Hamilton City Council
Te kaunihera o Kirikiriroa

Notice of Meeting:

I hereby give notice that an ordinary Meeting of the Finance Committee will be held on:

Date:	**Tuesday 9 April 2019**
Time:	**9.30am**
Meeting Room:	**Council Chamber**
Venue:	**Municipal Building, Garden Place, Hamilton**

Richard Briggs
Chief Executive

Finance Committee
OPEN AGENDA

Membership

Chairperson	Cr G Mallett
Deputy Chairperson	Cr R Pascoe
Members	Mayor A King
	Deputy Mayor M Gallagher
	Cr M Bunting
	Cr J R Casson
	Cr S Henry
	Cr D Macpherson
	Cr A O'Leary
	Cr P Southgate
	Cr G Taylor
	Cr L Tooman
	Cr R Hamilton
	Maangai Bella Takiari-Brame
Quorum:	**A majority of members (including vacancies)**
Meeting Frequency:	**Six weekly**

Becca Brooke
Governance Team Leader

2 April 2019

Telephone: 07 838 6772
Becca.Brooke@hcc.govt.nz
www.hamilton.govt.nz

Purpose:

The Finance Committee is responsible for:

1. Monitoring Council's financial strategy, and financial performance against the Long Term Plan and Annual Plan.
2. Determining financial matters within its delegations and Terms of Reference and making recommendations to Council on financial matters outside its authority.
3. Guiding and monitoring Council's interests in its Council Controlled Organisations (CCOs), Council Organisations (COs) and subsidiaries.

In addition to the common delegations on page 9, the Finance Committee is delegated the following Terms of Reference and powers:

Terms of Reference:

1. To monitor Council's financial strategy, and performance against that strategy.
2. To monitor Council's financial and non-financial performance against the Council's 10 Year Plan.
3. To approve deferred capital expenditure.
4. To develop and monitor policy related to the following matters:
   a) financial management;
   b) revenue generation;
   c) procurement and tendering; and
   d) the appointment and remuneration of directors of CCOs and COs.
5. To monitor the probity of processes relating to policies developed by the Finance Committee.
6. To provide clear direction to Council's CCOs and COs on Council's expectations, including feedback on draft statements of intent.
7. To receive six-monthly reports of Council's CCOs and COs, including on board performance.
8. To undertake any reviews of CCOs and agree CCO-proposed changes to their governance arrangements, except where reserved for Council's approval by Council.
9. To monitor Council's investments in the Municipal Endowment Fund and the Domain Endowment Fund.

The Committee is delegated the following powers to act:

- Approval of:
  - Appointments to, and removals from, CCO and CO boards; and
  - A mandate on Council's position in respect of remuneration proposals for CCO and CO board members to be presented at Annual General Meetings.
- Approval of letters of expectation for each CCO and CO.
- Approval of statements of intent for each CCO and CO.
- Approval of proposed major transactions of CCOs and COs.
- Approval or otherwise of any proposal to establish, wind-up or dispose of any holding in, a CCO or CO.
- Approval of operating and/or capital expenditure within the Long Term Plan or Annual Plan that exceeds the Chief Executive's delegation, excluding expenditure which:
  - contravenes the Council's Financial Strategy; or
  - significantly alters any level of service outlined in the applicable Long Term Plan or Annual Plan; or

    - impacts Council policy or practice, in which case the delegation is recommendatory only and the Committee may make a recommendation to the Council for approval.
- Approval of contractual and other arrangements for supply and services, and revenue generating contracts, which:
    - exceed the Chief Executive's delegations, but
    - exclude contracts or arrangements that are reserved for the Council or another Committee's approval.
- Approval of acquisition or sale or lease of properties owned by the Council, or owned by the Municipal Endowment Fund or the Domain Endowment Fund consistent with the Municipal Endowment Fund Investment Policy, for any endowment properties.
- Approval to write-off outstanding accounts greater than $10,000 (in accordance with the Debtor Management Policy).

The Committee is delegated the following recommendatory powers:

- The Committee may make recommendations to Council.
- The Committee may make recommendations to other Committees.

Oversight of Policies:

- *Appointment and Remuneration of Board Members of COs, CCOs and CCTOs Policy*
- *Freeholding of Council Endowment Land Policy*
- *Funding Needs Analysis Policy*
- *Investment and Liability Management Policy*
- *Municipal Endowment Fund Investment Policy*
- *Rates Remissions and Postponements Policy*
- *Rating Policy*
- *Revenue and Financing Policy*

1.

ITEM	TABLE OF CONTENTS	PAGE

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.

4 Public Forum

As per Hamilton City Council's Standing Orders, a period of up to 30 minutes has been set aside for a public forum. Each speaker during the public forum section of this meeting may speak for three minutes or longer at the discretion of the Chair.

Please note that the public forum is to be confined to those items falling within the terms of the reference of this meeting.

Speakers will be put on a Public Forum speaking list on a first come first served basis in the Council Chamber prior to the start of the Meeting. A member of the Council Governance Team will be available to co-ordinate this. As many speakers as possible will be heard within the allocated time.

If you have any questions regarding Public Forum please contact Governance by telephoning 07 838 6439.

Item 5

Council Report

Committee:	Finance Committee	**Date:**	09 April 2019
Author:	Rebecca Watson	**Authoriser:**	Becca Brooke
Position:	Committee Advisor	**Position:**	Governance Team Leader
Report Name:	Confirmation of the Finance Committee Minutes - Open - 21 February 2019		

Report Status	*Open*

Staff Recommendation

That the Committee confirm the Open Minutes of the Finance Committee Meeting held on 21 February 2019 as a true and correct record.

Attachments

Attachment 1 - Finance Committee Minutes - Open - 21 February 2019 .

Hamilton City Council
Te kaunihera o Kirikiriroa

Item 5

Finance Committee

OPEN MINUTES

Minutes of a meeting of the Finance Committee held in Council Chamber, Municipal Building, Garden Place, Hamilton on Thursday 21 February 2019 at 9.30am.

Attachment 1

PRESENT

Chairperson	Cr G Mallett
Deputy Chairperson	Cr R Pascoe
Members	Mayor A King
	Deputy Mayor M Gallagher
	Cr M Bunting
	Cr J R Casson
	Cr S Henry
	Cr D Macpherson
	Cr P Southgate
	Cr L Tooman
	Cr R Hamilton
	Maangai Bella Takiari-Brame
In Attendance	Richard Briggs – Chief Executive
	David Bryant – General Manager Corporate
	Chris Allen – General Manager Development
	Eeva-Liisa Wright – General Manager Infrastructure Operations
	Sean Hickey – General Manager Strategy and Communication
	Sean Murray – General Manager Venues Tourism and Major Events
	Lance Vervoort – General Manager Community
	Jen Baird – General Manager City Growth
	Helen Paki – Business and Planning Manager
	Natalie Palmer – Communications Manager
	Stephen Halliwell – Accounting Manager
	Katy Nudd – Business Planning Analyst
	Natalie Young – PMO Manager
	Julie Clausen – Programme Manager Strategy and Communications
	Maire Porter – City Waters Manager
	Jason Harrison – Unit Manager Transportation
	Christie Harger – Corporate Business Manager
	Andrew Parsons – Strategic Development Manager
	Paul Gower - Programme Manager - Growth And Assets

	Jeff Neems – Communications Advisor Nicolas Wells – Strategic Property Manager Claire Foster – Property Officer Riki Manarangi – Corporate Policy Specialist Matthew Bell – Rates and Revenue Manager
Governance Staff	Becca Brooke – Governance Team Leader Rebecca Watson and Amy Viggers – Committee Advisors

1. Apologies

Resolved: (Cr Mallett/Cr Casson)

That the apologies for absence from Crs O'Leary and Taylor, for lateness from Cr Pascoe, for partial absence from Deputy Mayor Gallagher and Cr Macpherson, and for early departure from Crs Bunting, Hamilton and Maangai Takiari-Brame are accepted.

2. Confirmation of Agenda

Resolved: (Cr Mallett/Cr Macpherson)

That the agenda is confirmed noting the following:

- the order has been changed to enable Item 12 *(Business Transformation Report)* to be taken earlier in the day to accommodate staff availability;
- the late report *(Item 20 - WIGL and NZ Food Innovation (Waikato) Ltd Letter of Expectation)* be accepted; this item was circulated under separate cover and has been added as a late topic as it needs to be discussed prior to the next meeting of WIGL;
- the late report *(Item 20 - WIGL and NZ Food Innovation (Waikato) Ltd Letter of Expectation)* will be taken after Item 13 (H3 Report Q2) to accommodate staff availability; and
- attachment 1 *(VHT Annual Report)* for item 14 *(Vibrant Hamilton Trust)* was circulated prior to the meeting under separate cover.

3. Declarations of Interest

No members of the Council declared a Conflict of Interest.

4. Public Forum

Mr Roger Stratford spoke to Item 6 *(Chair's Report)* and gave an overview of his concerns regarding cost benefit analysis.

5. Confirmation of Finance Committee Minutes - 4 December 2018

Committee Members asked for clarification regarding the date Item 9 *(Funding Options – Growth Infrastructure Funding Gap)* was due to come back to the Committee.

Resolved: (Cr Mallett/Cr Casson)

That the Committee confirm the Open Minutes of the Finance Committee Meeting held on 4 December 2018 as a true and correct record.

6. Chair's Report - 21 February 2019

The Chair spoke to the report and gave an overview of cost benefit analysis. He responded to questions from Committee Members concerning non-financial measurements and benefits.

Resolved: (Cr Mallett/Cr Casson)

That the Finance Committee receives the report.

12. Business Transformation Report

The Chief Executive took the report as read.

He responded to questions from Committee Members concerning:

- efficiency versus savings,
- impact of savings identified on decisions made during the 10-Year Plan process,
- sub-contracting out services,
- reporting of potential savings that Elected Members may decline to approve,
- definitions of targets, and
- management of, and reporting of, pressure on staff to Elected Members.

Resolved: (Cr Mallett/Cr Bunting)

That the Finance Committee receives the report.

7. Finance Committee Draft Schedule of reports 2019

The General Manager Corporate took the report as read.

Resolved: (Cr Mallett/Cr Casson)

That the Finance Committee:

a) receives the draft 2019 Schedule of Reports; and

b) notes that the Schedule of Reports is intended to be a living document that will be updated as necessary and will be made available to Elected Members on Onedrive.

Cr Pascoe joined the meeting (10.18am) during the above item. He was present when the matter was voted on.

Deputy Mayor Gallagher and Cr Macpherson left the meeting (10.24am) during the above item. They were not present when the matter was voted on.

8. Non-Financial Organisational Performance Reporting Quarter two 2018-28 10-Year Plan

The Unit Manager Corporate Planning and Strategy took the report as read and responded to questions from Committee Members concerning:

- quality of life surveys, and use of Gross Domestic Product as a measurement,
- provision and use of industrial land,
- level of water loss target and water usage,
- numbers of people using bicycles,
- impact of safety improvements of reducing serious harm or death, Vision Zero measurements and reporting, and
- ability of infrastructure to cope with extreme weather events.

Action: *staff undertook to put date timeframes around the reporting of the impact of safety improvements on reducing death and serious harm on Hamilton roads statistics to create context*.

Action: *staff undertook to put the statistics regarding water complaints in the Water Supply section into a number reflecting complaints per 1,000 instead of the 'per millage' figure currently used.*

Resolved: (Cr Mallett/Cr Southgate)

That the Finance Committee receives the report.

The meeting adjourned from 11.01am to 11.30am.

9. Capital Portfolio Monitoring Report

The General Manager Development and the PMO Manager spoke to the report, highlighting that the majority of capital projects had been delivered to the set timeframes. They gave an overview of some deferrals, as well as some savings which had been made.

Staff responded to questions from Committee Members concerning:

- timing of Waiwhakareke development,
- use of community groups to complete some projects,
- seismic upgrades,
- renewals programme,
- Rotokauri development, and
- costs for the Thomas/Gordonton Road intersection.

Resolved: (Cr Mallett/Cr Casson)

That the Finance Committee receives the report.

Item 5

Attachment 1

Attachment 1

Item 5

10. Annual Monitoring Report to 31 December 2018

The General Manager Corporate spoke to the report, highlighting that financial results were favourable to date and responded to questions from Committee Members concerning:

- increased City Growth revenue,
- the impact on revenue from changes to food premise registrations,
- development growth modelling and budget versus forecasting figures,
- Peacockes programme,
- costs for clean-up of illegal dumping,
- timing of invoices being submitted to the Council,
- management of Treasury policy, and
- risk appetite.

Action: *staff undertook to circulate further information relating to 'Other Costs' on page 86 of the agenda.*

Action: *staff undertook to review the remaining six months forecasted Balancing the Books numbers for accuracy and report back to Committee members at the next Finance Committee meeting.*

Resolved: (Cr Mallett/Cr Casson)

That the Finance Committee receives the report.

Mayor King left the meeting (12.33pm) during the above item. He was not present when the matter was voted on.

7. February 2019 Financial Strategy Monitoring Report (Recommendation to Council)

The Accounting Manager spoke to the report, noting that the implemented financial strategy was recognised favourably by the Auditor General in his recent report to Parliament, which reflected the work of governance and staff.

Committee Members asked questions concerning whether the favourable opinion from the Auditor General would result in the modification noted in the recent audit result being removed from future reports.

Resolved: (Cr Pascoe/Cr Mallett)

That the Finance Committee:

a) receives the report,

b) recommends the Council approves the rephasing and delay deferrals of an additional $10.7M capital projects (noting total Year to Date as at 31 December 2018 is $36.9M) from 2018/19 to 2019/20 as listed in the February 2019 Capital Portfolio Monitoring Report;

c) recommends the Council approves the significant forecast adjustments as set out in paragraphs 24 to 27 of this report; and

d) recommends the Council approves the revised forecast Financial Strategy graphs for Debt to Revenue, Net Debt and Balancing the Books as set out in paragraphs 31 to 37 of this report.

Mayor King re-joined the meeting (12.40pm) during the above item. He was present when the matter was voted on.

The meeting adjourned from 12.51 pm to 1.34pm.

Deputy Mayor Gallagher and Cr Macpherson re-joined the meeting (1.34pm) at the conclusion of the above adjournment.

20. WIGL and NZ Food Innovation (Waikato) Ltd Letter of Expectation

The Director Special Projects introduced the report and gave an overview of the intent of the Letter of Expectation.

Staff responded to questions from Committee Members concerning the structure of, and other partners involved in WIGL, risks of being involved in the CCO, and timeframes of response to the Letter of Expectation.

Resolved: (Cr Mallett/Cr Hamilton)

That the Finance Committee approves the Letter of Expectation.

Attachment 1

Item 5

8. H3 Report Quarter Two - 1 October to 31 December 2018

The General Manager Venues Tourism and Major Events spoke to the report. He highlighted the favourable results year to date and gave oversight into some of the challenges presented to H3, primarily being a lack of hotel accommodation in the city.

He responded to questions from Committee Members concerning the NZ Rugby Sevens, costs to venders regarding waste management, health and safety statistics, and seismic standards.

Resolved: (Cr Mallett/Cr Casson)

That the Finance Committee receives the report.

Cr Southgate left the meeting (2.01pm) during the above item. She was not present when the matter was voted on.

9. Vibrant Hamilton Trust (VHT) (Recommendation to Council)

The General Manager Community spoke to the report. He apologised that the VHT Chairperson Thomas Gibbons was not able to make the meeting and highlighted that the Annual Report was prepared on the basis of the Trust being dissolved.

Committee Members asked questions concerning the process to thank the Trust, and the timeframes for the Waikato Regional Theatre.

Committee Members acknowledged the Trustees of VHT (Thomas Gibbons, Malcolm Brooker and Lynette Flowers) for the work that they had undertaken.

Action: *staff undertook to provide an update to Committee Members at an upcoming Briefing on the Regional Theatre.*

Resolved: (Cr Mallett/Mayor King)

That the Finance Committee:

a) receives the report; and

b) recommends that the Council notes as part of their official records that the Vibrant Hamilton Trust has officially wound up and that the Hamilton City Council Governance Structure will be updated accordingly.

10. Rototuna Family Golf Centre - New Lease - Callum Brae Drive

The Strategic Property Manager and Property Officer took the report as read, and responded to questions from Committee Members concerning rental reviews.

Resolved: (Mayor King/Cr Mallett)

That the Finance Committee:

a) receives the report;

b) approves a new ground lease for the Rototuna Family Golf Centre Limited located at Tauhara Park, 25 Callum Brae Drive, Rototuna based on the following:

   i. Term 5 years, commencing 1 March 2019;

   ii. Renewals – 2 x 5 years (1 March 2024 and 1 March 2029);

   iii. Rental – $27,500.00 plus GST per annum;

   iv. Rent reviews – market review on renewal; and

c) delegates the Chief Executive to give effect to this resolution.

11. Appointment and Remuneration of Board Members of COs, CCOs and CCTOs Policy

(Recommendation to Council)

The General Manager Corporate spoke to the report, providing an overview of the minor changes that had been made to Schedule 1 as a result of the policy review.

Committee Members asked questions concerning the recruitment process and skill matrix for appointments to Boards.

Resolved: (Mayor King/Cr Mallett)

That the Finance Committee:

a) receives the report;

b) recommends that the Council approves the revised Appointment and Remuneration of Board Members of COs, CCOs and CCTOs Policy as set out in attachment one of this report; and

c) recommends that the Council approves the next review date for this policy as 30 June 2021.

Attachment 1

Item 5

12. Policy Review - Freeholding of Council Endowment Land Policy (Recommendation to Council)

The Strategic Property Manager spoke to the report. He gave an overview of the purpose of the policy, and responded to questions from Committee Members concerning the delegations of Finance Committee.

Resolved: (Mayor King/Cr Mallett)

That the Finance Committee:

a) receives the report; and

b) recommends that the Council approves the Freeholding of Council Endowment Land Policy (attachment 1 of this report).

13. Policy Review - Municipal and Domain Endowment Funds Policy (Recommendation to Council)

The Strategic Property Manager spoke to the report. He gave an overview of the purpose of the policy, and responded to questions from Committee Members concerning possible use of the policy to reduce debt.

Action: *staff undertook to include Treasury Risk as a discussion item in the risk workshop set for the morning of 5 March 2019.*

Resolved: (Cr Mallett/Cr Casson)

That the Finance Committee:

a) receives the report; and

b) recommends that the Council approves the Municipal and Domain Endowment Funds Policy (attachment 1 of this report).

Cr Southgate re-joined the meeting (2.38pm) during the above item. She was present when the matter was voted on.

19. Resolution to Exclude the Public

Resolved: (Cr Mallett/Cr Henry)

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. Confirmation of Finance	) Good reason to withhold	Section 48(1)(a)

	Committee Public Excluded Minutes - 4 December 2018	) information exists under) Section 7 Local Government) Official Information and) Meetings Act 1987)
C2.	Report on overdue debtors as at 31 January 2019 & Debt write-offs 2018/19	
C3.	Contract 13392 - Hosting and Managed Infrastructure and Application Services - Initial Renewal Term	

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 protect the privacy of natural persons	Section 7 (2) (a)
	to maintain the effective conduct of public affairs through protecting persons from improper pressure or harassment	Section 7 (2) (f) (ii)
Item C3.	to enable Council to carry out negotiations	Section 7 (2) (i)

Cr Bunting retired from the meeting at the conclusion of the open session (2.54pm).

The meeting moved into a Public Excluded Session at 2.54pm.

The meeting was declared closed at 3.23pm.

Item 5

Attachment 1

Council Report

Committee:	Finance Committee	**Date:**	09 April 2019
Author:	Julie Sanderson	**Authoriser:**	Jen Baird
Position:	Acting Strategic Property Unit Manager	**Position:**	General Manager City Growth
Report Name:	Accessible Properties New Zealand Limited - Q1 and Q2 Activity Report		

Report Status	*Open*

Purpose

1. To inform the Finance Committee of Accessible Properties New Zealand Limited's activity report for the half year ended 31 December 2018.

Staff Recommendation

That the Finance Committee receives the report.

Executive Summary

2. Accessible Properties New Zealand Limited ("Accessible") purchased Hamilton City Council's Pensioner Housing Portfolio on 7 March 2016 for $23m.
3. The purchase price was split with $4.2m paid on settlement and the $18.8m balance payable on 7 March 2019.
4. The balance of $18.8m was settled in full on 7 March 2019.
5. The conditions of sale required Accessible Properties to provide quarterly management accounts and annual audited financial statements demonstrating financial viability until the loan was repaid in full.
6. As the loan has been repaid there is no requirement to provide financial statements.
7. Reporting on use of the properties every six months is required for ten years. This will now transfer to the Community and Services and Environment Committee.
8. Accessible Properties' six- monthly property use report is attached. The information contains some personal information and is therefore confidential.

Report	Frequency	Period	Due Date
Q1 & Q2 Activity Report	6 months	July - December	28 February
Q3 & Q4 Activity Report	6 months	January - June	31 August

Item 6

Discussion

9. Financial

10. Accessible Properties settlement in full of $18.8m was completed on 7 March 2019.

11. Financial reporting is therefore no longer a requirement.

12. Half-year Activity Reports

13. Accessible Properties is required to provide regular activity reports (Attachment 1):

14. The activity reports must describe:

a) The number of units occupied during the period;

b) How many units were occupied by current tenants (in occupation at sale date 7 March 2016) and how many utilised for social housing purposes;

c) The rental paid for each unit during the period;

d) Any rent increases made during the period, and the basis on which such rent increases were calculated;

e) The maintenance spent on the properties during the period.

15. Council staff have reviewed Accessible Properties' activity report for the period ending 31 December 2018 and confirm that the report shows compliance with the agreed encumbrances and other clauses in the agreements between the Council and Accessible.

Encumbrance (Utilisation and Activity)		
Measure	**Result**	**Compliance**
Social Housing Continue to utilise the portfolio for social housing		Compliant
Minimum Number No fewer than 344 social housing units available for continuous occupation	344	Compliant
Current Tenants Current Tenants (as at date of sale) to remain in occupancy	215	Compliant
Bi-Annual Reports Bi-annual reports detailing information in 16 above		Compliant

Cultural Considerations

16. This report is for information only and there are no cultural considerations.

Legal and Policy Considerations

17. Staff confirm that this matter complies with the Council's legal and policy requirements.

Risks

18. There are no risks associated with providing this information to Council.

Item 6

Significance

19. Having considered the Significance and Engagement Policy, staff have assessed that the matters in this report have a low significance.

Attachments

Attachment 1 - Accessible Properties - Report to Council for period ending December 2018 .

REPORT

On

MANAGEMENT OF ACQUIRED HAMILTON CITY COUNCIL HOUSING

From

1 July 2018

to

31 December 2018

[redacted]

ACCESSIBLE PROPERTIES NEW ZEALAND LTD

Figure 1 new communal space at the Livingstone Ave complex

1. Background

Accessible Properties acquired the Housing for Older Persons portfolio from Hamilton City Council on 7 March 2016. This comprises 344 units of predominantly one-bedroom configuration units that are located in 17 complexes distributed throughout the city. These units are made available as affordable rentals for people on very low incomes and with few assets, with a focus on meeting the needs of the elderly and providing social support.

The terms of sale and purchase require Accessible Properties to report on the use of the properties every six months for the first ten years of ownership. This enables the Council to verify that terms of encumbrance are met.

The purchase arrangements include an interest-free loan of $18.8 million from the Council for a three year period, and an associated mortgage in favour of the Council. During this three year period, Accessible Properties is required to provide quarterly management accounts and annual audited financial statements that demonstrate financial viability. The loan is to be paid in full, in cleared funds, on 7 March 2019.

This report provides the Council the use of the properties for the period 01 July 2018 to 31 December 2018, with an update of what has happened under the Accessible Properties Hamilton Pensioner House portfolio.

2. About Accessible Properties

Accessible Properties is a Registered Community Housing Provider supplying affordable rental homes for people with social support needs, with particular expertise in the housing needs of people with disabilities or mobility difficulties or who are elderly. It also provides housing management services for community organisations. It is a registered charity and is the only organisation with a three year term of accreditation under the Best Practice Guide for Community Housing in New Zealand - undertaken by Global Mark.

