to Mileage Costs.
- 5) Secretarial services are now provided by contract with WDC. Wages budget no longer required therefore a portion of the budget has been reallocated to secretarial services.
- 6) Prior year surpluses used to offset member charges.

Shared Valuation Database Service (SVDS)

Local Authority Shared Services Ltd
Management Accounts for the Period Ended 31 December 2014
Shared Valuation Data Service

	Notes	Year to Date			Full Year		
		Actual YTD	Budget	Variance	Budget	Forecast	Last Year
Income							
SVDS Member Charges	1	280,758	280,759	(2)	561,517	511,517	457,200
SVDS Data & Software Sales	2	73,929	62,982	10,947	125,964	187,464	123,166
Interest Received - SVDS		431	400	31	800	800	3,923
Total Income		355,118	344,141	10,977	688,281	699,781	584,289
Expenses							
Hosting Contract		33,940	34,755	815	69,509	61,653	67,880
Software Contract	3	88,800	58,983	(29,817)	117,965	148,000	123,040
Management Services		189,412	190,856	1,444	381,711	352,480	374,279
Contract Management Services	4	6,125	0	(6,125)	0	9,000	4,200
Secretarial Services		1,462	0	(1,462)	0	3,000	814
SVDS Review		9,987	0	(9,987)	0	15,000	22,312
Consultancy Fees		0	8,000	8,000	16,000	0	0
Insurance		1,357	1,500	143	1,500	1,357	1,357
Legal Fees	5	3,178	0	(3,178)	0	8,000	0
Other Expenses		63	0	(63)	0	0	0
Oncharge of LASS Admin Costs		11,101	11,476	375	22,952	22,204	22,116
Total Expenses		345,425	305,569	(39,856)	609,638	620,695	615,998
Earnings before interest, tax and depreciation/ amortisation (EBITA)		9,693	38,572	(28,880)	78,643	79,086	(31,709)
Non-Cash Expenses							
Depreciation	6	46,614	71,863	25,249	143,725	94,918	102,880
Earnings before interest and tax		(36,922)	(33,290)	(3,631)	(65,082)	(15,832)	(134,589)
Net Surplus (Deficit) before tax		(36,922)	(33,290)	(3,631)	(65,082)	(15,832)	(134,589)
Capital Expenditure							
SVDS Enhancements	3	7,776	39,322	31,546	78,643	15,000	68,960
Total Cash Expenditure (Opex, Interest & Capital)		353,201	344,890	(8,311)	688,281	635,695	684,958
Cash Surplus							
Less prior year surpluses deducted		0	0	0	0	(50,000)	(152,400)
Cash Surplus / (Deficit)	7	1,917	(749)	2,666	0	114,086	51,731

Notes

- 1) Prior year surpluses used to offset member charges.
- 2) Data and Software Sales are higher than budgeted due to an MoU between LASS and Headway Systems for the interim supply of valuation and sales data over a 12 month period for \$61,500.
- 3) The split between Software Support and Enhancements was budgeted to be 60:40. YTD actual is 92:8.
- 4) Contract Management Services will be funded from the Consultancy Fees budget.
- 5) Legal fees relate to advice received from Tompkins Wake.
- 6) Depreciation is forecasted to be lower than budget due to change to the life of the NBV of the SVDS asset in 2013/14 by an additional 5 years.
- 7) Forecasted cash surplus of \$125,908 comprises of additional revenue of \$61,500 from Headway, reduced depreciation of \$48,807, and reduced expenditure due to new contracts for Interger of \$41,464 for 4 months, and RVSL of \$29,231 for 3 months. This is offset by reduced member charges of \$50,000 from prior year surpluses. A decision will be made in the fourth quarter whether to remit this surplus.

Waikato Regional Transport Model (WRTM)

Local Authority Shared Services Ltd
Management Accounts for the Period Ended 31 December 2014
Waikato Regional Transport Model

	Notes	Actual YTD	Year to Date Budget	Variance	Budget	Full Year Forecast	Last Year
Income							
WRTM Member Charges	1	80,461	56,702	23,759	56,702	216,913	214,969
External Users - WRTM	2	666	0	666	0	666	38,428
Interest Received - WRTM		762	0	762	0	1,000	2,446
Total Income		81,889	56,702	25,187	56,702	218,579	255,843
Expenses							
WRTM Project Manager		9,000	9,000	0	18,000	18,000	18,000
Minor Model Upgrades		4,958	15,000	10,042	30,000	30,000	11,484
Peer Review		0	2,500	2,500	5,000	5,000	0
Annual Scheduling of Works Review		0	2,250	2,250	4,500	4,500	0
External User Costs	2	555	0	(555)	0	555	32,032
Census Update	3	70,159	0	(70,159)	0	111,825	207,624
Future Land Use Client Input	3	25,425	0	(25,425)	0	50,140	5,160
Regional Modelling Needs Assessment		0	0	0	0	0	1,123
Insurance		1,357	2,000	643	2,000	1,357	1,357
Tendering for WRTM Contract		0	0	0	25,000	25,000	0
Oncharge of LASS Admin Costs		11,101	11,101	0	22,202	22,202	22,116
Total Expenses		122,555	41,851	(80,704)	106,702	268,579	298,896
Earnings before interest, tax and depreciation/ amortisation (EBITA)		(40,667)	14,851	(55,518)	(50,000)	(50,000)	(43,053)
Non-Cash Expenses							
Depreciation		164,061	164,061	0	328,122	328,122	328,122
Earnings before interest and tax		(204,728)	(149,210)	(55,518)	(378,122)	(378,122)	(371,175)
Net Surplus (Deficit) before tax		(204,728)	(149,210)	(55,518)	(378,122)	(378,122)	(371,175)
Cash Surplus							
Less prior year surpluses deducted		0	0	0	(50,000)	(50,000)	0
Cash Surplus / (Deficit)		(40,667)	14,851	105,891	0	0	(43,053)

Notes

- 1) Higher member charges due to the delay of costs incurred for census update.
- 2) Unbudgeted expenditure and revenue for and from external parties has been received.
- 3) Census Update and Future Land Use Client Input expenditure budgeted for in the 2013/14 year, however costs not incurred until 2014/15 due to project delays.

Shared Services

Local Authority Shared Services Ltd
Management Accounts for the Period Ended 31 December 2014
Waikato Mayoral Forum

	Notes	Year to Date Actual YTD	Budget	Variance	Budget	Full Year Forecast	Last Year	Project to date
Income								
Governance	1	(570)	0	(570)	0	0	0	7,430
Spatial Plan		241,943	0	241,943	241,370	241,943	466,986	877,229
Economic Development		0	0	0	0	7,638	109,163	193,233
Waters		(12,917)	0	(12,917)	0	(12,917)	154,139	232,442
Roading (RATA)		456,000	456,000	0	0	456,000	49,180	555,180
Policy & Bylaws	2	20,000	0	20,000	0	46,000	20,000	40,000
Meeting Expenses		0	0	0	7,000	7,000	5,000	5,000
Revenue		704,456	456,000	248,456	248,370	745,664	799,468	1,910,514
Less Revenue In Advance	3	(487,457)	(331,815)	(155,642)	0	476,732	(268,602)	(965,668)
Interest Received - SSI		0	0	0	0	0	3,294	
Total Income		216,999	124,185	92,814	248,370	1,222,396	539,160	944,846
Expenses								
Governance		0	0	0	0	0	0	7,430
Spatial Plan		112,903	120,685	7,782	241,370	658,050	180,679	332,082
Economic Development		27,170	0	(27,170)	0	29,020	109,998	199,019
Waters		0	0	0	0	0	166,240	232,440
Roading (RATA)		75,395	0	(75,395)	0	482,192	54,988	148,383
Policy & Bylaws		1,530	0	(1,530)	0	46,134	19,866	21,396
Meeting Expenses		0	3,500	3,500	7,000	7,000	4,095	4,095
Total Expenses		216,999	124,185	(92,814)	248,370	1,222,396	535,866	944,846
Earnings before interest, tax and depreciation/ amortisation (EBITA)		0	0	0	0	0	3,294	0
Earnings before interest and tax		0	0	0	0	0	3,294	
Net Surplus (Deficit) before tax		0	0	0	0	0	3,294	

Notes

- 1) Governance budget surplus of \$570 transferred to Spatial Plan.
- 2) Policy & Bylaws forecast of \$46,000 - \$20,000 for Phase 2 Regional Infrastructure Technical Specification, and \$26,000 for Phase 3 Policy Consolidation proposal.
- 3) The split of the balance of \$965,668 of revenue in advance for individual projects is:

Meeting expenses	\$905
Planning	\$545,147
Roading	\$406,796
Bylaws	\$18,604
Economic Development	(\$5,786)

Procurement

Local Authority Shared Services Ltd
Management Accounts for the Period Ended 31 December 2014
Procurement of Shared Services

	Notes	Year to Date			Full Year		
		Actual YTD	Budget	Variance	Budget	Forecast	Last Year
Income							
N3 Membership Fee Recovery		0	0	0	18,000	18,000	18,000
ValueFinancials Fee Recovery		0	0	0	46,750	46,750	44,006
Insurance Brokerage Fee Recovery		147,500	147,500	0	147,500	147,500	147,501
Infometrics Fee Recovery	1	0	0	0	0	51,200	70,400
Debt Management Solutions Recovery	2	7,880	0	7,880	0	7,880	0
Total Income		155,380	147,500	7,880	212,250	271,330	279,907
Expenses							
N3 Membership Fee		0	0	0	18,000	18,000	18,000
ValueFinancial Fees		0	0	0	46,750	46,750	44,006
Insurance Brokerage Fee Payable		147,500	147,500	0	147,500	147,500	147,500
Infometrics	1	0	0	0	0	51,200	70,400
Debt Management Solutions	2	7,880	0	(7,880)	0	7,880	0
Total Expenses		155,380	147,500	(7,880)	212,250	271,330	279,907
Earnings before interest, tax and depreciation/ amortisation (EBITA)							
		0	0	0	0	0	0
Earnings before interest and tax							
		0	0	0	0	0	0
Net Surplus (Deficit) before tax							
		0	0	0	0	0	0

Notes

- 1) Infometrics provide a web based economic profile and the participating councils are HCC, TCDC, WDC and Waipa DC.
- 2) Debt Management Solutions relates to a joint investigation project between WRC, WDC, HCC, MPDC and Waipa DC which has now been completed.

Information Technology

Local Authority Shared Services Ltd
Management Accounts for the Period Ended 31 December 2014
Information Technology

Notes	Actual YTD	Year to Date Budget	Variance	Budget	Full Year Forecast	Last Year
Income						
SISP Funding	0	0	0	0	0	99,999
Total Income	0	0	0	0	0	99,999
Expenses						
SISP Consultancy Services	0	0	0	0	0	86,586
Meeting Expenses	181	0	(181)	0	181	882
Printing and Stationery	0	0	0	0	0	65
Total Expenses	181	0	(181)	0	181	87,533
Earnings before interest, tax and depreciation/ amortisation (EBITA)	(181)	0	(181)	0	(181)	12,466
Earnings before interest and tax	(181)	0	(181)	0	(181)	12,466
Net Surplus (Deficit) before tax	(181)	0	(181)	0	(181)	12,466
Cash Surplus						
Cash Surplus / (Deficit)	(181)	0	(181)	0	(181)	12,466
Balance of Cash Surplus / (Deficit)	12,285	0	12,285	0	(181)	0

Professional Services Panel

Local Authority Shared Services Ltd
Management Accounts for the Period Ended 31 December 2014
Professional Services Panel

	Notes	Actual YTD	Year to Date Budget	Variance	Budget	Full Year Forecast	Last Year
Income							
Professional Services Panel Funding		0	0	0	0	0	79,300
Total Income		0	0	0	0	0	79,300
Expenses							
Consultancy Services		2,767	0	(2,767)	0	2,767	78,373
Total Expenses		2,767	0	(2,767)	0	2,767	78,373
Earnings before interest, tax and depreciation/ amortisation (EBITA)		(2,767)	0	(2,767)	0	(2,767)	927
Earnings before interest and tax		(2,767)	0	(2,767)	0	(2,767)	927
Net Surplus (Deficit) before tax	1	(2,767)	0	(2,767)	0	(2,767)	927

Notes

1) Deficit to be offset by forecasted Company Administration surplus.

Balance Sheet

Local Authority Shared Services Ltd
Balance Sheet
As at 31 December 2014

	Notes	Year to Date			Full Year	
		Actual YTD	Budget	Variance	Budget	Last YTD
CAPITAL						
Shares - SVDS		1,607,001	1,607,001	0	1,607,001	1,607,001
Shares - WRTM		1,350,000	1,350,000	0	1,350,000	1,350,000
Profit and Loss		(1,415,694)	(1,566,237)	150,543	(1,566,237)	(920,638)
Plus Current Year Operating Surplus/(Deficit)		(228,556)	(173,417)	(55,139)	(525,778)	(495,055)
TOTAL CAPITAL FUNDS		1,312,751	1,217,347	95,404	864,986	1,541,308
ASSETS						
CURRENT ASSETS						
Prepayments		2,848	0	2,848	1,868	150,348
Accounts Receivable	1	86,415	15,292	71,124	3,557	479,482
Accounts Receivable Accruals	2	287,310	0	287,310	0	0
Accrued Interest		336	0	336	0	271
RWT On Interest		6,040	96	5,944	224	5,184
Local Authority Shared Services 00	3	252,178	6,676	245,502	6,731	92,829
Local Authority Shared Services On-Call	3	573,789	160,467	413,321	47,103	306,421
BNZ - Term Deposit 020		43,850	0	43,850	0	43,348
GST Paid		(14,055)	4,537	(18,592)	(9,522)	42,622
TOTAL CURRENT ASSETS		1,238,711	187,068	1,051,643	49,960	1,120,506
NON-CURRENT ASSETS						
SVDS - Intangible Asset		3,063,652	3,103,038	(39,386)	3,142,359	3,055,875
WRTM - Intangible Asset		2,296,855	2,296,855	0	2,296,855	2,296,855
MoneyWorks Software		1,195	1,195	0	1,195	1,195
Accumulated Depreciation	4	(4,243,597)	(4,312,264)	68,666	(4,548,273)	(4,032,836)
TOTAL NON-CURRENT ASSETS		1,118,104	1,088,824	29,280	892,136	1,321,089
NET ASSETS		2,356,815	1,275,891	1,080,922	942,096	2,441,595
LESS CURRENT LIABILITIES						
Accounts Payable	5	63,975	58,544	5,430	67,035	381,063
Accounts Payable Accrual		14,370	0	14,370	10,075	40,930
ACC Prepayments		52	0	52	0	83
Revenue in Advance	6	965,666	0	965,666	0	478,211
TOTAL CURRENT LIABILITIES		1,044,063	58,544	985,518	77,110	900,287
NET WORKING CAPITAL		1,312,751	1,217,347	95,404	864,986	1,541,308

Notes

- 1) Outstanding Receivables are expected to be received in January. No issues to note.
- 2) Accounts Receivable accruals include contributions for Spatial Plan of \$277,579 (GST incl) not invoiced until January.
- 3) Funds are higher than budgeted primarily due to Mayoral Forum funds not yet spent and prior years surpluses to be offset during the year.
- 4) Accumulated depreciation is lower than budgeted due to an adjustment to the useful life of the SVDS asset in the prior financial year.
- 5) Payables are higher due to unbudgeted invoices for the Mayoral Forum.
- 6) Unbudgeted revenue in advance relates to contributions for the Mayoral Forum projects.

Statement of Cashflows

Local Authority Shared Services Ltd
Statement of Cashflows
As at 31 December 2014

	Actual YTD	Full Year	Last YTD
Cashflows from Operating Activities			
Interest Received	6,774	800	14,156
Receipts from Other Revenue	1,632,873	1,184,191	1,905,150
Payments to Suppliers	(1,260,473)	(1,329,850)	(1,964,577)
Taxes Paid	(856)	(224)	(3,958)
Goods & Services tax (net)	56,677	(3,173)	(9,406)
Net cash from operating activities	434,995	(148,256)	(58,635)
Net cash from investing activities			
Purchase of Intangible Assets	(7,776)	(78,643)	(69,914)
Net cash from investing activities	(7,776)	(78,643)	(69,914)
Net increase in cash, cash equivalents and bank accounts			
Opening cash and cash equivalents and bank overdrafts	442,598	280,733	571,148
Closing cash, cash equivalents and bank accounts	869,816	53,834	442,598
Summary of Bank Accounts			
BNZ - Cheque a/c	252,178	6,731	92,829
BNZ - Call a/c	573,789	47,103	306,421
Term Deposit	43,850	0	43,348
Closing Balance of Bank	869,816	53,834	442,598

Appendix 2

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

Accounting Principles

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

Specific Accounting Principles

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

- Accounts Receivable are stated at their expected realisable value after writing off any known bad debts and providing for doubtful debts.
- Investments are valued at the prevailing market value.
- Fixed assets are recorded at cost, less accumulated depreciation.

Intangible Assets

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

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

Impairment Testing

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

Inventories

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

Taxation

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

Audit

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

Dividend Payments

It is not envisaged that the Board will make any recommendation about dividend, as any savings will be used to reduce service costs or for reinvestment in new services or upgrades.

Consolidated Shareholders' Funds

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

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

Assets

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

Committee: Council Controlled Organisations Subcommittee
Date: 22 April 2015

Report Name: LGFA Draft Statement of Intent 2015/16 and Half Year Report for December 2014
Author: David Leong

LGFA Report Status	<i>Open</i>
Strategy, Policy or Plan context	<i>Monitoring performance of CCO's</i>
Financial status	<i>There is/is not budget allocated Not applicable</i>
Assessment of significance	<i>Having regard to the decision making provisions in the LGA 2002 and Councils Significance Policy, a decision in accordance with the recommendation is not considered to have a high degree of significance</i>

1. Purpose of the Report

2. To present the New Zealand Local Government Funding Agency Ltd (LGFA) draft statement of intent for the year ended 30 June 2016 for consideration and comment.
3. To present the LGFA half year report to 31 December 2014.

4. Executive Summary

5. Draft Statement of Intent 2015/16

6. LGFA has projected a net surplus of \$10.52m for 2015/16, which is \$3.22m or 44% above the budgeted surplus of \$7.30m for 2014/15. The projected net surplus for the next two years is expected to continue. Key financial highlights for 2015/16 and the two subsequent years projected are summarised below - refer *note 26*.
7. LGFA has forecasted a total dividend payment of \$1.75m for 2015/16, and for each of the two subsequent years.
8. Loans to Local Government are projected to:
 - Increase from \$4,518m at 31 Dec 2014 by \$1,242m or 27% to \$5,760m at 30 June 2016;
 - Increase by \$1,210m or 21% to \$6,970m at 30 June 2017; and
 - Increase by \$640m or 9% to \$7,610m at 30 June 2018.
9. Key performance measures and targets are summarised in the table below - refer *note 27*.

10. Half Year Report to 31 December 2014

11. LGFA achieved a net surplus of \$4.47m for the six months to 31 December 2014 (\$3.27m over the same period in 2013), which is \$0.52m or 13% higher than the budget of \$3.95m. This is due to the strong support from Council borrowers and cost containment by LGFA.
12. LGFA has continued to reduce the base lending margins to Council borrowers- refer detail below, *note 32*.

13. As at 31 December 2014 LGFA had lent \$4,518m to 43 participating Councils, across six maturities from 2015 to 2023. This is an increase of \$822m or 22% from 30 June 2014. LGFA is now the largest issuer of NZD securities after the NZ Government.
14. The financial strength of LGFA was reaffirmed by the credit rating agency Standard and Poor's who maintained its credit rating AA+. LGFA's rating is the same as the NZ Government.

15. Recommendations from Management

That:

- a. The Report be received; and
- b. Council provides a written response to LGFA advising the CCO Subcommittee approves the draft SOI with no amendments.

16. Attachments

17. Attachment 1 - LGFA Draft Statement of Intent for 2015/16.
18. Attachment 2 - LGFA Cover Letter Half Year Report to 31 Dec 2014.
19. Attachment 3 - LGFA Half Year Report 31 Dec 2014.

20. Key Issues

21. Draft Statement of Intent 2015/16

22. The primary objective of LGFA is to optimise the debt funding terms and conditions for participating Councils. This includes:
- Providing savings in annual interest cost;
 - Making longer-term borrowing available;
 - Enhancing certainty of access to debt markets; and
 - Offering more flexible lending terms.
23. Details of additional objectives are noted on page 2 and 3 of the SOI - refer **Attachment 1**.
24. The key financial highlights for the SOI are summarised below:

	Forecast 2016 \$ m	Forecast 2017 \$ m	Forecast 2018 \$ m
Net Interest Income	16.17	18.23	19.16
Issuance & operating expenses	5.65	6.58	7.06
Net surplus	10.52	11.65	12.10
Dividend	1.75	1.75	1.75
Total assets (includes loans to Local Government)	6,002	7,291	7,940
Total liabilities (includes bonds & borrower notes)	5,959	7,238	7,877
Net equity	43	53	63
Net equity/Total assets %	0.7%	0.7%	0.8%

25. LGFA has set the following SOI performance targets for 2016 to 2018:

Performance measures and targets	2016	2017	2018
1. Average cost of funds relative to average cost of funds for NZ Government Securities.	< 0.50% higher	< 0.50% higher	< 0.50% higher
2. Average margin above LGFA's cost of funds to highest rates participating Councils	< 0.10%	<0.10%	< 0.10%
3. Annual issuance & operating expenses.	< \$5.65m	<\$6.58m	< \$7.06m

4. Total lending to participating Councils	> \$5,760m	> \$6,970m	> \$7,610m
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Half Year Report to 31 December 2014

26. The Chairman's report provides an overview for the six months to 31 December- refer **Attachment 2**.
27. The key financial highlights for the half year are summarised below:

	Actual 6 mths to 31/12/14 \$ m	SOI 6mths to 31/12/14 \$ m	Actual 6 mths to 31/12/13 \$ m
Net interest income	6.60	5.96	4.76
Issuance & operating expenses	2.13	2.01	1.49
Net surplus	4.47	3.95	3.27
Total assets (includes loans to Local Govt)	4,901	*	*
Total liabilities (includes bonds & borrower notes)	4,870	*	*
Net equity	31	*	*
Net equity/Total assets %	0.63%	*	*
Loans to Local Government (face value)	4,518	*	*

* Not provided in Half Year Report.

28. Total Council borrowings from LGFA increased \$822m or 22%, to \$4,518m in the six months to 31 December 2014.
29. Due to the larger than forecast borrowings by Councils from LGFA, the net interest income at \$6.60m is 11% higher, and the net surplus at \$4.47m is 13% higher, than the SOI budget for the six months to 31 December 2014.
30. LGFA has continued to reduce the base lending margins to Council borrowers- e.g. LGFA have shown improvements in margin to swaps by 7 to 10 bsp (basis points) in the six months to 31 December 2014, covering four debt maturity profiles. A detailed analysis is provided - refer page 8 to 10 of Half Year Report- **Attachment 3**.
31. The performance targets and results as at 31 December 2014 are shown below:

Performance measure and targets	Full Year target	Result at Half Year 31/12/14	Expected to meet target
1. Average cost of funds relative to average cost of funds for NZ Government Securities.	< 0.50% higher	0.85%	No
2. Average base lending margin above LGFA's cost of funds	< 0.25%	0.15%	Yes
3. Annualised issuance & operating expenses	< \$4.67m	\$2.13m	Yes
4. Lending to participating councils	\$4,000m	\$4,518m	Yes

32. LGFA have provided a Statement of Service Performance, which shows a detailed analysis of performance against objectives and performance targets -refer pages 8 to 15 of the Half Year Report - **Attachment 3**.
33. As at 31 December 2014 HCC had total borrowings of \$235m from the LGFA. This represents 5.2% of total loans to local government of \$4,518m. HCC's total borrowings from LGFA increased by \$5m in the six months to 31 December 2014.

- 34. HCC's total borrowings from LGFA of \$235m, represents 57% of HCC's total external debt of \$413m as at 31 December 2014.

Signatory

Authoriser	Paul Conder, Chief Financial Officer
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Statement of Intent 2015/16

1. Introduction

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

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

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

2. Nature and scope of activities

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

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

In lending to Participating Local Authorities, LGFA will:

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

3. Objectives

Principal Objectives

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

- Achieve the objectives and performance targets of the shareholders in LGFA (both

commercial and non-commercial) as specified in this SOI;

- Be a good employer;
- Exhibit a sense of social and environmental responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when able to do so; and
- Conduct its affairs in accordance with sound business practice.

Primary objectives

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

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

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

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

Additional objectives

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

- Operate with a view to making a profit sufficient to pay a dividend in accordance with its stated Dividend Policy set out in section 6;
- Provide at least 50% of aggregate long-term debt funding for Participating Local Authorities;
- 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;

LGFA Statement of Intent 2015/16. Page 2

- Maintain LGFA's credit rating equal to the New Zealand Government sovereign rating where both entities are rated by the same Rating Agency;
- Achieve the Financial Forecasts set out in section 4;
- Meet or exceed the Performance Targets outlined in section 5; and
- Comply with its Treasury Policy, as approved by the Board.

4. Financial forecasts

LGFA's financial forecasts for the three years to 30 June 2018 are:

Financial Year (\$m)	2015/16	2016/17	2017/18
Comprehensive income			
Net interest revenue	16.17	18.23	19.16
Issuance and operating expenses	5.65	6.58	7.06
P & L	10.52	11.65	12.10
Financial position			
Dividend	(1.75)	(1.75)	(1.75)
Retained earnings	18.42	28.32	38.66
Total assets	6,002.68	7,291.42	7,940.36
Total LG loans	5760.00	6,970.00	7610.00
Total bonds	5,900.00	7,170.00	7,810.00
Total borrower notes	92.16	111.52	121.76
Total equity	43.42	53.32	63.66
Shareholder Funds/Total Assets	0.7%	0.7%	0.8%

5. Performance targets

LGFA has the following performance targets:

- LGFA's average cost of funds on debt issued relative to the average cost of funds for New Zealand Government Securities for the 12 month period to:
 - 30 June 2016 will be less than 0.50% higher.
 - 30 June 2017 will be less than 0.50% higher.
 - 30 June 2018 will be less than 0.50% higher.
- The average margin above LGFA's cost of funds charged to the highest rated Participating Local Authorities for the period to:
 - 30 June 2016 will be no more than 0.10%.
 - 30 June 2017 will be no more than 0.10%.

- 30 June 2018 will be no more than 0.10%.

In relation to the 2015/16 financial year, the 5 bps reduction (to 10 bps) in base margin on long dated borrowing is in line with the projected reduction outlined in the previous 2014/15 SOI.

Although issuance and operating expenses are forecast to rise, LGFA's financial position is expected to be sufficiently strong to enable a reduction in the base margin per the targets above, subject to shareholder consultation on future options for capital structure and the liquidity facility.

- LGFA's annual issuance and operating expenses for the period to:
 - 30 June 2016 will be less than \$5.65 million.
 - 30 June 2017 will be less than \$6.58 million.
 - 30 June 2018 will be less than \$7.06 million.
- Total lending to Participating Local Authorities at:
 - 30 June 2016 will be at least \$5,760 million.
 - 30 June 2017 will be at least \$6,970 million.
 - 30 June 2018 will be at least \$7,610 million.
- Savings on borrowing costs for council borrowers:
 - LGFA will demonstrate the savings to council borrowers achieved in the relevant financial year and compared to previous financial years.

6. Dividend policy

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

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

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

7. Governance

Board

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

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

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

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

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

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

Shareholders' Council

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

- Review the performance of LGFA and the Board, and report to Shareholders on that performance on a periodic basis (no less frequently than quarterly).
- Make recommendations to Shareholders as to the appointment, removal, replacement and remuneration of directors.
- Make recommendations to Shareholders as to any changes to policies, or the SOI, requiring their approval.
- Ensure all Shareholders are fully informed on LGFA matters and to coordinate Shareholders on governance decisions.

8. Information to be provided to Shareholders

The Board aims to ensure that the Shareholders are informed of all major developments affecting LGFA's state of affairs, while at the same time recognising that commercial sensitivity may preclude certain information from being made public. The LGFA will adhere to a 'no surprises' approach in its dealings with its Shareholders.

Annual Report

The LGFA's balance date is 30 June.

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

- Directors' Report.
- Financial Statements incorporating a Statement of Financial Performance, Statement of Movements in Equity, Statement of Financial Position, Statement of Cashflows, Statement of Accounting Policies and Notes to the Accounts.

- Comparison of the LGFA's performance with regard to the objectives and performance targets set out in the SOI, with an explanation of any material variances.
- Auditor's Report on the financial statements and the performance targets.
- Any other information that the directors consider appropriate.

Half Yearly Report

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

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

Quarterly Report

By 31 January, 30 April, 31 July, and 31 October each year, the Company will provide to the Shareholders' Council a Quarterly Report. The Quarterly Report will include the following information:

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

Statement of Intent

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

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

Shareholder Meetings

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

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

9. Acquisition/divestment policy

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

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

10. Activities for which compensation is sought from Shareholders

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

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

11. Commercial value of Shareholder's investment

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

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

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

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

12. Accounting policies

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

This statement is taken from the Financial Statements presented as part of LGFA's Annual Report 2013-2014 (updated where necessary).

ATTACHMENT: Statement of accounting policies**a Reporting Entity**

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

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

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

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

The financial statements are as at and for the year ended 30 June 2014. The comparatives are for the twelve month period to 30 June 2013.

These financial statements were authorised for issue by the Directors on 26 September 2014.

b Statement of compliance

LGFA is registered under the Companies Act 1993 and is a reporting entity as defined by the Financial Reporting Act 1993. LGFA is a profit orientated entity as defined under the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).

The financial statements and accounting policies comply with the specific recognition, measurement and disclosure requirements of NZ IFRS and New Zealand Generally Accepted Accounting Practice (NZGAAP). The financial statements comply with International Financial Reporting Standards.

c Basis of Preparation**Measurement base**

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

The financial statements are prepared on an accrual basis.

Functional and presentation currency

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

Foreign currency conversions

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

Changes in accounting policies

There have been no changes in accounting policies.

Early adoption standards and interpretations

The following accounting standard has been early adopted by LGFA.

NZ IFRS 9: *Financial Instruments*. The first two phases of this new standard (which is incomplete as at 30 June 2013) were approved by the Accounting Standards Review Board in November 2009 and November 2010. The standard addresses the issues of classification and measurement of financial assets and financial liabilities and becomes effective for annual reporting periods commencing on or after 1 January 2015.

Standards not yet adopted

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

- Amendments to NZ IAS 32: *Financial Instruments: Disclosures*. Effective for periods beginning on or after 1 January 2014. This amendment provides clarification on the ability to set-off financial instruments.
- NZ IFRS 13: *Fair Value Measurement*. Effective for periods beginning on or after 1 January 2013. This standard provides a single source of guidance on determining fair value.

d Financial instruments

Financial assets

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

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

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

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

Financial liabilities

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

Derivatives

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

Fair value hedge

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

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

e Other assets

Property, plant and equipment (PPE)

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

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

f Other liabilities

Employee entitlements

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

g Revenue and expenses

Revenue**Interest income**

Interest income is accrued using the effective interest rate method.

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

Expenses

Expenses are recognised in the period to which they relate.

Interest expense

Interest expense is accrued using the effective interest rate method.

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

Income tax

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

Goods and services tax

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

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

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

Commitments and contingencies are disclosed exclusive of GST.

h Lease payments

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

i Segment reporting

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

j Judgements and estimations

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

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

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



27 February 2015

Dear Shareholder

LGFA Half Year Report for six month period to 31 December 2014

I attach our Interim Report for the six month period to 31 December 2014 as required under section 8 of our Statement of Intent (SOI).

We are pleased to highlight another strong period for LGFA that included a number of achievements.

1. We have made longer dated borrowing options available to our council borrowers

By 31 December 2014, LGFA had lent \$4.52 billion to forty-three participating councils. This is an increase of \$822 million from a June 2014 and \$1.463 billion from December 2013. We have extended the range of borrowing options available for councils by adding another long dated maturity (April 2020s), bringing the number of borrowing maturities available to six.

2. We have further reduced our base margin charged to councils.

The base margin on short to medium dated lending was further reduced in September 2014, and we have now halved our base margin in the thirty-four months since we began lending to councils. Combined with a general market tightening in borrowing margins, councils are benefiting from lower borrowing costs since LGFA was established.

3. A strong financial position and Credit Rating Agency recognition of the credit quality of LGFA

The financial strength of LGFA has been enhanced with a Net Operating Profit of \$4.47 million achieved for the six month period, compared to \$3.27 million for the comparable period to December 2013. The strong financial strength of the organisation is one of a number of factors that support our high credit rating. During the period, S&P reaffirmed our credit rating at AA+ (stable) while Fitch reaffirmed our rating at AA+ but placed us on positive outlook.

Please do not hesitate to contact me if you have any comments or questions regarding the Interim Report.

Kind regards

A handwritten signature in black ink, appearing to read "Mark Butcher".

Mark Butcher
Chief Executive

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HALF YEAR Report

31 DECEMBER 2014





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Cover: William Nelson Park is Hastings' newest inner city park. Opened on Sunday 6 October 2013, William Nelson Park includes plenty of grass and seating areas, a children's playground and skatepark. Hastings District Council

Left: Te Awamutu Reservoir, roof installation. Work on the \$5.2 million reservoir began in April last year and installing the roof marks one of the final stages of the project due for completion in early April 2015. Waipa District Council PHOTO: DEAN TAYLOR





CHAIRMAN'S REPORT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2014

"The LGFA has become a significant participant in the New Zealand capital markets."

Craig Stobo, Chairman LGFA Board



Directors would like to highlight the following developments at the New Zealand Local Government Funding Authority (LGFA) for the interim results for the six months to December 2014.

Strong Financial Performance

LGFA produced income of \$4.4m for the reporting period, ahead of plan, due to both the strong support from Council borrowers, and cost containment by LGFA. This result includes a reduction in LGFA base lending margins to Council borrowers for the LGFA's shorter maturities. The financial strength of the LGFA was reaffirmed by credit rating agency Standard and Poor's who maintained its credit rating at AA+, while a second credit rating agency Fitch affirmed an AA+ rating but placed the LGFA on credit watch with a positive outlook. LGFA's rating is the same as the NZ Government.

Largest NZD issuer after the NZ Government

LGFA has now issued over \$4.5b of debt on behalf of its Council members across six maturities from 2015 to 2023. LGFA is now the largest issuer of NZD securities after the NZ Government and our bonds are amongst the largest and most liquid NZD debt instruments available for investors. This has been achieved within three years of operation. Directors would like to acknowledge the tremendous support of Council members.

Increased focus on stakeholder management

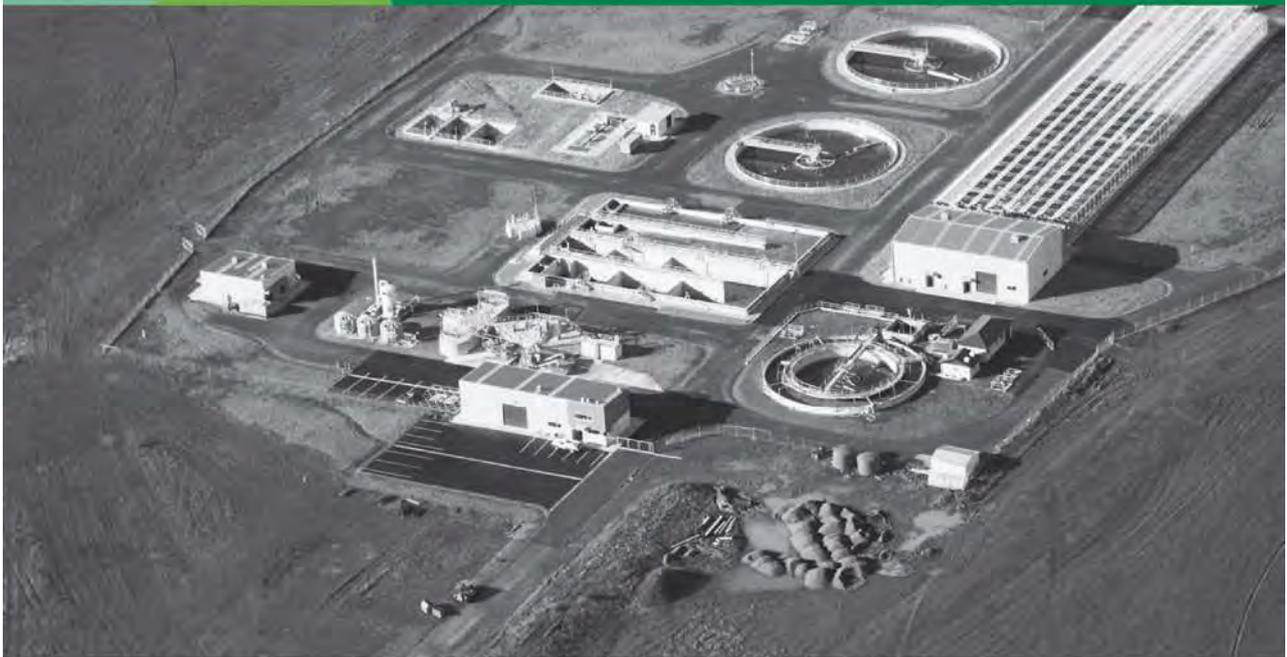
- For Councils, we have produced a notified tender schedule for the year ahead; increased visits to Councils to gain insights into funding needs; and gained approval from members to provide more flexible borrowing solutions to Councils.
- For investors, we have focussed on marketing the LGFA's structure and debt programme to both resident and non-resident investors to diversify our investor base; and ensured that liquidity is maintained in the LGFA's bonds, and that they are issued at the same maturity as NZ Government benchmark bonds.
- Finally we have worked closely with the NZ Debt Management Office as we progress migration of our treasury functionality. It is planned to complete this work by June 2015.

It has been a successful six month period and the Board would like to thank staff for their efforts as we continue to achieve our objective of optimising debt funding terms and conditions for the Local Government sector.

Left: Pilot plant fermenter, TERAX Pilot Plant, Rotorua District Council



STATEMENT OF SERVICE PERFORMANCE



Pines sewerage treatment plant at Rolleston which became operational in the last 18 months. This site cost approx \$30 million and is part of an all up total capital spend in the past three years of \$60 million on sewerage capacity upgrades as the District has accommodated new population as part of the greater Christchurch rebuild from the earthquakes. Selwyn District Council

STATEMENT OF SERVICE PERFORMANCE

Performance Against Objectives and Performance Targets

1 Primary objective

LGFA operates with the **primary objective** of optimising the debt funding terms and conditions for participating local authorities. Among other things this includes:

1.1 Providing estimated savings in annual interest costs for all Participating Local Authorities of at least 30 basis points, based on the methodology set out in LGFA's Annual Report 2012-2013

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

- LGFA aims to reduce its margin over New Zealand Government bonds (NZGBs) in accordance with its Statement of Intent (SOI) performance target.
- LGFA also aims to minimise its margin over swap rates to provide cost-effective funding to councils.

We have met our primary objective by achieving improvement in the pricing of our four benchmark bonds over the past six months and since they were first issued. These bonds are regarded as our benchmark bonds because they have large volumes outstanding, the most liquidity and greatest frequency of issuance.

Over the course of the six months ended 30 December 2014:

- LGFA margins to NZGB improved by 21 bps, 17 bps, 13 bps and 12 bps respectively for the December 2017, March 2019, May 2021 and April 2023 maturities.
- LGFA margins to swap improved by 8 bps, 7 bps, 9 bps and 10 bps respectively for the December 2017, March 2019, May 2021 and April 2023 maturities.

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

Margins – 15 December 2017	As at 30 June 2014 (bps)	As at 30 Dec 2014 (bps)	Pricing movement
LGFA margin to NZ Government Bonds	61	40	21
NZGB margin to swap	(46)	(33)	(13)
LGFA margin to swap	15	7	8

Margins – 15 March 2019	As at 30 June 2014 (bps)	As at 30 Dec 2014 (bps)	Pricing movement
LGFA margin to NZ Government Bonds	72	55	17
NZGB margin to swap	(49)	(39)	(10)
LGFA margin to swap	23	16	7

Margins – 15 May 2021	As at 30 June 2014 (bps)	As at 30 Dec 2014 (bps)	Pricing movement
LGFA margin to NZ Government Bonds	80	67	13
NZGB margin to swap	(46)	(42)	(4)
LGFA margin to swap	34	25	9

STATEMENT OF SERVICE PERFORMANCE

Margins – 15 April 2023	As at 30 June 2014 (bps)	As at 30 Dec 2014 (bps)	Pricing movement
LGFA margin to NZ Government Bonds	87	75	12
NZGB margin to swap	(43)	(41)	(2)
LGFA margin to swap	44	34	10

There was a substantial improvement in our margin to swap over the six months due to stronger credit market conditions and growing offshore investor interest in LGFA bonds.

In the past six months, our estimate of annual interest cost savings for AA rated councils has slipped below the 30 bps target. This is because swap margins for our benchmark councils (Auckland and Dunedin) also improved. These two councils have both been able to issue debt securities at favourable pricing following the series of successful LGFA tenders held over the past year and a general shortage of single name council debt since most councils are now borrowing from LGFA. The positive credit market conditions has also seen a narrowing of credit spreads in general that means the credit spreads of lesser rated borrowers will outperform the spreads of better rated borrowers.

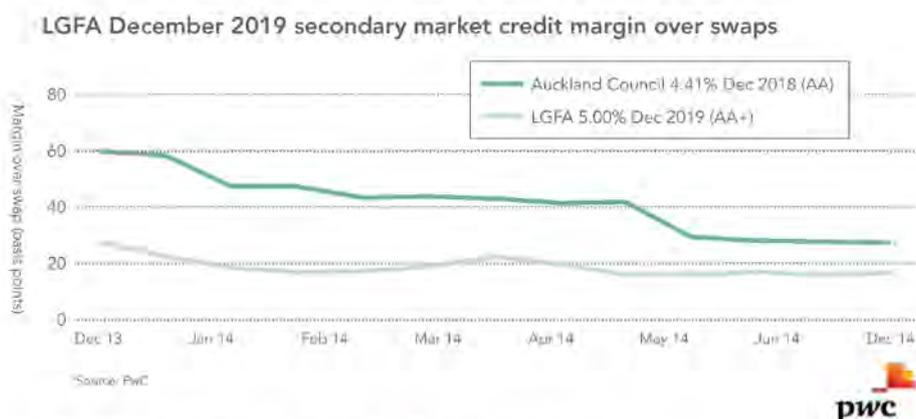
From the charts below we estimate that as at 30 December 2014, LGFA was saving AA rated councils approximately:

- 17 to 26 bps in annual interest costs on a December 2017 maturity, and
- 15 bps in annual interest costs on a March 2019 maturity.

LGFA December 2017 secondary market credit margin over swaps



STATEMENT OF SERVICE PERFORMANCE



The basis for these estimates is set out in the following table:

Margins as at 30 December 2014	December 2017 maturity (bps)	March 2019 maturity (bps)
AA rated councils margin to swap*	24 to 33	31
Less: LGFA margin to swap	(7)	(16)
LGFA Funding Advantage	17 to 26	15
Less: LGFA Base Margin	(10)	(10)
LGFA Net Funding Advantage	7 to 16	5
Add: 'LGFA Effect' **	10	10
Total saving for AA rated councils	17 to 26	15

* For the 2017 bond, the benchmark councils are Auckland (24 bps) and Dunedin (33 bps). For the 2019 bond, the benchmark is Auckland. Dunedin does not have a 2019 bond on issue.