Accessible Properties operates nationwide and manages New Zealand's largest non-government social housing portfolio of over 2,500 household units. It also manages over 100 commercial properties used by community organisations. It has been involved with social housing in Hamilton since 1954 (with the opening of Christopher House), and 105 homes are in the Waikato region. It has close links with social support agencies in Hamilton.

3. Progress in the period July 2018 - December 2018

The annual preventative maintenance programme is well underway and over the period we have undertaken a number of development projects to upgrade bathrooms, lighting, carparks and driveway for Peachgrove Road, Livingstone Avenue and Gibson Road. There were additional carparks built for the Crosher Place complex, including two larger parks for tenants with disabilities.

A summary of outcomes is as follows:

- The maintenance schedule and capital expenditure plan has been prepared for the financial year beginning 1 July 2018.
- Maintenance inspections have been undertaken for all units. Preventative maintenance work completed include all gas checks and heat pump maintenance, gutter cleans, exterior wash-downs, all communal paths and patios cleaned.
- Lighting and driveway upgrades have been completed for 16 Crosher Place.
- Lighting upgrades for 29 Dinsdale Road have been completed.
- Communal work and lighting upgrades for 81 Livingston Ave have been completed.
- An additional carpark and a footpaths upgrade have been completed for 24 Gibson Road.
- We have undertaken an insulation assessment for a number of units and provided an insulation compliance statement.

4. Actions Proposed in the Next Six Months

We are focusing on exterior painting over the coming months, with work about to commence on the full repaints of all units at four complexes – Matai Street (12 units), Gibson Road (26 units), English Street and Sandwich Road (9 Units).

We are also reviewing design plans for Graham Street. These design plans include providing the tenants with an outdoor communal space. Once Graham Street is completed we plan to provide additional car parking at Clarkin Road.

5. Use of Properties

Responses below are numbered as in the encumbrance instruments on titles.

- ***Number of Units Occupied During the Period:***
  As at 31st December 2018: 341 of 344 units were occupied (3 vacancies, 99% occupancy).

- ***Number of Units Occupied by Original Tenants:***
  As at 31st December 2018: 215 original tenants remain. There were 34 new tenant placements in the period.

- ***Rent Increases During the Period:***
  There have been no new rental increases in the period.

- ***Maintenance Expenditure:***
  The total maintenance expenditure including capital spends on the portfolio for period July 2018 – December 2018 was $428,914.

Activity report for 41 Donny Avenue for the Period July 2018 - December 2018

1. **Use of Properties:**

Responses below are numbered as in the encumbrance instruments on titles:

- ***Number of Units Occupied During the Period:***
  As at 31 December 2018: 6 of 6 units were occupied (0 vacancies, 100% occupancy)
  There were 0 vacancies at the date of handover.

- ***Number of Units Occupied by Original Tenants:***
  As at 31 December 2018: 6 original tenants remained (tenants at time of hand-over)
  There were 0 new tenant placements.

- ***Rental Paid for Each Unit:***
  Attached is a schedule of rentals charged for units as at 31 December 2018.

- ***Rent Increases During the Period:***
  There have been no new rental increases in the period.

- ***Maintenance Expenditure:***
  The total maintenance expenditure including capital spends on the portfolio for the six months to 31 December 2018 was $6,486.

A summary of outcomes is as follows:

- The maintenance schedule and capital expenditure plan has been prepared for the financial year beginning 1 July 2018.
- Maintenance inspections have been undertaken for all units. Preventative maintenance work completed include all gas checks and heat pump maintenance, gutter cleans, exterior wash-downs, all communal paths and patios cleaned.
- Lighting and driveway upgrades have been completed for 16 Crosher Place.
- Lighting upgrades for 29 Dinsdale Road have been completed.
- Communal work and lighting upgrades for 81 Livingston Ave have been completed.
- An additional carpark and a footpaths upgrade have been completed for 24 Gibson Road.
- We have undertaken an insulation assessment for a number of units and provided an insulation compliance statement.

4. Actions Proposed in the Next Six Months

We are focusing on exterior painting over the coming months, with work about to commence on the full repaints of all units at four complexes – Matai Street (12 units), Gibson Road (26 units), English Street and Sandwich Road (9 Units).

We are also reviewing design plans for Graham Street. These design plans include providing the tenants with an outdoor communal space. Once Graham Street is completed we plan to provide additional car parking at Clarkin Road.

5. Use of Properties

Responses below are numbered as in the encumbrance instruments on titles.

- ***Number of Units Occupied During the Period:***
  As at 31st December 2018: 341 of 344 units were occupied (3 vacancies, 99% occupancy).

- ***Number of Units Occupied by Original Tenants:***
  As at 31st December 2018: 215 original tenants remain. There were 34 new tenant placements in the period.

- ***Rent Increases During the Period:***
  There have been no new rental increases in the period.

- ***Maintenance Expenditure:***
  The total maintenance expenditure including capital spends on the portfolio for period July 2018 – December 2018 was $428,914.

Activity report for 41 Donny Avenue for the Period July 2018 - December 2018

1. Use of Properties:

Responses below are numbered as in the encumbrance instruments on titles:

- ***Number of Units Occupied During the Period:***
  As at 31 December 2018: 6 of 6 units were occupied (0 vacancies, 100% occupancy)
  There were 0 vacancies at the date of handover.

- ***Number of Units Occupied by Original Tenants:***
  As at 31 December 2018: 6 original tenants remained (tenants at time of hand-over)
  There were 0 new tenant placements.

- ***Rental Paid for Each Unit:***
  Attached is a schedule of rentals charged for units as at 31 December 2018.

- ***Rent Increases During the Period:***
  There have been no new rental increases in the period.

- ***Maintenance Expenditure:***
  The total maintenance expenditure including capital spends on the portfolio for the six months to 31 December 2018 was $6,486.

Council Report

Item 7

Committee:	Finance Committee	**Date:**	09 April 2019
Author:	Hayden de Villiers	**Authoriser:**	Tracey Musty
Position:	Treasury Accountant	**Position:**	Financial Controller
Report Name:	NZ Local Government Funding Agency Statement of Intent and Half Yearly Report to 31 December 2018		

Report Status	*Open*

Purpose

1. To inform the Finance Committee of Local Government Funding Agency's (LGFA) Half Year Report to 31 December 2018.
2. To seek approval of the LGFA Draft Statement of Intent 2019/2020.

Staff Recommendation

That the Finance Committee:

a) receives the report; and

b) approves the Local Government Funding Authority Draft Statement of Intent 2019/20.

Background

Letter to shareholders

3. The letter to shareholders should be read in conjunction to the Statement of Intent as it points out key points. Please refer to Attachment 2.
4. In summary these points reflect:
   - that profitability forecast is to remain strong,
   - an increase in forecasted Local Government loans (short and long term) based on The Councils 2018-18 Long-Term Plans,
   - a narrowing in credit margins as credit quality of the sector improves,
   - similar performance targets to previous SOIs and timing uncertainty within the SOI forecast relating to Local Government loans and LGFA bonds.

5. **Financial Considerations**

6. There are no financial considerations related to this matter

7. **Cultural Considerations**

8. This report is for information only and there are no cultural considerations.

Item 7

9. **Legal and Policy Considerations**

10. Staff confirm that this matter complies with the Council's legal and policy requirements.

11. **Risks**

12. There are no risks associated with providing this information to Council.

13. **Significance**

14. Having considered the Significance and Engagement Policy, staff have assessed that the matters in this report have a low significance.

Attachments

Attachment 1 - LGFA Half Yearly Report 2018

Attachment 2 - LGFA Letter to shareholders to accompany 2019-20 Draft Statement of Intent

Attachment 3 - LGFA Draft Statement of Intent 2019-20 .

Partnering with Councils to finance infrastructure investment

Mā te huruhuru ka rere te manu

Half year report

31 December 2018

LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY

TE PŪTEA KĀWANATANGA Ā-ROHE

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

Its wider meaning is that
'investment is needed for success'.

Contents
Ihirangi

Attachment 1

Item 7

Message from the Chair

He karere mai i te Toihau

For the six months ended 31 December 2018

"LGFA has facilitated a record amount of council borrowing over the six-month period as councils continue to invest in new infrastructure and refinance existing debt. Having undertaken a record amount of issuance in the six-month period, LGFA continues to offer investors a highly rated, higher yielding alternative to New Zealand Government Bonds"

Craig Stobo, Chair LGFA Board

Directors would like to highlight the following developments at LGFA for the six-month period to 31 December 2018.

Strong Financial and Operational Performance

LGFA total interest income for the six-month period of $180.9 million was a 1.5% increase over the 2017-18 comparable period result of $178.145 million while net operating profit of $6.08 million was a 0.7% increase on the 2017-18 comparable period result of $6.04 million.

Net interest income and operating profit exceeded both the previous comparable period result and are ahead of the Statement of Intent (SOI) forecast due to the early refinancing of loans by councils maturing in March 2019 and a higher level of new council borrowing.

Expenses have been managed under budget over the past six months as lower fees from a reduced utilisation of the standby facility, and lower Approved Issuer Levy payments relative to budget, were partially offset by higher legal and NZX costs from lending and bond issuance activities being above budget.

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

The financial strength of LGFA was reaffirmed by credit rating agencies Standard & Poor's (in July 2018) and Fitch (in November 2018) who both maintained our credit rating at 'AA+' which, very importantly, is the same as the New Zealand Government.

Borrowing activity

LGFA issued a record $985 million of bonds over the past six months and nominal outstandings now total $9.104 billion (including $400 million of treasury stock) across eight maturities from 2019 to 2033.

LGFA is the largest issuer of New Zealand dollar (NZD) securities after the New Zealand Government and our bonds are amongst the largest and most liquid New Zealand dollar debt instruments available for investors. We have seen a shift in investor composition over the past six months as offshore investors have become less attracted to the lower yielding NZD fixed income asset class while domestic bank balance sheets have increased their holdings on the outlook for stable domestic monetary policy and a reduced supply of NZ Government Bonds in the coming year. Our offshore investor holdings have reduced from 39% in June 2018 to 33% in December 2018 while bank holdings have increased from 33% to 38%.

The performance of LGFA bonds over the past six months has been mixed with LGFA bond spreads to both swap and NZGB tighter on the mid curve maturities but wider on the short-dated and long-dated maturities. Outright yields on LGFA bonds have declined over the past six months by between 11 bps (0.11%) on the 2020 maturity and 46 bps (0.46%) on the 2025 maturity and are at historic lows.

LGFA continues to issue short-dated LGFA Bills ranging in maturities from three months to 12 months through a combination of monthly tenders and private placements. Outstandings under the programme have reached a record $485 million. These instruments provide a source of funding for short-dated lending to our council borrowers and assist LGFA with liquidity management.

Lending to the sector

LGFA was established in December 2011 to provide long-dated borrowing, certainty of access to markets and to reduce the borrowing costs for the local government sector. The original 31 shareholders including the Crown remain as shareholders. Over the past six months, we added five new members with Ruapehu District and Waikato Regional Councils joining as guarantors and Wairoa, Clutha and Mackenzie District Councils joining as non-guarantors. Gore District Council also moved to become part of the guarantor group of councils. Total membership of 61 councils is very pleasing and this is expected to rise slightly in the coming year as several councils are partly through the joining process.

Long-dated lending over the six-month period to December 2018 was a strong $1.05 billion with the lending activity a mix of new borrowing and the refinancing of council loans maturing on 15 March 2019. The tenor of borrowing by councils at 6.5 years was longer than the average term of borrowing of 4.5 years over the 12-month period to June 2018.

Customised lending continues to be popular for councils in that it provides opportunity to borrow to maturity dates which are different from LGFA bond maturities. LGFA lent $800 million on a flexible basis to councils during the six-month period, which was approximately 76% of our total long-term lending over that period.

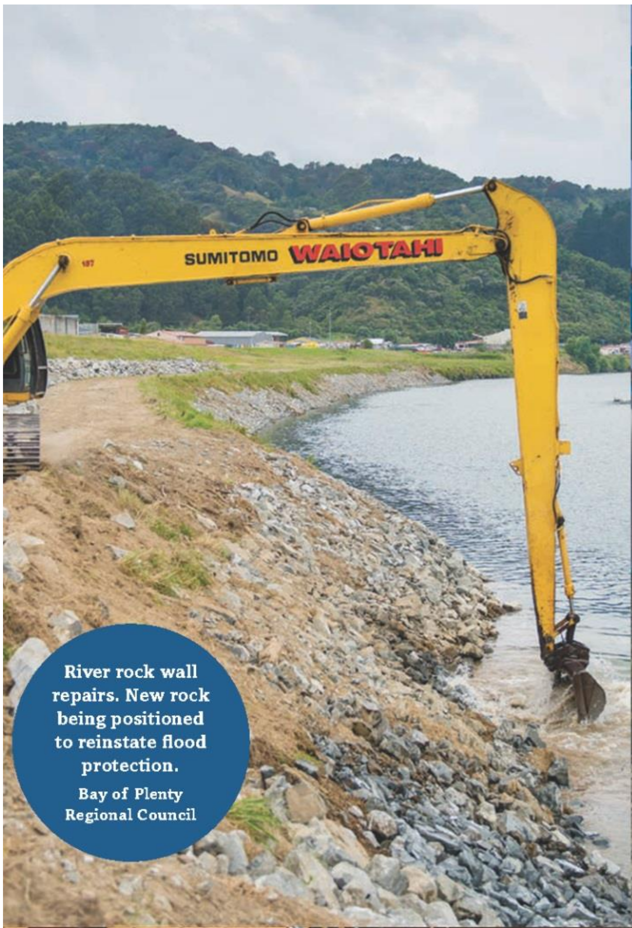
Short-dated lending for terms less than 12 months has been well received by councils and as at 31 December 2018, LGFA had $527 million of short-term loans outstanding to 31 councils.

The underlying credit quality of the sector continues to remain very strong with all member councils remaining compliant with the LGFA lending covenants.

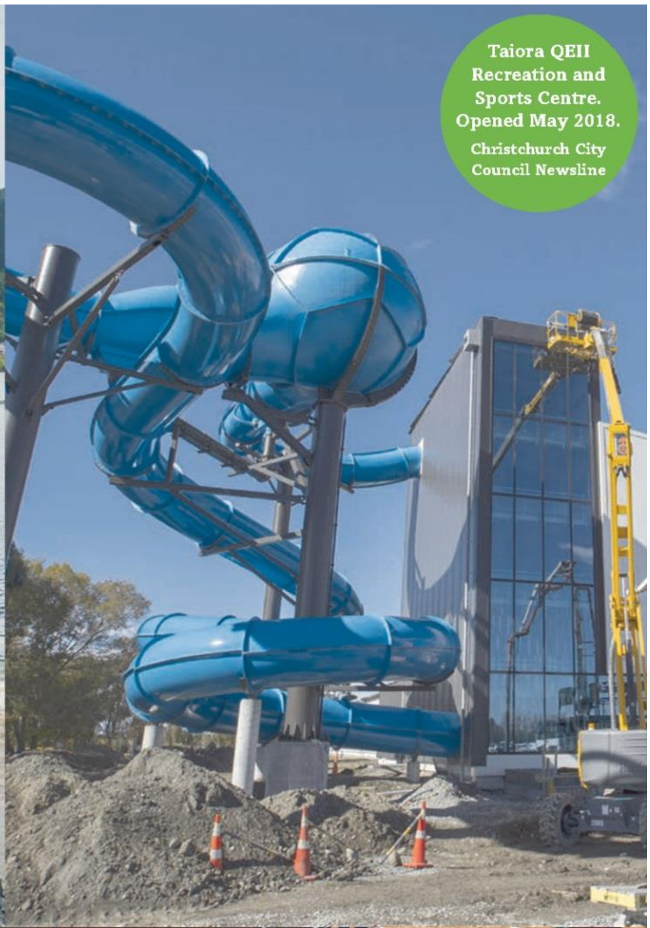
Acknowledgments

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

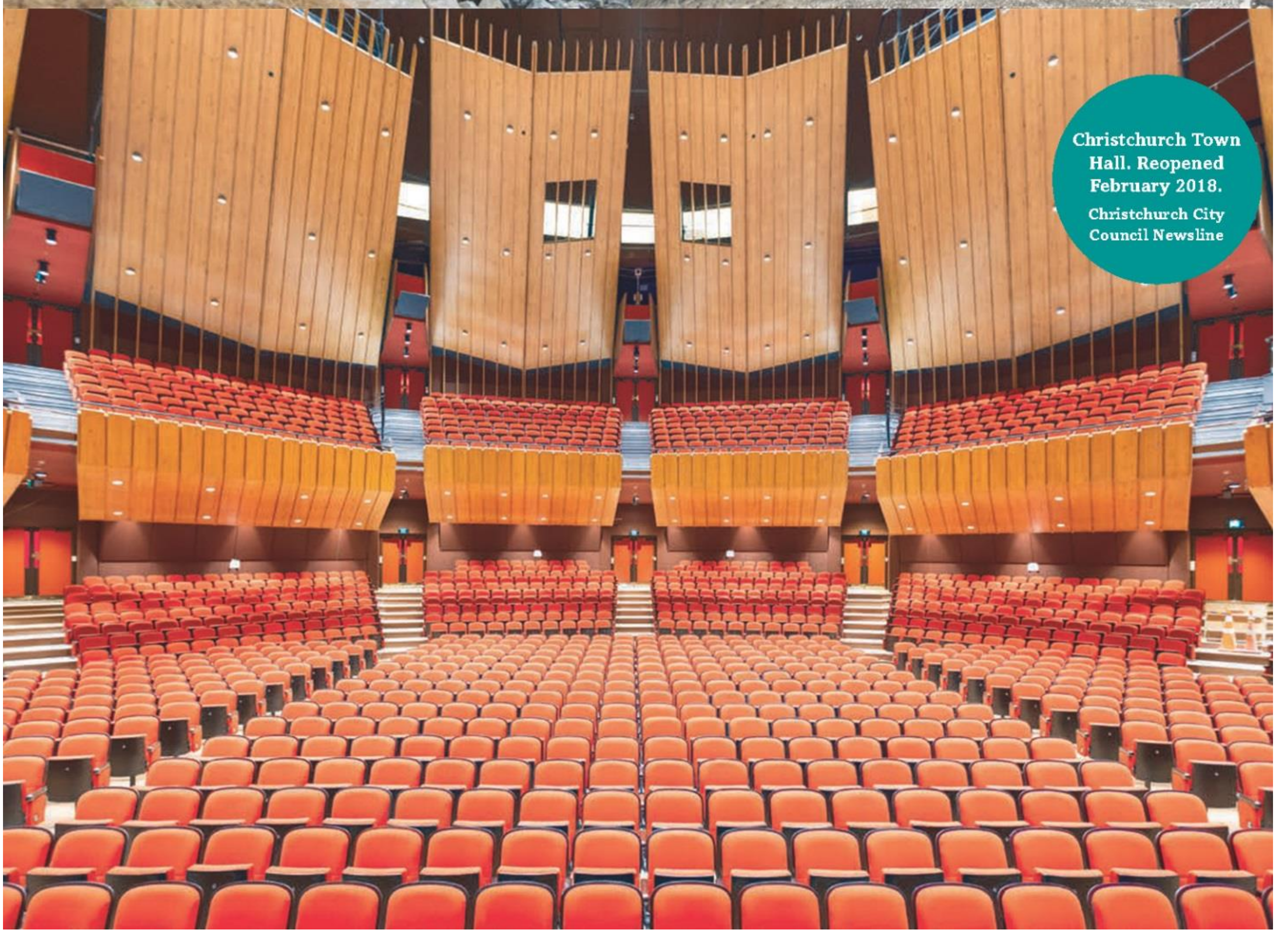
Craig Stobo
Chair, LGFA Board



River rock wall repairs. New rock being positioned to reinstate flood protection.
Bay of Plenty Regional Council



Taiora QEII Recreation and Sports Centre. Opened May 2018.
Christchurch City Council Newsline



Christchurch Town Hall. Reopened February 2018.
Christchurch City Council Newsline

Performance against objectives

Tutukinga mahi ki ōna whāinga

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

Performance against primary objectives

This section sets out LGFA's performance for the six-month period ended 31 December 2018 against the two primary objectives set out in the 2018-19 SOI.

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

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

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

2018-19 performance objectives

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

Primary objectives

1. LGFA will operate with the primary objective of optimising the debt funding terms and conditions for Participating Local Authorities. Among other things this includes:
   i. Providing savings in annual interest costs for all Participating Local Authorities on a relative basis to other sources of financing;
   ii. Making longer-term borrowings available to Participating Local Authorities;
   iii. Enhancing the certainty of access to debt markets for Participating Local Authorities, subject always to operating in accordance with sound business practice; and
   iv. Offering more flexible lending terms to Participating Local Authorities.
2. LGFA will monitor the quality of the asset book so that it remains of a high standard by ensuring it understands each Participating Local Authority's financial position and the general issues confronting the Local Government sector. This includes:
   i. LGFA will review each Participating Local Authority's financial position, its financial headroom under LGFA policies and endeavour to visit each Participating Local Authority on an annual basis;
   ii. LGFA will analyse finances at the Council group level where appropriate;
   iii. LGFA will review its debt covenant methodology and assessment of council financial position at group vs parent. LGFA will present its findings to councils at the LGFA Shareholder-Borrower Day, including a comparison of LGFA methodology to that of the credit rating agencies;
   iv. LGFA will work closely with the Department of Internal Affairs (DIA), Office of the Auditor General (OAG) and Local Government New Zealand (LGNZ) on sector and individual council issues; and
   v. LGFA will take a proactive role to enhance the financial strength and depth of the local government debt market.

Additional objectives

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

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

LGFA spreads to swap have consistently narrowed since it first began issuing bonds in February 2012, and over the past six months, spreads to swap as measured by secondary market levels have narrowed on the mid-curve maturities (2023s and 2025s) but widened on the LGFA bond maturities at the two end points of the curve.

LGFA bond margin to swap	As at 31 December 2018 basis points (bps)	As at 30 June 2018 (bps)	Spread movement (bps)
15 March 2019	6	4	2
15 April 2020	10	5	5
15 May 2021	17	11	6
14 April 2022	26	20	6
15 April 2023	31	34	(3)
15 April 2025	47	53	(6)
15 April 2027	59	54	5
14 April 2033	86	79	7

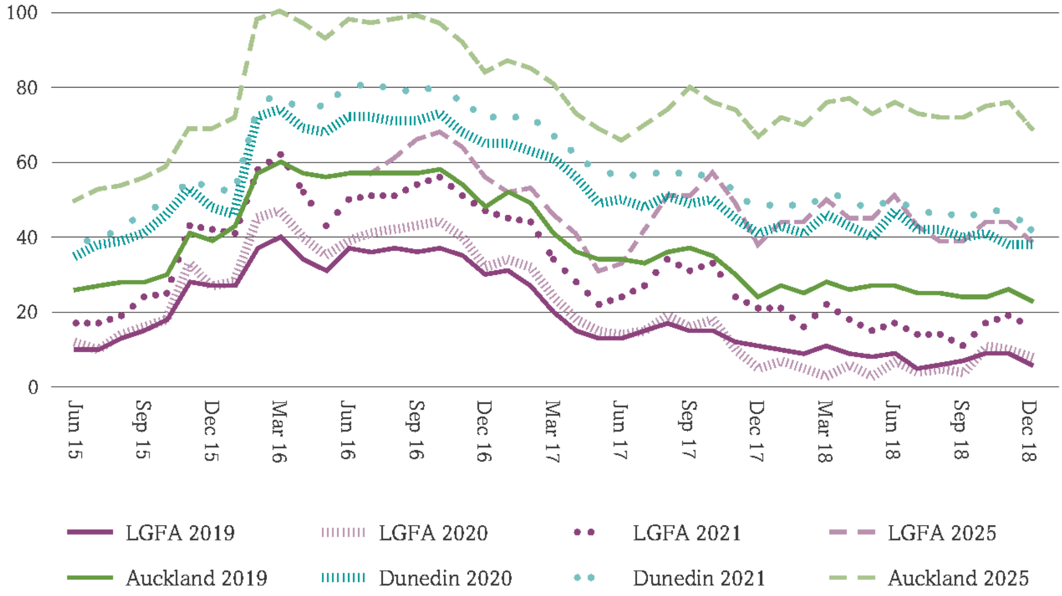
A similar pattern is evident over the same period with the LGFA spreads to NZGB narrowing in the mid curve maturities only.

LGFA bond margin to NZGB	As at 31 December 2018 (bps)	As at 30 June 2018 (bps)	Spread movement (bps)
15 March 2019	30	30	-
15 April 2020	38	37	1
15 May 2021	46	44	2
14 April 2022	54	53	1
15 April 2023	60	69	(9)
15 April 2025	78	83	(5)
15 April 2027	91	83	8
14 April 2033	123	104	19

The spread widening in the back end of the yield curve is due to the increased issuance of LGFA 2033 bonds, the larger than normal amount of LGFA bond issuance over the six-month period and the improvement in Central Government's fiscal position leading to expectations of a reduction in the supply of NZGBs.

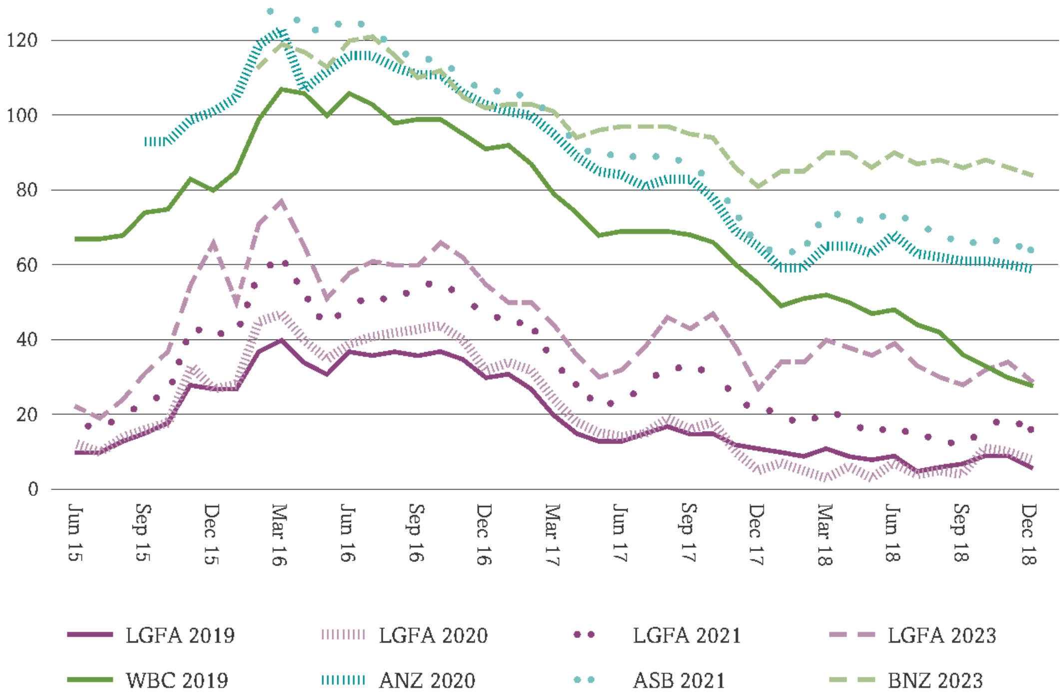
LGFA continues to provide savings in borrowing costs for councils relative to other sources of borrowing. We compare our secondary market spreads on LGFA bonds to those of Auckland Council and Dunedin City Treasury (as a proxy for councils borrowing in their own name) and a mix of banks (as a proxy for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

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



Source: Bloomberg, LGFA

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



Source: Bloomberg, LGFA

From the table below, we estimate that based upon secondary market spread data as at 31 December 2018, LGFA was saving AA-rated councils between 2 bps and 17 bps depending upon the term of maturity. This compares to savings of between 10 bps and 22 bps a year ago, but one would expect savings to diminish naturally over time as the bonds approach their maturity date and shorten their duration.

	Savings to AA-rated councils (bps)				
31 December 2018	Auckland 2019	Dunedin 2020	Dunedin 2021	Auckland 2022	Auckland 2025
AA rated councils margin to swap (bps)	18	37	44	46	72
Less LGFA margin to swap (bps)	(6)	(10)	(17)	(26)	(47)
LGFA gross funding advantage (bps)	12	27	27	20	25
Less LGFA base margin (bps)	(10)	(10)	(10)	(10)	(10)
Total saving (bps) *	2	17	17	10	15

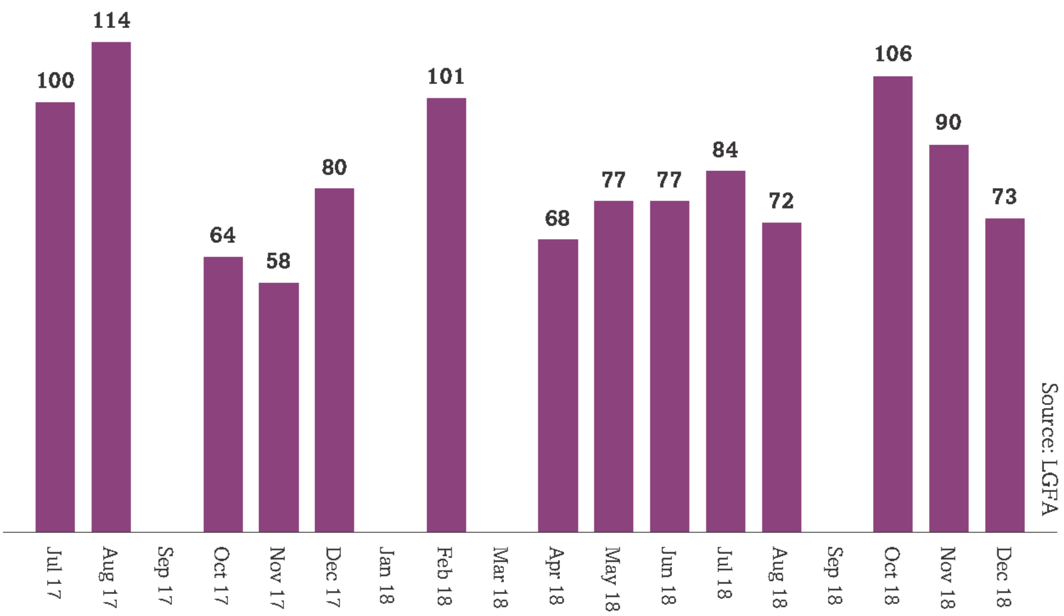
* Note that from June 2017 we have excluded from the estimated savings any positive impact from the 'LGFA effect' that was equivalent to 10 bps of savings evident when LGFA first commenced lending in February 2012.

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

Councils borrowed a record $1.05 billion of long-term loans from LGFA over the six-month period. The average borrowing term (excluding short-dated borrowing) for the six-month period to December 2018 by council members was 6.5 years and this was longer than the average borrowing term of 4.5 years for the 12 months to June 2018. However, the average term of borrowing in 2017-18 was very short compared to the 2016-17 average term of 7.8 years, so the prior year comparison does not provide a useful benchmark.

Average total months to maturity – Long-term lending to councils

Last 18 months



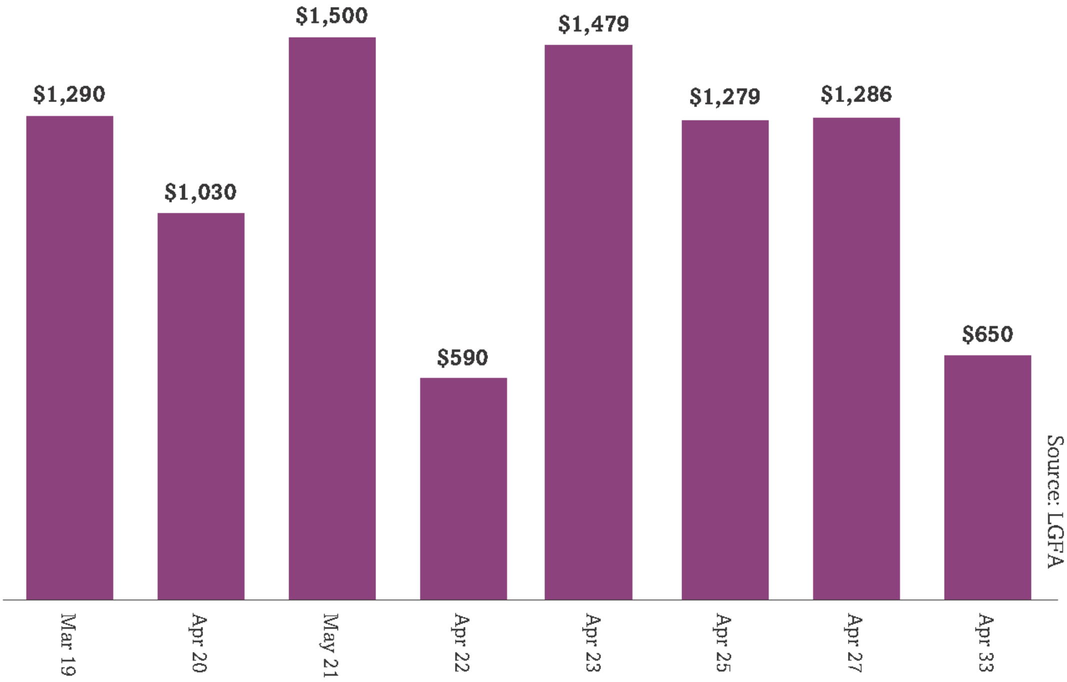
While LGFA can provide councils with the ability to borrow from LGFA for terms from one month to 14 years, it is up to the councils to determine their preferred term of borrowing.

We introduced a new four-year bond (April 2022) in April 2018 and we expect to issue another new maturity in the first half of the 2019 calendar year. However, with the issuance of the April 2033 LGFA bond in 2017, councils can borrow on a bespoke basis (for any preferred maturity date, at any time) out to 14 years.

LGFA funds its lending to councils by issuing bonds to banks, institutional and retail investors – both in New Zealand and offshore. The following chart shows the total LGFA bond outstandings, including treasury stock, by maturity as at 31 December 2018.

LGFA bonds on issue (NZ$ million, face value)

As at 31 December 2018 : NZ$9,104 million
Includes NZ$400 million treasury stock



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

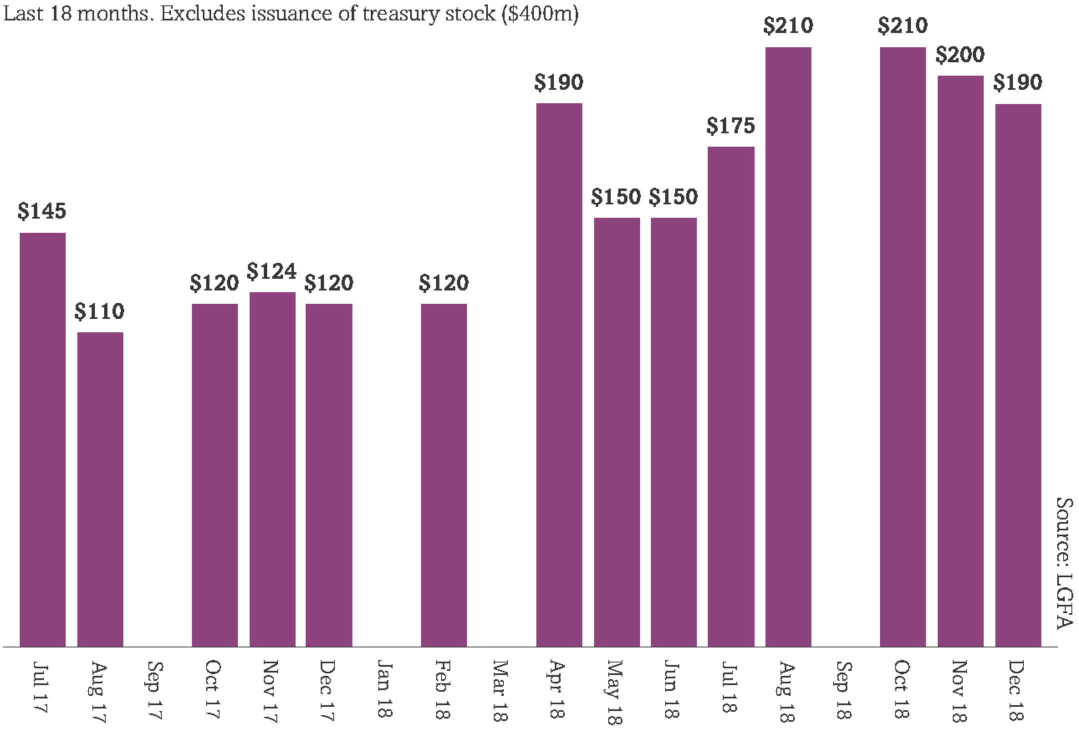
LGFA listed its bonds on the NZX Debt Market in November 2015 and this has led to greater awareness and participation in LGFA bonds by domestic retail and offshore investors. Average turnover of LGFA bonds on the NZX Debt Market since listing has been $12 million per month or 8.1% of the total turnover of the NZX Debt Market. Turnover has reduced over the past six months as retail investors are more attracted to higher term deposit rates.

LGFA commenced the issuance of LGFA Bills for terms of three months and six months in late 2015. Because of this issuance, LGFA has offered short-term loans of less than one year to councils since 2015. As at 31 December 2018, LGFA has short-term loans outstanding to 31 councils of $527 million. This is a record amount of loans and an increase of $283 million over the past six months.

LGFA also issued a record amount of bonds in the six-month period with $985 million issued across five bond tenders with an average tender volume of $197 million and a range of $175 million to $210 million in size.

LGFA bond issuance by tender (NZ$ million)

Last 18 months. Excludes issuance of treasury stock ($400m)



All tenders were successful and fully subscribed. The average bid-coverage ratio across the five bond tenders was 2.3 times and this compared to the average of 3.1 times for the 61 bond tenders held since LGFA first commenced issuance in February 2012.

LGFA bond tender results by maturity	2018-19 ytd issuance amount	LGFA tender average bid coverage ratio	LGFA tender average successful bid range
15 March 2019	Nil	n/a	n/a
15 April 2020	Nil	n/a	n/a
15 May 2021	$30 m	3.2 x	0 bps
14 April 2022	$270 m	2.4 x	2 bps
15 April 2023	Nil	n/a	n/a
15 April 2025	$260 m	2.7 x	3 bps
15 April 2027	$180 m	2.1 x	4 bps
14 April 2033	$245 m	1.8 x	4 bps
Across all LGFA maturities	$985 m	2.3 x	n/a

The successful bid range (difference between the highest and lowest successful bid yield) for each maturity at each tender averaged between 0 bps and 4 bps with the largest range being on the longer-dated maturities.

LGFA established an Australian Medium-Term Notes Programme in November 2017 to provide the ability to issue in currencies other than the New Zealand dollar (NZD). It is not our intention to use this programme but instead to provide some flexibility in case of the unlikely scenario of a significant market disrupting event in the future.

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

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

Bespoke lending (either into non-LGFA bond maturity dates or into LGFA bond maturity dates but outside of tenders) for council members continues to grow in popularity. During the six-month period to 31 December 2018 we lent $800 million on a bespoke basis to 37 councils. This was 76% of total term lending to our council members over that period.

Short-term borrowing by councils as at 31 December 2018 was a record $526.7 million comprising borrowing from 31 councils.

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

i LGFA will review each Participating Local Authority's financial position, its financial headroom under LGFA policies and endeavour to visit each Participating Local Authority on an annual basis;

LGFA undertakes a detailed financial assessment on each of its borrowers and endeavours to meet with all member councils on an annual basis while monitoring council performance throughout the year. LGFA reviews the annual and long-term plans for each council and the annual financial statements. All councils were compliant with LGFA financial covenants as at 30 June 2018 and a copy of each council's borrowing position and compliance with LGFA covenants was provided to LGFA shareholders and non-shareholder guarantors in January 2019. LGFA assigns an internal credit rating to each of its council members as part of the review exercise.

LGFA management met with 31 councils over the six-month period to 31 December 2018.

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

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

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

LGFA staff and directors have met with Treasury, New Zealand Debt Management, DIA, Trustees Executors, Productivity Commission, Standard & Poor's, Fitch and Infrastructure New Zealand during the past six months to discuss LGFA and sector issues. LGFA attended the Infrastructure New Zealand annual conference and the NZX issuer forum.

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

LGFA management meet regularly with the management team of each council. We also presented to elected officials at councils prior to them joining LGFA to remind them of their obligations.

We presented at various capital market conferences and meet with banks and investors on a regular basis. We present each quarter on sector finances at the LGNZ media briefing.

Performance against additional objectives

In addition to the two primary performance objectives, LGFA has eight additional performance objectives which complement the primary objectives. This section sets out LGFA's performance for the six-months ended 31 December 2018 against the additional objectives set out in the 2018-19 Statement of Intent.

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

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

On 28 August 2018, the directors of LGFA declared a dividend for the year to 30 June 2018 of $1,285,000 ($0.0514 per share). This was calculated on LGFA's cost of funds for the 2017-18 year of 3.14% plus a 2% margin. This was a similar dividend to the previous year dividend of $0.0556 per share.

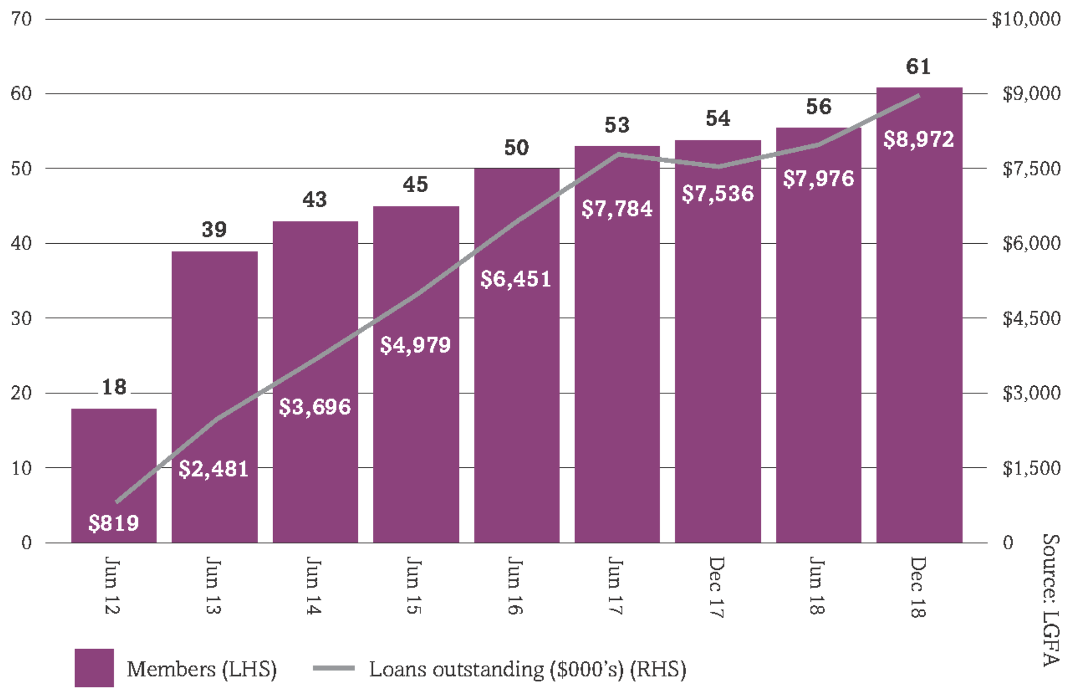
The impact from the current low interest rate environment is that LGFA has a lower cost of funds. While council borrowers benefit from lower borrowing costs, the dividend payment calculated on the above guidance is lower than it would otherwise be in an environment of higher interest rates.

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

Five councils joined LGFA in the six-month period to December 2018, bringing the total number of council members to 61. Ruapehu District and Waikato Regional Council joined as guarantors and Wairoa, Clutha and Mackenzie District Councils joined as non-guarantor borrowers. Gore District Council moved from being a non-guarantor to a guarantor in September 2018.

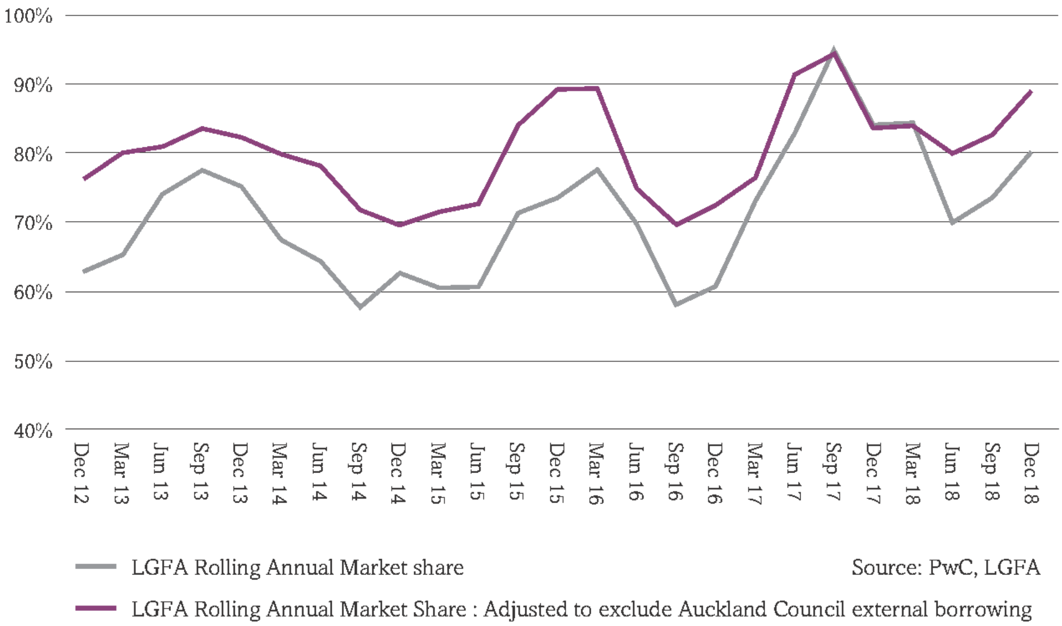
Councils have strongly supported LGFA by joining as members and borrowing from LGFA. As at 31 December 2018, 58 of the 61 participating councils have borrowed from LGFA.

LGFA council members and nominal loans outstanding



The following chart shows LGFA's share of new local government long-term debt issuance and is derived from survey data provided by PwC. While the latest PwC report is yet to be finalised, our provisional share of long-term borrowing by the sector including non-members of LGFA was 80.2% for the 12-month period to 31 December 2018. The market share is influenced by the amount of debt issued by the sector's largest borrower, Auckland Council, in its own name in the domestic market. Auckland Council is required to issue debt under its own name as LGFA is restricted by its foundation policies to a maximum of 40% of total loans outstanding to Auckland. If Auckland Council's external borrowing is excluded from the data, then LGFA estimated market share for the 12-month period to 31 December 2018 was 89.0%.

LGFA council members and LGFA loans outstanding



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

Issuance and operating expenses for the six-month period to 31 December 2018 were $3.698 million which is $130k below SOI forecast.

This variance is the consequence of:

- Issuance and on-lending costs (excluding AIL) at $1.161 million were $15k below budget. There were lower fees than budgeted relating to the NZDMO facility offset by higher NZX costs and legal costs than forecast. The larger amount of bond issuance and short-term lending has increased legal costs compared to budget.
- Operating costs at $1.644 million were $26k above budget due to timing of personnel and travel costs. There were also additional legal costs relating to considering whether LGFA should lend to Council Controlled Organisations and to also test financial covenant compliance of councils at the group or parent level.
- Approved Issuer Levy payments of $893k were less than our forecast of $1.035 million by $141k due to lower levels of LGFA bonds holdings by offshore investors relative to budget.

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

LGFA has a Health and Safety Staff Committee and reporting on health and safety issues are made to the LGFA Board on a regular basis by the Risk and Compliance Manager. There were no health and safety incidents during the six-month period to 31 December 2018.