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

1.2 Making longer-term borrowings available to participating local authorities

Over the past year, LGFA offered to participating councils two maturity dates for borrowing in excess of seven years:

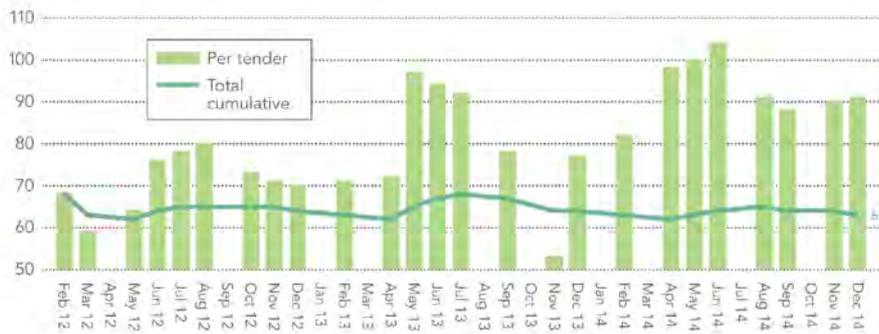
- 15 May 2021 bond (seven years). This maturity now has the largest amount on issue of all LGFA maturities, and
- 15 April 2023 bond (nine years). This maturity has comprised 55% of total issuance in the past six months.

Since the August 2014 tender, LGFA has also offered an April 2020 (six years) maturity.

STATEMENT OF SERVICE PERFORMANCE

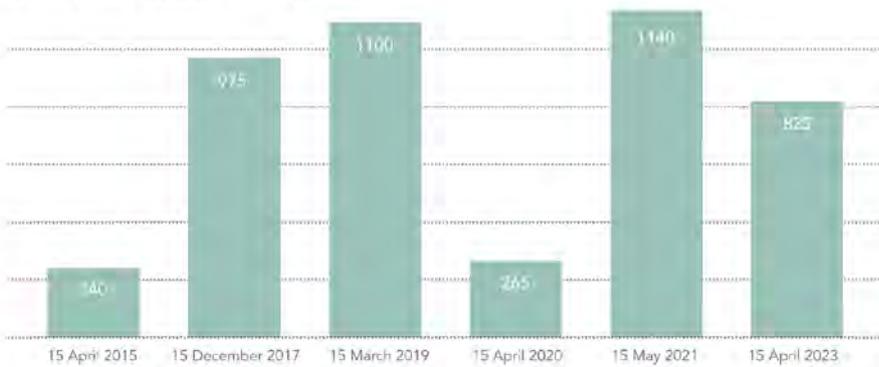
The following chart shows the average months to maturity for bonds issued at tender, and the aggregate average months to maturity for all bonds outstanding at each tender:

Average total months to maturity



The following chart shows the total LGFA bond outstandings by maturity as at 30 December 2014:

LGFA bond outstandings (\$ million)



Over the six months ended 31 December 2014, LGFA issued \$850 million of debt with a weighted average maturity of 7.2 years:

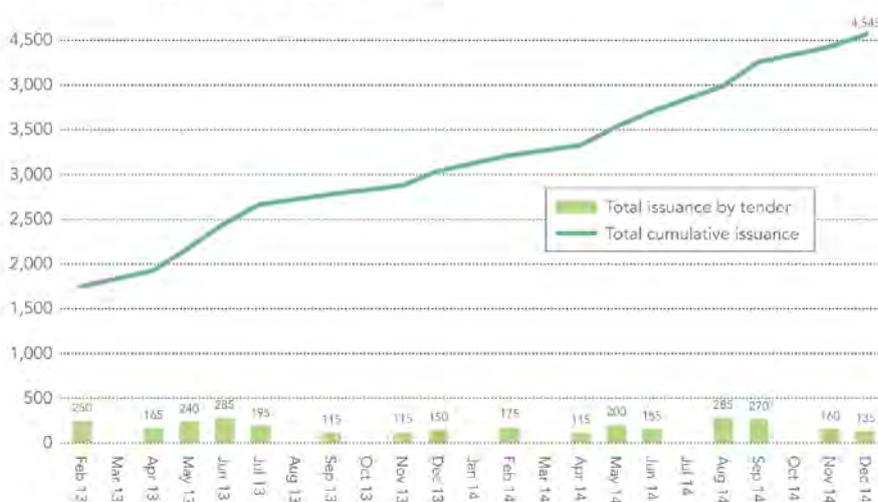
Date	Apr 15	Dec 17	Mar 19	Apr 20	May 21	Apr 23	Total
Value (\$ million)	nil	15	30	265	70	470	850

STATEMENT OF SERVICE PERFORMANCE

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

LGFA held four tenders during the past six months, with an average tender volume of \$213 million. The volume offered at each tender ranged from \$135 million to \$285 million. Total issuance during the six month period was \$850 million, bringing outstandings of LGFA bonds to \$4.545 billion as at 30 December 2014.

LGFA bond issuance by tender (\$ million)



Over the six month period, total bids received across the four tenders was \$2.528 billion for the \$850 million of LGFA bonds offered resulting in a coverage ratio of 2.97 times. The LGFA cover ratio for each tender and the cumulative ratio for all tenders is shown in the following chart.

Tender cover ratio



STATEMENT OF SERVICE PERFORMANCE

While the coverage ratio for the past year is lower than the average coverage ratio of 3.7 times since LGFA first commenced issuing in February 2012, this is not surprising given the longer duration of LGFA bonds being tendered and the smaller tranche sizes being offered in the shorter-dated LGFA maturities. Furthermore, offshore investor demand for LGFA securities has been noted in the secondary market rather than at LGFA tenders.

While LGFA issues fixed coupon debt to investors, Councils were provided the choice of either fixed or floating rate borrowing for their borrowing from LGFA. Over the past six months 93% of borrowing by Councils from LGFA was on a floating rate basis as Councils manage their funding and interest risk separately.

2 Additional objectives

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

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

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

Due to higher lending volumes and expenditure being contained close to budget we expect profitability to be sufficient to make a dividend payment.

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

Councils have strongly supported LGFA and by 30 December 2014, 43 (out of 44) participating councils have borrowed from LGFA.

The strong council support for LGFA is demonstrated in the following chart which shows the progression of council participation from LGFA's commencement of issuance in February 2012.

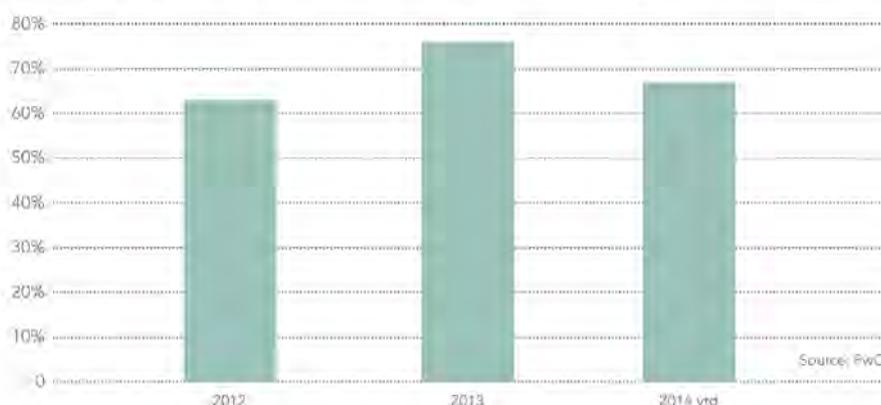
Participating councils



STATEMENT OF SERVICE PERFORMANCE

The following chart shows LGFA's share of new local government debt issuance in the 2012, 2013 and 2014 calendar years. Our share of new long-term borrowing by the sector, including non-members of LGFA, was estimated at 67% for the nine month period to September 2014. The reduction in our market share from the 2013 calendar year is due to the sector's largest borrower, Auckland Council issuing a greater proportion of its debt in the domestic market than in the prior year.

LGFA Share of Local Government Debt Issuance (as at September 2014)



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 Statement of Intent

Issuance and Operating Expenses for the first six month period of the 2014-15 year were \$2.133 million compared to a full year SOI forecast of \$4.67 million.

Over the past six month period, additional travel and marketing expenses and higher Approved Issuer Levy payments were incurred due to servicing the increased investor interest in LGFA bonds. This was offset by a lower than forecast amount for the treasury system.

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

On 20 October 2014, Standard & Poor's (S&P) affirmed LGFA's local currency credit rating at AA+ and foreign currency credit rating at AA. The outlook on both ratings is stable.

On 18 November 2014, Fitch affirmed LGFA's local currency credit rating at AA+ and foreign currency credit rating at AA. The outlook on both ratings was revised from stable to positive.

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

STATEMENT OF SERVICE PERFORMANCE

2.5 Achieve the Financial Forecasts set out in section 4 of the Statement of Intent

LGFA's financial results for key items set out in section 4 of the SOI for the year to 30 June 2015 are:

In \$ million	30 Dec 2014 Actual	6 month SOI Forecast	Full year SOI Forecast
Total Net Income (net of borrower notes)	8.019	5.962	11.970
Overheads	(2.132)	(2.011)	(4.670)
Borrower Notes Interest	(1.419)		
Net Profit	4.468	3.951	7.300

Due to the larger than forecast borrowing by Councils from LGFA the Total Net income and Net Profit was higher than forecast for the first six month period of the current financial year.

2.6 Meet or exceed the Performance Targets outlined in section 5

Current performance targets	Target	Result as at Half Year	Outcome
1 Average cost of funds relative to NZGB	<0.50%	0.85%	No (i)
2 Average base on lending margin above LGFA's cost of funds	<0.25%	0.15%	Yes
3 Annualised issuance and operating expenses	<\$4.67 million	\$2.13 million	Yes
4 Lending to participating councils	>\$4,400 million	\$4,518 million	Yes

(i) The average cost of funds relative to NZGB has remained similar to the 2013-14 year (0.85%). The margin has not narrowed to our target because of the disproportionate amount of longer dated LGFA bonds issued (and hence a wider margin) over the past six months. The historical average cost of funds calculation is also influenced by securities issued in 2012 at issuance margins in excess of 1.00% which have yet to mature.

A weighted average of LGFA margins to NZGB based on the secondary market levels as at 30 December 2014 was 57 bps.

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

One of the Foundation Policies states "No more than the greater of NZD 100 million or 25% of a LG's borrowings from the LGFA will mature in any 12-month period".

For part of the six month period, our two largest borrowing councils had borrowings in a single LGFA maturity that were greater than both \$100 million and 25% of their total borrowing from LGFA. This non-compliance was due to LGFA having until April 2014 only four borrowing maturities available to Councils. This non-compliance was expected to be naturally remedied by June 2015 as the number of LGFA borrowing maturities increase. However LGFA shareholders approved a change to the Foundation Policy in November 2014 to increase this limit to 33% of borrowings.

FINANCIAL STATEMENTS



Wellington's Matangi Trains. Greater Wellington Regional Council is buying a further 35 trains as part of the ongoing upgrade of the region's rail passenger services.

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DIRECTORS' DECLARATION

In the opinion of the directors of the New Zealand Local Government Funding Agency Limited, the financial statements and notes on pages 20 to 33:

- comply with New Zealand generally accepted accounting practice and give a true and fair view of the financial position of the Company as at 31 December 2014, and
- have been prepared using appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.

The directors believe that proper accounting records have been kept which enables, with reasonable accuracy, the determination of the financial position of the Company and facilitates the compliance of the financial statements with the Financial Reporting Act 1993.

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

For and on behalf of the Board of Directors



C. Stobo, Director
27 February 2015



A. Foote, Director
27 February 2015

STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2014 (unaudited) in \$000s

	Note	2014 Unaudited	2013 Unaudited
Interest income from			
Cash and cash equivalents		848	571
Loans to local government		95,394	54,177
Marketable securities		130	-
Deposits		1,197	488
Derivatives		7,052	12,652
Fair value hedge ineffectiveness	3	-	-
Total interest income		104,621	67,888
Interest expense on			
Bonds		96,602	62,343
Borrower notes		1,419	783
Total interest expense		98,021	63,126
Net interest income		6,600	4,762
Operating expenses			
Issuance and on-lending expenses	4	1,027	653
Operating expenses	5	1,105	839
Total expenses		2,132	1,492
Net operating profit		4,468	3,270
Total comprehensive income for the period		4,468	3,270

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

STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2014 (unaudited) in \$000s

	Note	Share Capital	Retained earnings	Total equity
Equity as at 30 June 2014	10	25,000	3,848	28,848
Net operating profit		-	4,468	4,468
Total comprehensive income for the period		-	4,468	4,468
Transactions with owners:				
Dividend paid		-	(1,765)	(1,765)
Equity as at 31 December 2014	10	25,000	6,551	31,551

For the six months ended 31 December 2013 (unaudited) in \$000s

	Note	Share Capital	Retained earnings	Total equity
Equity as at 30 June 2013		25,000	(1,611)	23,389
Net operating profit		-	3,270	3,270
Total comprehensive income for the period		-	3,270	3,270
Transactions with owners:				
Dividend paid		-	(1,515)	(1,515)
Equity as at 31 December 2013		25,000	144	25,144

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

STATEMENT OF FINANCIAL POSITION

As at 31 December 2014 (unaudited) in \$000s

	Note	31 December 2014 Unaudited	30 June 2014
Assets			
Financial assets			
Cash and cash equivalents		31,983	55,126
Trade and other receivables		1	40
Loans to local government	6	4,571,548	3,742,471
Marketable securities		10,196	-
Deposits		107,341	46,542
Derivatives in gain		179,289	73,779
Non-financial assets			
Prepayments		446	226
Property, plant and equipment	7	510	2
Total assets		4,901,314	3,918,187
Equity			
Share capital		25,000	25,000
Retained earnings		2,083	3,848
Total comprehensive income / (deficit) for the period		4,468	-
Total equity		31,551	28,848
Liabilities			
Financial liabilities			
Trade and other payables		3,139	253
Accrued expenses		557	194
Bonds	8	4,770,050	3,825,301
Borrower notes	9	76,462	61,892
Derivatives in loss		19,555	1,699
Total liabilities		4,869,763	3,889,339
Total equity and liabilities		4,901,314	3,918,187

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

STATEMENT OF CASH FLOWS

For the six months ended 31 December 2014 (unaudited) in \$000s

	Note	2014 Unaudited	2013 Unaudited
Cash flow from operating activities			
Cash applied to loans to local government		(823,027)	(581,486)
Interest paid on bonds issued		(106,325)	(72,603)
Interest received from cash and cash equivalents		848	568
Interest received from loans to local government		89,345	52,107
Interest received from marketable securities		89	-
Interest received on deposits		1,398	415
Net interest on derivatives		21,091	24,055
Payments to suppliers and employees		(2,017)	(1,595)
Net cash flow from operating activities	10	(818,598)	(578,539)
Cash flow from investing activities			
Maturity (Purchase) of marketable securities		(10,155)	-
Purchase of deposits		(58,000)	(10,000)
Purchase of plant and equipment		(91)	-
Net cash flow from investing activities		(68,246)	(10,000)
Cash flow from financing activities			
Dividend paid		(1,765)	(1,515)
Cash proceeds from borrower notes		13,152	9,184
Cash proceeds from bonds issued		854,603	598,312
Cash applied to derivatives		(2,289)	(12,056)
Net cash flow from financing activities		863,701	593,925
Net (decrease)/ increase in cash		(23,143)	5,386
Cash and cash equivalents at beginning of year		55,126	41,932
Cash and cash equivalents at end of period		31,983	47,318

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

NOTES TO THE FINANCIAL STATEMENTS

1 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 City Chambers, Level 8, 142 Featherston Street, Wellington 6011.

The financial statements are for the six month period ended 31 December 2014.

These financial statements were authorised for issue by the Directors on 27 February 2015.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out in the New Zealand Local Government Funding Agency annual report to 30 June 2014. These policies have been consistently applied to the reporting period to 31 December 2014.

These interim financial statements of the New Zealand Local Government Funding Agency have been prepared in accordance with NZ IAS 34 and New Zealand generally accepted accounting practice.

3 Hedge accounting

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

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

For the six months ended 31 December <i>in \$000s</i>	2014 Gain/(loss) Unaudited	2013 Gain/(loss) Unaudited
Hedging instruments – interest rate swaps	99,404	(62,161)
Hedged item attributable to the hedged risk – fixed rate bonds	(99,404)	62,161
Ineffectiveness recognised in profit or loss from fair value hedges	-	-

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

NOTES TO THE FINANCIAL STATEMENTS

4 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 six months ended 31 December in \$000s	2014 Unaudited	2013 Unaudited
NZDMO processing fees	77	77
NZDMO standby facility fee	100	100
Rating agencies fees	250	265
Legal fees for issuance	59	37
Regulatory, registry, other fees	11	10
Trustee fees	51	54
Promotion/Roadshow	16	-
Approved issuer levy	463	110
	1,027	653

5 Operating expenses

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

For the six months ended 31 December in \$000s	2014 Unaudited	2013 Unaudited
Directors' fees	135	141
Insurance	31	28
Legal fees	62	67
Marketing*	38	25
Other expenses**	301	112
Auditor's remuneration		
Statutory audit	23	33
Advisory services	-	-
Personnel	515	433
	1,105	839

* Marketing expenses comprise costs associated with the marketing and promotion of LGFA to potential investors. Some of these costs include international travel and other costs associated with marketing and promotion.

** The increase in other expenses is primarily attributable to costs associated with treasury system selection, foundation policy review, investor analysis, website development and recruitment.

NOTES TO THE FINANCIAL STATEMENTS

6 Loans to local government

As at 31 December 2014 (unaudited) in \$000s	Face value	Unamortised premium	Accrued interest	Total
Ashburton District Council	15,000	892	114	16,006
Auckland Council	1,475,000	18,808	9,413	1,503,221
Christchurch City Council	858,500	3,015	5,024	866,539
Far North District Council	10,000	-	54	10,054
Gisborne District Council	12,000	-	40	12,040
Greater Wellington Regional Council	155,000	-	795	155,795
Grey District Council	20,000	640	166	20,806
Hamilton City Council	235,000	-	1,054	236,054
Hastings District Council	45,000	-	197	45,197
Hauraki District Council	38,000	-	215	38,215
Horizons Regional Council	10,000	-	21	10,021
Horowhenua District Council	37,000	670	325	37,995
Hurunui District Council	10,000	-	55	10,055
Hutt City Council	36,000	315	362	36,677
Kapiti Coast District Council	115,000	-	409	115,409
Manawatu District Council	34,000	41	249	34,290
Marlborough District Council	14,000	(139)	160	14,021
Masterton District Council	44,000	-	210	44,210
Matamata-Piako District Council	24,500	-	102	24,602
Nelson City Council	25,000	-	154	25,154
New Plymouth District Council	56,000	-	200	56,200
Otorohanga District Council	9,000	266	75	9,341
Palmerston North City Council	72,000	-	374	72,374
Porirua City Council	20,000	-	142	20,142
Queenstown Lakes District Council	60,000	1,191	456	61,647
Rotorua District Council	55,000	681	584	56,265
Selwyn District Council	35,000	-	76	35,076
South Taranaki District Council	47,000	-	207	47,207
Tararua District Council	11,000	-	56	11,056
Tasman District Council	90,000	-	428	90,428
Taupo District Council	105,000	-	602	105,602
Tauranga City Council	230,000	575	1,241	231,816
Thames-Coromandel District Council	35,000	-	95	35,095
Timaru District Council	51,000	54	341	51,395
Upper Hutt City Council	15,000	-	55	15,055
Waikato District Council	40,000	-	135	40,135
Waimakariri District Council	35,000	350	291	35,641
Waipa District Council	13,000	-	25	13,025
Wanganui District Council	29,000	-	128	29,128
Wellington City Council	103,000	-	661	103,661
Western Bay of Plenty District Council	70,000	-	146	70,146
Whakatane District Council	28,000	-	106	28,106
Whangarei District Council	96,000	65	581	96,646
	4,518,000	27,424	26,124	4,571,548

NOTES TO THE FINANCIAL STATEMENTS

6 Loans to local government (continued)

As at 30 June 2014 in \$000s	Face value	Unamortised premium	Accrued interest	Total
Ashburton District Council	15,000	950	113	16,062
Auckland Council	1,175,000	20,816	6,610	1,202,426
Christchurch City Council	571,500	2,045	2,386	575,931
Far North District Council	10,000	-	53	10,053
Gisborne District Council	10,000	-	13	10,013
Greater Wellington Regional Council	125,000	-	475	125,475
Grey District Council	20,000	685	145	20,830
Hamilton City Council	230,000	-	880	230,880
Hastings District Council	45,000	-	184	45,184
Hauraki District Council	23,000	-	112	23,112
Horizons Regional Council	10,000	-	18	10,018
Horowhenua District Council	33,000	616	273	33,889
Hurunui District Council	8,000	-	19	8,019
Hutt City Council	26,000	350	267	26,617
Kapiti Coast District Council	115,000	-	314	115,314
Manawatu District Council	29,000	303	189	29,492
Marlborough District Council	14,000	(149)	157	14,007
Masterton District Council	35,000	-	110	35,110
Matamata-Piako District Council	24,500	-	61	24,561
Nelson City Council	15,000	-	59	15,059
New Plymouth District Council	46,000	-	131	46,131
Otorohanga District Council	9,000	297	73	9,370
Palmerston North City Council	62,000	-	256	62,256
Queenstown Lakes District Council	50,000	1,240	329	51,569
Rotorua District Council	55,000	760	573	56,333
Selwyn District Council	35,000	-	65	35,065
South Taranaki District Council	42,000	-	109	42,109
Taranua District Council	7,000	-	32	7,032
Tasman District Council	85,000	-	254	85,254
Taupo District Council	80,000	-	330	80,330
Tauranga City Council	220,000	654	1,008	221,662
Thames-Coromandel District Council	35,000	-	83	35,083
Timaru District Council	51,000	61	304	51,366
Upper Hutt City Council	11,000	-	28	11,028
Waikato District Council	35,000	-	78	35,078
Waimakariri District Council	25,000	374	200	25,574
Waipa District Council	13,000	-	22	13,022
Wanganui District Council	24,000	-	77	24,077
Wellington City Council	83,000	-	256	83,256
Western Bay of Plenty District Council	70,000	-	126	70,126
Whakatane District Council	28,000	-	85	28,085
Whangarei District Council	96,000	100	514	96,614
	3,696,000	29,102	17,370	3,742,471

NOTES TO THE FINANCIAL STATEMENTS

7 Property, plant and equipment

<i>in \$000s</i>	31 December 2014 Unaudited	30 June 2014
Property, plant and equipment	510	2

As at 31 December 2014, property, plant and equipment comprised:

Work-in-progress associated with the treasury system implementation	473
Furniture and fittings	29
Computer equipment	8

8 Bonds issued

As at 31 December 2014 (unaudited) in \$000s		Face value	Unamortised premium / (discount)	Accrued interest	Fair value hedge adjustment	Total
15 April 2015	6% coupon	240,000	1,559	3,046		
15 December 2017	6% coupon	975,000	45,109	2,571		
15 March 2019	5% coupon	1,100,000	37,315	16,256		
15 April 2020	3% coupon	265,000	(20,285)	1,682		
15 May 2021	6% coupon	1,140,000	74,082	8,692		
15 April 2023	5.5% coupon	825,000	23,015	9,599		
		4,545,000	160,795	41,846	22,409	4,770,050

As at 30 June 2014 in \$000s		Face value	Unamortised premium	Accrued interest	Fair value hedge adjustment	Total
15 April 2015	6% coupon	240,000	4,257	2,990		
15 December 2017	6% coupon	960,000	51,251	2,361		
15 March 2019	5% coupon	1,070,000	40,424	15,556		
15 May 2021	6% coupon	1,070,000	73,598	8,025		
15 April 2023	5.5% coupon	355,000	4,781	4,054		
		3,695,000	174,311	32,986	(76,996)	3,825,301

9 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.