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

LGFA has credit ratings from Standard and Poor's (S&P) and Fitch Ratings (Fitch) and meets with both agencies each year. Meetings were held in 2018 with both agencies and S&P affirmed the long-term rating of LGFA at AA+ (stable outlook) on 12 July 2018 and Fitch affirmed the rating at AA+ (stable outlook) on 19 November 2018.[1]

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

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

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

LGFA's financial results for key items set out in Section 4 of the SOI for the six-month period to 31 December 2018 are:

In $ million	31 December 2018 Actual	31 December 2018 SOI Forecast
Net interest revenue	9.77	9.60
Issuance and operating expenses excluding Approved Issuer Levy (AIL)	2.81	2.79
Approved Issuer Levy (AIL)	0.89	1.04
Net Operating Gain	6.08	5.77

LGFA net operating gain exceeded forecast as net interest revenue was greater than forecast and expenses below forecast.

1. Subsequent to 31 December 2018. On 31 January 2019, S&P placed the issuer credit ratings of LGFA on positive outlook. The LGFA Foreign Currency credit rating of AA/A-1+ and Local Currency rating of AA+/A-1+ were affirmed by S&P and are now both on positive outlook.

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

As at 31 December 2018, LGFA is on track to meet three out of its four performance targets for the 12-month period to 30 June 2019

2018-19 performance targets	Target	Result for six-month period to 31 December 2018	Outcome
Average margin above LGFA's cost of funds charged to the highest rated Participating Local Authorities for the period	<= 0.10%	0.095%	✓ On track to be met
Annualised annual issuance and operating expenses (excluding AIL)	<= $5.67 million	$2.81 million	✓ On track to be met
Lending to Participating Local Authorities	>= $8.105 billion (full year target)	$9.268 billion as at December 2018	✓ On track to be met noting that $1.195 billion of loans due to be repaid in March 2019
Savings on borrowing costs for council borrowers relative to other sources of financing and compared to previous years	Improvement since prior year end relative to borrowing by councils directly. As at June 2018: 2019s 11 bps, 2021s 19 bps and 2025s 10 bps	As at December 2018: 2019s 2 bps, 2021s 17 bps and 2025s 15 bps	✗ Not met due to lack of single name issuance by councils and shortening of comparable maturity dates. This reduced supply has tightened comparable spreads for Auckland Council and Dunedin City Council bonds

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

LGFA was compliant with the Treasury Policy during the six-month period ending 31 December 2018.

Financial statements
Taukī pūtea

In the opinion of the directors of the New Zealand Local Government Funding Agency Limited, the financial statements and notes on pages 21 to 37:

- 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 2018, 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

Craig Stobo, Director
Chair, LGFA Board
27 February 2019

Linda Robertson, Director
Chair, LGFA Audit and Risk Committee
27 February 2019

Statement of comprehensive income

For the six months ended 31 December 2018 in $000s

	Note	Unaudited six months ended 31 December 2018	Unaudited six months ended 31 December 2017
Interest income			
Cash and cash equivalents		226	291
Loans to local government		124,053	118,416
Marketable securities		1,229	1,434
Deposits		2,251	2,424
Derivatives		53,131	55,580
Fair value hedge ineffectiveness	2	-	-
Total interest income		**180,890**	**178,145**
Interest expense			
Bills		4,610	3,671
Bonds		164,513	163,057
Borrower notes		1,769	1,699
Bond repurchase transactions		225	100
Total interest expense		**171,117**	**168,527**
Net interest income		**9,773**	**9,618**
Operating expenses			
Issuance and on-lending expenses	3	2,054	2,107
Operating expenses	4	1,644	1,475
Total expenses		**3,698**	**3,582**
Net operating profit		**6,075**	**6,036**
Total comprehensive income		**6,075**	**6,036**

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 2018 (unaudited) in $000s

	Note	Share capital	Retained earnings	Total equity
Equity as at 30 June 2018		**25,000**	**39,290**	**64,290**
Adjustment on adoption of NZ IFRS 9	1c		(35)	
Equity as at 1 July 2018		25,000	39,255	64,255
Net operating profit			6,075	6,075
Total comprehensive income for the year			6,075	6,075
Transactions with owners			-	-
Dividend paid on 7 September 2018			(1,285)	(1,285)
Equity as at 31 December 2018	**12**	**25,000**	**44,045**	**69,045**

For the six months ended 31 December 2017 (unaudited) in $000s

	Note	Share capital	Retained earnings	Total equity
Equity as at 30 June 2017		**25,000**	**28,878**	**53,878**
Net operating profit			6,036	6,036
Total comprehensive income for the year			6,036	6,036
Transactions with owners			-	-
Dividend paid on 20 September 2017			(1,390)	(1,390)
Equity as at 31 December 2017		**25,000**	**33,524**	**58,524**

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

Statement of financial position

As at 31 December 2018 in $000s

	Note	Unaudited as at 31 December 2018	Audited as at 30 June 2018
Assets			
Financial assets			
Cash and bank balances		22,393	50,280
Marketable securities		69,284	231,420
Deposits		70,482	201,114
Borrower note receivable	13	144	-
Loans to local government	5	9,325,431	7,975,728
Derivatives in gain		412,759	375,371
Non-financial assets			
Prepayments		869	561
Other assets	10	533	609
Total assets		**9,901,895**	**8,835,084**
Equity			
Share capital		25,000	25,000
Retained earnings		37,970	39,290
Total comprehensive income for the period		6,075	
Total equity		**69,045**	**64,290**
Liabilities			
Financial liabilities			
Payables and provisions		260	444
Bills	6	482,875	473,421
Bond repurchases	9	5,660	6,183
Loans to local government not yet advanced	13	9,000	-
Bonds	7	9,158,425	8,101,004
Borrower notes	8	153,821	135,108
Derivatives in loss		22,633	54,286
Non-financial liabilities			
Accrued expenses		176	348
Total liabilities		**9,832,850**	**8,770,794**
Total equity and liabilities		**9,901,895**	**8,835,084**

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 2018 in $000s

	Note	Unaudited six months ended 31 December 2018	Unaudited six months ended 31 December 2017
Cash flow from operating activities			
Cash applied to loans to local government	14	(1,338,445)	247,203
Interest paid on bonds issued		(180,956)	(188,895)
Interest paid on bills issued		(4,610)	(3,671)
Interest paid on bond repurchases		(226)	(102)
Interest paid on borrower notes		-	(2,621)
Interest received from loans to local government		121,772	119,534
Interest received from cash and cash equivalents		226	291
Interest received from marketable securities		1,627	1,567
Interest received from deposits		2,884	3,413
Net interest on derivatives		73,024	80,406
Payments to suppliers and employees		(4,299)	(4,274)
Net cash flow from operating activities	11	**(1,329,003)**	**252,851**
Cashflow from investing activities			
Change in marketable securities		161,738	91,195
Change in deposits		130,000	30,000
Change in plant and equipment		-	76
Net cashflow from investing activities		**291,738**	**121,271**
Cashflow from financing activities			
Cash proceeds from bonds issued	14	994,187	(382,465)
Cash proceeds from bills issued		9,455	20,422
Cash proceeds from bond repurchases		(523)	(11,957)
Cash proceeds from borrower notes		16,800	(5,770)
Dividends paid		(1,285)	(1,390)
Cash applied to derivatives		(9,256)	(13,403)
Net cashflow from financing activities		**1,009,378**	**(394,563)**
Net (decrease) / increase in cash		**(27,887)**	**(20,441)**
Cash, cash equivalents and bank overdraft at beginning of year		50,280	49,919
Cash, cash equivalents and bank overdraft at end of year		**22,393**	**29,478**

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

1 Statement of accounting policies

a. Reporting entity

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

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

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

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

These interim financial statements were authorised for issue by the Directors on 27 February 2019.

b. Statement of compliance

These interim financial statements are for the six-months ended 31 December 2018 and are to be read in conjunction with the annual report for the year ended 30 June 2018. They have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and they comply with NZ IAS 34 Interim Financial Reporting. The financial results for the six-month period ended 31 December 2018 are unaudited.

c. Basis of preparation

Accounting judgments, estimates and assumptions

The judgements, estimates and assumptions used to prepare these interim financial statements are consistent with those used at 30 June 2018.

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

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

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

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

Hedge accounting

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

Impairment

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

LGFA has not previously incurred any credit losses under the incurred loss impairment model (NZ IAS 39) and the introduction of the expected credit loss model (NZ IFRS 9) has not had a material impact on the measurement of LGFA's financial assets. Accordingly, the cumulative impact of the change has been adjusted through opening retained earnings in the statement of changes in equity. There has been no restatement of comparative financial information or the opening balance sheet as at 1 July 2018.

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

Methodology to determine expected credit losses

As at 31 December 2018, LGFA deemed that there had been no significant increase in credit risk since initial recognition for any financial asset and calculated the loss allowance for these instruments at an amount equal to 12-month expected credit losses, using the estimated probability of default multiplied by the estimated recovery rate.

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

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

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

Early adoption standards and interpretations

LGFA has not early adopted any standards.

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.

Change in presentation. Statement of financial position

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

d. Financial instruments

Financial assets

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

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

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

At each balance date, an expected credit loss assessment is performed for all financial assets and is calculated as either:

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

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

Financial liabilities

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

Derivatives

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

Fair value hedge

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

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

e. Other assets

Property, plant and equipment (PPE)

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

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

Intangible Assets

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

f. Other liabilities

Employee entitlements

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

g. Revenue and expenses

Revenue

Interest income

Interest income is accrued using the effective interest rate method.

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

Expenses

Expenses are recognised in the period to which they relate.

Interest expense

Interest expense is accrued using the effective interest rate method.

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

Income tax

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

Goods and services tax

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

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

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

Commitments and contingencies are disclosed exclusive of GST.

h. Lease payments

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

i. Segment reporting

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

j. Judgements and estimations

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

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

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

2 Hedge accounting

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

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

in $000s	Gain/(loss) unaudited six months ended 31 December 2018	Gain/(loss) unaudited six months ended 31 December 2017
Hedging instruments – interest rate swaps	301,917	202,007
Hedged items attributable to the hedged risk – fixed rate bonds / loans	(301,917)	(202,007)
Ineffectiveness recognised in profit or loss from fair value hedges	-	-

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

3 Issuance and on-lending expenses

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

in $000s	Unaudited six months ended 31 December 2018	Unaudited six months ended 31 December 2017
NZDMO facility fee	303	375
NZX	200	164
Rating agency fees	297	282
Legal fees for issuance	164	93
Regulatory, registry, other fees	68	45
Trustee fees	50	50
Approved issuer levy[1]	893	1,019
Information Services	79	79
	2,054	**2,107**

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

4 Operating expenses

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

in $000s	Unaudited six months ended 31 December 2018	Unaudited six months ended 31 December 2017
Consultants[1]	105	68
Directors' fees	189	189
Insurance	31	30
Legal fees	35	53
Other expenses	390	364
Auditors' remuneration		
Statutory audit	48	44
Advisory services	-	-
Personnel	846	727
	1,644	**1,475**

1. Consultants includes $66 for Treasury Systems Consultant ($63, December 2017). Previously, this cost was reported within Other expenses (with associated treasury systems costs).

Attachment 1

Item 7

5 Loans to local government

in $000s	Unaudited as at 31 December 2018		Audited as at 30 June 2018	
	Short-term loans	Loans	Short-term loans	Loans
Ashburton District Council	25,041	27,541	5,015	25,603
Auckland Council	-	2,099,757	-	2,101,357
Bay of Plenty Regional Council	140,719		-	-
Buller District Council	-	20,013	-	20,014
Canterbury Regional Council	3,004	30,103	-	30,103
Central Hawkes Bay District Council	-	2,027	-	2,027
Christchurch City Council	85,264	1,872,128	85,273	1,573,566
Far North District Council	20,015	40,157	-	40,130
Gisborne District Council	-	47,827	-	37,275
Gore District Council	6,014	11,063	6,014	11,064
Greater Wellington Regional Council	-	376,454	-	306,302
Grey District Council	-	20,393	-	20,446
Hamilton City Council	-	401,787	-	366,483
Hastings District Council	1,980	121,992	1,957	75,280
Hauraki District Council	-	49,215	-	38,156
Horizons Regional Council	-	28,095	-	20,035
Horowhenua District Council	15,022	94,879	6,008	72,868
Hurunui District Council	-	32,133	-	23,098
Hutt City Council	10,987	176,930	4,996	152,802
Kaipara District Council	5,970	44,185	4,925	40,174
Kapiti Coast District Council	2,491	220,816	-	205,754
Manawatu District Council	-	68,212	-	61,180
Marlborough District Council	27,138	73,301	17,297	63,237
Masterton District Council	-	60,257	-	52,234
Matamata-Piako District Council	2,518	27,603	-	27,599
Nelson City Council	-	70,268	-	60,239
New Plymouth District Council	-	106,534	-	74,324
Northland Regional Council	-	8,698	-	8,634
Opotiki District Council	-	5,148	-	5,163
Otorohanga District Council	-	6,104	-	6,120
Palmerston North City Council	10,028	112,403	10,028	82,317
Porirua City Council	-	61,782	-	61,754
Queenstown Lakes District Council	10,081	85,890	10,096	75,954

in $000s	Unaudited as at 31 December 2018		Audited as at 30 June 2018	
	Short-term loans	Loans	Short-term loans	Loans
Rotorua District Council	2,812	180,355	-	150,266
Ruapehu District Council	3,027	9,041	-	-
Selwyn District Council	5,040	25,075	-	15,021
South Taranaki District Council	-	82,382	-	62,278
South Wairarapa District Council	2,001	17,631	-	17,629
Stratford District Council	-	14,572	-	4,513
Tararua District Council	2,014	17,084	2,011	15,064
Tasman District Council	25,105	151,104	10,007	109,006
Taupo District Council	-	145,520	-	125,430
Tauranga City Council	9,965	442,532	-	362,308
Thames-Coromandel District Council	15,086	45,170	-	45,175
Timaru District Council	17,573	67,343	12,524	67,331
Upper Hutt City Council	4,989	38,172	4,976	31,638
Waikato District Council	-	90,430	-	80,382
Waikato Regional Council	-	22,100	-	-
Waimakariri District Council	10,012	135,898	20,024	105,818
Waipa District Council	34,207	13,015	-	13,016
Wairoa District Council	1,506	3,519	-	-
Waitomo District Council	10,057	30,111	10,066	25,086
Wellington City Council	-	465,913	-	395,384
Western Bay Of Plenty District Council	-	115,522	-	105,426
Westland District Council	-	17,383	2,998	14,361
Whakatane District Council	4,008	53,237	6,011	48,220
Whanganui District Council	-	82,434	5,005	73,367
Whangarei District Council	9,972	132,543	9,971	132,516
	523,647	8,801,784	235,202	7,740,526
		9,325,431		**7,975,728**

6 Bills on issue

Unaudited as at 31 December 2018 in $000's	Face value	Unamortised premium	Accrued interest	Total
9 January 2019	50,000	-	(22)	49,978
29 January 2019	25,000	-	(37)	24,963
1 February 2019	40,000	-	(67)	39,933
5 February 2019	25,000	-	(47)	24,953
13 February 2019	50,000	-	(116)	49,884
22 February 2019	25,000	-	(72)	24,928
13 March 2019	50,000	-	(191)	49,809
20 March 2019	75,000	-	(321)	74,679
10 April 2019	25,000	-	(132)	24,868
13 May 2019	20,000	-	(149)	19,851
15 May 2019	25,000	-	(190)	24,810
12 June 2019	25,000	-	(231)	24,769
10 July 2019	25,000	-	(270)	24,730
17 July 2019	25,000	-	(280)	24,720
	485,000	**-**	**(2,124)**	**482,875**

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

7 Bonds on issue

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

Unaudited as at 31 December 2018 in $000's	Face value	Unamortised premium	Accrued interest	Fair value hedge adjustment	Total
15 March 2019	1,240,000	2,579	18,497		
15 April 2020	980,000	(4,299)	6,300		
15 May 2021	1,450,000	50,874	11,296		
14 April 2022	540,000	2,219	3,223		
15 April 2023	1,429,000	60,662	16,842		
15 April 2025	1,229,000	(45,638)	7,242		
15 April 2027	1,236,000	49,043	11,919		
14 April 2033	600,000	(42,810)	4,558		
Total	**8,704,000**	**72,632**	**79,876**	**301,917**	**9,158,425**

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

Item 7

Attachment 1

8 Borrower notes

Borrower notes are subordinated debt instruments which are required to be held by each local authority that borrows from LGFA in an amount equal to 1.6% of the aggregate borrowings by that local authority.

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

9 Treasury stock and bond repurchase transactions

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

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

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

Bond repurchase transactions:

Maturity date		Unaudited as at 31 December 2018	Audited as at 30 June 2018
15 March 2019	5% coupon	-	1,035
15 April 2020	3% coupon	-	4,076
15 May 2021	6% coupon	-	-
14 April 2022	2.75% coupon	-	-
15 April 2023	5.5% coupon	5,660	-
15 April 2025	2.75% coupon	-	-
15 April 2027	4.5% coupon	-	1,072
14 April 2033	3.5% coupon	-	-
		5,660	**6,183**

10 Other assets

	Unaudited as at 31 December 2018	Audited as at 30 June 2018
Intangible assets[1]	533	609
Total	**533**	**609**

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

11 Reconciliation of net profit/(loss) to net cash flow from operating activities

in $000s	Unaudited six months ended 31 December 2018	Unaudited six months ended 31 December 2017
Net profit/(loss) for the period	6,075	6,036
Cash applied to loans to local government	(1,338,445)	247,203
Non-cash adjustments		
Amortisation and depreciation	4,043	304
Working capital movements		
Net change in trade debtors and receivables	(196)	(207)
Net change in prepayments	(308)	(343)
Net change in accruals	(172)	(142)
Net Cash From operating activities	**(1,329,003)**	**252,851**

12 Share Capital

As at 31 December 2018, LGFA had 45 million ordinary shares on issue, 20 million of which remain uncalled. All ordinary shares rank equally with one vote attached to each ordinary share. Ordinary shares have a face value of $1 per share.

Shareholder Information

	31 December 2018		30 June 2018	
New Zealand Government	5,000,000	11.1%	5,000,000	11.1%
Auckland Council	3,731,960	8.3%	3,731,960	8.3%
Christchurch City Council	3,731,960	8.3%	3,731,960	8.3%
Hamilton City Council	3,731,960	8.3%	3,731,960	8.3%
Bay of Plenty Regional Council	3,731,958	8.3%	3,731,958	8.3%
Greater Wellington Regional Council	3,731,958	8.3%	3,731,958	8.3%
Tasman District Council	3,731,958	8.3%	3,731,958	8.3%
Tauranga City Council	3,731,958	8.3%	3,731,958	8.3%
Wellington City Council	3,731,958	8.3%	3,731,958	8.3%
Western Bay of Plenty District Council	3,731,958	8.3%	3,731,958	8.3%
Whangarei District Council	1,492,784	3.3%	1,492,784	3.3%
Hastings District Council	746,392	1.7%	746,392	1.7%
Marlborough District Council	400,000	0.9%	400,000	0.9%
Selwyn District Council	373,196	0.8%	373,196	0.8%
Gisborne District Council	200,000	0.4%	200,000	0.4%
Hauraki District Council	200,000	0.4%	200,000	0.4%
Horowhenua District Council	200,000	0.4%	200,000	0.4%
Hutt City Council	200,000	0.4%	200,000	0.4%
Kapiti Coast District Council	200,000	0.4%	200,000	0.4%
Manawatu District Council	200,000	0.4%	200,000	0.4%
Masterton District Council	200,000	0.4%	200,000	0.4%
New Plymouth District Council	200,000	0.4%	200,000	0.4%
Otorohanga District Council	200,000	0.4%	200,000	0.4%
Palmerston North District Council	200,000	0.4%	200,000	0.4%
South Taranaki District Council	200,000	0.4%	200,000	0.4%
Taupo District Council	200,000	0.4%	200,000	0.4%
Thames-Coromandel District Council	200,000	0.4%	200,000	0.4%
Waimakariri District Council	200,000	0.4%	200,000	0.4%
Waipa District Council	200,000	0.4%	200,000	0.4%
Whakatane District Council	200,000	0.4%	200,000	0.4%
Whanganui District Council	200,000	0.4%	200,000	0.4%
	45,000,000	100%	45,000,000	100%

13 Loans to local government not yet advanced

As at 31 December 2018, loans to local government totaling $9 million, and associated borrower notes for $0.144 million, had been contractually agreed for forward settlement in March 2019

14 LGFA December 2017 bond maturity

The nominal value of the 15 December 2017 6% coupon bond maturity was $1,015 million. Loans to councils with nominal values totalling $879 million, and associated nominal borrower notes totalling $14 million, also matured on 15 December 2017.

15 Related parties

Identity of related parties

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

The Company operates under an annual Statement of Intent with the respective local authorities that sets out the intentions and expectations for LGFA's operations and lending to participating local authorities.

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

Related party transactions

LGFA was established for the purpose of raising funds from the market to lend to participating councils. The lending to individual councils is disclosed in note 5, and interest income recognised on this lending is shown in the statement of comprehensive income.

The purchase of LGFA borrower notes by participating councils. Refer note 8.

NZDMO provides LGFA with a committed credit facility and is LGFA's derivatives counterparty.

16 Subsequent events

Subsequent to balance date:

LGFA has issued $190 million in bonds through a tender on 12 February 2019.

On 31 January 2019, Standard and Poor's (S&P) placed the New Zealand Government issuer credit rating on Positive Outlook. The ratings outlook change applied to the Foreign Currency credit rating of "AA/A-1+" and Local Currency credit rating of "AA+/A-1+".

Following the change to the New Zealand Government outlook, S&P placed the issuer credit ratings of LGFA on positive outlook. The LGFA Foreign Currency credit rating of "AA/A-1+" and Local Currency rating of "AA+/A-1+" have been affirmed by S&P and are now both on positive outlook.

Other disclosures
Whākitanga

Waivers from NZX Limited (NZX)

LGFA's fixed rate bonds are quoted on the NZX Debt Market (LGFA Bonds). NZX has granted LGFA a number of waivers from the NZX Listing Rules.

Waiver from Rule 3.2.1

NZX has granted LGFA a waiver from NZX Listing Rule 3.2.1(a) to the extent that this requires the trust deed under which the LGFA Bonds are issued (Trust Deed) to provide that the appointment of a new trustee is to be approved by an extraordinary resolution of the holders of the Securities to which the Trust Deed relates. Effective from 10 May 2016, LGFA ceased to rely on this waiver as the Trust Deed was amended to comply with NZX Listing Rule 3.2.1(a).

Waiver from Rule 5.2.3

NZX has granted LGFA a waiver from NZX Listing Rule 5.2.3 to the extent that this requires the LGFA Bonds to be held by at least 100 members of the public holding at least 25% of the number of securities of that class issued.

The waiver from NZX Listing Rule 5.2.3 was provided on the conditions that:

a. LGFA clearly and prominently disclose the waiver, its conditions and its implications in its annual reports and in each profile or Offering Document for the LGFA Bonds;
b. LGFA will disclose market liquidity as a risk in each offering document (excluding any offering document referred to in paragraph (f) of the definition of "Offering Document" under NZX Listing Rule 1.6.1) for the LGFA Bonds; and
c. the nature of LGFA's business and operations do not materially change from its business and operations as at the date of the waiver decision.

The effect of the waiver is that the LGFA Bonds may not be widely held and there may be reduced market liquidity in the LGFA Bonds.

Waiver from Rule 6.3.2

NZX has granted LGFA a waiver from NZX Listing Rule 6.3.2 so that the deemed date of receipt of notices for a holder of LGFA Bonds who has supplied LGFA with an address outside of New Zealand, will be five working days after that notice is posted to that physical address.

Net Tangible Assets

Net tangible assets per $1,000 of listed bonds as at 31 December 2018 is $7.58 (30 June 2018: $7.92).

Directory
Rārangi tauwaea

Postal address

PO Box 5704
Lambton Quay
Wellington 6145

Phone

+64 4 974 6530

Personnel e-mail addresses

firstname.lastname@lgfa.co.nz

Website

www.lgfa.co.nz

General enquiries

lgfa@lgfa.co.nz

Office hours

Monday through Friday,
09.00-17.30 hrs

Except Public Holidays

Street address

WELLINGTON

Level 8
City Chambers
142 Featherston Street
Wellington 6011

AUCKLAND

Level 5
Walker Wayland Centre
53 Fort Street
Auckland 1010

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

www.lgfa.co.nz

LGFA
NEW ZEALAND
LOCAL GOVERNMENT
FUNDING AGENCY

27 February 2019

Dear Shareholder

Draft Statement of Intent 2019/20

Please find attached a copy of the Draft Statement of Intent (SOI) for the 2019/20 year.

LGFA continues to focus on delivering strong results for both our council borrowers and shareholders.

For our borrowing councils we seek to optimize funding terms and conditions by

- Achieving savings in borrowing costs
- Provide longer dated funding and
- Provide certainty of access to markets

For our shareholders we are focused on

- Delivering a strong financial performance
- Monitoring asset quality
- Enhancing our approach to treasury and risk management and
- Ensuring we have the correct governance framework and capital structure in place

The following points regarding the Draft 2019/20 SOI are worth noting:

- Profitability is forecast to remain strong with projections for Net Operating Gain of $10.9 million, $11.2 million and $10.9 million for the next three years, which is similar to results from previous years. However, we remain cautious in placing too much emphasis on the Year Three (2021/22) forecast given that over the next three years, we estimate that $3.6 billion of our LGFA bonds and $3.0 billion of council loans mature. Assumptions regarding timing of refinancing and interest rates have a meaningful impact on financial projections.

- Net interest income is expected to remain constant over the next three years as the balance sheet grows from council lending and we hold additional liquid assets to manage the LGFA bond maturities. However, this is offset by a modest reduction in on-lending margins as loans to councils made in previous years at higher margins are refinanced by councils at maturity with lower margin loans.

- We have increased our forecast for Local Government loans (short and long term) outstanding as at June 2020 to $9.524 billion and to $9.806 billion as at June 2021 (from $8.421 billion and $8.185 billion in the previous SOI). This reflects the higher long-term borrowing requirement outlined by councils in their 2018-28 Long-Term Plans, increased utilisation of short term borrowing from LGFA by councils and a surge in new council

NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY LIMITED
AUCKLAND Level 5, Walker Wayland Centre, 53 Fort Street
WELLINGTON Level 8, City Chambers, 142 Featherston Street
PO Box 5704, Lambton Quay, Wellington 6145 | PH +64 4 974 6530 | www.lgfa.co.nz

members who typically refinance their debt with LGFA upon joining. In last year's SOI, we had also been conservative in expecting a reduction in borrowing appetite from councils because of the Housing Infrastructure Fund facility and other Central Government initiatives.

- We have assumed a small narrowing in credit margins as the credit quality of the sector improves and councils get ratings upgrades. There are no forecast changes to the on-lending margins given the base lending margin now averages 10 bps (0.10%). Any further reductions in the base margin is unlikely as we need to ensure we have enough capital to match the growth in the balance sheet. LGFA on-lending margins are the narrowest when compared with our international peers.

- Compared to the previous SOI, issuance and on-lending costs, excluding Approved Issuer Levy ("AIL") are forecast to be around $200k to $300k higher in each of the 2019/20 and 2020/21 financial years reflecting higher lending and issuance volumes.

- The SOI performance targets are similar to targets in the previous SOI except we have replaced the objective relating to savings to council borrowers with a survey-based measure as to the perceived "value add" by LGFA to councils. It has become increasingly difficult to accurately measure savings in borrowing costs due to the lack of single name bond issuance by councils who are not members of LGFA.

- As noted above, there is some timing uncertainty within the SOI forecast relating to Local Government loans and LGFA bonds outstanding as we need to project both the repayment amount and repayment timing of the Local Government loans that are due to mature in April 2020, May 2021 and April 2022. Decisions made by our council members regarding early refinancing will have a phasing impact across all three years in the SOI forecast.

If you have any questions or wish to provide comments by 30 April 2019 then please feel free to contact myself or any member of the Shareholders Council. The LGFA Board will consider any feedback received and provide a final version of the SOI to shareholders by 30 June 2019.

Yours sincerely

Mark Butcher
Chief Executive

NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY LIMITED
AUCKLAND Level 5, Walker Wayland Centre, 53 Fort Street
WELLINGTON Level 8, City Chambers, 142 Featherston Street
PO Box 5704, Lambton Quay, Wellington 6145 | PH +64 4 974 6530 | www.lgfa.co.nz

NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY

Statement of Intent 2019/20

1. Introduction

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

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

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

2. Nature and scope of activities

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

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

In lending to Participating Local Authorities, LGFA will:

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

3. Objectives

Principal Objectives

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

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

Primary Objectives

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

- Providing savings in annual interest costs for all Participating Local Authorities on a relative basis to other sources of financing;
- Offering short and long-term borrowings with flexible lending terms;
- Enhancing the certainty of access to debt markets for Participating Local Authorities, subject always to operating in accordance with sound business practice; and
- Being the debt funder of choice for New Zealand local government.

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 endeavour to visit each Participating Local Authority on an annual basis;
- Implement the changes to the Foundation Policies that were approved at the November 2018 AGM to allow for lending to CCOs. Changes to operational policies and practices need to ensure that no additional risk is borne by lenders, guarantors or the Crown and
- LGFA will analyse finances at the Council group level where appropriate and report to the Shareholder Council and shareholders as to which Participating Local Authorities are measured on a group basis.

LGFA will take a proactive role to enhance the financial strength and depth of the local government debt market and work with key central government and local government stakeholders on sector and individual council issues.

Additional objectives

LGFA has a number of additional objectives which complement the primary objectives. 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;
- Provide at least 75% of aggregate long-term debt funding to the Local Government sector;
- Achieve the financial forecasts (excluding the impact of AIL) set out in section 4;
- Ensure its products and services are delivered at a cost that does not exceed the forecast for issuance and operating expenses set out in section 4;
- Take appropriate steps to ensure compliance with the Health and Safety at Work Act 2015;
- Maintain LGFA's credit rating equal to the New Zealand Government sovereign rating where both entities are rated by the same Rating Agency;
- Introduce CCO lending by December 2019 and report quarterly, the volume of lending to CCOs to both the Shareholder Council and shareholders and
- Comply with its Treasury Policy, as approved by the Board.

The measurement of the company performance regarding these additional objectives are set out as Performance Targets in Section 5 of this SOI.

4. Financial forecasts

LGFA's financial forecasts for the three years to 30 June 2022 are:

FINANCIAL YEAR ($M)	SOI		
Comprehensive income	**Jun-20**	**Jun-21**	**Jun-22**
Interest income	272.1	293.2	294.0
Interest expense	253.6	274.2	275.1
Net Interest income	**18.4**	**19.0**	**18.9**
Issuance and on-lending costs	2.3	2.4	2.4
Approved Issuer Levy	1.5	1.6	1.6
Operating expenses	3.7	3.9	4.0
Issuance and operating expenses	**7.6**	**7.8**	**8.0**
P&L	**10.9**	**11.2**	**10.9**

Financial position ($m)	**Jun-20**	**Jun-21**	**Jun-22**
Capital	25.0	25.0	25.0
Retained earnings	60.5	70.2	79.6
Total equity	85.5	95.2	104.6
Shareholder funds + borrower notes / Total assets	2.4%	2.5%	2.5%
Dividend provision	1.5	1.5	1.5
Total assets (nominal)	9,743.9	9,953.8	10,164.3
Total LG loans - short term (nominal)	460.0	460.0	460.0
Total LG loans (nominal)	9,100.2	9,346.0	9,418.7
Total bills (nominal)	425.0	425.0	425.0
Total bonds (nominal) ex treasury stock	9,064.0	9,264.0	9,454.0
Total borrower notes (nominal)	145.6	149.5	150.7

Note that there is some forecast uncertainty around the timing of Net Interest Income, Profit and Loss, Total Assets, LG Loans, Bonds and Borrower Notes depending upon council decisions regarding the amount and timing of refinancing of their April 2020, May 2021 and April 2022 loans. LGFA will work with council borrowers to reduce this uncertainty.

5. Performance targets

LGFA has the following performance targets:

- LGFA's net interest income for the period to:
    - 30 June 2020 will be greater than $18.40 million.

- 30 June 2021 will be greater than $19.00 million.
- 30 June 2022 will be greater than $18.90 million.

- LGFA's annual issuance and operating expenses (excluding AIL) for the period to:
    - 30 June 2020 will be less than $6.10 million.
    - 30 June 2021 will be less than $6.20 million.
    - 30 June 2022 will be less than $6.40 million.
- Total lending to Participating Local Authorities[1] at:
    - 30 June 2020 will be at least $9,560 million.
    - 30 June 2021 will be at least $9,806 million.
    - 30 June 2022 will be at least $9,879 million.
- Conduct an annual survey of councils who borrow from LGFA and achieve at least an 80% satisfaction score as to the value added by LGFA to the council borrowing activities.
- Meet all lending requests from Participating Local Authorities, where those requests meet LGFA operational and covenant requirements.
- Achieve 75% market share of all council borrowing in New Zealand.
- Review each Participating Local Authority's financial position, its headroom under LGFA policies and arrange to meet each Participating Local Authority at least annually.
- No breaches of Treasury Policy, any regulatory or legislative requirements including the Health and Safety at Work Act 2015.
- Successfully refinance of existing loans to councils and LGFA bond maturities as they fall due.
- Maintain a credit rating equal to the New Zealand Government rating where both entities are rated by the same credit rating agency.

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 fixed rate bond 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.

---

[1] Subject to the forecasting uncertainty noted previously

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 comprises six directors with five being independent directors and one being a non-independent director.

The Board's approach to governance is to adopt best practice[2] 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 fewer than 6 times each year.

Shareholders' Council

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

- Review the performance of LGFA and the Board, and report to Shareholders on that performance on a periodic basis.
- Make recommendations to Shareholders as to the appointment, removal, replacement and remuneration of directors.
- Make recommendations to Shareholders as to any changes to policies, or the SOI, requiring their approval.
- Ensure all Shareholders are fully informed on LGFA matters and to coordinate Shareholders on governance decisions.

8. Information to be provided to Shareholders

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

---

[2] Best practice as per NZX and Institute of Directors guidelines

Annual Report

The LGFA's balance date is 30 June.

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

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

Half Yearly Report

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

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

Quarterly Report

By 31 January, 30 April, 31 July, and 31 October each year, the Company will produce a Quarterly Report. The Quarterly Report will include the following information:

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

- To the extent known by LGFA, details of all events of review in respect of any Participating Local Authority that occurred during the relevant quarter (including steps taken, or proposed to be taken, by LGFA in relation thereto).

Statement of Intent

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

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

Shareholder Meetings

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

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

9. Acquisition/divestment policy

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

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

10. Activities for which compensation is sought from Shareholders

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

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

11. Commercial value of Shareholder's investment

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

Subject to the Board's views on the appropriate capital structure for LGFA, the Board's intention will be to pay a dividend that provides an annual rate of return to Principal Shareholders equal to LGFA fixed rate bond 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 was 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 was at least equal to the face value of the Shareholders' paid up Principal Shares of $25 million. This equated to a value per share of $1.00.

12. Accounting policies

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

The following statement is taken from the Financial Statements presented as part of LGFA's Annual Report 2018 (updated where necessary).

ATTACHMENT: Statement of accounting policies

a. Reporting Entity

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

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

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

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

b. Statement of Compliance

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

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

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

c. Basis of Preparation

Measurement base

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

The financial statements are prepared on an accrual basis.

Functional and presentation currency

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

Foreign currency conversions

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

Changes in accounting policies

There have been no changes in accounting policies.

Early adoption standards and interpretations

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

Standards not yet adopted

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

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

d. Financial instruments

Financial assets

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

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

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

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

Financial liabilities

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

Derivatives

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

Fair value hedge

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

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

e. Other assets

Property, plant and equipment (PPE)

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

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

Intangible Assets

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

f) Other liabilities

Employee entitlements

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

g) Revenue and expenses

Revenue

Interest income

Interest income is accrued using the effective interest rate method.

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

Expenses

Expenses are recognised in the period to which they relate.

Interest expense

Interest expense is accrued using the effective interest rate method.

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

Income tax

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

Goods and services tax

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

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

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

Commitments and contingencies are disclosed exclusive of GST.

h. Lease payments

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

i. Segment reporting

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

j. Judgements and estimations

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

Item 8

Council Report

Committee:	Finance Committee	**Date:**	09 April 2019
Author:	Hayden de Villiers	**Authoriser:**	Tracey Musty
Position:	Treasury Accountant	**Position:**	Financial Controller

Report Name: Waikato Innovation Growth Ltd, NZ Food Innovation (Waikato) Ltd and NZ Food Innovation (Waikato) D2 Ltd combined Draft Statement of Intent 2019/20 and Half Yearly Report 31 December 2018

Report Status	*Open*

Purpose

1. To inform the Finance Committee of the Waikato Innovation Growth Ltd and Group of companies Half Yearly Report to 31 December 2018.
2. To seek approval of the Waikato Innovation Growth Ltd and Group of companies Draft Statement of Intent 2019/20.

Staff Recommendation

That the Finance Committee:

a) receives the report; and

b) approves the Waikato Innovation Growth Ltd and Group of Companies Draft Statement of Intent 2019/2020.

Discussion

3. Half-yearly Report to Shareholders 2018
4. The result as at 31 December 2018 is a deficit of $161k against a budget of $1.3m and the reason for this is a late payment from a client which has now been paid. The yearend forecast to budget is still on track and achievable.
5. The plant is running at near full capacity after a loss of time due to Blue River Dairy, the plant's largest client, moving elsewhere. The void was filled by companies such as KOD, Little Oak and White Goat.
6. The plant is fully booked up until June 2020 as the trend of increased goat and sheep fresh milk continues.
7. Refer to Attachment 1 for the full Half-yearly Report 2019/20.

8. Draft Statement of Intent 2019/20

Item 8

9. The 2019/20 Statement of Intent is consistent with the current years direction.

10. The financial surpluses for years 2020 to 2022 steadily increase as the Melody Dairies plant (spray drier 2) is completed and operational.

11. The development of new value-added sheep milk industry products and the international launch of one substantial new product are key elements to the growth of production.

12. Refer to Attachment 2 for the full Draft Statement of Intent 2019/20.

13. **Financial Considerations**

14. There are no financial considerations related to this matter

15. **Cultural Considerations**

16. This report is for information only and there are no cultural considerations.

17. **Legal and Policy Considerations**

18. Staff confirm that this matter complies with the Council's legal and policy requirements.

19. **Risks**

20. There are no risks associated with providing this information to Council.

21. **Significance**

22. Having considered the Significance and Engagement Policy, staff have assessed that the matters in this report have a low significance.

Attachments

Attachment 1 - WIGL/NZFIWL - Half Yearly Report - December 2018

Attachment 2 - WIGL/NZFIWL - Draft Statement of Intent 2019/20 .

Attachment 1

Item 8

Half Yearly Report

Waikato Innovation Growth Limited

New Zealand Food Innovation (Waikato) Limited

Financial Results (Unaudited YTD Dec 2018 For the Year Ending 30 June 2019)

ash Operating urplus	YTD Actual $000	YTD Budget $000	YE Forecast $000	YE Budget $000
VIGL	na	na	na	na
IZFIW	(161)	1,351	2,182	1,492
iroup cash operating surplus	**(161)**	**1,351**	**2,182**	**1,492**
Net Profit				
VIGL	na	na	na	na
IZFIW	327	349	386	377
iroup net profit	**327**	**349**	**386**	**377**
KPI's	Actual	Budget	YE Forecast	BNZ Covenant
nterest Cover– NZFIW	7.9	4.0	6.6	2.0
hareholder Funds/Tangible Assets — ZFIW	50.2%	32.5%	50.6%	20.0%
Debt/Assets	As at 31 Dec 2018 $000	YE Jun 2019 $000		
ecured debt	5,324	4,192		
otal Assets	18,419	22,853		

Operations Figures (For the half Year Ended 31 Dec 2017)

	Act/For	Budget
NZFIW Production Days (YTD)	286	296
NZFIW Production Days Full Year forecast	509	583

Management Commentary

NZ Food Innovation (Waikato) Ltd Spray Dryer Plant

NZFIW continues to operate at near full plant capacity bookings since last season. This will remain so for the remainder of 2019 financial year. The trend of increased goat and sheep fresh milk production will also continue this season; the plant has only a limited capacity reserved for one-day trials and is fully booked until June 2020.

Blue River Dairy, our largest customer in 2018, has moved elsewhere and we have successfully back filled the void with company such KOD, Little Oak and White Goat. DNL, one of our partners in Melody Dairies LP will take up about 17 days production of Infant Formula products for the 2019 financial year.

NZFIW D2 Limited, a 100% owned limited company by NZFIW, was established in Oct 2018 to hold NZFIW's 10% shareholding in Melody Dairies Limited Partnership.

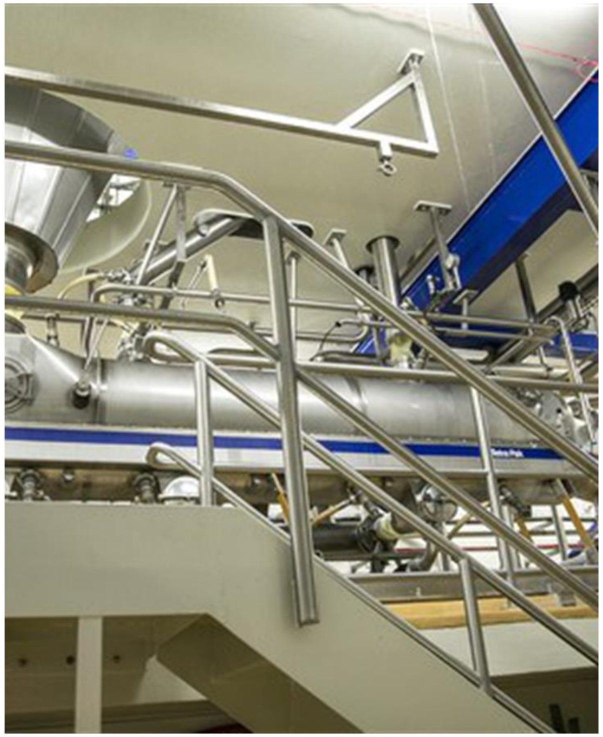
Tetra Pak Ltd started the construction of the second Dryer on 14 Jan 2019.

Waikato Innovation Growth Ltd

The Waikato Growth team were transferred to the newly formed Waikato Regional Economic Development Agency early 2018 (Te Waka). WIG is non-trading and holds 70% shares in NZFIW.

FOODWAIKATO

Growing value-added nutritional powder exports



Financial Results

- NZFIW net profit year to date December achieved slightly les than budget
- In December 2018, NZFIW forecasted year-end profits to ex ceed budgeted profits slightly due to introduction of the infan formula base manufacturing income stream
- Bank loan would remain high at $4,194k by 30 June 2019 du to investment in the second dryer, Melody Dairies LP.

Waikato Innovation Growth Limited
New Zealand Food Innovation (Waikato) limited
NZFIW D2 Limited and

10% ownership in Melody Dairies Limited Partnership

10% ownership in Melody Dairies GP Limited

Draft Statement of Intent

1st March 2019

10 Melody Lane, Hamilton East, P O Box 9466, Waikato Mail Centre, Hamilton 3240. Phone +64 07 857 0500
Email: **enquiries@nzfiw.co.nz** www.nzfiw.co.nz

1. Introduction

a. This statement is presented by the Directors NZFIW in accordance with s.64 (1) Local Government Act 2002 and sets out the Board's intentions for the Companies for the year ending 30 June 2020 plus estimates for the years ending 30th June 2021 and 2022. It covers Waikato Innovation Growth Limited (WIG), New Zealand Food innovation (Waikato) Limited (NZFIW) and NZFIW D2 Limited (D2) collectively called the NZFIW Group in this report. NZFIW D2 Limited owns 10% in both Melody Dairies Limited Partnership (MDLP) and Melody Dairies GP Limited (MDGPL).

2. Corporate Intent

a. NZFIW Group. The core purpose of NZFIW Group is to promote innovation in the food industry both in the Waikato region and nationally, including:

i. providing facilities on an open access basis in which food processing companies and those entering new markets can develop new or improved food ingredient products;

ii. providing on an open access basis a small-scale production plant capable of producing samples for market development which is to be self-sustaining in the medium to long term;

iii. participating in and promoting a national network of similarly focussed food innovation organisations as a shareholder in a food innovation network

iv. providing an independent and secure facility to ensure that the intellectual property and know-how of the Company and its customers are protected;

v. providing a centre of learning for food technology, catering primarily to the pastoral product value chain, in cooperation with tertiary education institutions; and

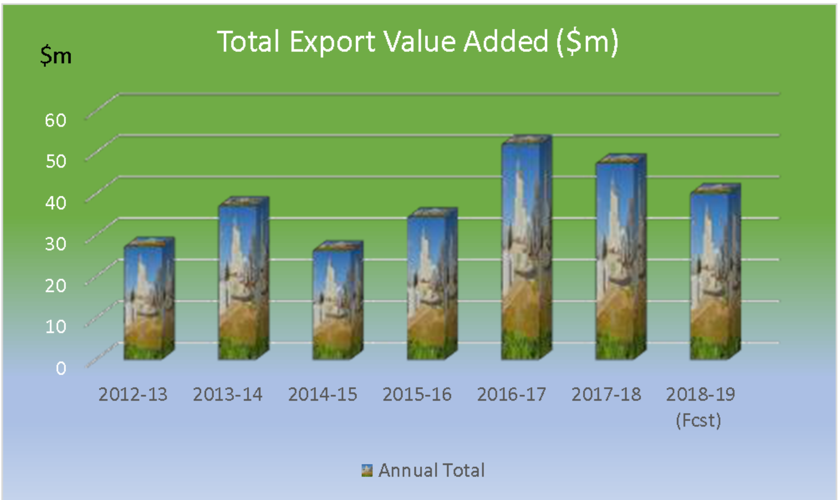
vi. providing one of several tangible centres and organisations throughout New Zealand around which networks of food processors and exporters, food equipment manufacturers and other partners can develop.

3. Achievements to date

a. Food Innovation

➢ The spray dryer was successfully commissioned in July 2012 and initially met Dairy Goat Cooperative's customer requirements to allow it to expand its sales and supply. As a result, Dairy Goat Cooperative made an investment of $68million in a plant on its own site.

- A further $3million investment by Callaghan Innovation allowed a full infant formula blending plant of $5.7million and ingredient warehouse to be established. It allows specialty ingredients such as vitamins, minerals and oils to be 'wet blended' with milk or fruit juice prior to being spray dried to powder in the facility. Since the upgrade, there has been increase in goat and sheep fresh milk production.
- NZFIW is fully booked until June 2019 for drying of fresh goat and sheep milk production plus infant formula nutritionals from those bases. There remains a small amount of space for one-day trials. As a result, NZFIW is now contributing, through manufacturing, approximately $53 million of exports per year.
- In November 2017, Hamilton city Council approved NZFIW to promote a privately funded second Spray Dryer which NZFIW would have a Minority 10% holding through a $1.67m investment.
- On 1 December 2017, HCC and Callaghan injected a further capital of $4m (cash) into NZFIW through the sale of WIPL property; shareholding of NZFIW between HCC and Callaghan remains at a ratio of 70:30.
- NZFIW incepted a 100% owned subsidiary NZFIW D2 Limited (D2) in September 2018 solely for the purpose of investing $1.67 m for a 10% ownership in a second spray dryer: Melody Dairies Limited Partnership.
- NZFIW in December 2018 signed a management agreement with Melody Dairies LP to manage 100% of the operations of the LP.



NZFIW has proven itself as a growth engine, contributing to the New Zealand economy through innovation and being a facilitator in product and business development.

4. Key assumptions

Food Waikato will continue its toll processing activities plus investing about $1.67m as a 10% minority shareholder in a second dryer (Melody Dairies Limited Partnership – Melody Dairies) before the financial year ending 30 June 2019.