NOTES TO THE FINANCIAL STATEMENTS

9 Borrower Notes (continued)

As at 31 December 2014 (unaudited) in \$000s	Face value	Accrued interest	Total
Ashburton District Council	240	14	254
Auckland Council	23,600	1,510	25,110
Christchurch City Council	13,736	617	14,353
Far North District Council	160	9	169
Gisborne District Council	192	7	199
Greater Wellington Regional Council	2,480	147	2,627
Grey District Council	320	18	338
Hamilton City Council	3,760	284	4,044
Hastings District Council	720	43	763
Hauraki District Council	608	23	631
Horizons Regional Council	160	8	168
Horowhenua District Council	592	36	628
Hurunui District Council	160	4	164
Hutt City Council	576	27	603
Kapiti Coast District Council	1,840	121	1,961
Manawatu District Council	544	25	569
Marlborough District Council	224	12	236
Masterton District Council	704	40	744
Matamata-Piako District Council	392	17	409
Nelson City Council	400	14	414
New Plymouth District Council	896	43	939
Otorohanga District Council	144	10	154
Palmerston North City Council	1,152	51	1,203
Porirua City Council	320	5	325
Queenstown Lakes District Council	960	53	1,013
Rotorua District Council	880	57	937
Selwyn District Council	560	53	613
South Taranaki District Council	752	37	789
Taranua District Council	176	5	181
Tasman District Council	1,440	72	1,512
Taupo District Council	1,680	125	1,805
Tauranga City Council	3,680	218	3,898
Thames-Coromandel District Council	560	23	583
Timaru District Council	816	40	856
Upper Hutt City Council	240	6	246
Waikato District Council	640	34	674
Waimakariri District Council	560	15	575
Waipa District Council	208	10	218
Wanganui District Council	464	24	488
Wellington City Council	1,648	78	1,726
Western Bay of Plenty District Council	1,120	102	1,222
Whakatane District Council	448	21	469
Whangarei District Council	1,536	116	1,652
	72,288	4,174	76,462

NOTES TO THE FINANCIAL STATEMENTS

9 Borrower Notes (continued)

As at 30 June 2014 <i>in \$000s</i>	Face value	Accrued interest	Total
Auckland Council	18,800	1,054	19,854
Ashburton District Council	240	8	248
Christchurch City Council	9,144	368	9,512
Far North District Council	160	6	166
Gisborne District Council	160	4	164
Greater Wellington Regional Council	2,000	99	2,099
Grey District Council	320	11	331
Hamilton City Council	3,680	204	3,884
Hastings District Council	720	28	748
Hauraki District Council	368	13	381
Horizons Regional Council	160	4	164
Horowhenua District Council	528	23	551
Hurunui District Council	128	1	129
Hutt City Council	416	16	432
Kapiti Coast District Council	1,840	82	1,922
Manawatu District Council	464	14	478
Marlborough District Council	224	6	230
Masterton District Council	560	27	587
Maramata-Piako District Council	392	9	401
Nelson City Council	240	6	246
New Plymouth District Council	736	27	763
Otorohanga District Council	144	7	151
Palmerston North City Council	992	29	1,021
Queenstown Lakes District Council	800	32	832
Rotorua District Council	880	36	916
Selwyn District Council	560	41	601
South Taranaki District Council	672	22	694
Tararua District Council	112	2	114
Tasman District Council	1,360	43	1,403
Taupo District Council	1,280	93	1,373
Tauranga City Council	3,520	143	3,663
Thames-Coromandel District Council	560	12	572
Timaru District Council	816	22	838
Upper Hutt City Council	176	2	178
Waikato District Council	560	22	582
Waimakariri District Council	400	5	405
Waipa District Council	208	6	214
Wanganui District Council	384	14	398
Wellington City Council	1,328	45	1,373
Western Bay of Plenty District Council	1,120	77	1,197
Whakatane District Council	448	12	460
Whangarei District Council	1,536	82	1,618
	59,136	2,756	61,892

NOTES TO THE FINANCIAL STATEMENTS

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

For the six months ended 31 December <i>in \$000s</i>	2014 Unaudited	2013 Unaudited
Net profit/(loss) for the period	4,468	3,270
Cash applied to loans to local government	(823,027)	(581,486)
Non-cash adjustments		
Amortisation and depreciation	314	(222)
Working capital movements		
Net change in trade debtors and receivables	39	159
Net change in prepayments	(220)	(268)
Net change in accruals	(172)	8
Net cash flows from operating activities	(818,598)	(578,539)

11 Share capital

Share capital

As at 31 December 2014 LGFA had 45 million ordinary shares on issue, 20 million of which remain uncalled. All ordinary shares rank equally with one vote attached to each ordinary share.

As at 31 December 2014, the shareholding of the New Zealand Government had been fully paid up. For all other shareholders, 50% of the shareholding had been called.

NOTES TO THE FINANCIAL STATEMENTS

11 Share capital (continued)

Shareholder information	31 December 2014		30 June 2014	
	Unaudited			
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 District 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 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 City Council	200,000	0.4%	200,000	0.4%
South Taranaki District Council	200,000	0.4%	200,000	0.4%
Taupo District Council	200,000	0.4%	200,000	0.4%
Thames-Coromandel District Council	200,000	0.4%	200,000	0.4%
Waimakariri District Council	200,000	0.4%	200,000	0.4%
Waipa District Council	200,000	0.4%	200,000	0.4%
Wanganui District Council	200,000	0.4%	200,000	0.4%
Whakatane District Council	200,000	0.4%	200,000	0.4%
	45,000,000	100%	45,000,000	100%

NOTES TO THE FINANCIAL STATEMENTS

12 Related parties

Identity of related parties

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

The Company operates under a Statement of Intent with the respective local authorities that requires the Company to provide debt to them at the lowest possible interest rates and to enhance their certainty of access to debt markets.

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 6, and interest income recognized on this lending is shown in the Statement of Comprehensive Income.

The purchase of LGFA borrower notes by participating councils is disclosed in note 9, and the interest expense on these is shown in the Statement of comprehensive income.

LGFA has contracted the NZDMO to provide outsourced treasury services for LGFA. Services include operational processing associated with debt issuance, lending to local authorities, settlement services, investments, hedging and measuring risk. In addition, NZDMO provide some accounting services. The NZDMO is an operating unit of the Treasury and provides LGFA with a committed liquidity facility.

OCG was contracted during the financial year to provide recruitment and payroll services.¹

13 Subsequent events

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

Subsequent to balance date, LGFA issued \$120 million in bonds through a tender on 4 February 2015.

1. C Stobo, Director, is a Director of OCG Consulting Ltd.

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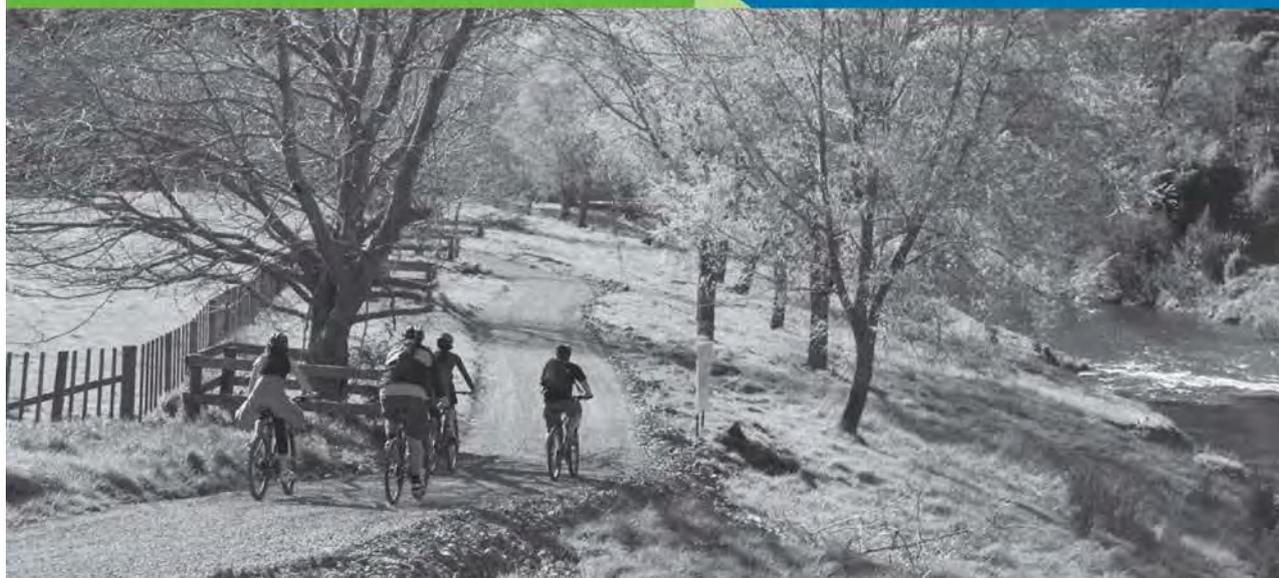
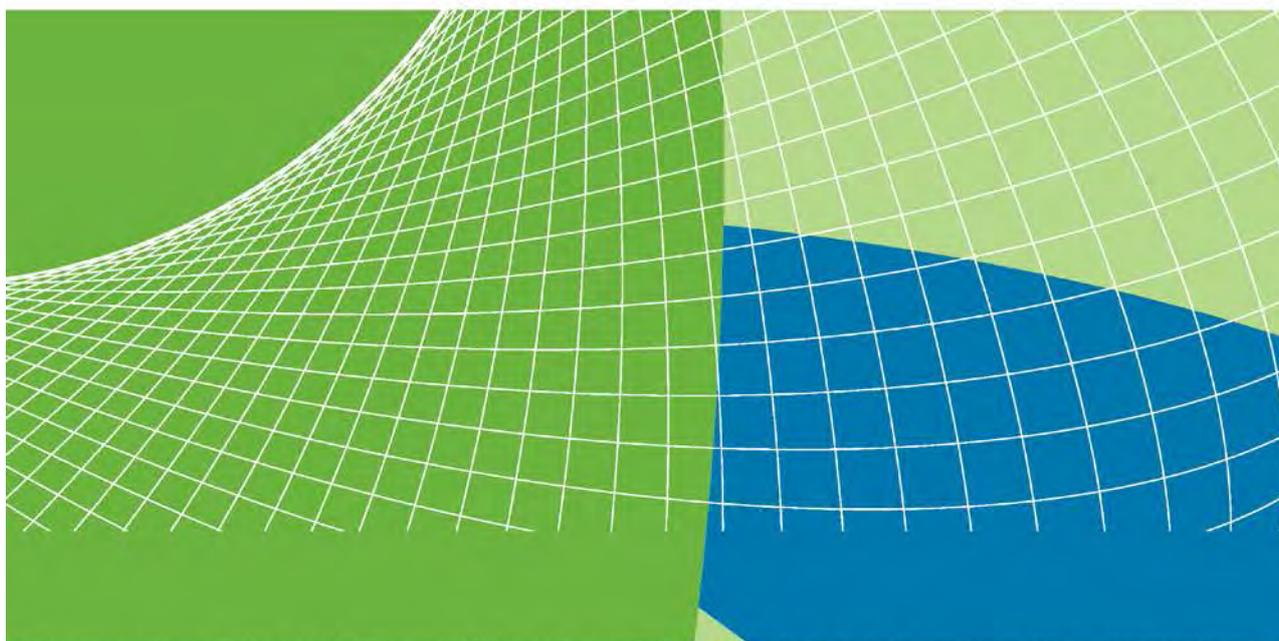
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Right: Wai Taatari (Filtered Waters) project, construction phase. New Plymouth District Council
Back Cover: Hauraki Rail Trail, Hauraki District Council





Committee: Council Controlled Organisations Subcommittee **Date:** 22 April 2015

Report Name: Vibrant Hamilton Trust - Draft Statement of Intent 2015/16 and Half Year Report for December 2014 **Author:** David Leong

Report Status	<i>Open</i>
Strategy, Policy or Plan context	<i>Monitoring performance of CCOs</i>
Financial status	<i>Not applicable</i>
Assessment of significance	<i>Having regard to the decision making provisions in the LGA 2002 and Councils Significance Policy, a decision in accordance with the recommendation is not considered to have a high degree of significance</i>

1. Purpose of the Report

2. To present the Vibrant Hamilton Trust draft Statement of Intent (SOI) for year ended 30 June 2016 for Councils consideration and comment.
3. To present the Vibrant Hamilton Trust Half Year Report to 31 December 2014.

4. Executive Summary

5. Draft Statement of Intent 2015/16

6. The financial statements have been prepared under the new Accounting Standards - "Public Benefit Simple Format Reporting-Accrual (Not-for-Profit), abbreviated as (PBE SFR-A (NFP)". This includes a Statement of Cash Flow and other minor disclosure details.
7. The forecast surplus before grants for 2015/16 is \$449k. This forecast assumes 7.9 % return on the investment portfolio before management fees, as advised by Gareth Morgan Investment (GMI)
8. The forecast grant for 2015/16 is \$300k as recommended by the Trustees.
9. The GMI portfolio is forecasted to increase by \$150k, from \$6.346m at 30 June 2015 to \$6.496m at 30 June 2016, after allowing for expenses and grants.
10. The performance measures and targets are detailed on page 14 and 15 of the SOI- refer *Attachment 1*.

11. Half Year Report to 31 December 2014

12. The Half Year Report for the six months to 31 December 2014 is unaudited-refer *Attachment 2*.
13. The Trust made a surplus before grants of \$497k for the six months to 31 December 2014, which exceeds the 12 months budget to June 2015 of \$317k, and the previous years 12 months actuals to June 2014 of \$477k.

14. The surplus for the six months to 31 December 2014 was mainly attributable to the strong performance of the growth stocks i.e. core stocks and satellite stocks.
15. The Trust has not made any grants in the six months to 31 December 2014, although the budgeted total grant for the 2014/15 year was \$200k. The outstanding grant of \$100k in respect of the Waiwhareke Natural Heritage Park as at 30 June 2014, is still reflected as owing as at 31 December 2014, and is likely to be disbursed in the later part of the 2014/15 year.
16. Total equity of the Trust increased by \$497k, from \$5.572 million (June 2014) to \$6.069 million (December 2014).

Trustees and Trust Deed

17. The Trust Board currently has four members, as disclosed in note 29 below. One Trustee position has been vacant since May 2014.
18. The Trust Deed has not been reviewed since it was adopted back in June 2010. It is good practice for Trustees to review the Trust Deed regularly.

19. Recommendations from Management

That:

- a. The Report be received;
- b. Council provides a written response to the Vibrant Hamilton Trust, advising the CCO Subcommittee approves the draft SOI with no amendments;
- c. The VHT Trustees be requested to identify suitable candidates to fill the vacant Trustee position and to make a recommendation to CCO Subcommittee;
- d. The Trustee Deed be reviewed by the Trustees to ensure it meets the current purpose and objectives of the Trust and to allow the Trust to function in efficient and cost effective manner.

20. Attachments

21. Attachment 1 - Vibrant Hamilton Trust Draft Statement of Intent for 2015/16
22. Attachment 2 - Vibrant Hamilton Trust Half Year Report for 31 December 2014

23. Discussion

24. Trustees

25. The Vibrant Hamilton Trust Deed states that “the Trust Board shall consist of five members who shall comprise of the Mayor (or nominee) and four other persons who by virtue of their community position, skills, qualifications and background are likely to enhance the operation of the Trust”.
26. The Deed states that Council shall appoint the initial four trustees without public advertising for nominations but thereafter, two trustees shall be appointed after positions advertised and nominations received.
27. The Trust currently has four Trustees:
 - Thomas Gibbons (Chair)
 - Malcolm Brooker
 - Lynette Flowers
 - Her Worship the Mayor
28. One Trustee position has been vacant since the resignation of Matthew Keightley on 25 May 2014.

29. Trust Deed

30. The Trust Deed has not been reviewed since was first adopted on 9 June 2010.

31. In accordance with good practice it is suggested that the Trust Deed be reviewed to ensure it meets the current purpose and objectives of the Trust and that it allows the Trust to function in an efficient and cost effective manner.

32. Draft Statement of Intent 2015/16

33. The forecast financial statements for 2016 to 2018 are detailed in *Attachment 1*. For comparatives purposes we have shown the original forecast 2015 (2015 SOI) and a revised forecast 2015 which includes adjustments for the 2014 audited financial statements and recent information for GMI portfolio performance to date.

34. The revised forecast for 2015 shows surplus before grants made of \$1.074 million, which is \$757k ahead of the original forecast for 2015 of \$317k- this is result of the higher returns on the core growth and satellite growth stocks.

35. The forecast revenue is based on 7.9% return before management fees on the investment portfolio for 2016 to 2018 (as advised per GMI). This projection reflects that the Trust can provide annual grants of \$300,000 per annum for 2016 to 2018 and maintain an inflation adjusted capital base.

36. Other forecast assumptions are noted on page 13 of the SOI.

37. The forecast financial highlights for the SOI are summarised below:

Forecast Statement of Financial Performance					
	Revised	Original			
	Forecast	Forecast	Forecast	Forecast	Forecast
	2015	2015	2016	2017	2018
	\$	\$	\$	\$	\$
Total Revenue	1,125,215	368,264	502,756	514,438	527,114
Total Expenses	50,901	50,911	53,124	54,146	55,246
Surplus before grants made	1,074,314	317,353	449,632	460,292	471,868
Less grants made	300,000	200,000	300,000	300,000	300,000
Surplus for year	774,314	117,353	149,632	160,292	171,868
Forecast Statement of Statement of Financial Position					
	Revised	Original			
	Forecast	Forecast	Forecast	Forecast	Forecast
	2015	2015	2016	2017	2018
	\$	\$	\$	\$	\$
Total Assets	6,364,000	5,699,315	6,511,879	6,672,321	6,844,342
Total Liabilities	17,329	16,611	15,576	15,726	15,879
Net Assets	6,346,671	5,682,704	6,496,303	6,656,595	6,828,463

38. Financial and Non-Financial Performance Targets are detailed on page 14 and 15 of the SOI- refer *Attachment 1*.

39. Half Year Report to 31 December 2014

- 40.** The financial highlights for the 6 months to 31 December 2014 that is compared with the 12 month budget and last years actuals, is summarised below:

Statement of Financial Performance	Actual 6 mths 31-Dec-14	Budget 12 mths 30-Jun-15	Actual 12 mths 30 Jun-14
Total income	521,061	368,264	656,120
Total expenses	24,322	50,911	178,235
Surplus before grants	496,739	317,353	477,885
Less grants made	0	200,000	336,000
Surplus for the year	496,739	117,353	141,885
Statement of Financial Position	Actual As at 31-Dec-14	Budget As at 30-Jun-15	Actual As at 30 Jun-14
Total assets	6,179,396	5,699,315	5,690,099
Total liabilities	110,300	16,452	117,742
Net assets	6,069,096	5,682,863	5,572,357

- 41.** The surplus before grants for six months of \$497k to 31 December 2014 exceeds the 12 month budget of \$317k and the previous 12 months actuals of \$477k. This is a result of a strong performance of the GMI portfolio. Expenses are in line with budget for the six months.
- 42.** Grants have not been made in the six months to 31 December 2014, although a budget for the 2014/15 year is \$200,000. Total liabilities as 30 June 2014 and 31 December 2014, includes an outstanding grant of \$100,000 (i.e. the amount owing to the Waiwhareke Natural Heritage Park)
- 43.** These financial statements have been prepared under the new Accounting Standards - "Public Benefit Simple Format Reporting-Accrual (Not-for-Profit), abbreviated as (PBE SFR-A (NFP)". This includes a Statement of Cash Flow and other minor disclosure details.

44. GMI Portfolio- Total Value Comparison:

The table below shows the total value and movements of the GMI portfolio since inception.