5. Nature and Scope of Activities to be Undertaken

Key Objectives

The key objectives that can be achieved during the years ending June 2020 to 2022:

New Zealand Food Innovation Waikato Limited

2019- 2020

1. 284 days of product development production via the spray dryer contributing exceeding $60 million to the regional economy.
2. Commitment by private capital to establish increased spray drying capacity alongside the existing dryer in 2019/2020.
3. A 10% minority interest in new spray dryer is planned to increase open access space for the sheep industry customers. $1.67 million will available within the company's own cash flow.
4. Assist with the development of new valued added sheep milk industry products and the international launch of one substantial new product.
5. Income receiving from managing Melody Dairies expects to amount to a net of $400k.

2020-2021

1. 284 days of product development production via the spray dryer contributing $65 million to the regional economy.
2. New privately-owned spray dryer facility: Melody Dairies plant completed.
3. The management of Melody Dairies by NZFIW management.
4. Income receiving from managing Melody dairies expects to amount to a net of $1.1m

2021-2022

1. 284 days of product development production via the spray dryer contributing $80 million to the regional economy.
2. Income receiving from management fees and dividends expects to maintain $1.1m by 20 Jun 2022.
3. Launch of one new value-added products within the sheep milk industry.

6. Key Performance Targets ($,000)

Key Performance Indicators	2020	2021	2022
NZFIW EBITDA	1,956	2,381	2,443
NZFIW Cash from operating activities	856	2,680	1,712
Net Profit After Tax	337	683	755
Shareholders' funds / Tangible assets	70%	79%	84%

7. Capital Expenditure ($,000)

Capital Expenditure	2020	2021	2022
Food Waikato	650	400	600
Investment in Melody Dairies	1,670		

It is envisaged that the Melody Dairies LP plant will be completed by Nov 2019.

New Zealand Food Innovation Network

10 Melody Lane, Hamilton East, P O Box 9466, Waikato Mail Centre, Hamilton 3240. Phone +64 07 857 0500
Email: **enquiries@nzfiw.co.nz** www.nzfiw.co.nz

8. Financial Disclosure

1. REPORTING ENTITY

a. **New Zealand Food Innovation (Waikato) Limited** (NZFIW) is a company domiciled and incorporated in New Zealand under the Companies Act 1993, and a Council-Controlled Organisation under the Local Government Act 2002 with effect from the 9th October 2013. The Company's parent entity is Waikato Innovation Growth Limited, and the ultimate parent entity is Hamilton City Council.

b. NZFIW D2 Limited is wholly owned by New Zealand Food Innovation (Waikato) Limited. It is a Council-Controlled Organisation under the Local Government Act 2002 with effect from 20th Sep 2018.

c. The forecast financial statements of NZFIW are for the year ending 30 June 2019. The audited financial statements will be authorised for issue by the Board of Directors on the 22nd August 2019. The owners and/or others do not have the power to amend the financial statements after issue.

2. BASIS OF PREPARATION

a. Statement of Compliance

The financial statements for the Company have been prepared in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 1993 and the Local Government Act 2002.

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards - Reduced Disclosure Regime ("NZ IFRS RDR"), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The Company qualifies for NZ IFRS (RDR) as it does not have public accountability and it is not a large for-profit public-sector entity. The Company has elected to apply NZ IFRS (RDR) and has applied disclosure concessions. The Company early adopted the Reduced Disclosure regime framework for the financial year ended 30 June 2015.

b. Basis of Measurement

The financial statements have been prepared on an historical basis except for property, plant and equipment which is measured to fair value.

c. Functional and Presentational currency

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($000).

d. Use of Estimates and Judgements

The preparation of the financial statements in conformity with NZ IFRS RDR requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

e. Change in Accounting Policies

Intangible Assets

A new accounting policy for Intangible Assets has been created due to the registration of the FoodWaikato Trademark.

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been applied consistently to all periods presented in these financial statements.

a. Accounting for Associates

An associate is an investee, not being a subsidiary or joint venture arrangement, over which the group has the capacity to exercise significant influence through participation in the financial and operating policy decisions of the investee.

Associates are recognised using the equity method which recognises the Group's share of the associate's net surplus or deficit in the profit or loss and its share of other comprehensive income.

Under IFRS 11 the investment in D2 (by NZFIW) will be recognised as a joint venture. IFRS 11 states that "A joint venture shall recognise its interest in a joint venture as an investment and shall account for that investment using the equity method in accordance with NZ IAS 28 Investments in Associates and Joint Ventures

b. Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates or similar allowances. Revenue comprises the amounts received and receivable for goods and services supplied to customers in the ordinary course of business.

Interest income is accounted for on an accrual basis.

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 Company with no future related costs are recognised in profit or loss in the period in which they become receivable.

c. Foreign Currency Translation

10 Melody Lane, Hamilton East, P O Box 9466, Waikato Mail Centre, Hamilton 3240. Phone +64 07 857 0500
Email: **enquiries@nzfiw.co.nz** www.nzfiw.co.nz

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the date of the transactions.

d. Finance Costs

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other finance costs are recognised in profit or loss in the period in which they are incurred.

e. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

f. Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in first-out basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

g. Trade and Other Receivables

Trade and other receivables are stated initially at fair value then at estimated realisable value after providing against debts where collection is doubtful. Bad debts are written off during the period in which they are identified. Trade and Other Receivables are classed as 'Trade and other receivables' financial instruments.

h. Property, Plant & Equipment

Property, plant & equipment is measured at fair value less subsequent depreciation. Computer and office equipment is recognised at cost price less depreciation and impairment losses.

Depreciation is calculated on a straight-line basis to allocate the cost or revalued amounts over the estimated useful lives, as follows:

Buildings	25 years
Plant & Equipment	20 years
Computer & Office Equipment	20 years

The assets' residual values, depreciation method and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period.

Revaluation

Property, plant & equipment is revalued with sufficient regularity and at least every three years to ensure that it's carrying amount does not differ materially from fair value.

The carrying values of revalued assets are assessed annually to ensure that they do not differ materially from fair value. If there is evidence supporting a material difference, then the off-cycle asset classes are revalued.

Property, plant and equipment revaluation movements are accounted for on a class-of-asset basis.

The net revaluation results are credited or debited to other comprehensive income and are accumulated to an asset revaluation reserve in equity for that class of asset. Where this would result in a debit balance in the asset revaluation reserve, this balance is not recognised in other comprehensive income but is recognised in the profit or loss. Any subsequent increase on revaluation that reverses a previous decrease in value recognised in the profit or loss will be recognised first in the profit or loss up to the amount previously expensed, and then recognised in other comprehensive income.

i. Work in progress

Work in progress is valued at cost.

j. Intangible Assets

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives.

Trademarks 10 years

k. Trade and Other Payables

Trade and other payables are stated at cost.

l. Goods and Services Tax (GST)

All items in the financial statements are stated exclusive of GST, except for receivables and payables, which are stated 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 receivable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the balance sheet.

m. Income Tax

Income tax expense includes components relating to both current tax and deferred tax.

Current tax is the amount of income tax payable based on the taxable profit for the current year, and any adjustments to income tax payable in respect of prior years. Current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted at balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax is measured at tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at balance date. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities.

10 Melody Lane, Hamilton East, P O Box 9466, Waikato Mail Centre, Hamilton 3240. Phone +64 07 857 0500
Email: **enquiries@nzfiw.co.nz** www.nzfiw.co.nz

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit.

Current and deferred tax is recognised against the profit or loss for the period, except to the extent that it relates to a business combination, or to transactions recognised in other comprehensive income or directly in equity.

n. Short-term Employee Benefits

Short-term (settled within 12 months) employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

o. Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

p. 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 Company 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

Item 8

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.

q. Dividend Policy

In view of the risks associated with the business and future market development need, 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 annually at the annual general meeting each year.

Attachment 2

9. 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 (28 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.

10 Melody Lane, Hamilton East, P O Box 9466, Waikato Mail Centre, Hamilton 3240. Phone +64 07 857 0500
Email: **enquiries@nzfiw.co.nz** www.nzfiw.co.nz

10. Governance Statements

Board of Directors

NZFIW Board, whose members with the exception of Mr Matt Kenny who is appointed by Callaghan Innovation are also members of Waikato Innovation Growth Limited and NZFIW D2 Limited. The board is a skill based board that must govern in the best interests of the company.

The NZFIW Board currently includes the following Directors

- **Barry Harris - Chair.** Former Chief Executive officer of the Hamilton City Council, has had many years of Chief Executive roles in regional local bodies including Environment Waikato and the Greater Wellington Regional Council. He was also the Group Director of Fonterra Milk Supply. Barry over the years has served and is serving in numerous varied Governance roles, with a mix of commercial industry good and research organisations including WinTec and DairyNZ.
- **Earl Rattray** is a former Director of Fonterra and past chair of Dairy Companies Association of New Zealand; a Director of other companies active in the Agricultural and construction sectors. Earl is a NZ dairy farmer and has interests in several international farming enterprises. Earl is a Chartered Fellow member of the NZ Institute of Directors.
- **Matt Kenny** has had over 13 years' experience in executive-level CFO roles. Between 2012 and 2017, he was CFO of Acurity Health Group, an Australian equity owned (and previously NZX-listed) healthcare business providing private surgical facilities, with a turnover of over $150m and around 500 staff. As CFO and Company Secretary, Matt was the key financial adviser to the CEO and Board, and led a team of 22 with responsibilities including financial reporting, tax compliance, planning and forecasting, funding, risk management, procurement and IT. Since 2016, he has also served as a Director of New Zealand Golf. Matt is a Chartered Accountant with a Bachelor of Business from Victoria University of Technology in Melbourne.
- **Peter Hobman.** Peter has had a life-long career in Food & Health related R & D, sales and marketing of specialised dairy products and senior management; including wide-ranging company governance experience in NZ, Australia and Japan particularly in the dairy industries. Peter holds a Bachelor of Technology (Biotech) (Hons) degree from Massey University. He is a Fellow of the New Zealand Institute of Food Science and Technology, an author and inventor of numerous patents.
- **Dave Stanley.** Dave is a member of the Institute of Directors and has been Chair and/or Director of several companies. As CEO of Dairy Goat Co-operative for 21 years, and subsequently MD of DGC's European subsidiary for 2 years, he has extensive experience in the manufacture and marketing of infant formula.

11. Health and Safety

a. The NZFIW Group is committed to providing and maintaining a safe and healthy working environment for its employees, visitors, contractors and others. This commitment is achieved by board governance, management leadership, the provision of appropriate resources to administer its legislative responsibilities, and to pursue best practice in health and safety management.

b. Every member of the NZFIW group has a responsibility for health and safety which is appropriate to their role and designation, and to promote the health and safety of themselves and others involved in or affected by Food Innovation Waikato activities. NZFIW undertakes to be compliant with all food safety legislations.

12. Environment

The NZFIW Group is committed to minimise and/or mitigate the adverse impact of the company's operations on the environment.

13. Financials:

New Zealand Food Innovation Limited Income Statements

All in $000	FY 20	FY 21	FY 22
NZFIW Income	8,193	6,799	6,931
Income From Melodoy	436	1,281	1,318
Total Income NZFIW Group	8,629	8,080	8,249
Expenses			
Direct Expenses	3,827	2,544	2,595
Overhead	2,846	3,155	3,210
Total expenses	6,673	5,699	5,805
EBITDA	1,956	2,381	2,443
Other Overheads			
Depreciation	1,252	1,284	1,309
Interest	236	148	86
Total Other Overheads	1,488	1,432	1,394
Net Profit Before Tax	468	949	1,049
Tax	131	266	294
Net Profit After Tax	337	683	755

10 Melody Lane, Hamilton East, P O Box 9466, Waikato Mail Centre, Hamilton 3240. Phone +64 07 857 0500
Email: **enquiries@nzfiw.co.nz** www.nzfiw.co.nz

Attachment 2

Item 8

New Zealand Food Innovation (Waikato) Limited
Financial Positions

$ '000	Jun-20	Jun-21	Jun-22
Current Assets			
Accounts Receivable	1,114	915	932
Bank Accounts	200	200	200
Inventories	1,899	1,118	1,118
Other Current Assets	217	217	217
Total Current Assets	3,431	2,450	2,467
Non Current Assets			
Plant & Equipment	13,868	13,222	12,910
Buildings	3,249	3,067	2,835
Other Non-Current Assets	1,745	1,745	1,745
Total Non-current Assets	18,862	18,034	17,489
Total Assets	22,293	20,484	19,957
Current Liabilities			
Accounts Payable	557	492	499
Bank Overdraft			
Other Current Liabilities	573	556	557
Total Current Liabilites	1,130	1,048	1,056
Non Current Liabilities			
Bank Loans	3,989	1,758	646
Deferred Grant Income	2,364	2,186	2,007
Other non-Current Liabilities	3,081	3,081	3,081
Total Non-Current Liabilities	9,435	7,025	5,734
Total Liabilities	10,565	8,073	6,791
Total Equity	11,728	12,411	13,166

10 Melody Lane, Hamilton East, P O Box 9466, Waikato Mail Centre, Hamilton 3240. Phone +64 07 857 0500
Email: **enquiries@nzfiw.co.nz** www.nzfiw.co.nz

Council Report

Committee:	Finance Committee	**Date:**	09 April 2019
Author:	Blair Bowcott	**Authoriser:**	Blair Bowcott
Position:	Executive Director Special Projects	**Position:**	Executive Director Special Projects
Report Name:	Waikato Local Authority Shared Services - Half Yearly Report to 31 December 2018, Draft Statement of Intent 2019/20 and Proposed Changes to Governance Arrangements		

Report Status	*Open*

Purpose

1. To inform the Finance Committee of Waikato Local Authority Shared Services (WLASS) Half Yearly Report to 31 December 2018.
2. To seek approval of the Waikato Local Authority Shared Services (WLASS) Draft Statement of Intent 2019/20.
3. To seek approval of changes to the Waikato Local Authority Shared Services (WLASS) governance arrangements.

Staff Recommendation

4. That the Finance Committee:

   a) receives the report;
   b) receives the Waikato Local Authority Shared Services Ltd (WLASS) Half Year Report to 31 December 2018;
   c) approves the Waikato Local Authority Shared Services (WLASS) Draft Statement of Intent 2019/20 which reflects the new focus of the company as a service delivery agent for shared services;
   d) approves the Waikato Local Authority Shared Services (WLASS) changes to governance arrangements as part of the changes to enable the transformation of the company as follows:
      (i) amend the constitution of the Company (Clause 13 Appointment and Removal of Directors, Clause 15.5 Chairperson) in the manner set out in the special resolution in Attachment 4;
      (ii) approve, by ordinary resolution in Attachment 5, that the independent Chair be paid a fee for service up to $45,000 per annum (plus reasonable costs and GST, if any);
      (iii) note that the constitution as amended allows the independent Chair to be appointed by unanimous agreement of the five Council Representative Directors;
      (iv) delegate authority to the five Council Representative Directors to agree a fee for service for the independent Chair up to the amount noted in recommendation 4d)(ii);
      (v) delegate authority to the Chief Executive Officer to sign the special and ordinary

resolutions in Attachments 4 and 5 on behalf of Hamilton City Council; and

e) notes that the Hamilton City Council appointed Council Representative Director will remain Blair Bowcott, Executive Director Special Projects.

Executive Summary

5. The financial results for WLASS to 31 December 2018 are presented and outline that WLASS has delivered a range of initiatives in the first six months, in line with the plan for this year.

6. The Statement of Intent 2019/20 is presented for approval. This outlines that WLASS is transforming its business strategy into a service delivery agent for shared services, a recommendation from the Board following a strategic review completed by McGredy Winder.

7. The expanded scope of WLASS activities will require a new operating model, an increase in WLASS resources and changes to the governance arrangements of the company, including a smaller Board and an Independent Chair. A series of recommendations are presented for Finance Committee approval to enable the changes to WLASS to be undertaken. The same recommendations are being presented to the other eleven shareholders of WLASS.

8. Staff consider the matters in this report have low significance and that the recommendations comply with the Council's legal requirements.

Discussion

9. WLASS was established as a Council Controlled Organisation in 2005 to enable Councils to collaborate and deliver shared services.

10. The outcomes that WLASS delivers are summarised in the "Collaboration in Action" report which is available on the WLASS website.

11. In 2017 the Board of WLASS engaged McGredy Winder to conduct a thorough review of WLASS, as part of determining the strategic direction of the company. The direction of the review and the findings were strongly aligned with the views of HCC (staff and Elected Members).

12. The summary outcomes of the review were that WLASS needed to transform into a service delivery agent, provide strong leadership in shared services and needed to change its resourcing and governance arrangements to deliver this. The Board unanimously approved this direction.

Half-yearly Report to Shareholders 2018

13. The half yearly results should be read in conjunction with the Statement of Intent 2019/20.

14. All Performance Targets for the various shared services delivered by WLASS are 'On Track' except for two.

15. The financial position at 31 December 2018 is a surplus $1.1m against a $70,000 budget deficit, this variance is primarily related to the timing of expenditure relative to income.

16. Refer to Attachment 1 for the Half-yearly Report 2019/20.

Draft Statement of Intent 2019/20

17. Following a strategic review completed by McGredy Winder, WLASS is transforming its business strategy into a service delivery agent for shared services. The executive summary in the Statement of Intent 2019/20 summarises the scope of the company's intentions going forward.

18. The expanded scope of WLASS activities and the focus on identifying, introducing and delivery of new shared services opportunities will require a new operating model and increased resources.

19. A further transformation is an agile, skills-based governance structure which the Board are recommending to shareholders.

20. Refer to Attachment 2 for the Draft Statement of Intent 2019/20.

Changes to Governance Arrangements of WLASS to Support New Business Strategy

21. This report seeks shareholders' resolutions and delegated authority for proposed changes to the governance arrangements of WLASS.

22. The background and rationale for the changes are outlined in a report to shareholders from the current Board Chair and CEO (refer Attachment 3).

23. A process to appoint the Independent Chair and determine the final remuneration for this position is proposed. A maximum Board tenure is also proposed.

24. The proposed special and ordinary resolutions to give effect to the governance changes are in Attachments 4 and 5.

Financial Considerations

25. The changes to WLASS outlined in the Statement of Intent 2019/20 result in an increase in administration costs from 2019/20. The increase in 2019/20 is $264,000, spread across the 12 shareholding councils (HCC share of the increase is $63,000). This cost can be met from existing budgets.

26. The Board was clear that the increased investment in administration costs needs to be offset by operational savings in shared services delivered by WLASS. The Board has included a KPI target of identifying additional savings to shareholders through a new and enhanced shared services of $300,000 in 2019/20. In addition, the CEO has been appointed for a two year term, to reflect the challenge the Board has set the CEO in delivering this KPI.

27. Operational savings for HCC of $12,000 (2019/20) and $29,000 (2020/21) in the SVDS shared service signalled by WLASS are an example of savings to offset the increased administration costs.

Legal and Policy Considerations

28. HCC has an Appointment and Remuneration of Board Members of CO's, CCO's and CCTO's Policy. The appointment and remuneration of the proposed new Independent Chair of WLASS falls under the scope of this policy. The policy requires that the Finance Committee approve all HCC appointees. In this circumstance, the Independent Chair is an appointee of all 12 shareholders, and the process recommended in this report has been designed to reflect a balance between each Council approving a preferred candidate, and an agile and efficient process that gains a decision in a timely manner.

Cultural Considerations

29. There are no cultural implications to the matters discussed in this report.

Sustainability Considerations

30. There are no sustainability implications to the matters discussed in this report.

Risks

31. There are no known risks associated with the decisions requested for this matter.

Item 9

32. In the event that Council does not agree to the changes to the WLASS constitution then WLASS may not realise its full potential.

Significance & Engagement Policy

Significance

33. Staff have considered the key considerations under the Significance and Engagement Policy and have assessed that the matter(s) in this report has/have a low level of significance.

Engagement

34. Given the low level of significance to the matters discussed in this report, there this no requirement for public engagement. The proposed changes to WLASS were signalled in the previous Statement of Intent and have also been raised by HCC Elected Members at various times previously when WLASS representatives attended Finance Committee meetings.

Attachments

Attachment 1 - WLASS Half-Yearly Report to 31 December 2018

Attachment 2 - WLASS Draft Statement of Intent 2019/20

Attachment 3 - WLASS - Changes to governance arrangements

Attachment 4 - WLASS - Special resolution of shareholders altering constitution (Clauses 13 and 15.5)

Attachment 5 - WLASS - Ordinary resolution of shareholders remunerating Chair .

Item 9

Attachment 1

Waikato Local Authority
SHARED SERVICES

Half-yearly report to Shareholders

1 July 2018 to 31 December 2018

Attachment 1

Item 9

Table of Contents

Contents

Item 9

Attachment 1

1 Introduction

The Board of Waikato Local Authority Shared Services Ltd (WLASS) is pleased to present its report to shareholders on the first half of the 2019 financial year (to 31 December 2018). During the period the first steps have been taken to reorganise the way WLASS operates and interacts with its shareholding councils, to generate greater value. The vision for the future is more fully detailed in the company's 2019 Statement of Intent (SOI).

2 Overview of WLASS

WLASS was established in December 2005. It is jointly owned by the following shareholding councils:

- Hamilton City
- Hauraki District
- Matamata-Piako District
- Otorohanga District
- Rotorua Lakes
- South Waikato District
- Taupo District
- Thames-Coromandel District
- Waikato District
- Waikato Regional
- Waipa District
- Waitomo District

WLASS was initially established to provide the local authorities in the Waikato Region with a vehicle to procure shared services. The key purpose of WLASS has evolved and it now drives collaboration between councils, aiming to improve customer service and performance and reduce costs.

The vison for WLASS is to be:

The enabler for Councils to provide their services in the most effective and efficient way

Its objectives are:

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

The Board of WLASS comprises a representative from each of the shareholding Councils[1].

[1] In February 2019 Shareholders were asked to pass a resolution to reduce the size of the Board to six, including the appointment of an independent Chair.

The company has several key workstreams. However, the resource within WLASS itself during the period comprised a contracted Chief Executive (part-time) and since November, a part-time Company Administrator (see below for detail on changes since period end). Beyond that, it has established working parties made up of employees from the Councils who are charged with advancing the workstreams.

Each of the 12 Waikato local authorities owns a share in WLASS and as such has an equal say in its development.

3 Statement of Service Performance

Since its inception the company has delivered benefits to its shareholding councils through enabling:

- Improved levels and quality of service;
- A more co-ordinated approach to the provision of services;
- Reductions in the cost of services;
- The development of new initiatives;
- Standardisation of service levels;
- Opportunities for all Councils, irrespective of location or size, to benefit from joint initiatives; and
- Economies of scale resulting from a single entity representing all Councils and leveraging procurement opportunities.

3.1 Activity during the period

Highlights of activity during the six months to 31 December 2018 are:

WLASS transformation project

The most significant piece of work for the company throughout the period has been delivering the plan to implement a new operating model. Detail of this transformation project is included in the company's SOI. However, during the period that project has resulted in the appointment of a Business Analyst and Company Administrator (part-time). These roles represent the first employees of WLASS.

Subsequent to the period in question the Board will be also:

- Appointing a full-time Chief Executive (to date this role has been contracted in two days per week); and
- Recommending shareholders resolve to change the composition of the Board, appointing an independent Chair and reducing the number on the Board to six.

As a consequence of these changes there has been/will be some increase to the company's central administration costs. Chief executives of the shareholding councils supported the need for this additional investment, which can be accommodated within existing budget in the 2019 financial year[2].

Health & Safety

WLASS completed the development of a Regional Health & Safety Management framework, together with 13 Best Practice documents. These documents will assist councils to manage

[2] Funding being sought for financial years 2020-2022 is set out in the company's SOI

health and safety effectively, and guide Chief Executives and senior leaders to understand their roles and responsibilities.

Procurement

Professional services panel

Initial work took place to re-market the WLASS professional services panel. This is a significant piece of work to standardise the terms and conditions for engagement with professional service providers across several disciplines. The Request for Proposal was issued to the market mid-February, with the evaluation process taking place to allow contracts to take effect in the latter half of 2019. When the current panel was established four councils elected to participate. Significantly, this time round ten councils will be participating, reflective of the significant efficiencies to be gained from this form of procurement.

Procurement framework

A regional procurement framework has been established. The document sets a minimum standard for procurement practice across the region. Initial working establishing the procurement toolbox was undertaken and this, together with procurement training, will be rolled out in the first half of 2019.

SVDS

SVDS activity centred around establishing a new SVDS service contract under a Software As A Service (SAAS) arrangement which was concluded in September. Since then Waipa District Council have been the pilot for the new software with implementation underway. Member charges will continue to reduce under the new arrangement, and it is expected that these will not be necessary beyond 2020, providing revenue from data sales remains intact.

Waikato Data Portal

Phase 1 of a roadmap to toward regional spatial information has progressed well throughout the period. The output from Phase 1 is a single centralised Data Portal. Ultimately, the expectation is to progress toward a centralised and distributed GIS platform managed by one team.

An implementation Project charter was developed and a governance group to oversee the project established. Build of the data portal is now well underway and council have been trained on using the data portal application.

RATA

New data collection contracts covering manual data collection (visual rating surveys, footpath condition surveys, and traffic counting) commenced on 1 July 2018.

Taupo District Council joined RATA on 1 July 2018 and South Waikato District Council made the decision to move to a higher level of participation in RATA, with the increased level of support to the council commencing in January 2019.

There has been significant activity during the period including:

- Workshops to develop a consistent regional maintenance specification (these have been well attended and good progress has been made);
- Completing the forward works programme tour for 2018 (part of the Assessing The Right Treatments, At the Right Time programme);

- Publishing Road Efficiency Group Data Quality Reports. RATA's Asset Information Engineer has been using these reports to support data quality improvement tasks within each of the participating councils; and
- Investigating collaboration opportunities in the Waters activities across seven participating councils (a Mayoral forum initiative).

Future proof

The key project underway is the phase 2 update of the Future Proof Strategy, with a draft completed and submitted to Ministry for the Environment in December. Work will continue this year to develop the strategy to ensure alignment with other projects, including the Hamilton-to-Auckland Corridor Plan and Waikato District blueprints.

Regional Infrastructure Technical Specifications (RITS)

The project plan for the RITS provided for six- and twelve-month reviews following adoption, with subsequent annual updates. This was to allow users to live test the document and identify any issues and improvements.

The first review is underway with feedback received from various council staff and consultants over the last six months. The feedback is being worked through and at the same time the document is being checked for errors, omissions and inconsistencies. We have received positive feedback and comments indicate the RITS is being widely used and the identified benefits are being realised.

Councils outside the Waikato region expressed interest in adopting the RITS and WLASS is progressing this opportunity.

Energy management

WLASS is in the third year of a three-year collaboration with the Energy Efficiency Conservation Authority (EECA) who have supported the programme by part funding energy management professional services, energy audits and energy monitoring software (Epro).

The collaboration with EECA targeted 2.5 million kWh of energy savings across the three-year programme. As at 31 December 2018, implemented projects will deliver savings of 3.3 million kWh with a value of $440k. Of this sum, $153k is related to cost reductions arising from optimising energy tariffs and demand charges.

Aligned resource consent planning

The alignment of resource consent documentation across councils went live in August. Processing resource consents is now more efficient and user friendly, delivering a better service to customers.

3.2 Performance Targets

The following performance measures were included in the Statement of Intent for the 2018/19 financial year. An update on their status as at 31 December 2018 is shown in the table below.

Key:

- On track: has been completed or will be by 30 June 2019
- Currently behind schedule but target expected to be met by 30 June 2019
- Currently behind schedule and target unlikely to be met by 30 June 2019

Target	Method	Measure	Outcome	
Procurement Joint procurement initiatives for goods and services for WLASS councils will be investigated and implemented.	Procurement is from sources offering best value, service, continuity of supply, and/or opportunities for integration.	The Procurement Specialist has developed standard regional procurement policies, templates and procedures and provided training in each council by the end of the financial year.	The Regional procurement framework is complete. The associated toolbox and training are expected to be delivered in March 2019.	
		New suppliers are awarded contracts through a competitive tender process.	Competitive tendering for professional services is currently underway.	
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.	The WLASS transformation is being delivered. The Professional Services Panel is being re-tendered with ten councils participating (previously four). Opportunities relating to the go-to-market strategy for capital works are being considered. A business case for regional LiDAR at a significantly reduced cost utilising PGF co-funding has been developed. The Health & Safety Management framework and Best Practice documents have been completed.	
Existing WLASS Contracts Existing contracts are managed and renegotiated as required.	Appointed vendors deliver on the terms of their contracts and deliver value to the shareholders.	The WLASS Contracts Register is maintained and managed.	Ongoing	
		Contracts which are due for renewal are tested for competitiveness and either renegotiated or re-tendered through a competitive process.	Contracts have been re-negotiated and where appropriate re-tendered through a competitive process.	

7

Target	Method	Measure	Outcome	
Cashflow The company shall maintain a positive cashflow position.	The Financial Accountant reviews cashflow monthly, and the WLASS Board reviews the financial statements quarterly.	The WLASS Board reviews the financial statements at least quarterly.	Management accounts, including financial performance and cashflow are reported at each Board meeting (six time per annum)	
Cost Control Administration expenditure shall be managed and monitored.	The Financial Accountant and Chief Executive review expenditure monthly.	Administration expenditure shall not exceed budget by more than 5%, unless prior approval is obtained from the Board.	Administration expenditure is expected to exceed the 2019 budget by 52%. This is solely a product of the WLASS transformation and the associated change to the operating model which was approved by the Board in September 2018. The 2019 position has been reforecast as a result.	
Reporting Six monthly reports provided to Shareholders.	The Chief Executive prepares a written report for the WLASS Board every meeting.	The Board shall provide a written report on the business operations and financial position of WLASS to the shareholders every six months.	Half-yearly report will be delivered in February 2019.	
	One 6-monthly and one Annual Report are prepared for shareholders.	Every second report shall be the Annual Report, which includes a report that all of the statutory requirements of the WLASS are being adhered to.	The 2018 Annual report was prepared and provided to shareholders in September 2018.	
Waikato Mayoral Forum The company shall provide administrative support to the Mayoral Forum work streams and to the Mayoral Forum.	Mayoral Forum projects shall be managed financially through the WLASS.	Approved invoices for Mayoral Forum projects are paid by the 20th of the month following their receipt.	Ongoing	
SVDS The SVDS is reliable, well maintained and available to all users.	A Contract Manager is appointed for SVDS.	The SVDS is available to users at least 99% of normal working hours.	On target – the SVDS has been available 100% for users during normal business hours.	
	The Contract Manager monitors performance of the contractors and reports quarterly to the SVDS Advisory Group.	The SVDS Advisory Group meets at least 6-monthly.	On target. Two meetings held in first 6 months; August & November	
		The Annual Business Plan is accepted by the Advisory	Not yet due	

Target	Method	Measure	Outcome	
	Risks associated with the SVDS are well managed. The long-term provision of SVDS services is achieved.	Group by 31 March 2019, and includes consideration of strategic and operational risks, a disaster recovery plan, and a business continuity plan. The timetable and milestones for implementing the long-term provision of SVDS Services (as agreed by the Board), are being achieved.	Project has begun and is tracking well for time and budget. Steering committee made up of Advisory Group members meets monthly.	
Insurance Achieve the relevant KPIs in Appendix 4 of the Insurance Brokerage contract with Aon.	The Insurance Broker delivers on the terms of their contract and provides value to the participating councils.	Strategic advice provided by Aon on the insurance programme structure is assessed as satisfactory in the annual WLASS Shareholders' survey by the participating councils. The day-to-day service provided by Aon is assessed as satisfactory in the annual WLASS Shareholders' survey by the participating councils.	Will be assessed as part of the annual shareholder survey Will be assessed as part of the annual shareholder survey	
RATA Deliver better data for decision making across the Waikato Region, enabling more consistent best practice Lead engagement and increase capability within the sector	Quarterly update reports are provided to all stakeholders participating in the Data Collection contracts. Data supplied by contractors is of good quality and meets all of the participating councils' requirements. Innovation: Identify opportunities to modify standard approaches and/or	Reports are presented to stakeholders in October/January/April and July each year. Reports on progress presented to WLASS Board as at 30 December and 30 June. All data are reviewed for compliance and all good practice requirements are met. Procurement of services complies with WLASS and NZTA's procurement requirements. Present to a national conference on RATA innovations at least once per year. At least two RATA guidance documents detailing good	KPI Partially Met All reports supplied to stakeholders. The reports to four councils to 30 September were late being delivered and this will be remedied in January 2019. Reports to WLASS Board presented to required deadlines. All data received was reviewed for quality requirements and approved. Procurement of services compliant with WLASS and NZTA requirements. KPI Met RATA presented at RIMS conference in 2018 on work completed. Submitted abstract for IPWEA and NAMS. RATA Guidance documents developed based on REG	

Target	Method	Measure	Outcome	
	develop new approaches that will lead to optimal asset management. Leadership: Lead engagement and increase capability within the sector.	practice are produced each year. RATA Forums are held 2-monthly to share learnings and experience.	data quality reports to support improvement planning. RATA is supporting Waters Collaboration investigation work for seven participating councils. RATA Fora were held two-monthly during 2018 with high levels of attendance from participating councils.	
WRTM The WRTM is reliable, well maintained and available to all users.	RATA manages the WRTM on behalf of the participating councils, and monitors the performance of the model supplier (currently Traffic Design Group). RATA 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 from RATA on any new developments and on the status of the model is provided to the WLASS 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.		
Waikato Building Consent Group Provide strategic direction and actively pursue improvements in Building Control across the Waikato region.	Implement the strategic priorities detailed in the "Build Waikato" May 2017 strategic review document.	Milestones for the five strategic review work streams are achieved for: • Digital experience and technology: a common online customer experience. Success is defined as user friendly, convenient, quick, end-to end management and communication, measured by customer surveys and systems comparisons. • People capability. Success is defined as a successful recruitment and training programme, measured by compliance with BCA Reg. 8 - 11.		

Target	Method	Measure	Outcome	
	Fulfil the roles and responsibilities set out in clause 9 of the WBCG's Memorandum of Understanding, 2016.	• Quality assurance. Success is defined as continued accreditation and increased service consistency, measured by accreditation outcomes, BCA annual audits, and customer surveys. • Lift industry competency and compliance. Success is measured by increased industry compliance, with reduced RFIs, and reducing percentages of application or building consent rejection. • Central government: engagement and legislative influence. Success is measured by legislative submissions and outcomes. There is a common understanding and buy-in by all BCAs for the WBCG vision and actions that are taken to achieve this vision, measured by: i. Full participation in WBCG projects and programmes ii. Audits demonstrating implementation and compliance with the agreed QA systems iii. Consistency in service delivery, measured by customer surveys. Risk management is visible through regular reviews of the Risk Register. All funding requirements are met by each of the participating councils. Minimum of two reports presented to the WLASS Board on the Group's activities.	The WBCG manager has been working with WINTEC students on building consenting and compliance. The project is yet to be allocated and scope defined. Relationship building and lobbying is on-going. No legislative consultation during the year to date.	
Future Proof Planning for growth in the sub-region is	Joint preparation and input into	Phase 2 of the Future Proof Strategy is adopted by the Future Proof	The draft Future Proof Strategy (phase 2) was reported to the Future	

11

Target	Method	Measure	Outcome	
co-ordinated and collaborative. The Future Proof budget is well managed and monitored. Future Proof influences and inputs into District Plan, Regional Plan, growth strategy and any other planning processes which manage growth within the sub-region and neighbouring regions.	Phase 2 of the Strategy update. Bi-monthly reports presented to Waikato Plan and Future Proof Chief Executive Group, and six monthly and annual reports to WLASS Board. Future Proof works collaboratively and provides input into the planning work undertaken by all FP partners and any other relevant planning authorities.	Implementation Committee no later than December 2018. The overall Future Proof work programme is delivered within the approved budget. Future Proof makes submissions (using RMA and Local Government processes), on District Plans, LTPs, growth management planning documents, and any central government initiatives which have the potential to impact growth management planning in the sub-region.	Proof Implementation Committee and submitted to MfE in December 2018. Work will continue on the draft Strategy in 2019 to ensure alignment with the Hamilton to Auckland Corridor Plan. The Future Proof work programme to the end of December 2018 is tracking on budget. A bi-monthly budget report was reported to the Future Proof Chief Executive Group in February 2019. Future Proof made two submissions in 2018, on the Proposed Waikato District Plan and Proposed Plan Change 11 to the Waipa District Plan (Bardowie Industrial Precinct).	
Aligned Resource Consent Planning Project Implementation of the Aligned Resource Consent Planning project is underway during 2018/19.	Progress on implementation of common forms and other initiatives is reported to shareholders on a regular basis.	Common forms are in place for all Councils involved by December.	The forms went live in the 2^{nd} half of 2018.	
Shareholder Survey Shareholders are satisfied with the performance of WLASS.	An annual survey of shareholders is undertaken to assess satisfaction levels with WLASS.	A survey of shareholders is michundertaken each year, and the results are reported to all shareholders.	Survey will be distributed to shareholders in March 2019.	
Review of Benefits Shareholders are informed of the benefits being provided to shareholding councils by WLASS.	The benefits of WLASS (including financial and non-financial achievements) are regularly analysed and reported to shareholders.	Information on the financial and non-financial benefits being achieved by WLASS are included in the 6-monthly and Annual Report to shareholders. The WLASS website is regularly maintained and updated.	WLASS achievements are included in this report and were set out in the 2018 Annual Report provided to shareholders in September 2018. The WLASS website has been updated where appropriate.	

12

Item 9

4 WLASS Financial Position

4.1 Summary

By the numbers:

Summary financial results for the six months to 31 December 2018 are:

	2019 actual YTD $000	2019 budget YTD $000	Variance $000 (actual v budget)
Total income	3,105,924	2,520,409	585,515
Total operating expenditure	2,001,758	2,590,692	588,934
Net surplus before tax	1,104,166	(70,283)	1,174,449
Cash on hand	346,329	n/a	n/a

The favourable variance to budget YTD is expected to largely abate over the remainder of the year and reflects timing of spend on some workstreams and the recognition of revenue in advance from the prior year that was not budgeted.

Outcome of 2017 audit

Audit New Zealand issued an unqualified audit opinion on the company's 2017 Financial Statements. No issues were raised by the auditor, which was a very pleasing result.

Attachment 1

Attachment 1

Item 9

4.2 Statement of Financial Performance

Waikato Local Authority Shared Services
For the 6 months ended 31 December 2018

	YTD ACTUAL	YTD BUDGET	VARIANCE	FY BUDGET	FORECAST	PY ACTUAL
Trading Income						
Company Administration	250,199	253,140	(2,941)	299,784	359,868	216,847
Procurement	301,314	169,920	131,394	439,166	665,480	301,314
Information Technology	115,399	45,057	70,342	45,594	116,976	115,201
Energy Management	106,720	101,500	5,220	136,500	106,720	101,500
Shared Valuation Data Service (SVDS)	386,137	366,479	19,658	701,892	701,892	6,250
Road Asset Technical Accord (RATA)	762,190	846,449	(84,259)	978,560	1,099,090	639,986
Waikato Regional Transport Model (WRTM)	23,814	41,394	(17,580)	98,626	98,626	20,790
Waikato Building Consent Group (WBCG)	384,534	159,274	225,260	318,548	541,895	382,621
Future Proof	272,196	272,196	(1)	544,391	544,391	136,098
Mayoral Foryum	132,932	5,000	127,932	5,000	132,932	57,932
Waikato Plan	370,490	260,000	110,490	520,000	-	104,345
Total Trading Income	**3,105,924**	**2,520,409**	**585,515**	**4,088,061**	**4,367,870**	**2,082,885**
Total Income	**3,105,924**	**2,520,409**	**585,515**	**4,088,061**	**4,367,870**	**2,082,885**
Operating Expenses						
Company Administration	154,938	169,870	(14,932)	299,784	498,604	3,344
Procurement	336,971	455,006	(118,035)	656,058	735,764	173,539
Information Technology	92,319	58,063	34,256	134,727	147,297	-
Energy Management	57,206	81,149	(23,943)	136,500	141,720	11,010
Shared Valuation Data Service (SVDS)	271,154	349,978	(78,824)	886,017	986,603	46,332
Road Asset Tecnical Accord (RATA)	446,708	564,068	(117,360)	1,016,336	1,019,339	(15,385)
Waikato Regional Transport Model (WRTM)	18,008	43,525	(25,517)	98,626	117,470	2,182
Waikato Building Consent Group (WBCG)	150,115	265,090	(114,975)	529,549	581,289	(2,836)
Future Proof	281,131	272,184	8,947	544,391	544,391	103,965
Mayoral Forum	19,755	2,497	17,258	51,440	126,439	-
Waikato Plan	91,646	247,458	(155,812)	520,000	-	1,400
Total Operating Expenses	**1,919,950**	**2,508,888**	**(588,938)**	**4,873,428**	**4,898,916**	**323,549**
Gross Profit	**1,185,974**	**11,521**	**1,174,453**	**(785,367)**	**(531,046)**	**1,759,335**
Depreciation						
Depreciation - MoneyWorks	128	126	2	256	2,256	21
Depreciation - SVDS	45,222	45,222	-	90,444	90,444	7,537
Depreciation - WRTM	36,458	36,456	2	72,916	72,916	6,076
Total Depreciation	**81,808**	**81,804**	**4**	**163,616**	**165,616**	**13,635**
Net Profit	**1,104,166**	**(70,283)**	**1,174,449**	**(948,983)**	**(696,662)**	**1,745,701**

14

Item 9

Attachment 1

4.3 Statement of Changes in Equity

Waikato Local Authority Shared Services
For the 6 months ended 31 December 2018

	2018/19	2017/18
Equity		
Opening Balance	1,026,531	799,675
Current Year Earnings	1,104,166	226,856
Total Equity	**2,130,697**	**1,026,531**

4.4 Statement of Financial Position

Waikato Local Authority Shared Services
As at 31 December 2018

	31 Dec 2018	30 Jun 2018
Equity		
Shares - SVDS	1,607,001	1,607,001
Shares - WRTM	1,350,000	1,350,000
Retained Earnings	(1,930,471)	(2,157,327)
Current Year Earnings	1,104,166	226,856
Total Equity	**2,130,696**	**1,026,530**
Assets		
Current Assets		
Prepayments	0	149,905
Accounts Receivable	1,429,859	495,885
Accrued Interest	0	2,980
RWT On Interest	7,352	6,744
Transaction Account	231,468	1,238,757
Call Account	114,861	331,247
BNZ - Term Deposit 020	600,000	81,000
GST	48,912	58,604
Total Current Assets	**2,432,452**	**2,365,121**
Non-current Assets		
SVDS - Original Cost	3,065,316	3,065,316
WRTM - Original Cost	2,296,855	2,296,855
MoneyWorks Software	1,195	1,195
IT equipment	5,398	0
Accumulated Depreciation	(5,281,581)	(5,199,774)
Total Non-current Assets	**87,183**	**163,592**
Total Assets	**2,519,635**	**2,528,713**
Liabilities		
Current Liabilities		
Accounts Payable	217,919	659,338
Accounts Payable Accrual	176,853	101,235
Revenue in Advance	0	741,610
PAYE Clearing Account	733	0
Total Current Liabilities	**395,505**	**1,502,183**
Non-current Liabilities		
KiwiSaver payable	457	0
suspense	(7,023)	0
Total Non-current Liabilities	**(6,566)**	**0**
Total Liabilities	**388,939**	**1,502,183**
Net Assets	**2,130,696**	**1,026,530**

15

4.5 Statement of Cashflows

Waikato Local Authority Shared Services
As at 31 December 2018

	Actual YTD	Full Year Budget	Last YTD
Cashflows from Operating Activities			
Interest Received	3,388	14,000	19,075
Receipts from Other Revenue	1,895,759	4,074,061	4,680,206
Payments to Suppliers	(2,429,673)	(4,873,426)	(4,032,901)
Taxes Paid (net)	(608)	0	(6,426)
Goods & Services tax (net)	(168,143)	(119,905)	(43,897)
Net cash from operating activities	(699,277)	(905,269)	616,057
Purchase of property, plant and equipment	(5,398)	0	0
Net funds placed on term deposit	(519,000)	0	0
Purchase of Intangible Assets	0	0	0
Net cash from investing activities	(524,398)	0	0
Net increase in cash, cash equivalents and bank account	(1,223,675)	(905,269)	616,057
Opening cash and cash equivalents and bank overdrafts	1,570,004	1,171,586	953,948
Closing cash, cash equivalents and bank accounts	**346,329**	**266,317**	**1,570,005**

16

Waikato Local Authority
SHARED SERVICES

Statement of intent

For the year ended 30 June 2020

28 February 2019

Attachment 2

Item 9

Table of Contents

Executive summary

2018 was a landmark year for the evolution of Waikato Local Authority Shared Services Limited (WLASS). This Statement of Intent (SOI) reflects, for the first time, the transformation of WLASS into a service delivery agent.

In the second half of 2017 the Board commissioned McGredy Winder to undertake two pieces of work. The first stage was a 'think piece' on the strategic direction WLASS could take, understanding the opportunities and issues facing WLASS and its shareholding Councils, and outlining alternative business strategies. The second stage was developing a business case for the change required to deliver on the strategic direction identified from stage 1.

The business case led to the Board's decision in April 2018 to take steps to transform the company into a service delivery agent. In practical terms that means the company will be identifying different service delivery models and providing thought leadership. WLASS will also be offering ideas to Councils that enable them to be more effective and efficient. Some of these ideas will be bold and disruptive but collectively they will have a substantial impact on Councils' activity.

Business cases will support these ideas and establish areas where it makes sense for WLASS to provide a shared service to its shareholding Councils. The operating model of WLASS will therefore change. It will deliver these shared services either by:

- Contracting in specialist resource; or
- Employing the required resource so that it has the in-house capacity and capability to meet Councils' needs.

The company's newly established vision is to be "The enabler for Councils to provide their services in the most effective and efficient way". Over the second half of 2018 an implementation plan was developed to deliver the transformation and ultimately, this vision.

The transformation and new operating model necessitate a core central resource within WLASS. The Board has agreed to the appointment of three positions, being:

1. A full-time Chief Executive (CE) (to date WLASS has operated via the contracted services of a CE two days per week, with projects resourced by Council working parties);
2. A full-time Business Analyst; and
3. A part-time Company Administrator.

A further enabler for the transformation is an agile, skills-based governance structure. The Board is therefore recommending to shareholders that the Board be reduced to six members, including an independent Chair.

These changes do however require additional, upfront investment from shareholding Councils. That investment is reflected in the financial projections in this SOI. However, overall Councils must be better off to justify the additional investment and WLASS commits to identifying shared service opportunities that, once implemented, will deliver savings that ensure that you are.

Introduction

This SOI is a public declaration of the activities and intentions of the Council Controlled Organisation, WLASS. The statement outlines the proposed work plan for the financial year ended 30 June 2020 and the Directors' accountabilities to the shareholders for corporate performance, as required by Schedule 8 of the Local Government Act 2002.

WLASS is owned (in equal portion) by the 12 Waikato local authorities:

- Hamilton City
- Hauraki District
- Matamata-Piako District
- Otorohanga District
- Rotorua Lakes
- South Waikato District
- Taupō District
- Thames-Coromandel District
- Waikato District
- Waikato Regional
- Waipa District
- Waitomo District

Up until late last year, WLASS had no employees. Rather, the company's principle resource was a Chief Executive contracted two days per week to facilitate working parties, manage contracts entered for the benefit of the shareholding Councils and ensure the statutory obligations of the company are met. Financial and contract management support was provided by staff at shareholding Councils (Waikato Regional and Waikato District, respectively). Much of the work of WLASS to advance initiatives has therefore been undertaken by working parties made up of staff representatives from the shareholding Councils, with expertise and/or interest in particular services.

In November 2018 a part-time Company Administrator was employed and in January this year the company employed a Business Analyst. Therefore, this is the first SOI that reflects WLASS having employees and the transformation of the company into a service delivery agent.