Asset Class/Comments	Actual value \$				
	Inception 31/01/12	30/06/12	30/06/13	30/06/14	31/12/14
Cash	389,809	586,864	304,628	368,169	381,845
Fixed interest	2,330,089	2,257,505	2,363,806	2,531,686	2,765,070
Core growth	975,372	771,284	959,346	1,285,007	1,460,727
Satellite growth	973,944	1,141,061	1,816,910	1,505,237	1,571,754
Portfolio Value	4,669,214	4,756,714	5,444,690	5,690,099	6,179,396
<u>Less Adjustments:</u>					
Expenses/withdrawals from fund	(285,393)	(282,393)	(276,198)	(15,236)	
Portfolio Value after adjustment	4,383,821	4,471,321	5,168,492	5,674,863	6,179,396
Movement of portfolio since 31/01/12		87,500	784,671	1,291,042	1,795,575
Simple return since 31/01/12		2.0%	17.9%	29.5%	41.0%
Annualised return (p.a.)			11.3%	10.6%	12.0%
Benchmark return			7.4%	7.5%	8.0%
Favourable			3.9%	3.1%	4.0%

- 45.** The portfolio made a simple return to 31 December 2014 (since inception) of 41.0%. This compares to the 29.5% return to 30 June 2014. The calculation takes in account adjustment for expenses/withdrawals from the fund.
- 46.** The overall annualised return for the portfolio of 12.0% at December 2014, exceeds the benchmark return of 8.0% (45% NZ Bond, 55% MSCI).
- 47.** The core stock and satellite stocks have reflected exceptional returns particularly over the last 12 months to 31 December 2014. The annualised return at December 2014 for Core stocks was 15.3% against a benchmark of 12.6% , and satellite stocks was 22.3% against a benchmark of 12.6%.

Signatory

Authoriser	Paul Conder, Chief Financial Officer
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STATEMENT OF INTENT (DRAFT)

VIBRANT HAMILTON TRUST

For the year ending 30 June 2016

This Statement of Intent (SOI) is presented by the Vibrant Hamilton Trust (VHT) as required by Section 64(1) of the Local Government Act 2002.

The SOI forms the basis for the accountability of the Trustees of Vibrant Hamilton Trust to Hamilton City Council, and sets out the objectives, scope of activities undertaken, and performance targets by which Vibrant Hamilton Trust will be measured.

The purpose of this SOI is to provide accountability and transparency by outlining the activities and intentions of this Council Controlled Organisation (CCO) for the year and the objectives to which our activities will contribute.

This SOI covers the year ended 30 June 2016 and includes the forecast financial statements for the following two years 2017 and 2018.

Thomas Gibbons
Chair
20 February 2015

Trim D-168057 reviewed by TG 25-02-15



INTRODUCTION

The Vibrant Hamilton Trust was established as a CCO as per the requirements under section 64(1) of the Local Government Act 2002.

It is a legal entity incorporated under the Charitable Trusts Act 1957.

The Waikato Foundation Trust resolved in 2010 to make distributions to the Vibrant Hamilton Trust (65%) and The Waikato District Wellbeing Trust Board (35%).

Vibrant Hamilton Trust received a \$4.671 million distribution from Waikato Foundation Trust on 31 January 2012. The Waikato Foundation Trust was subsequently wound up.

The Vibrant Hamilton Trust approved the first grant distribution in 2013/14, a total of \$336,000 to the following three projects:

- *Waiwhakareke Natural Heritage Park 2015 & 2016 Planting Project (\$150,000)*
- *Hamilton Gardens Tudor Garden development (\$68,000)*

- *Upgrade of Minogue Park to a destination playground (\$100,000)*

Applications must be projects that support Hamilton's City vision and strategic aspirations, in particular, sustainable, well planned projects for the well-being of people and the environment, now and in the future.

Grants are distributed based on charitable purposes (and in line with the Trust Deed).



PURPOSE

PURPOSE OF THE TRUST

In addition to the statutory objective as stated in section 59 of the Local Government Act 2002, the objectives of the Trust as outlined in clause 3 (3.1) of the Deed) are:

1. Promote the social, economic, environmental and cultural wellbeing of the City of Hamilton and its communities, and/or
2. Relieve poverty through sustainable policies and practices, and/or
3. Advance education in the City of Hamilton, particularly to promote and advance economic standards for the benefit of the public generally, and/or
4. Deliver on the strategic aspirations of Hamilton City as identified by the community from time to time and endorsed by the Hamilton City Council.

These purposes, objectives and activities will be monitored to ensure that they are charitable and in accordance with the law.

ACTIVITIES

- *Governance*
- *Investment*
- *Grant Disbursement*

SCOPE OF ACTIVITIES



GOVERNANCE

The Trust will be governed in accordance with the terms of the Trust Deed.

Objective

- 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.

Performance Measure

- Trust membership obligations are fulfilled in accordance with section 5 of the Trust Deed.
- To adhere to the Trust's Performance Monitoring Programme.

INVESTMENT

The Trust will, in accordance with the Trust Deed, invest or reinvest part or parts of the Trust Fund not immediately required for the purposes of the Trust (whether income or capital) in investments or securities, as the Trust Board considers beneficial to the Trust Fund.

Objective

- To adhere to the Trust's Management of Share Portfolio and Distribution Policy.
- To review on an annual basis the investment mandate with the portfolio manager and the performance of the portfolio manager.

Performance Measure

- The performance of investments is monitored by receiving and considering portfolio reports and financial information, on at least a quarterly basis.
- The investment mandate is monitored to ensure the investment portfolio reflects the risk tolerance, investment time zone and drawings requirements of the Trust.
- The performance of the portfolio manager is found satisfactory.

GRANT DISBURSEMENT

The Trust will, as appropriate, disburse funding towards projects that meet the Trust's criteria and that meet the Objects of the Trust Deed.

Objective

- As per the Management of Share Portfolio and Distribution Policy, to distribute a minimum total annual grant of \$300,000 for 2015/2016.

Performance Measure

- A distribution process is undertaken that distributes the annual fund to eligible recipients for who meet the fund criteria. Any distributions are determined by the Trustees in their sole discretion in accordance with the Trust Deed and the law.
- As a minimum, 6-monthly reports are received from all successful applicants within the required timeframe.

FINANCIAL STATEMENTS

The forecast financial statements for the years 2016 to 2018 are shown below. For comparative purposes, we have disclosed the original forecast for 2015 (i.e. the approved SOI for 2015) and the revised forecast for 2015 (i.e. which incorporates the audited results for 2014 and more recent information on the portfolio performance).

Vibrant Hamilton Trust
Statement of Financial Performance
Forecast for the year ended 30 June

	Note	Revised Forecast 2015 \$	Original Forecast 2015 \$	Forecast 2016 \$	Forecast 2017 \$	Forecast 2018 \$
Revenue						
Interest and dividend revenue	2	170,703	167,393	190,920	195,356	200,170
Increase in value of investment	2	954,512	200,871	311,836	319,082	326,944
Total Revenue		1,125,215	368,264	502,756	514,438	527,114
Less Expenses						
Accounting and admin fee	4	8,000	8,160	8,000	8,000	8,000
Audit fee	4	7,329	6,451	7,476	7,626	7,779
Management fee	2	33,572	34,300	37,548	38,420	39,367
Other expenses		2,000	2,000	100	100	100
Total Expenses		50,901	50,911	53,124	54,146	55,246
Surplus/(deficit) before grants made		1,074,314	317,353	449,632	460,292	471,868
Less Grants made	5	300,000	200,000	300,000	300,000	300,000
Surplus/(deficit) for the year		774,314	117,353	149,632	160,292	171,868

Vibrant Hamilton Trust
Statement of Financial Position
Forecast as at 30 June

	Note	Revised Forecast 2015 \$	Original Forecast 2015 \$	Forecast 2016 \$	Forecast 2017 \$	Forecast 2018 \$
Current Assets						
Cash	6	300,000	300,000	300,000	300,000	300,000
Debtors						
Investments	7	6,064,000	5,399,315	6,211,879	6,372,321	6,544,342
Total Current Assets		<u>6,364,000</u>	<u>5,699,315</u>	<u>6,511,879</u>	<u>6,672,321</u>	<u>6,844,342</u>
Total Assets		<u>6,364,000</u>	<u>5,699,315</u>	<u>6,511,879</u>	<u>6,672,321</u>	<u>6,844,342</u>
Current Liabilities						
Creditors and accruals		17,329	16,611	15,576	15,726	15,879
Grants payable						
Total Current Liabilities		<u>17,329</u>	<u>16,611</u>	<u>15,576</u>	<u>15,726</u>	<u>15,879</u>
Total Liabilities		<u>17,329</u>	<u>16,611</u>	<u>15,576</u>	<u>15,726</u>	<u>15,879</u>
Net Assets		<u>6,346,671</u>	<u>5,682,704</u>	<u>6,496,303</u>	<u>6,656,595</u>	<u>6,828,463</u>
Accumulated Funds						
Accumulated surpluses/(deficits)		6,346,671	5,682,704	6,496,303	6,656,595	6,828,463
Total Accumulated Funds		<u>6,346,671</u>	<u>5,682,704</u>	<u>6,496,303</u>	<u>6,656,595</u>	<u>6,828,463</u>

Vibrant Hamilton Trust
Statement of Cash Flows
Forecast for the year ended 30 June

	Revised Forecast 2015	Original Forecast 2015	Forecast 2016	Forecast 2017	Forecast 2018
Cash Flows from Operating Activities					
Cash was received from:					
Dividend and interest revenue	170,703	167,393	190,920	195,356	200,170
Realised gains on investments	954,512	200,871	311,836	319,082	326,944
	<u>1,125,215</u>	<u>368,264</u>	<u>502,756</u>	<u>514,438</u>	<u>527,114</u>
Cash was applied to:					
Payments to suppliers	51,314	48,705	54,877	53,996	55,093
Grants paid	400,000	200,000	300,000	300,000	300,000
	<u>451,314</u>	<u>248,705</u>	<u>354,877</u>	<u>353,996</u>	<u>355,093</u>
Net cash flows from operating activities	<u>673,901</u>	<u>119,559</u>	<u>147,879</u>	<u>160,442</u>	<u>172,021</u>
Cash Flows from Investing & Financing Activities					
Cash was received from:					
	0	0	0	0	0
Cash was applied to:					
Acquisition of investments	742,070	119,559	147,879	160,442	172,021
	<u>742,070</u>	<u>119,559</u>	<u>147,879</u>	<u>160,442</u>	<u>172,021</u>
Net cash flows from investing & financing	<u>(742,070)</u>	<u>(119,559)</u>	<u>(147,879)</u>	<u>(160,442)</u>	<u>(172,021)</u>
Net Increase/(Decrease) in Cash	<u>(68,169)</u>	0	0	0	0
Opening Cash	368,169	300,000	300,000	300,000	300,000
Closing Cash	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>
This is represented by:					
Cash and cash equivalents	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>	<u>300,000</u>

Vibrant Hamilton Trust
Notes to the Financial Statements
Forecast for the year ended 30 June 2016-2018

1. Statement of accounting policies

Reporting entity

Vibrant Hamilton Trust (the "Trust") is controlled by Hamilton City Council and is a Council Controlled Organisation as defined under section 6 of the Local Government Act 2002, by virtue of Hamilton City Council's right to appoint the Board of Trustees.

The Trust was incorporated on 24 August 2010 under the Charitable Trusts Act 1957 and is domiciled in New Zealand. The Trust was registered in accordance with the Charities Act 2005 on 1 November 2010 to give it charitable status.

The principal activities of the Trust are to promote the social, economic, environmental and cultural well being of the City of Hamilton and its' communities. Accordingly the Trust is designated as a public benefit entity for the purposes of financial reporting.

The Trust commenced trading when the initial capital was received from the transfer of 65% of funds previously held by Waikato Foundation Trust as at 31 January 2012.

The forecast financial statements of the Trust are for the year ended 30 June 2016-2018. The forecast financial statements were authorised for issue by the Trustees on 20 February 2015.

Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below.

• *Statement of compliance*

The Trust has elected to apply PBE SFR-A (NFP) i.e. Public Benefit Entity Simple Format Reporting-Accrual (Not-For-Profit) on the basis that it does not have public accountability and has annual expenses of equal to or less than \$2,000,000. All transactions in the financial statements are reported using the accrual basis of accounting. The financial statements are prepared under the assumption that the entity will continue to operate in the foreseeable future.

• *Measurement base*

The financial statements have been prepared on a historical cost basis, except where modified by the revaluation of certain financial instruments.

• *Functional and presentation currency*

The financial statements are presented in New Zealand Dollars. The functional currency of the Trust is New Zealand Dollars.

Changes in accounting policies

There have been no changes in accounting policies during the financial year.

Significant Accounting Policies

Revenue recognition

Revenue is recognised as follows:

- *Interest income*

Interest income is recognised on a time proportion basis using the effective interest method. When a receivable is impaired, the Trust reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

- *Dividend income*

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Grant expenditure

Non-discretionary grants are those grants awarded if the grant application meets the specified criteria and are recognised as expenditure when an application that meets the specified criteria for the grant has been received.

Discretionary grants are those grants where the Trust has no obligation to award on receipt of the grant application and are recognised as expenditure when approved by the Board and the approval has been communicated to the applicant.

Foreign currency transactions

Foreign currency transactions are translated into New Zealand Dollars (the functional currency) using the exchange rate prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the surplus or deficit.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within interest bearing liabilities in current liabilities on the balance sheet.

Debtors and other receivables

Trade receivables are recognised at face value, less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Trust will not be able to collect all amounts due according to the original terms of the receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income within 'other expenses'.

When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

Other financial assets

Financial assets are initially measured at fair value plus transaction costs unless they are carried at fair value through surplus or deficit in which case the transaction costs are recognised in the surplus or deficit.

Purchases and sales of investments are recognised on trade-date, the date on which the Trust commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Trust has transferred substantially all the risks and rewards of ownership.

Financial assets are classified into the following categories for the purpose of measurement:

- fair value through surplus or deficit;
- loans and receivables;
- held-to-maturity investments; and
- fair value through other comprehensive income

The classification of a financial asset depends on the purpose for which the instrument was acquired.

- *Financial assets at fair value through surplus or deficit.*

Financial assets at fair value through surplus or deficit include financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or it is part of a portfolio of identified financial instruments that are managed together and for there is evidence of short-term profit-taking.

Derivatives are also categorised as held for trading unless they are designated into hedge accounting relationship for which hedge accounting is applied.

Financial assets acquired principally for the purpose of selling in the short-term or part of portfolio classified as held for trading are classified as a current asset.

After initial recognition financial assets in this category are measured at their fair values with gains or losses on re-measurement recognised in the surplus or deficit.

- *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance date, which are included in non-current assets.

After initial recognition they are measured at amortised cost using the effective interest method, less impairment. Gains and losses when the asset is impaired or derecognised are recognised in the surplus or deficit.

- *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities and there is a positive intention and ability to hold to maturity. They are included in current assets, except for maturities greater than 12 months after balance date, which are included in non-currents assets.

After initial recognition they are measured at amortised cost using the effective interest method, less impairment. Gains and losses when the asset is impaired or derecognised are recognised in the surplus or deficit.

- *Fair value through other comprehensive income*

Financial assets at fair value through other comprehensive income are those that are designated into a category at initial recognition or are not classified in any of the other categories above. They are

included in non-current assets unless management intends to dispose of, or realise, the investment within 12 months of balance date. The following are included in this category:

- investment that it intend to hold long-term but which may be realised before maturity; and
- shareholdings that it holds for strategic purposes.

These investments are measured at their fair value, with gains and losses recognised in other comprehensive income, except for impairment losses, which are recognised in the surplus or deficit.

On de-recognition the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to surplus or deficit.

Impairment of financial assets

Financial assets are assessed for objective evidence of impairment at each balance date. Impairment losses are recognised in the surplus or deficit.

- *Loans and other receivables, and held to maturity investments*

Impairment is established when there is objective evidence that the Trust will not be able to collect amounts due according to the original terms of the debt. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, and default in payments are considered indicators that the asset is impaired.

The amount of the impairment is the difference between the asset's carrying amount and their present value of estimated future cash flows, discounted using the original effective interest rate. For debtors and other receivables, the carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the surplus or deficit.

When the receivable is uncollectable, it is written-off against the allowance account. Overdue receivables that have been renegotiated are reclassified as current (that is, not past due). Impairment in term deposits, are recognised directly against the instrument's carrying amount.

- *Financial assets at fair value through comprehensive income*

For equity investments, a significant or prolonged decline in the fair value of the investment below its cost is considered objective evidence of impairment.

For debt investments, significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, and default in payments are considered objective indicators that the asset is impaired.

If impairment evidence exists for investments at fair value through other comprehensive income, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the surplus or deficit) recognised in other comprehensive income is reclassified from equity to the surplus or deficit.

Equity instruments impairment losses recognised in the surplus or deficit are not reversed through the surplus or deficit.

If in a subsequent event the fair value of a debt instrument increase and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed in the surplus or deficit.

Income Tax

The Trust has charitable status and is exempt from income tax.

Creditors and other payables

Short-term creditors and other payables are recorded at their face value.

Goods and service tax

The Trust is not registered for GST. As a result, the financial statements have been prepared on a GST inclusive basis.

Accumulated Funds

Accumulated funds are measured as the difference between total assets and total liabilities. Accumulated funds are defined as the aggregated surplus/deficit for each financial year.

Critical accounting estimates and assumptions

In preparing these financial statements the Trust 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 or future events that are believed to be reasonable under the circumstances.

The forecast assumptions for 2016 to 2018 are summarised on page 13 of the SOI.

Vibrant Hamilton Trust
Notes to the Financial Statements
Forecast for the year ended 30 June 2016-2018

Forecast assumptions 2016-2018:

- 2 GMI have estimated an average return on the portfolio of 7.9% per annum, pre management fees, over the next 3 years, 2016 to 2018.

Interest and dividend income has been forecasted applying an average rate of return of 3.0% per annum on the previous years closing portfolio balance for 2016 to 2018.

The forecasted increase in market value of investments is based on applying an average rate of 4.9% per annum on the previous years closing portfolio balance for 2016 to 2018.

- 3 The following expenses have been forecasted for 2016 to 2018:
 -audit fees - base of \$7,185 for 2014, plus a 2% per annum increment each year there after.
 -accounting and administration fee fixed at \$8,000 per annum for 2016 to 2018.
 -GMI management fee is based on applying an average rate of 0.59% per annum on the opening portfolio balance each year.
- 4 The forecasted annual grant disbursement of \$300,000 per annum for 2016 to 2018.
- 5 Assumed a cash balance maintained at \$300,000 to provide liquidity to the Trust.
- 6 Investments comprise fixed interest securities and shares.
 Net operating surpluses are reinvested to cash balances and /or investments.

Ratios:

- 7 The Local Government Act 2002 requires the SOI to include the projected ratio of equity to total assets.

The ratio of equity to total assets is forecasted as follows:

Year	%
2016	99.76%
2017	99.76%
2018	99.77%

Reports to be provided to Hamilton City Council:

- 8 The audited financial statements for year ending 30 June 2016, including a summary of how the Trust has performed against its objectives and performance targets. within 3 months of the end of the year, i.e. by 30 September 2016.
- 9 The half year report to 31 December 2015 by 28 February 2016.
- 10 The Draft Statement of Intent for 2016/2017 by 28 February 2016.
- 11 The Final Statement of Intent for 2016/2017 by 30 June 2016.

**Vibrant Hamilton Trust
Performance Monitoring Programme**

The following table outlines a programme to monitor the Trust's performance against the measures outlined in the Statement of Intent 2016:

Performance Measure	How measured/by whom	Timeframe
1. Trust membership obligations are fulfilled in accordance with section 5 of the Trust Deed.	Public nomination process occurs as outlined by the Trust Deed and complies with HCC's Council Representation on External Organisations Policy. (HCC staff)	Within six months of each triennial general election of local authorities.
2. Trustee's delivery against position descriptions is undertaken annually.	Chair person and Trustees to conduct self evaluation.	December
3. The performance of investments is monitored by receiving and considering portfolio reports and financial information, on at least a quarterly basis as minimum.	The return on the consolidated portfolio is measured against a benchmark (comprising 45% NZ Bond and 55% MSCI).	February, June, September, December (at Trustees Meetings)
4. The investment mandate is monitored to ensure the investment portfolio reflects the risk tolerance, investment time zone and drawings requirements of the Trust.	Chair person and Trustees to review annually the investment mandate for VHT with the Portfolio Manager for the next financial year. The Chair person and Trustees to review and be satisfied the investment mandate is being adhered i.e. balanced portfolio split 45/55, fixed interest / growth shares investment to enable cash grants, as well protect the capital over the longer term.	June February, June, September, December (at Trustees Meetings)
5. The performance of the Portfolio Manager is found satisfactory.	Chair person and Trustees to review the performance of the Portfolio Manager.	June

**Vibrant Hamilton Trust
Half Year Report (unaudited)
For the six months to 31 December 2014**

**Vibrant Hamilton Trust
Index to Half Year Report
For the six months ended 31 December 2014**

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Vibrant Hamilton Trust

Trustees

The Trustees are:

Thomas Gibbons	Chair
Malcolm Brooker	
Her Worship Julie Hardaker	
Lynette Flowers	

Secretary

Mary Birch

Registered Office

**Hamilton City Council
Municipal Offices
Garden Place
Private Bag 3010
Hamilton 3240**



Vibrant Hamilton Trust

Declaration by Board of Trustees

The Board of Trustees is responsible the preparation of the half year report in accordance with the financial reporting standards. The Board of Trustees is responsible for establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting. In the opinion of the Board of Trustees, these financial statements fairly reflect or give a true and fair view of the financial position and operations of the Vibrant Hamilton Trust for the six months ended 31 December 2014.

Chair

Date: 20 February 2015

Trustee

Date: 20 February 2015



Vibrant Hamilton Trust
Statement of Financial Performance
For the 6 months ended 31 December 2014

	Note	Actual 6 mths Dec-14	Budget 12 mths Jun-15	Actual 12 mths Jun-14
Revenue				
Dividend revenue		31,636	47,000	50,783
Interest revenue		88,773	120,393	127,991
Realised gains on investments		174,827	200,871	477,346
Unrealised gains on investments		225,825	0	0
Total revenue	3	521,061	368,264	656,120
Expenses				
Audit fees	4	3,600	6,451	7,185
Management fees-Gareth Morgan Investments		16,671	34,300	31,961
Other expenses	4	4,051	10,160	8,050
Unrealised losses on investments		0	0	131,039
Total expenses		24,322	50,911	178,235
Surplus before grants made		496,739	317,353	477,885
Less Grants made	2	0	200,000	336,000
Surplus for the year		496,739	117,353	141,885

The accompanying notes form part of these financial statements.

Vibrant Hamilton Trust
Statement of Changes in Equity
For the 6 months ended 31 December 2014

	Note	Actual 6 mths Dec-14	Budget 12 mths Jun-15	Actual 12 mths Jun-14
Accumulated funds opening		5,572,357	5,565,351	5,430,472
Surplus for the year		496,739	117,353	141,885
Accumulated funds closing		6,069,096	5,682,704	5,572,357

The accompanying notes form part of these financial statements.



Vibrant Hamilton Trust
Statement of Financial Position
As at 31 December 2014

	Note	Actual 6 mths Dec-14	Budget 12 mths Jun-15	Actual 12 mths Jun-14
ASSET				
<u>Current assets</u>				
Cash and cash equivalents	5	381,845	300,000	368,169
Debtors and other receivables		0	0	0
Other financial assets	5	5,797,551	5,399,315	5,321,930
Total current assets		6,179,396	5,699,315	5,690,099
<u>Non-current assets</u>				
Total non-current assets		0	0	0
Total assets		6,179,396	5,699,315	5,690,099
LIABILITIES				
<u>Current liabilities</u>				
Creditors and other payables		10,300	16,452	17,742
Grants payable	2	100,000	0	100,000
Total current liabilities		110,300	16,452	117,742
<u>Non-current liabilities</u>				
Total non-current liabilities		0	0	0
Total liabilities		110,300	16,452	117,742
Net assets		6,069,096	5,682,863	5,572,357
ACCUMULATED FUNDS				
Accumulated surpluses/(deficits)		6,069,096	5,682,863	5,572,357
Total accumulated funds		6,069,096	5,682,863	5,572,357

The accompanying notes form part of these financial statements.



Vibrant Hamilton Trust
Statement of Cash Flows
For the 6 months ended 31 December 2014

	Actual 6 mths	Budget 12 mths	Actual 12 mths
Note			
Cash flows from operating activities			
Cash was received from:			
Dividend revenue	31,636	47,000	50,783
Interest revenue	88,773	120,393	127,991
Realised gains on investments	174,827	200,871	477,346
	295,236	368,264	656,120
Cash was applied to:			
Payments to suppliers	31,763	48,705	43,673
Grants paid	0	200,000	236,000
	31,763	248,705	279,673
Net cash flows from operating activities	263,473	119,559	376,447
Cash Flows from Investing Activities			
Cash was received from:			
	0	0	0
Cash was applied to:			
Acquisition of investments	249,797	119,559	312,906
	249,797	119,559	312,906
Net cash flows from investing activities	(249,797)	(119,559)	(312,906)
Cash flows from financing activities			
Cash was received from:			
	0	0	0
Cash was applied to:			
	0	0	0
Net cash flows from financing activities	0	0	0
Net Increase/(Decrease) in Cash	13,676	0	63,541
Opening Cash	368,169	300,000	304,628
Closing Cash	381,845	300,000	368,169
This is represented by:			
Cash and cash equivalents	381,845	300,000	368,169

The accompanying notes form part of these financial statements.



Vibrant Hamilton Trust
Notes to the Financial Statements
For the six months ended 31 December 2014

1. Statement of accounting policies

Reporting entity

Vibrant Hamilton Trust (the "Trust") is controlled by Hamilton City Council and is a Council Controlled Organisation as defined under section 6 of the Local Government Act 2002, by virtue of Hamilton City Council's right to appoint the Board of Trustees.

The Trust was incorporated on 24 August 2010 under the Charitable Trusts Act 1957 and is domiciled in New Zealand. The Trust was registered in accordance with the Charities Act 2005 on 1 November 2010 to give it charitable status.

The principal activities of the Trust are to promote the social, economic, environmental and cultural well being of the City of Hamilton and its' communities. Accordingly the Trust is designated as a public benefit entity for the purposes of financial reporting.

The Trust commenced trading when the initial capital was received from the transfer of 65% of funds previously held by Waikato Foundation Trust as at 31 January 2012.

The financial statements of the Trust are for the six months ended 31 December 2014. The financial statements were authorised for issue by the Trustees on 20 February 2015.

Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below.

- *Statement of compliance*

The Trust has elected to apply PBE SFR-A (NFP) i.e. Public Benefit Entity Simple Format Reporting-Accrual (Not-For-Profit) on the basis that it does not have public accountability and has annual expenses of equal to or less than \$2,000,000. All transactions in the financial statements are reported using the accrual basis of accounting. The financial statements are prepared under the assumption that the entity will continue to operate in the foreseeable future.

- *Measurement base*

The financial statements have been prepared on a historical cost basis, except where modified by the revaluation of certain financial instruments.

- *Functional and presentation currency*

The financial statements are presented in New Zealand Dollars. The functional currency of the Trust is New Zealand Dollars.

Changes in accounting policies

There have been no changes in accounting policies during the six months to 31 December 2014.



Vibrant Hamilton Trust
Notes to the Financial Statements
For the six months ended 31 December 2014

The full accounting policies applying to the Trust are those disclosed in the annual report for 30 June 2014.

2. Grants

At the time of preparing these financial statements the grant distribution process for 2014-15 had not commenced, hence no grants were disclosed for the six months to 31 December 2014. The grants of \$100,000 reflected as owing as at 30 June 2014 still remain outstanding as at 31 December 2014.

3. Income

The income disclosed for the six months to 31 December 2014 is based on a reports provided by Gareth Morgan Investments (GMI).

4. Expenses

The expenses for audit fee and accounting and administration is based an estimate for the six months to 31 December 2014.

5. GMI Portfolio

	31-Dec-14	30-Jun-14
Cash	<u>381,845</u>	<u>368,169</u>
Convertibles and fixed interest	2,765,070	2,531,686
Stocks core	1,460,727	1,285,007
Stocks satellite	1,571,754	1,505,237
Other Financial Assets	<u>5,797,551</u>	<u>5,321,930</u>
Total GMI Portfolio	<u>6,179,396</u>	<u>5,690,099</u>



Committee: Council Controlled
Organisations Subcommittee

Date: 22 April 2015

Report Name: Innovation Waikato Ltd &
Group - Draft Statement of
Intent 2015/16 & Half Year
Report to December 2014

Author: David Leong

Report Status	<i>Open</i>
Strategy, Policy or Plan context	<i>Monitoring performance of CCOs</i>
Financial status	<i>There is/is not budget allocated Not applicable</i>
Assessment of significance	<i>Having regard to the decision making provisions in the LGA 2002 and Councils Significance Policy, a decision in accordance with the recommendation is not considered to have a high degree of significance</i>

1. Purpose of the Report

2. To present the Innovation Waikato Ltd (IWL) and Group Draft Statement of Intent for year ended 30 June 2016 for comment.
3. To present the Innovation Waikato Ltd (IWL) and Group Half Year report to 31 December 2014.
Note: This report was prepared in conjunction with Stuart Gordon (CEO of Waikato Innovation Park Ltd)

4. Executive Summary

5. Draft Statement of Intent 2015/16

6. This draft Statement of Intent is based on the 2015/2016 financial year budgets approved at the February 2015 WIPL board meeting and unapproved 2017 and 2018 strategic projections. The draft SOI is reflected in *Attachment 1*.
7. Projected surplus/(deficit) trends for years ending June 2016 to 2018:
 - The projected surplus before tax shows an upward trend: 2016 \$721k, 2017 \$1.320m and 2018 \$2.109m.
 - The Nutritional blending plant will be fully operational in the 2016 year after the investment from Callaghan Innovation. The food plant is 75% booked for the 2016 year.
 - The rental income is based on six months occupancy of the new purpose built Tetra Pak building in 2016 and achieving 98% occupancy rates for the two existing buildings. The new Tetra Pak building will be 100% bank financed.
 - Other key financial highlights for the SOI are summarised in note 17 below.
 - Key performance measures and targets are summarised in note 23 below.

8. Major changes in strategic direction and key risks for 2016 to 2018:
- The forecasts for 2016 are based on 300 days utilisation of the food plant. This will require the introduction of new customers in the 2017 year onwards.
 - The new Tetra Pak building will be finished in 2016.
 - A proposed new building will commence in January 2017 and be completed and available for rental in the last five months of the 2017/2018 year. This is contingent however on securing a new cornerstone tenant for the new building and 67% of the total space rented on commencement of the build with a target of 90% full in the first year. Private investor funding will be required to fund this development.

9. **Half Year Report to 31 December 2014**

10. Surplus/(deficit) comparison:

- The overall group surplus for the half year of \$277k is ahead of the 6 months budget (deficit \$28k and last years actual comparative deficit of \$189k).
- Revenue to date is 2% ahead of budget. Expenditure is 8% below budget and this has resulted in an EBITDA 22% ahead of budget and 67% ahead of last year.
- The CEO expects the improvement on budget gap to be sustained to year end with good orders in place for Food Waikato (NZFIW).
- Other key financial highlights for the half year are summarised in note 24 below.

11. Major challenges or risks:

This volume levels in the food plant are based on only two new customers.

12. **Recommendations from Management**

That:

- a. The Report be received; and
- b. Council provides a written response to the Innovation Waikato Ltd and Group, advising that the CCO Subcommittee approves the draft SOI with no amendments.

13. **Attachments**

14. Attachment 1 - IWL & Group Draft Statement of Intent for 2015/16
15. Attachment 2 - IWL & Group Half Year Report to 31 December 2014

16. **Key Issues**

17. **Draft Statement of Intent 2015/16**

18. The key financial highlights for the SOI are summarised below:

IWL and Group	Forecast 2016 \$'000	Forecast 2017 \$'000	Forecast 2018 \$'000
Revenue	8,883	10,208	11,298
Expenditure	5,828	6,131	6,514
Earnings before interest, tax, dep & amort (EBITDA)	3,055	4,077	4,784
Depreciation & amortisation	1,078	1,103	1,149
Interest	1,256	1,654	1,527
Surplus before tax	721	1,320	2,109
Tax		(286)	(375)
Surplus after tax	721	1,034	1,734
Dividend	(51)	(204)	(264)
Surplus after tax and dividend	670	830	1,470
Total assets	45,171	51,325	55,430
Total liabilities	31,191	32,916	33,451
Net equity	13,980	18,409	21,979
Net equity + deferred income / total assets % *	42%	46%	48%
Capital expenditure	7,931	6,838	4,020

* Deferred income is defined in the attached SOI, specific accounting policies section i. Revenue- Government grants. Deferred income is disclosed as part total liabilities in the statement of financial position. However for the purposes of the shareholders' funds/tangible assets ratio, deferred income is included in shareholders' funds, as the government grant is considered non-repayable and is in compliance with IWL banking covenants.

19. Revenue/expenditure:
- As the Wetside facility will be in its first 12 months production, higher prices are forecasted for the spray dryer in 2016 compared to 2015.
 - The Property division will also have a new building (New Tetra Pak) in service commencing 1 January 2016. Economic Development activities will continue unchanged.
20. EBITDA and surplus /(deficit):
- A budgeted improved EBITDA in 2016, by 20%, is due to higher margins obtained in the spray dryer with the wetside completed. This flows through to the following years.
 - The new building rentals start in Jan 2016.
21. Dividend:
- A dividend of \$51k is planned for 2016.
22. Projected major capital expenditure:
- 2016: New Tetra Pak building completed \$7.115m (\$2.0m in 2015). Additions for Wetside facility \$300k.
 - 2017: A further new building; construction to commence by June 2017 with an initial spend of \$7.0m. Additional facility for Wetside plant \$700k.
 - 2018: New building completed with a spend of \$3.5m (\$7.0m in 2017). Additional facilities for NZFIW plant \$400k.
23. Borrowings:
- The New Tetra Pak Building will be 100% bank financed (\$2.0m in 2015 and \$7.115m in 2016).
 - NZFIW will need no further bank borrowing from 2016.

24. Performance measures and targets are summarised below:

IWL and Group	2016 \$'000	2017 \$'000	2018 \$'000
Group EBITDA	3,055	4,077	4,784
Group cash from operating activities	1,423	1,144	1,400
Group surplus after tax and dividend	670	830	1,470
Production days on spray dryer	300	320	323
Occupancy rate	98%	98%	98%
Shareholders' Funds including deferred Income/Tangible assets	42%	46%	49%

25. Half Year Report to 31 December 2014

26. Key financial highlights for the half year are summarised below:

IWL and Group	Actual 6 mths to 31/12/14 \$'000	Budget 6 mths to 31/12/14 \$'000	Actual 6 mths to 31/12/13 \$'000
Revenue	3,278	3,210	2,734
Expenditure	2,000	2,170	1,970
Earnings before interest, tax, dep & amort (EBITDA)	1,278	1,040	764
Depreciation/amortisation	516	523	489
Interest	485	545	459
Surplus/(Deficit)	277	(28)	(189)
Total assets	33,611	33,556	31,090
Total liabilities	21,089	17,990	21,408
Net equity	12,522	15,566	9,683
Net equity + deferred income / total assets *	58%	54%	48%
Capital expenditure	1,178	2,531	104

* Deferred income is included in the above ratio to recognise the actual liability and in compliance with the IWL banking covenants.

27. Revenue comparison:
- \$68k (2%) favourable compared to budget.
 - \$544k (20%) favourable compared to last year.
28. Expenditure comparison:
- \$170k (8%) favorable compared to budget.
 - \$30k (1.5%) unfavourable compared to last year.
29. EBITDA comparison:
- \$238k (23%) favourable compared to budget.
 - \$514k (67%) favourable compared to last year.
30. Operations:
- Continued good occupancy rate of 98% plus higher than budgeted Food Waikato days of production has meant an excellent result to date.

Signatory

Authoriser	Sean Murray, General Manager Events and Economic Development Group
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Waikato Innovation Park

"Growing Technology Business"



DRAFT

Innovation Waikato Ltd (IWL)
and Group of Companies

Including: Waikato
Innovation Park Ltd (WIPL)
New Zealand Food Innovation (Waikato) Ltd
(NZFIW)

DRAFT Statement of Intent

2015/2016

1.0 Introduction

Innovation Waikato Ltd (IWL) and its subsidiaries Waikato Innovation Park Ltd (WIPL) and New Zealand Food Innovation (Waikato) Ltd (NZFIW) became Council Controlled Organisations (CCO's) of Hamilton City Council (HCC) on 9 October 2013 when 100% shareholding in IWL was gifted to HCC by the Katolyst Group.

This statement is presented by the Directors in accordance with s.64 (1) Local Government Act 2002 and sets out the Board's intentions for the Company for the year ended 30 June 2016 plus estimates for the years ending 30th June 2017 and 2018.

Subsidiaries

HCC owns 100% of IWL, which is the shell non-operating company that owns 80.19% of the subsidiary WIPL. WIPL in turn owns 70% of the subsidiary NZFIW.

The balance of shares in WIPL (19.81%) is owned directly by HCC. The remaining shares in NZFIW (30%) is owned by Callaghan Innovation.

2.0 Corporate Intent

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

Core Purpose

To promote research, development, commercialisation and marketing by new and existing entities or individuals of new products, processes, technologies and or quality improvements. To actively promote economic development by supporting the growth of business that contributes to New Zealand's export economy.

The focus of the Park is on innovation and technology-led businesses that enhance New Zealand's competitive advantage and alignment with the region's economic export development strategy, particularly in areas such as:

- Agriculture
- Agribusiness
- Food Processing
- Value Add to Food Products from primary production
- Horticulture
- Environmental sustainability
- Enabling Information and Communication Technology

3.0 Nature and Scope of Activities to be Undertaken

Key Objectives

The Key Objectives that can be achieved during years ending June 2016 to 2018 are that WIPL will contribute to a successful economic growth strategy, in collaboration with other regional agencies, NZTE and Callaghan Innovation. WIPL will specialise in funding grants, incubation, clustering, business attraction and business to business collaboration.

The Key Objectives planned for 2016 are:

1. 300 days of product development production via the spray dryer contributing \$50m to the regional economy
2. A new \$9million Tetra Pak building completed and occupied – 100% bank financed
3. Two existing buildings 98% occupied
4. A major company attracted to the Park and signed Agreement to Lease in place
5. Commitment of capital to fund a new building and enable the repayment of HCC 19.81% direct shareholding in WIPL

The Key Objectives planned for 2017 are:

1. 320 days of product development production via the spray dryer contributing \$50m to the regional economy
2. Assist with the development of a sheep milk industry within the region
3. Three existing buildings 98% occupied
4. New building commenced

The Key Objectives planned for 2018 are:

1. 323 days of product development production via the spray dryer contributing \$50m to the regional economy
2. Assist with new drying technology to further develop the horticulture industry
3. Another major company attracted to site with signed Agreement to Lease
4. Further private capital injection to complete proposed building and reduce HCC to minority shareholding.

4.0 Key Performance Targets (\$,000)

	2016	2017	2018
Group EBITDA	3,055	4077	4784
Group Cash from operating activities	1423	1144	1400
Surplus after tax and dividends	670	830	1470
Shareholders' funds (including deferred Income)/ Tangible assets	42%	46%	48%

5.0 Capital Expenditure Detail (\$,000)

	2016	2017	2018
Miscellaneous	195	138	150
Spray Dryer/Wetside	300	700	400
Buildings	7,436	6,000	3,470
Total	7,931	6,838	4,020

6.0 Financial Disclosure

Ratio of consolidated shareholder funds to total assets

Shareholder funds are defined as Equity plus Government Grant deferred Income

Statement of accounting policies

Innovation Waikato Ltd is a profit-oriented company registered in New Zealand under the Companies Act 1993.

The financial statements presented are those of Innovation Waikato Limited (the "Company") and its subsidiaries (the "Group"). The Company financial statements are prepared in accordance with the requirements of the Financial Reporting Act 1993.

The Group is involved in the business of the development and operation of an Innovation Park in Hamilton, New Zealand and a development spray dryer.

Statement of Compliance and Basis of Preparation

The financial statements for the Company are for Innovation Waikato Limited as a separate legal entity.

The consolidated financial statements for the Group are for the economic entity comprising Innovation Waikato Limited and its subsidiaries.

The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

Basis of Measurement

The accounting principles recognised as appropriate for the measurement and reporting of financial performance and financial position on an historical cost basis are followed by the Company.

Presentation Currency

The financial statements are presented in New Zealand Dollars.

Basis of Consolidation

Subsidiaries – entities controlled directly or indirectly by the Group. Subsidiaries are consolidated from the date control is acquired. They are de-consolidated from the date control ceases. All significant intercompany accounts and transactions are eliminated on consolidation.

Associates – entities in which the Group has significant influence, but not control, over the operating and financial policies. Associates are recognised using the equity method which recognises the Group's share of net profit in profit or loss and its share of post-acquisition movements in reserves in other income. The Group Associate is New Zealand Food Innovation Network Limited. This company is 25% owned by New Zealand Food Innovation (Waikato) Limited.

Transactions and balances eliminated on consolidation – intercompany transactions, balances, revenue and expenses between Group companies are eliminated on consolidation.

Specific Accounting Policies

The following specific accounting policies which materially affect the measurement of financial performance and financial position have been applied:

i. *Revenue*

Revenue comprises the amounts received and receivable for goods and services supplied to customers in the ordinary course of business.

Grants received are recognised in the Statement of Comprehensive Income when the requirements under the grant agreement have been met. Any grants for which the requirements under the grant agreement have not been completed are carried as liabilities until all the conditions have been fulfilled.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable

as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Rental income is accounted for as earned. Interest income is accounted for on an accrual basis.

- ii. *Expenses*
Expenses have been classified on their business function.
- iii. *Work in Progress*
Work in progress comprising materials, labour and overheads is valued at cost.
- iv. *Trade Receivables*
Trade Receivables are recognised at estimated realisable value.
- v. *Property, Plant & Equipment*
Property, Plant & Equipment are recognised at cost price less depreciation and impairment losses. Gains and losses on disposal of Property, Plant & Equipment are taken into account in determining the operating result for the year.

Depreciation is calculated on a diminishing value basis to allocate the cost or revalued amounts over the estimated useful lives of the assets, as follows:

Plant & Equipment	13.8% DV
Computer Equipment	39.8% DV
Office Equipment	17.8% DV

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

- vi. *Property*
Property is recognised at fair value less depreciation and impairment losses. In previous years property was valued at cost.

Land is not depreciated. Depreciation on buildings is calculated on a diminishing value basis to allocate the cost or revalued amounts over the estimated useful lives, as follows:

Buildings	1.7% DV
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- vii. *Income Tax*

No provision has been made as there is no current or deferred tax payable.

The current income tax charge is calculated on the basis of the tax laws enacted at the balance sheet date in the countries where the company and its subsidiaries operate and generate taxable income.

viii. *Trade and Other Payables*

Trade and other payables are stated at cost.

ix. *Impairment*

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of the fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase. An impairment of goodwill is not subsequently reversed.

- x. *Foreign Currencies*
Transactions denominated in foreign currencies are converted at the exchange rate current at the transaction date. Foreign currency receivables and payables are converted at exchange rates current at balance date. Foreign exchange gains and losses are included as income or expenses respectively in the Statement of Financial Performance.
 - xi. *Goods and Services Taxation (GST)*
Revenues and expenses have been recognised in the financial statements exclusive of GST. All items in the Statement of Financial Position are stated exclusive of GST except for receivables and payables which are stated inclusive of GST.
 - xii. *Borrowing Costs*
Borrowing costs are recognised as an expense using the effective interest method.
- I. *Future Investment Proposals*
If the Company wishes to subscribe for, purchase, or otherwise acquire shares in any other company or any other organisation it can do so only after first obtaining approval from the majority of shareholders at either a General Meeting or at a Special meeting convened for that purpose.
 - II. *Compensation from Local Authorities*
Tony Steele receives remuneration as a Director of the WIPL board and also as a member of the HCC Audit and Risk Committee.
 - III. *Commercial Value of the Shareholders investment*
 - i. The most recent valuation was completed on 15 July 2010 by PricewaterhouseCoopers which states that the fair market value of 100% of the equity in Innovation Waikato Ltd to be between \$12,500,000 and \$13,800,000 as at the valuation date.
 - ii. A registered valuation of the real property assets was undertaken in 2012. The total value of the real assets at 30th June 2013 is \$31,392,000. Total term liabilities at 30th June 2013 were \$20.5m
 - IV. *Dividend Policy*
It is proposed to review the dividend policy during the 2015/2016 financial year.

7.0 Information to be provided to Shareholders

The company will deliver the following Reports or Statements to the Shareholder:

- Unaudited Half Year Report within two months of the end of the first half of the financial year (27 February); commenting on the operations and results for the six months.

- Statement of Intent
 - By 1 March of each year a Draft Statement of Intent for the consideration of the shareholders
 - Final Statement of Intent to the shareholders by 30 June.
- Financial Statements
 - Draft financial statements by 31 July.
 - Audited Annual Accounts by 30 September.

8.0 Governance Statements

Board of Directors

There are two separate Boards of Directors for WIPL and NZFIW. The board is a skill based board that must govern in the best interests of the company.

The WIPL Board currently includes the following Directors:

- **Earl Rattray** (Chairman) is past Director of Fonterra, a Director of other companies active in the Agricultural sector and a NZ dairy farmer and has interests in international farming enterprises. Accredited Fellow member of the NZ Institute of Directors.
- **Michael Spaans** is a dairy farmer from Te Aroha who also acts as a Director on a number of other companies in New Zealand's Agricultural sector including Fonterra. Member of NZ Institute of Directors.
- **Tony Steele** is a Chartered Accountant and has had a career in professional practice. His speciality area is in Business Advisory Services, which includes a wide range of commercial and corporate services. Tony is a Fellow member of the NZ Institute of Directors.
- **Martin Udale** has more than 30 years' experience in commercial and residential property development and investment in UK, Australia and New Zealand. Member of NZ Institute of Directors.
- **Dr Andrew West** is Vice Chancellor of Lincoln University and was previously Chief Executive of AgResearch, New Zealand's principal research organisation supporting the country's dairy, meat and wool industries. Accredited member of NZ Institute of Directors.

Health and Safety

WIPL is committed to Health and Safety which will be at the forefront of its operational management to ensure the wellbeing of its staff, tenants, contractors and visitors.

Environment

WIPL is committed to minimise and/or mitigate the adverse impact of the company's operations on the environment.

Innovation Waikato Ltd and Group

Consolidated forecasts for the years ending Jun 2016 - 2018

Overview

	Forecast	Forecast	Forecast
All in 000	2016	2017	2018
EBITDA Property	1,338	2,178	2,899
EBITDA Business Growth	37	35	35
EBITDA NZFIW	1,680	1,864	1,850
Group EBITDA	3,055	4,077	4,784
Depreciation	1,078	1,103	1,149
Interest	1,256	1,654	1,527
Total Other overheads	2,334	2,757	2,676
Surplus before tax	721	1,320	2,109
Income tax		(286)	(375)
Surplus After Tax	721	1,034	1,733
Dividends	(51)	(204)	(264)
Surplus after tax and dividends	670	830	1,470

Innovation Waikato Ltd and Group

Consolidated forecast Statement of Financial Position as at June 2016 to 2018

\$ '000	Jun-16	Jun-17	Jun-18
Total Current Assets	768	774	941
Non Current Assets			
Plant & Equipment	15,492	15,461	15,067
Buildings	28,911	35,090	39,422
Total Non-current Assets	44,403	50,551	54,489
Total Assets	45,171	51,325	55,430
Total Current Liabilities	925	898	601
Non Current Liabilities			
Bank Loans	24,210	26,065	26,817
Deferred Grant Income	4,799	4,581	4,362
Customer Financing	1,104	1,104	1,104
Deferred Income Tax	152	268	567
Total Non-Current Liabilities	30,266	32,018	32,850
Total Liabilities	31,191	32,916	33,714
Net assets	13,980	18,409	21,979
Total Equity	13,980	18,409	21,979

Half Yearly Report

Innovation Waikato Ltd & Group

For the six months ended 31 December 2014

Financial Results (Unaudited) (For the Year Ended 30 June 2015)

Cash Operating Surplus	YTD	YTD	YE	YE
	Actual	Budget	Forecast	Budget
	\$000	\$000	\$000	\$000
Property	249	459	342	732
NZFIW	387	(178)	752	290
Group cash operating surplus	636	281	1,094	1,022

Net Profit

	YTD	YTD	YE	YE
	Actual	Budget	Forecast	Budget
	\$000	\$000	\$000	\$000
Property	285	478	323	599
NZFIW	(8)	(506)	108	(428)
Group net profit	277	(28)	431	171

KPI's

KPI's	Actual	Budget	YE	BNZ
	\$000	\$000	Forecast	Covenant
Interest Cover	2.22	1.75	2.44	1.5
Shareholder Funds/Tangible Assets	57.7%	54.3%	48.2%	50%

Debt/Assets

	\$000	YE Budget		
		\$000		
Secured debt	17,645	16,147		
Total Assets	37,636	34,427		



Management Commentary

NZ Food Innovation (Waikato) Ltd Spray Dryer Plant

Settlement of the \$3,000,000 subscription by Callaghan for NZFIW shares was made in full on the 5th December 2014. Callaghan are now a 30% owner of NZFIW.

The \$5.7 million upgrade which allows milk separation, batching and full ingredient mixing is well under way. The building is almost complete with equipment installation commenced. The targeted start-up date is 1st April 2015.

The departure of Dairy Goat Cooperative has driven a transition to a new group of customers. One of which - New Image Group, has booked a total of 120 days in this period to process Goat Infant Formula.

Another successful avocado production run was completed in December, with a further run planned for Jan 2015. Drying of this product is no longer considered to be a trial product, with constant production and minimal issues throughout the process.

FoodWaikato remains buoyant with 80% of the seasonal capacity booked. FoodWaikato has secured signed contracts of which two are 5 year terms, providing security for some time to come. Other trials and new commercial products are planned for this season.

Waikato Innovation Park Ltd

Core Facilities Building Tenants in the Core Facilities building have remained constant with only minor changes. The building is 100% occupied and all tenants are settled and stable.

Tetra Pak Building The Tetra Pak building is 100% occupied and most current tenants are wishing to expand when space is available.

New Tetra Pak Building We are currently in the design phase and are on target to begin building on 1st April 2015. We are in the process of confirming the backfill of the current Tetra Pak building upon their vacating at the end of the year. We expect to have the majority signed up by mid year (by mostly current tenants wishing to expand) and hope to keep a little space available for new companies.

Waikato Innovation Park

"Growing Technology Business"



Operations Figures (For the Year Ended 30 June 2015)

	Forecast	Budget
NZFIW Production Days	144days	138days
NZFIW Product Days year end forecast	291days	250days
Property Occupancy Rate	100%	98%
Cash Return on Property Equity (forecast)	8.8%	6.9%

Financial Results

Items to note when reading the financial results:

- Property and NZFIW are performing above budget.
- Occupancy rates and rental rates have exceeded budget.
- Throughput and prices charged for the spray dryer have exceeded budget.

Committee: Council Controlled Organisations Subcommittee **Date:** 22 April 2015

Report Name: Waikato Regional Airport Ltd Draft Statement of Intent 2015/16 and Half Year Report for December 2014 **Author:** David Leong

Report Status	<i>Open</i>
Strategy, Policy or Plan context	<i>Monitoring performance of CCOs</i>
Financial status	<i>There is/is not budget allocated Not applicable</i>
Assessment of significance	<i>Having regard to the decision making provisions in the LGA 2002 and Councils Significance Policy, a decision in accordance with the recommendation is not considered to have a high degree of significance</i>

1. Purpose of the Report

2. To present the Waikato Regional Airport Ltd (WRAL) draft Statement of Intent (SOI) for the year ended 30 June 2016 for consideration and comment.
3. To present the WRAL Half Year Report to 31 December 2014.

4. Executive Summary

5. Draft Statement of Intent 2015/16

6. The draft 2016 SOI reflects earnings before interest, tax, depreciation and amortisation (EBITDA) of \$1.930m and a net deficit after tax of \$573k. In comparison, the forecast EBITDA and net deficit for 2017 and 2018 shows a slight downwards movement. Other key financial performance targets for the 3 years 2016 to 2018 are reflected in note 23 below.
7. The key strategic activities for 2015/16 year are:
 - Optimise domestic passenger services.
 - Completion of run way designation appeal process.
 - Maximise property lease income.
 - Completion of the review of Titanium Park Joint Venture.
8. Capital expenditure is forecasted at \$600k for 2015/16, and \$650k and \$670k respectively for the 2017 and 2018.
9. As the priority is to reduce debt, the Directors recommend that no dividend be paid for the next 3 years.

10. **Half Year Report to 31 December 2014**

11. WRAL made a group deficit after tax of \$169k for the six months to 31 Dec 2014, which includes a \$110k loss on the revaluation of interest rate swaps. Over the last 6 months the company has focused on operational efficiencies, cost control, working with Air New Zealand on route marketing initiatives and the review of future direction of Titanium Park.
12. The company is forecasting a full year deficit after tax of \$41k, which is \$152k down on the budgeted 2015 SOI surplus after tax of \$111k.
13. Although domestic passenger numbers for the 6 months to 31 Dec 2014 at 146,000, were down 4% or 5950 on the previous period last year, this has been offset by the revised terminal and landing charges that were implemented in April 2014. Revenue for the 6 months to 31 Dec 2014 at \$3.574m is up 4% or \$142k on 2013.

14. Recommendations from Management

That:

- a. The Report be received; and
- b. Council provides a written response to WRAL, advising that the CCO Subcommittee approves the draft SOI with no amendments.

15. Attachments

16. Attachment 1 - WRAL Draft Statement of Intent for 2015/16
17. Attachment 2 - WRAL Half Year Report to 31 December 2014

18. Key Issues

19. Draft Statement of Intent 2015/16

20. The key financial performance targets for the SOI are summarised below:

Consolidated Group Forecasts (The group includes Titanium Park Ltd and Hamilton & Waikato Tourism Ltd)	Forecast 2016 \$'000	Forecast 2017 \$'000	Forecast 2018 \$'000
Earnings before interest, tax, dep & amort (EBITDA)	\$1,930	\$1,903	\$1,872
Surplus/(deficit) after tax	\$(573)	\$(701)	\$(760)
Net cash flow (operating & investing)	\$35	\$28	\$101
Total liabilities /shareholders' funds (debt/equity)	26:74	25:75	24:76
Capital expenditure	\$600	\$650	\$670
Interest cover (Parent only) (number of times EBITDA cover interest paid on debt)	2.73	2.76	3.00

21. The non-financial performance targets relating to health and safety, operational compliance and customer satisfaction are detailed in the SOI, *Attachment 1*.
22. As the priority is to reduce debt, the directors propose no dividend be paid for the next 3 years.
23. The 2015/16 SOI deficit after tax of \$573k is significantly unfavourable compared to the 2014/15 SOI surplus after tax of \$111k, and the 2015/15 forecast deficit after tax of \$41k. The 2015/16 SOI reflects the impact of the cessation of flight routes from Hamilton Airport which has been recently announced by Air New Zealand. The further decline in passenger numbers impacts other revenue areas e.g. carparking and kiosk sales.

24. Half Year Report to 31 December 2014

25. The key financial highlights for the half year are summarised below:

	Group Actual 6 mths to 31/12/14 \$'000	Group Actual 6 mths to 31/12/13 \$'000	Comments
Total Revenue	\$3,574	\$3,432	Up 4% or \$142k on 2013
Total Expenditure	\$3,743	\$3,430	Up 9% or \$313k on 2013, mainly due to an unfavourable movement in interest rate swaps of \$254k (Loss \$110k 2014, Gain \$144k 2013)
Operating surplus/(deficit)	\$(169)	\$2	
Tax	\$4	\$(72)	
Surplus/(deficit) after tax	\$(173)	\$74	Down 334% or \$247k on 2013, mainly due to an unfavourable movement in interest rate swaps of \$254k.
EBITDA	\$1,361	\$1,136	Up 20% or \$225k on 2013.
Total assets	\$80,308	\$78,892	
Total liabilities	\$21,014	\$19,365	
Net equity	\$59,294	\$59,527	
Net equity/Total assets %	74%	75%	

26. Domestic passenger numbers for the 6 months to 31 Dec 2014 were 146,000, which is down 4% or 5,950 on same period last year. It is noted that fewer passengers are travelling on Auckland and Palmerston North routes.
27. The revised terminal and landing charges implemented in April 2014 have assisted in offsetting the decline in passenger numbers, resulting in revenue for the 6 months to 31 Dec 2014 being ahead of the same period last year.
28. Air New Zealand announced the cessation of the Hamilton to Auckland route from Feb 2016. This will have an impact on revenue and bottom line for the 2015/16 year partially offset by increased services to other domestic destinations.
29. Parent debt has reduced by \$239k during the six months from \$10.201m to \$9.962m.
30. Titanium Park Joint Venture (TPJV) has not made any land sales in the half year. The WRAL Board key priority is to review of the Titanium Park and the Agreement with the Joint venture Partner.
31. Hamilton & Waikato Tourism Ltd (HWT) is in its fourth year of operation with strong relationship with Councils in the region and industry and a number of key marketing activities are noted in the Chairman's report.
32. The key financial performance targets are summarised below:

	SOI 30/06/15 \$'000	Group Actual 6 mths to 31/12/14 \$'000	Forecast 30/06/15 \$'000
EBITDA	\$2,880	\$1,360	\$2,350
Net surplus/(deficit) after tax	\$111	\$(173)	\$(41)
Net cash flow from operating & investing	\$(375)	\$(209)	\$329
Interest cover (requirement 1.50)	2.91	3.24	3.13

- 33. The Chairman’s Report provides an overview for the half year, a detailed commentary on financial results, passenger numbers, operations, TPJV, Airport Developments, HWT and outlook- refer *Attachment 2*.

Signatory

Authoriser	Sean Murray, General Manager Events and Economic Development Group
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2015/2016

Waikato Regional Airport Limited Draft Statement of Intent

February 2015



1.0 Introduction

This statement is presented by the Directors in accordance with s.64 (1) Local Government Act 2002 and sets out the Board's intentions for the Company for the year ended 30 June 2016 and succeeding two financial years.

2.0 Strategic Intent

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

Core Purpose

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

Key Objectives

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

3.0 In Pursuing its Goals the Company will:

- At all times behave in a professional and ethical manner in all its business dealings with its customers and stakeholders
- Be a good employer
- Identify and recognise Shareholders' expectations, within the bounds of corporate prudence

4.0 Nature and Scope of Activities to be Undertaken

(4.1) Operate an efficient and compliant airport

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

(4.2) Enhance the traveller experience

Maximise traveller satisfaction and airport experience

(4.3) Maintain a viable aeronautical business

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

Promote development and growth of the general aviation sector

Protect future aeronautical opportunities by completing the runway designation, to allow the main runway to be extended up to 2984m when supported by an appropriate business case

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

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

Support the development of land within the bounds of a sound strategic approach to long-term planning for the airport precinct

Identify and market for lease all available surplus airport-owned land

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

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

(4.6) Capital Expenditure

Planned major capital expenditure included in the 3 year forecast is 2016:\$600k; 2017:\$650k; 2018:\$670k.

(4.7) Strategic Activities

Key activities for the 2015/16 year are:

- Optimise domestic passenger services
- Completion of runway designation appeal process
- Maximise property lease income
- Completion of the review of Titanium Park Joint Venture

5.0 Shareholders' Funds to Total Assets

Years ending 30 June	2016	2017	2018
Shareholders' funds to total assets	74%	75%	76%

Definitions:

Shareholders' funds Total assets less the total liabilities.

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

6.0 Statement of Accounting Policies

The accounting policies adopted by the Group for the year ending 30 June 2016 and succeeding 2 years are those as adopted in the 2014 Annual Report adjusted for the concessions provided for by Tier 2 of the new accounting standards framework issued by the External Reporting Board in April 2012.

7.0 Performance Targets

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

		Year Ended 30 June		
<i>Based on consolidated company forecasts</i>		2016	2017	2018
7.1	Earnings before interest, taxation & depreciation (EBITDA)	\$1,930,000	\$1,903,000	\$1,872,000
7.2	Net surplus after tax	(573,000)	(701,000)	(760,000)
7.3	Net profit after tax to average shareholders' funds	-1%	-1%	-1%
7.4	Net profit after tax to total assets	-1%	-1%	-1%

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7.5	Net cash flow (operating & investing)	35,000	28,000	101,000
7.6	Total liabilities/shareholders' funds (debt/equity ratio)	26:74	25:75	24:76
Applicable to parent company operations only		2016	2017	2018
7.7	Percentage of non-landing charges revenue	64%	64%	64%
7.8	Interest cover	2.73x	2.76x	3.00x
<i>The interest cover measures the number of times the net profit before interest, tax and depreciation (EBITDA) covers interest paid on debt</i>				
Non-financial performance targets				
7.9 Health & Safety				
7.9.1	Facilitate Health & Safety meetings every 2 months with representatives from each company department			
7.9.2	Zero WorkSafe notifiable accidents/injuries			
7.9.3	Commission independent review of the company's Health & Safety framework. Implement recommendations from the independent review to ensure best-practice compliance			
7.10 Operational Compliance				
7.10.1	To achieve the Airport Certification Standards as required by the Civil Aviation Authority and as evidenced by Civil Aviation Authority audit reports			
7.10.2	Ensure airport is operationally available for all scheduled passenger services (except for uncontrollable events)			
7.10.3	Facilitate noise management meetings each 4 months in accordance with the Noise Management Plan			
7.11 Customer Satisfaction				
7.11.1	Collect, document and act (where viable) on customer feedback forms to continuously monitor and improve the customer experience. Maintain a database to ensure recurring negative feedback is promptly acted upon			

8.0 Dividend Policy

In view of the priority to reduce debt, and as agreed by Shareholders, the Directors propose to recommend that no dividend be paid for the next three years and that the dividend payment decisions for subsequent years are determined at the annual general meeting each year.

9.0 Information to be provided to Shareholders

- 9.1 The Annual Report of the Company will include:
- Chairman & General Managers' Report;
 - Statement of Comprehensive Income;
 - Statement of Movements in Equity;
 - Statement of Financial Position; and

Page 4

- Statement of Cash Flows.
- 9.2 An Interim Report circulated to Shareholders each half-year will include:
- Chairman's Report; and
 - Summary of the unaudited financial results for the six months ended 31 December.

10.0 Future Investment Proposals

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

11.0 Commercial Value of the Shareholders Investment

No valuation of shares has been completed.

The consolidated balance sheet of WRAL as at 30 June 2014 shows shareholder equity of \$59.5m. Company investment in Titanium Park Joint Venture is recorded at cost. Company Property, Plant & Equipment is based upon a 2011 valuation except for land which was revalued as at 30 June 2013. Company assets such as runways, aprons, taxiways and the terminal building are based upon depreciated replacement cost.

12.0 Compensation from Local Authorities

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

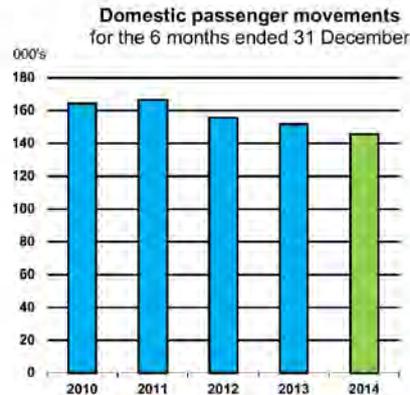
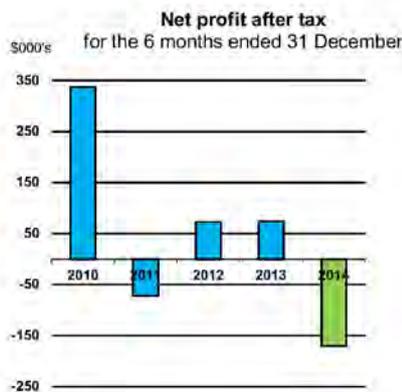
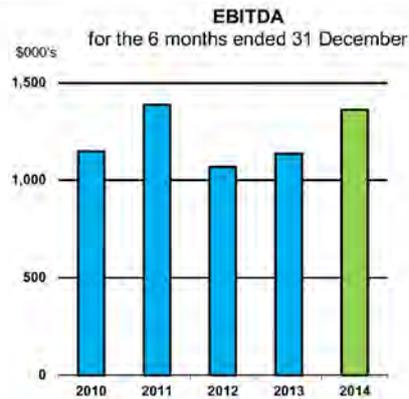
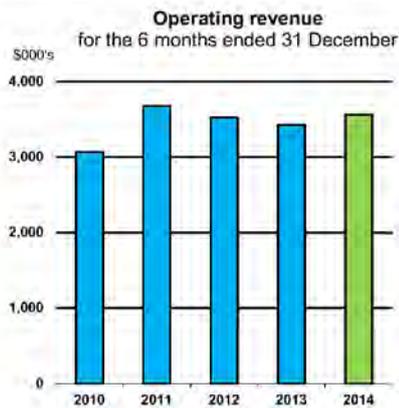


Hamilton International Airport

Interim Report
For the six months ended
31 December 2014

GROUP RESULTS AT A GLANCE

Domestic Passenger Numbers	146,000
Domestic passengers down 4% on 2013	
Air Movements	62,000
Air movements down 11% on 2013 due to poor weather affecting pilot training operations and general aviation	
Operating Revenue	\$3,569,000
Operating revenue up 4% on 2013	
Operating Expenses	\$1,212,000
Operating expenses down 6% on 2013 Total expenses up \$313k including the unfavourable movement in interest rate swaps of \$254k	
Earnings before Interest, Tax, Depreciation and Amortisation	\$1,361,000
EBITDA up 20% on 2013	
Net Profit After Tax	-\$173,000
Net profit after tax down 334% on 2013 due to the unfavourable movement in interest rate swaps in 2014	



CHAIRMAN'S REPORT

OVERVIEW OF THE HALF YEAR

Following a review of the airport's strategic plan in early 2014, and a revised Statement of Intent, the focus over the past six months has been on operational efficiencies, cost control, working with Air New Zealand on route marketing initiatives, and a review of the future direction of Titanium Park. The airport also continues to work through the final appeal associated with the runway extension designation.

Following the successful completion of the runway overlay project last March, capital works this financial year have been focused on additional operational improvements including sealing of a general aviation taxiway, installation of runway 'low intensity approach lights' and improved airfield signage.

Passenger numbers have a critical impact on total revenue, affecting not only terminal fees charged to airlines but also parking, retail and concession revenues. The half year has seen 146,000 passengers using the airport, down 3.9% on the same period last year. This is a continuation of a downward trend in domestic passenger numbers over the last 4 years. In November, Air New Zealand announced that its fleet of Beech aircraft will be withdrawn from service in 2016. This will have an impact on a number of regional airports, including Hamilton. Air New Zealand is ceasing the Hamilton to Auckland route from February 2016. As with other gaps created in the regional network arising from this change, a lower tier operator may well service this route.

A major focus this year by the Board has been on Health & Safety. Independent expertise has been engaged to oversee Health and Safety audit and compliance for the company. This expertise will also be used to assist the company with the development and implementation of the requirements of the impending Health and Safety Reform Bill, currently before Parliament.

Financial Results

The half-year result for the Group (inclusive of Titanium Park Limited and Hamilton & Waikato Tourism Limited) is a loss after tax of \$173,000. While this is \$37,000 lower than budget, this loss takes into account both a \$110,000 unfavourable movement in the valuation of the interest rate swaps and \$114,000 of Titanium Park expenses (\$59,000 above budget).

At \$1,361,000, Group EBITDA exceeds budget by \$113,000 and is an improvement of \$225,000 or 20% over the previous year. This has been achieved by careful management of all operating costs.

Total operating revenue for the Group is \$3,569,000, being 1% below budget and 4% ahead of last year. Although passenger numbers for the six months are down 4% on the previous year, the revised terminal and landing charges implemented last April have assisted in offsetting this slight decline in passengers. In line with the Statement of Intent, there have been no land sales by Titanium Park Joint Venture to date this year, while last year one sale within Central Precinct was recorded.

Total operating expenditure of \$1,212,000 represents an \$83,000 reduction on last year and is 9% below budget. Less expenditure has been required on the airfield following the overlay of the runway in early 2014. Most other aeronautical and property-related costs are below both budget and those incurred last year.

Airport debt has reduced by \$239,000 during the six months from \$10,201,000 to \$9,962,000.

Passenger Numbers

Passenger numbers were 5,950 (4%) behind those of the same six-month period last year, with fewer passengers travelling on the Auckland and Palmerston North routes. Wellington was in line with last year while Christchurch was 3.5% behind, despite good load factors on the current schedule. The most significant impact on Hamilton Airport of Air New Zealand's announcement regarding the 19-seat Beech aircraft, is the cessation of the Hamilton to Auckland route from February 2016. The Auckland route currently provides 9% (25,000) of our annual passenger numbers. From May 2015, the number of flights on the Hamilton to Auckland route will reduce from 19 to 12 per week as part of the fleet phase-out, resulting in an estimated 1,500 fewer passengers in the current financial year. The benefit to Hamilton of the fleet change is that a number of the 50-seat Q300 aircraft will be transferred in 2016 to some routes currently being serviced by the Beeches. Accordingly, only 70-seat ATR aircraft will be used on the Wellington and Christchurch routes from mid-next year, providing an increase in seat capacity to and from Hamilton.

The airport recently conducted an on-line business traveller survey, and invited members of a number of Waikato-based business and professional associations to participate. As anticipated, regional airfares from Hamilton and flight schedules were noted as the key disincentives to use Hamilton Airport. The need for improved facilities,

CHAIRMAN'S REPORT

particularly the Air New Zealand lounge, was also highlighted. The airport has shared the survey results with Air New Zealand and a number of initiatives are under way to address the concerns raised.

Operations

Following the sealing of a general aviation taxiway in mid-2014, other operational improvements to the airfield have been completed or are currently in progress. These include new runway approach lights, the reconfiguration of the general aviation manoeuvring area, enhanced runway signage and a replacement terminal storm water slot drain. The low intensity approach lights have been positioned at the northern end of the main runway and provide an improvement in aircraft capability for landing in low visibility conditions.

Titanium Park Joint Venture (TPJV)

Marketing of the Titanium Park Central and Western Precincts has continued over the past six months with a number of parties conveying interest in investing within the Park but taking considerable time to finalise their decision. There were no land sales recorded in the half year, in line with the Statement of Intent. In April 2015, TPJV will receive the fourth and final payment for the 2011 sale of the Raynes Precinct to Keewee Group Limited.

The WRAL Board's key priority this year has been the review of Titanium Park and the Agreement with its joint venture partner. This review has considered the future options for the Park. These options are currently being evaluated by the partners.

Airport Developments

Aircraft manufacturer, Alpha Aviation, recently completed the construction of a new airside facility on airport land on Steele Road. Alpha was previously based in Hautapu (Cambridge) and has recommenced manufacture of its 2-seater trainer aircraft in these new premises.

Hamilton & Waikato Tourism Limited

Hamilton and Waikato Tourism (HWT) has entered its fourth year of operation with strong relationships with local government and industry, and a close working relationship with the airport company. A key focus over the past six months has been the development of the ten-year Regional Visitor Strategy, which is focused on growing the sector from \$1 billion to \$1.35 billion by 2025. To achieve this, HWT needs to extend its current activities and broaden its operating scope to include product development to strengthen the region's visitor proposition. To enable this to happen, HWT has sought increased funding from Council partners through their respective Long Term Plans.

Key Marketing activities for HWT

Australia remains a key market for the region as the largest international visitor segment. HWT participated for a fourth year in a \$1.4m marketing campaign along the eastern seaboard in partnership with Tourism New Zealand and various upper North Island regions.

The development of long-haul markets has seen HWT's continued participation in the campaign 'Explore Central North Island' which is promoted by the central North Island collective of Regional Tourism Organisations. A key focus this year is TRENZ (NZ's largest travel trade event), which the collective is hosting in Rotorua. A new Cycling and Mountain Biking Tourism Marketing Network has been formed to promote cycling and mountain biking in the central North Island. The focus is on international and domestic audiences with international activity taking place in partnership with Tourism New Zealand.

Tourism New Zealand once again focused its global marketing campaign on '100% Middle-earth, 100% Pure New Zealand' to coincide with the final Hobbit movie in December. The Hamilton and Waikato region has experienced growth in international guest nights and visitor expenditure, which continues to be driven by the region's key icons, Hobbiton Movie Set and Waitomo Caves.

A series of internal and external domestic marketing initiatives has been undertaken over the period, including Explore Your Own Backyard campaigns and short break campaigns focused on events in the region. A key focus has been preparing for two key major events in 2015: the Cricket World Cup and FIFA Men's U-20. Investment in the HWT Convention Bureau by regional businesses has remained strong as the business events sector cements its position as a key driver and contributor to the Waikato region's visitor economy.

CHAIRMAN'S REPORT

Outlook

A key focus for the WRAL Board and Management during the second half of the year will be the continuation of careful control of operating costs and cash to counteract any shortfalls in budgeted revenue associated with the current trend in passenger numbers. Working with Air New Zealand, targeted marketing initiatives will be aimed at promoting greater use of Hamilton Airport by Waikato travellers.

The Board also seeks to finalise an agreement relating to the future of Titanium Park with its joint venture partners.

John Spencer

Chairman

CONSOLIDATED INCOME STATEMENT

For the Six Months Ended 31 December 2014

	GROUP \$000		PARENT \$000	
	2014	2013	2014	2013
Revenue				
Operating revenue	3,589	3,422	2,808	2,640
Other revenue	5	10	244	208
TOTAL REVENUE	3,574	3,432	3,052	2,848
Expenses				
Operating expenses	1,212	1,295	820	987
Employee benefit expenses	891	876	673	675
Depreciation and amortisation	1,049	979	1,044	971
Directors' fees	68	79	52	57
Interest	370	299	370	299
Remuneration of auditor	43	46	30	34
Loss / (gain) on interest rate swaps	110	(144)	110	(144)
TOTAL EXPENSES	3,743	3,430	3,099	2,879
Operating surplus/(loss) before taxation	(169)	2	(47)	(31)
Taxation	4	(72)	8	(94)
OPERATING SURPLUS/(LOSS) AFTER TAXATION	(173)	74	(55)	63

The above results have not been audited

CONSOLIDATED BALANCE SHEET

As At 31 December 2014

	GROUP \$000		PARENT \$000	
	2014	2013	2014	2013
Equity				
Share capital	14,860	14,860	14,860	14,860
Asset revaluation reserve	28,677	28,677	28,677	28,677
Retained earnings	15,757	15,990	19,479	19,599
Total Equity	59,294	59,527	63,016	63,136
Current Assets				
Cash and cash equivalents	240	377	51	207
Trade and other receivables	1,005	990	435	380
Prepayments	212	238	2,442	2,043
Inventories	107	121	107	121
Term deposits	160	160	-	-
Development property	12,316	12,118	-	-
	14,040	14,004	3,035	2,751
Current Liabilities				
Derivative financial instruments	518	465	518	465
Payables and accruals	882	1,077	178	501
Employee entitlements	186	180	145	150
Income in advance	623	641	218	238
Term loans - current	-	18	-	-
	2,209	2,381	1,059	1,352
Working Capital	11,831	11,623	1,976	1,399
Non-Current Assets				
Property, plant and equipment	62,423	60,990	62,393	60,936
Investment property	3,720	3,750	3,720	3,750
Other financial assets	25	26	25	26
Intangible assets	3	16	3	16
Investment in subsidiaries	-	-	4,750	4,750
Loans to subsidiaries	-	-	7,248	7,223
Other assets	97	106	97	106
	66,268	64,888	78,236	76,807
Non-Current Liabilities				
Term loans	11,668	9,466	9,962	7,539
Deferred taxation	7,137	7,518	7,234	7,530
	18,805	16,984	17,196	15,069
Net Assets	59,294	59,527	63,016	63,136

The above results have not been audited.

FINANCIAL PERFORMANCE TARGETS

For the Six Months Ended 31 December 2014

	Group		
	SOI 30/06/15	Actual 31/12/14	Forecast 30/06/15
MEASURES			
Earnings before interest, taxation & depreciation (EBITDA)	\$2.88m	\$1.36m	\$2.35m
Net surplus/(deficit) after tax	\$111k	-\$173k	-\$41k
Net profit after tax to average shareholders' funds	0.0%	-0.3%	-0.1%
Net profit after tax to total assets	0.0%	-0.2%	-0.1%
Net cash flow (operating & investing)	-\$375k	-\$209k	\$329k
Percentage of non-landing charges revenue to total revenue	64.4%	79.7%	79.1%
Total liabilities to shareholder funds	26:74	26:74	25:75
Interest cover (requirement 1.50)	2.91	3.24	3.13

The above results have not been audited

 **CORPORATE DIRECTORY**
For the Six Months Ended 31 December 2014

Board of Directors	John Spencer, Chairman Annabel Cotton Margaret Devlin Carlos da Silva
General Manager - Commercial	George Clark
General Manager - Operations	Simon Hollinger
Registered Office	Hamilton Airport Terminal Building Hamilton International Airport Airport Road, R D 2 Hamilton 3282
Telephone	07 848 9027
Facsimile	07 843 3627
E-mail	wral@hamiltonairport.co.nz
Web Site	www.hamiltonairport.co.nz
Bankers	Bank of New Zealand
Solicitors	Tompkins Wake, Hamilton
Auditors	Audit New Zealand, Hamilton on behalf of the Controller and Auditor-General

Committee: Council Controlled Organisations Subcommittee
Date: 22 April 2015
Report Name: Consideration of the purposes of CCOs
Author: David Leong

Report Status	<i>Open</i>
Strategy, Policy or Plan context	<i>Monitoring of CCOs</i>
Financial status	<i>There is/is not budget allocated Not applicable</i>
Assessment of significance	<i>Having regard to the decision making provisions in the LGA 2002 and Councils Significance Policy, a decision in accordance with the recommendations is not considered to have a high degree of significance</i>

1. Purpose of the Report

- To review the functions and activities of the various Council Controlled Organisations (CCOs) of Hamilton City Council (Council) to establish whether the CCOs fit the purpose of local government as intended in the Local Government Act 2002.

3. Executive Summary

- A review has been carried out to establish whether the following CCOs fit the purpose of local government as intended in the Local Government Act 2002:
 - Innovation Waikato Ltd (IWL) & Group (includes Waikato Innovation Park Ltd (WIPL) and New Zealand Food Innovation (Waikato) Ltd (NZFIW).*
 - Local Shared Services Ltd (LASS)*
 - New Zealand Local Government Funding Agency Ltd (LGFA)*
 - Waikato Regional Airport Ltd (WRAL) & Group (includes Titanium Park Ltd (TPL) and Hamilton & Waikato Tourism Ltd HWT).*
 - Vibrant Hamilton Trust (VHT)*
 - Hamilton Properties Ltd (HPL)*
- The purpose of local government under Section 10 (1) (b) of the LGA 2002 says:
To meet the current and future needs of communities for:
 - good-quality local infrastructure,*
 - local public services,*
 - performance of regulatory function in a way that is,*
 - most cost effective for households and businesses.*

6. The conclusion reached is that all CCOs (noted in section 4 above) fit the purpose of the LGA.

Section 10 (1) (b) of the LGA 2002 Criteria	1	2	3	4
IWL & Group	Yes	No	No	Yes
LASS	Yes	No	Yes	Yes
LGFA	Yes	Yes	Yes	Yes
WRAL	Yes	Yes	No	Yes
VHT	No	Yes	No	Yes
HPL	Yes	No	No	Yes

7. Council's rationale for investing in the IWL & Group goes much wider than the LGA. Council has supported economic development by providing the initial grants/capital to WIPL, so that the business could seek Government funding to develop the Waikato Innovation Park. IWL, WIPL and NZFIW became CCOs in October 2013, when the shares in IWL were gifted to Council by the Katolyst Group, which was valued at \$10.19m.

8. It should be noted that the CCO Subcommittee are reviewing the ownership of IWL & Group.

9. Recommendation from Management

That the Report be received.

10. Attachments

11. There are no attachments for this report.

12. Key Issues

13. Background

14. HCC holds shares in the following CCOs:

Entity	Ownership	Value at 30 June 2014 \$'000
1 Innovation Waikato Ltd (IWL) & Group (which includes Waikato Innovation Park Ltd (WIPL) and New Zealand Food Innovation (Waikato) Ltd (NZFIW))	100% IWL shares. 19.81% WIPL shares. IWL owns 80.19% of WIPL.	IWL \$10,149 WIPL \$2,506
2 Local Authority Shared Service Ltd (LASS)	13.72% SVDS shares 37.5% WRTM shares	\$378
3 New Zealand Local Authority Government Funding Agency Ltd (LGFA)	8.3%	\$1,866
4 Waikato Regional Airport Ltd (WRAL) & Group (which includes Hamilton & Waikato Tourism Ltd and Titanium Park Ltd)	50%	\$29,750
5 Vibrant Hamilton Trust (VHT)	Incorporated Society & Charitable Trust	Net assets \$5,572
6 Hamilton Properties Ltd (HPL)	100%	1

15. Legislative requirements

16. Section 10 (1) (b) of the Local Government Act 2002 (LGA) stipulates the purpose of local government and reads as follows:

17. *"To meet the current and future needs of communities for (1) good-quality local infrastructure, (2) local public services, and (3) performance of regulatory function in a way that is (4) most cost effective for households and businesses"*

18. Review of CCOs

The review of Council's CCOs was performed as follows:

- The rationale for Council's investment in each of the CCOs and the respective CCO objectives were documented.
- The rationale and objectives for each CCO were then assessed against meeting the purpose of the LGFA, as defined above – *see section 6 & 17*.
- Any potential risks were considered if the CCOs functions and activities did not meet the purpose of the LGA.

19. Innovation Waikato Ltd (IWL) & Group

20. IWL objectives:

- To promote research, commercialisation and marketing of new and existing entities or individuals, new products, processes technologies and quality improvement.
- To actively promote economic development by supporting the growth of business that contributes to New Zealand's export economy.
- The focus of the Park is on innovation and technology-led businesses that enhance New Zealand's competitive advantage and align the region's economic development strategy in areas such as: agriculture, agribusiness, food processing, and value added food products from primary production, horticulture, environmental sustainability, enabling information and communication technology.

21. Assessment:

- IWL does provide office infrastructure and advisory services that individuals and businesses can utilise.
- Although not mentioned specifically in the LGA, Council supports economic development through its direct shareholding in IWL and WIPL.
- It should be noted that Council is reviewing the opportunity its ownership in IWL and Group. The current view of the CCO Subcommittee is that Council does not necessary need to be a long term 100% shareholder in IWL & Group. Council does not intend to inject further capital, when the IWL/WIPL Board have plans for expansion for the Park.
- There does not appear to be any risk because of IWL & Group functions and activities do not specifically meet the purpose of the LGA in the short term. However, the Community will ultimately benefit in the future when Council decides to exit from IWL & Group, as the funds will be available for local public services and/or local infrastructure.

22. Local Authority Shared Service Ltd (LASS)

23. LASS objectives:

- The core purpose of LASS is to make a regional leadership contribution and seek opportunities to operate more efficiently by participating with the region's local authorities on shared services, particularly in respect of information collection and management, with the aim of reducing the cost of those activities to the community at large.

24. Assessment:

- LASS meets the purpose of LGA, i.e. savings and efficiencies achieved by Council, which ultimately benefits the community.

25. New Zealand Local Authority Government Funding Agency Ltd (LGFA)

26. LGFA objectives:

By borrowing through the LGFA, Council has benefited by:

- Ensuring the Council's finances is sustainable in the long term.
- Optimising debt funding terms and conditions for Council, including flexible lending terms.
- Enhancing the certainty of access to debt markets for Council.
- Ensuring savings in annual interest costs for Council.
- Receiving annual dividend income from LGFA.

27. Assessment:

- LGFA meets the purpose of LGA, i.e. interest savings and efficiencies achieved by Council, which ultimately benefits the community.

28. Waikato Regional Airport Ltd (WRAL) & Group

29. WRAL objectives:

- To support the delivery of sustainable airport operations for the region.
- To support the economic development for the region by driving the tourism initiatives.

30. Assessment:

- WRAL meets the purpose of LGA, i.e. developing and maintaining the Airport infrastructure for the region, which is considered a public benefit. It is not unusual for Councils to have some form investment in Airports, particularly in the regions.
- Although not mentioned in the LGA, Council supports economic development through its shareholding and financial contributions to WRAL and Group.

31. Vibrant Hamilton Trust (VHT)

32. VHT Objectives:

- Promote the social, economic, environmental and cultural wellbeing of Hamilton and its communities.
- Relieve poverty through sustainable policies and practices.
- Advance education in Hamilton, particularly to promote and advance economic standards for the benefit of the public.
- Deliver on strategic aspirations of Hamilton as identified by the community from time to time and endorsed by Council.
- VHT has made grants for various projects in the City, which has effectively benefited the community.

33. Assessment

- VHT meets the purpose of LGA, i.e. the public benefits from the distribution of grants to relevant projects in the Hamilton.

34. Hamilton Properties Ltd (HPL)

35. Council's rationale:

- Council has retained HPL with the view to utilising its tax losses in the future.

36. Assessment:

- HPL meets the purpose of LGA. There may be a possible financial benefit to Council, if HCC can utilise the tax losses in the future.

Signatory

Authoriser	Sean Murray, General Manager Events and Economic Development Group
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Resolution to Exclude the Public

Section 48, Local Government Official Information and Meetings Act 1987

The following motion is submitted for consideration:

That the public be excluded from the following parts of the proceedings of this meeting, namely consideration of the public excluded agenda.

The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution follows.

General subject of each matter to be considered	Reasons for passing this resolution in relation to each matter	Ground(s) under section 48(1) for the passing of this resolution
C1. Council Organisations Subcommittee - Public Excluded Minutes - 14 October 2014	Controlled (CCO)) Public) 14)	Good reason to withhold information exists under Section 7 Local Government Official Information and Meetings Act 1987
C2. Council Organisations Subcommittee Action List - Public Excluded - 22 April 2015	Controlled)	Section 48(1)(a)
C3. Council Ownership stake in Waikato Innovation Park and exit options		
C4. CCO Board Appointments		

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

Item C1.	to prevent the disclosure or use of official information for improper gain or improper advantage	Section 7 (2) (j)
Item C2.	to prevent the disclosure or use of official information for improper gain or improper advantage	Section 7 (2) (j)
Item C3.	to enable Council to carry out negotiations	Section 7 (2) (i)
Item C4.	to protect the privacy of natural persons	Section 7 (2) (a)