The vision and objectives of WLASS

The vision for WLASS is to be:

The company's objectives are to:

- Enable the Waikato Councils to collectively be more effective as a region on the national stage;
- Contribute to building central government's confidence in the Waikato region, and to encourage central government investment;
- Achieve effectiveness and efficiency gains;
- Reduce duplication of effort and eliminate waste through repetition;
- Make it easier for customers to engage with Councils in the Waikato region;
- Promote and contribute to the development of best practice; and
- Promote business transformation to improve customers' experiences.

Looking ahead - committing to the WLASS transformation

Last year's SOI noted that the Board had commissioned McGredy Winder to undertake a strategic review of the future of WLASS and that as a result, the Board had resolved to transform WLASS into a service delivery agent. This transformation overcomes shortcomings with the current model and allows WLASS to be better positioned to be part of the solution to many of the challenges facing Councils.

Three key elements of the transformation are:

- Thought leadership;
- In-house resource; and
- Changes to WLASS governance.

Thought leadership

WLASS will become a thought leader. It must explore and offer up ways in which Councils can do business better through shared service opportunities. Collectively these ideas will have a substantial impact on Councils' activities and transform the way they conduct themselves. Some opportunities will be bold, disruptive and challenge Councils, but this is necessary if WLASS is to deliver on its vision and if Councils are to extract the greatest value from the company.

In-house resource

The transformation to a new operating model requires additional resource within the company. In 2018 the Board approved appointing a full-time Chief Executive and Business Analyst. A part time Company Administrator role has also been established, principally to support the Chief Executive and manage the company's contracts register.

The Chief Executive and Business Analyst roles are fixed term appointments. This reflects the Board's expectation that WLASS must deliver tangible benefits to shareholding Councils that justify the change in operating model within the fixed term period. If that does not occur the future of WLASS must be reconsidered. The commitment to delivering tangible benefits to Councils is reflected in the KPIs in this document.

Proposed changes to WLASS governance

The third key element of the transformation is a change to the composition of the Board. Late last year the Board accepted a recommendation to reduce the number of Board members to six with the composition being:

- An independent Chair; and
- Shareholding Council representation, comprising:
  - one appointed by Waikato Regional Council;
  - one appointed by Hamilton City Council;
  - one appointed by the Waikato and Waipa District Councils;
  - one appointed by the Thames-Coromandel, Hauraki and Matamata-Piako District Councils; and
  - one appointed by the Otorohanga, Waitomo, South Waikato, Taupo and Rotorua District Councils.

This board configuration will provide a more agile and skills-based board, better equipping WLASS to move at pace to effect change that adds value. It will also facilitate the role of thought leader and transformation partner to the councils.

A formal resolution of the shareholders is being sought concurrent with this SOI, to bring about the constitutional change required to allow the board reconfiguration.

Accountability to shareholders

While the WLASS Board must be able to operate autonomously to be effective, it will be critical to ensure that there is appropriate communication with shareholders so that there are 'no surprises'. As is currently the case, this will be achieved through:

- Updates at Mayoral forums; and
- Statutory reporting, including the company's SOI and annual and half-yearly reports.

However, with the reduced Board membership regular shareholders' forums (with Council CEs) will be introduced. The expectation is that there will be at least three such forums per annum.

One key output from the shareholders' forums will be a letter of expectation for the WLASS Board. This should be delivered in December each year to allow WLASS to then respond via its SOI. A second key aspect of the forums is that they provide the opportunity for the WLASS Board to seek a mandate from its shareholders, in a timely manner, to invest in opportunities identified throughout the year.

Effective shareholders' forums will therefore be critical to bringing about change 'at pace'.

Upfront investment

It is obvious that these changes will require additional upfront investment from the shareholding Councils. Detail of that investment is set out under "Activities for which the Board is seeking compensation", below. However, this investment will be offset by savings within your Councils as opportunities are implemented. The CE is accountable for identifying demonstrable cost savings and other soft benefits that justify the additional investment being sought.

The new operating model

Under the new operating model, WLASS will be a thought leader. It will continue to leverage its current working parties to identify opportunities but will identify opportunities in its own right by looking at shared service models being used elsewhere and analysing how existing work practices in Councils could be improved. While small, the core team within WLASS enables the company to do this for the first time.

WLASS will undertake an assessment of opportunities, engaging with Council staff to test the value proposition and identify potential risks and barriers to success. Each opportunity assessment will culminate in a business case, unless a decision is made to stop developing the opportunity at a stage gate.

Where a business case is approved, WLASS will seek a mandate from shareholding Councils (most often via the shareholders' forums), to invest the funds necessary to deliver the opportunity. However, unlike the current model, WLASS will employ the resources necessary to deliver the shared service to Councils.

Where it makes commercial sense to do so, WLASS will seek to extend its service offering beyond Councils from the Waikato region.

Benefits of WLASS transformation

The benefits for Councils of this transformed WLASS are significant. These are:

- Allowing Councils to focus on their core activity: There are many functions (back office) Councils currently undertake which the community simple want done to an effective standard as efficiently as possible. WLASS delivering such services allows Councils to focus on their core activity of meeting their community's needs, free of distraction from the management and administration of these functions;
- Sharing the cost of investment allows Councils to consider strategic initiatives that they may not otherwise be able to afford, or which simply cannot be done effectively other than on a shared basis – e.g. dealing with disruption from emerging technologies;
- Providing Councils with access to expertise that they would not otherwise have, or at least not as efficiently, by pooling resources and creating centres of excellence;
- Allowing shared service delivery to be standardised. This has the benefits of:
    - being user-friendly, for those within the Councils and for the community at large, making doing business easier;
    - allowing for common understanding among Council staff, providing for more efficient deployment where they relocate between Councils;
    - efficient delivery of user training related to those services;
    - ensuring a standard of service consistent with customer expectations.
- Reducing the risk associated with a Council's dependency on an individual to fulfil a function;
- Improved and aspirational decision-making that is focused on the collective good and is not constrained by the capacity and capability of Council staff;
- Freeing up Council staff currently involved in initiatives / working parties, allowing them to give greater focus to Councils.

Many of these benefits could be achieved by engaging the services of independent organisations (e.g. Councils could outsource their payroll functions). However, the incremental benefits of WLASS being engaged are that it is an:

- Organisation that has an intrinsic understanding of local government;
- It has greater accountability – it is not just a service provider but is owned by those it provides the services to;
- It does not require excess profits – its purpose is not to return a dividend to shareholders – meaning that like-for-like services must be more cost effective for Councils.

The opportunity to add value

Initially there will be a strong focus on digital transformation and improving the customer experience. This advances WLASS's Digital strategy approved last year.

WLASS will also be exploring the opportunity to 'smartly' engage the market on capital works set out in the councils' Long Term Plans.

Early stage thinking is progressing on payroll shared services and the use of robotics and machine learning to streamline back office functions (for example invoice processing).

Beyond these, workshops are planned over March/April 2019 for the various WLASS working parties. These will primarily be ideation sessions from which it is expected several potential opportunities will be identified.

WLASS's ethos is, if there is a function your Council is doing, but your customer is indifferent as to who does it, provided it is done to a high standard and as effectively and efficiently as it can be, that represents an opportunity for WLASS to add value.

Looking ahead – three waters collaboration

The 'waters' sector is facing significant change due to a number of external and internal influences. Central government are investigating options for the most appropriate mechanisms for the delivery of waters services to our communities. While the outcomes of that investigation may take some time to become clear, it is being strongly signaled that a much more rigorous regulatory framework will be in place soon. With this in mind, in August 2018 the Mayoral Forum supported a proposal from Roading Asset Technical Accord (RATA) to undertake an investigation into a sub-regional collaboration on three waters activities.

From that initial investigation it is evident there are opportunities for increased collaboration. These opportunities are principally:

- Data, information and report sharing (this is already occurring, albeit in an ad-hoc manner);
- Development and delivery of joint working initiatives;
- Wider utilisation of existing shared services arrangements within the Waikato (for example additional councils being able to access services from the Hamilton/Waikato/Waipa Sub-Regional Waters Shared Services group);
- Increased scope of shared services by adding new service areas (e.g. RMA consents); and
- The potential to form a new service area/centre of excellence similar to the roading equivalent - RATA - already in existence.

With the support of the Mayoral forum, WLASS (via the RATA team) will over the coming months develop a project plan. This will determine the appropriate scope, scale and extent of a regional centre of excellence for Waters Activity / Asset Management across the seven participating councils. It is expected that there are three primary areas which will be focussed on for a possible centre of excellence:

- Waters Asset Management – asset data collection (inventory and condition);
- Business process support – aligning good practice processes and systems to a new regulatory environment (including continuous improvement in current systems); and
- Asset valuation – a consistent approach to asset valuation assumptions.

Activities for which the Board seeks compensation

Shareholders are asked to continue to contribute to the operational costs of WLASS. However, the Board's expectation is that a margin on future service offerings will reduce, and eventually eliminate, the need for this separate financial support. That is, the operating model will move towards a user pays basis.

The funding being sought for the company's core operational costs and the comparable amount set out in the prior SOI is:

Financial year ended 30 June	2020	2021	2022 [1]
Current SOI	478,000	488,500	498,500
Prior SOI	214,000	218,500	
Increase	264,000	267,000	

[1] **No comparative with the prior year's SOI is available for FY2022 as that SOI only showed forecasted financial information through to FY2021**

The increase in operational costs reflects the staff and independent board Chair appointments noted earlier, and the associated support costs, including the establishment of an office.

WLASS is seeking shareholder support for additional upfront investment. The Board has committed to additional resources in the company but is equally committed to, and confident of, ensuring that the company delivers savings to Councils which offset this additional investment. This commitment is reflected in the KPIs for the year.

By way of example of the basis for this confidence, irrespective of additional opportunities that will be identified, during the SOI forecast period, changes in the way WLASS delivers shared valuation data services means that council contributions in this area, which are currently ~$210k, are expected to reduce to Nil.

Other than core operating costs, this SOI reflects increased investment (relative to the prior year's SOI) in a number of workstreams. The main components of this increase are:

- Procurement of regional LiDAR at a heavily discounted cost (via access to PGF co-funding) - $1.4m: The business case has been approved, in principle, and the funds committed by councils;
- The new flying programme for WRAPS commencing in FY2021 - $0.8m;
- A new energy and carbon management programme – $0.4m: This is subject to business case approval; and
- Funding being held at FY19 levels recognising new projects such as the Hamilton to Auckland corridor plan, NPS-UDC assessments and RPS and District Plan changes - $0.7m.

Beyond these opportunities, WLASS will be identifying, developing and implementing shared services during the period covered by this SOI which are not reflected in the financial projections (because they are currently unknown). Any such services will only be delivered by WLASS after the Board has agreed that the proposed new service meets the objectives of WLASS and is supported by a compelling business case.

In future SOIs the Board expects that it will be seeking funding from shareholders for projects that will at the time be unspecified. As noted earlier, a key aspect of the value that WLASS provides is, and increasingly will be, its ability to be agile and responsive to opportunities as they arise. Having an amount of funding at the Board's disposal to be applied toward such opportunities will assist in that regard.

Performance targets

To ensure that the Company continues to operate effectively and efficiently, the performance targets for 2019/20 are as follows:

TARGET	METHOD	MEASURE
Procurement Joint procurement initiatives for goods and services for WLASS Councils will be investigated and implemented.	Procurement is from sources offering best value, service, continuity of supply, and/or opportunities for integration.	New suppliers are awarded contracts through a competitive tender process. Professional Services Panel contracts are successfully negotiated.
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.	.[1] If considered of value, business cases are developed for approval by the Board, and the projects are implemented. 1 1. The highlighted measures have been introduced as a direct response to the transformation of WLASS and the increased expectations of the company.
Existing WLASS Contracts Existing contracts are managed and renegotiated as required.	Appointed vendors deliver on the terms of their contracts and deliver value to the shareholders.	The WLASS Contracts Register is maintained and managed. Contracts which are due for renewal are either renegotiated (where it makes commercial sense to continue with the

TARGET	METHOD	MEASURE
		current supplier) or re-tendered through a competitive process.
Cost Control Administration expenditure shall be managed and monitored.	The Financial Accountant and Chief Executive review expenditure monthly.	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 WLASS Board every meeting. A Half-yearly and Annual Report are prepared for shareholders.	The Board shall provide a written report on the business operations and financial position of WLASS to the shareholders every six months. Every second report shall be the Annual Report.
Shared Valuation Data Services (SVDS) The SVDS is reliable, well maintained and available to all users.	A Contract Manager is appointed for SVDS. The Contract Manager monitors performance of the contractors and reports quarterly to the SVDS Advisory Group. Risks associated with the SVDS are well managed.	The SVDS is available to users at least 99% of normal working hours. The SVDS Advisory Group meets at least 6-monthly. The Annual Business Plan is accepted by the Advisory Group by 31 March 2020.
Insurance Achieve the relevant KPIs in Appendix 4 of the Insurance Brokerage contract with Aon.	The Insurance Broker delivers on the terms of their contract and provides value to the participating Councils.	Strategic advice provided by Aon on the insurance programme structure is assessed as satisfactory in the annual WLASS Shareholders' survey by the participating Councils. The day-to-day service provided by Aon is assessed as satisfactory in the annual WLASS Shareholders' survey by the participating Councils.
RATA Deliver better data for decision making across the Waikato Region, enabling more consistent best practice	Quarterly update reports are provided to all stakeholders participating in the Data Collection contracts.	Reports are presented to stakeholders in October/January/April and July each year. Reports on progress as at 30 December and 30 June are presented to WLASS Board within two months.

TARGET	METHOD	MEASURE
	Data supplied by contractors is of good quality and meets all of the participating Councils' requirements.	All data are reviewed for compliance and all good practice requirements are met. Procurement of services complies with WLASS and NZTA's procurement requirements.
Lead engagement and increase capability within the sector	Innovation: Identify opportunities to modify standard approaches and/or develop new approaches that will lead to optimal asset management. Leadership: Lead engagement and increase capability within the sector.	Present to a national conference on RATA innovations at least once per year. At least two RATA guidance documents detailing good practice are produced each year. RATA Forums are held 2-monthly to share learnings and experience.
Waikato Regional Transport Model (WRTM) The WRTM is reliable, well maintained and available to all users.	RATA manages the WRTM on behalf of the participating Councils, and monitors the performance of the model supplier (currently Traffic Design Group). RATA 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 from RATA on any new developments and on the status of the model is provided to the WLASS 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.
Waikato Building Consent Group Provide strategic direction and actively pursue improvements in Building Control across the Waikato region.	Implement the strategic priorities detailed in the "Build Waikato" May 2017 strategic review document.	Milestones for the five strategic review work streams are achieved for: • Digital experience and technology: a user friendly, convenient, quick, end-to end management and communication, measured by customer surveys and systems comparisons.

TARGET	METHOD	MEASURE
		• People capability: a successful recruitment and training programme, measured by compliance with BCA Reg. 8 -11. • Quality assurance: continued accreditation and increased service consistency, measured by accreditation outcomes, BCA annual audits, and customer surveys. • Lift industry competency and compliance: measured by increased industry compliance, with reduced RFIs, and reducing percentages of application or building consent rejection. • Central government engagement and legislative influence: Success is measured by legislative submissions and outcomes.
	Fulfil the roles and responsibilities set out in clause 9 of the WBCG's Memorandum of Understanding, 2016.	There is a common understanding and buy-in by all BCAs for the WBCG vision and actions that are taken to achieve this vision, measured by: • Full participation in WBCG projects and programmes • Audits demonstrating implementation and compliance with the agreed QA systems • Consistency in service delivery, measured by customer surveys. Risk management is visible through regular reviews of the Risk Register. All funding requirements are met by each of the participating Councils. A minimum of two reports presented to the WLASS Board on the Group's activities.
Future Proof Planning for growth in the sub-region is co-ordinated and collaborative. The Future Proof budget is well managed and monitored.	Joint preparation and input into Phase 2 of the Strategy update. Bi-monthly reports presented to Waikato Plan and Future Proof Chief Executive Group,	SMART measures are currently under review and will be included with the final SOI

TARGET	METHOD	MEASURE
	and six monthly and annual reports to WLASS Board.	
Future Proof influences and inputs into District Plan, Regional Plan, growth strategy and any other planning processes which manage growth within the sub-region and neighbouring regions.	Future Proof works collaboratively and provides input into the planning work undertaken by all FP partners and any other relevant planning authorities.	Future Proof makes submissions (using RMA and Local Government processes), on District Plans, LTPs, growth management planning documents, and any central government initiatives which have the potential to impact growth management planning in the sub-region.
Shareholder Survey Shareholders are satisfied with the performance of WLASS.	An annual survey of shareholders is undertaken to assess satisfaction levels with WLASS.	A survey of shareholders is undertaken each year, and the results are reported to all shareholders. At least 75% of Councils participate in the survey.
Review of Benefits Shareholders are informed of the benefits being provided to shareholding Councils by WLASS.	The benefits of WLASS (including financial and non-financial achievements) are regularly analysed and reported to shareholders.	Information on the financial and non-financial benefits being achieved by WLASS are included in the 6-monthly and Annual Report to shareholders. The WLASS website is regularly maintained and updated.

Governance - current

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

WLASS currently has twelve Directors, with each Director representing a shareholder Council. As noted above the proposal is to reduce the number on the Board to six, with an independent Chair and five Council representatives from sub-regions.

The current Directors of WLASS are:

Director	Position	Representing
Gavin Ion (Chair)	Chief Executive	Waikato District Council
Blair Bowcott	Executive Director, Special Projects	Hamilton City Council
Langley Cavers	Chief Executive	Hauraki District Council
Don McLeod	Chief Executive	Matamata-Piako District Council
Tanya Winter	Chief Executive	Otorohanga District Council
Geoffrey Williams	Chief Executive	Rotorua District Council
Ben Smit	Chief Executive	South Waikato District Council
Gareth Green	Chief Executive	Taupo District Council
Rob Williams	Chief Executive	Thames-Coromandel District Council
Vaughan Payne	Chief Executive	Waikato Regional Council
Garry Dyet	Chief Executive	Waipa District Council
Chris Ryan	Chief Executive	Waitomo District Council

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.

WLASS is budgeted to have accumulated shareholders fund of $415k at 30 June 2020, which represents 44% of total assets. The only liabilities of WLASS are trade creditors.

The Forecast Financial Statements for 2019/20 are included as part of this Statement of Intent.

Purchase and acquisition of shares

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

Value of investment

The Directors' estimate of the commercial value of the shareholders' investment in WLASS 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.

Distributions to shareholders

The Company is not expected to make profits that would ordinarily be distributed by way of dividends within the next 12 months. Any surplus funds remaining from an activity or from the annual operations of the Company shall be carried forward to the ensuing year and may be used to reduce service costs, invest in further developing other services, and/or as the Directors may decide.

Compensation

The independent Chair of WLASS will receive director fees and reimbursed expenses. Directors representing the Councils will not receive any fees or reimbursed expenses for work undertaken on behalf of the company.

WLASS will be funding through payment sought from all local authorities that receive services from the company.

Information 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 half-yearly report, including a Statements of Financial Performance, Financial Position Cashflows and commentary on service performance including an assessment of progress against KPIs; and

- 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.

Review of statement of intent

The Directors shall approve by 1 March of each year a draft Statement of Intent for distribution to, and consideration by, the shareholders.

The shareholders must provide any comments or feedback on the draft Statement of Intent within two months of receipt of the document. The Directors must consider all comments that are received and shall deliver the completed Statement of Intent to the shareholders by 30 June.

Financials

Statement of Financial Performance

Waikato Local Authority Shared Services
Company Summary
for the forecast financial years ended 30 June 2020-2022

	Budget 2018/19	Budget 2019/20	Variance	Budget 2020/21	Budget 2021/22
Income					
Company Administration	299,784	556,730	256,946	565,923	577,618
Procurement	439,166	369,500	(69,666)	1,017,409	500,492
Information Technology	45,594	553,483	507,889	565,660	578,104
Energy Management	136,500	124,667	(11,833)	124,667	124,667
Shared Valuation Data Service (SVDS)	701,892	670,079	(31,813)	476,265	485,790
Road Asset Technical Accord (RATA)	978,560	1,815,766	837,206	971,805	1,107,677
Waikato Regional Transport Model (WRTM)	98,626	218,760	120,134	320,933	353,153
Waikato Building Consent Group	318,548	275,940	(42,608)	282,010	288,215
Future Proof	544,391	609,991	65,600	609,991	609,991
Waikato Plan	520,000	382,000	(138,000)	390,404	398,993
Waikato Mayoral Forum	5,000	5,000	0	5,110	5,222
Total Income	4,088,061	5,581,916	1,493,855	5,330,177	5,029,923
Operating Expenditure					
Company Administration	299,784	553,018	253,234	565,184	577,618
Procurement	656,058	369,500	(286,558)	1,017,409	500,492
Information Technology	134,727	553,483	418,756	565,660	578,104
Energy Management	136,500	124,667	(11,833)	124,667	124,667
Shared Valuation Data Service (SVDS)	886,017	669,786	(216,231)	424,639	435,417
Road Asset Technical Accord (RATA)	1,016,336	1,815,766	799,430	971,805	1,107,677
Waikato Regional Transport Model (WRTM)	98,626	218,760	120,134	320,933	353,153
Waikato Building Consent Group	529,548	275,940	(253,608)	282,010	288,215
Future Proof	544,391	609,991	65,600	609,991	609,991
Waikato Plan	520,000	382,000	(138,000)	390,404	398,993
Waikato Mayoral Forum	51,439	5,000	(46,439)	5,110	5,222
Total Operating Expenditure	4,873,426	5,577,911	704,485	5,277,812	4,979,550
Earnings before interest, tax and depreciation/ amortisation (EBITA)	**(785,365)**	**4,005**	**789,370**	**52,365**	**50,374**
Non-Cash Operating Expenditure					
Company Admin Non-Cash Expenditure	256	3,712	3,456	739	0
SVDS Non-Cash Expenditure	90,444	0	(90,444)	0	0
WRTM Non-Cash Expenditure	72,916	0	(72,916)	0	0
Total Non-Cash Operating Expenditure	163,616	3,712	(159,904)	739	0
Earnings before interest and tax (EBIT)	**(948,981)**	**293**	**949,274**	**51,626**	**50,374**
Net Surplus (Deficit) before tax	**(948,981)**	**293**	**949,274**	**51,626**	**50,374**
Company Admin Net Surplus (Deficit) before tax	(256)	0	256	(0)	(0)
Procurement Net Surplus (Deficit) before tax	(216,892)	0	216,892	0	0
IT Net Surplus (Deficit) before tax	(89,133)	0	89,133	0	0
Energy Mgmt. Net Surplus (Deficit) before tax	0	0	0	0	0
SVDS Net Surplus (Deficit) before tax	(274,569)	293	274,862	51,626	50,373
RATA Net Surplus (Deficit) before tax	(37,776)	(0)	37,775	0	0
WRTM Net Surplus (Deficit) before tax	(72,916)	0	72,916	0	(0)
Building Net Surplus (Deficit) before tax	(211,000)	0	211,000	0	0
Future Proof (Deficit) before tax	0	0	0	0	0
Waikato Plan	0	0	0	0	0
Mayoral Forum Net Surplus (Deficit) before tax	(46,439)	0	46,439	0	0
Net Surplus (Deficit) before tax	**(948,981)**	**293**	**949,274**	**51,626**	**50,373**

17

Attachment 2 Item 9

Statement of Financial Position

Waikato Local Authority Shared Services
Balance Sheet
for the forecast financial years ended 30 June 2020-2022

	Budget 2018/19	Budget 2019/20	Variance	Budget 2020/21	Budget 2021/22
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
Retained Earnings	(1,593,081)	(2,542,062)	(948,981)	(2,541,769)	(2,490,143)
Plus Current Year Operating Surplus/(Deficit)	(948,981)	293	949,274	51,625	50,374
TOTAL CAPITAL FUNDS	**414,939**	**415,232**	**293**	**466,858**	**517,232**
ASSETS					
CURRENT ASSETS					
Prepayments	2,784	153,145	150,361	163,207	152,971
Accounts Receivable	449,687	390,734	(58,953)	209,607	196,397
Bank	266,317	397,907	126,022	730,359	763,553
GST Receivable / (Payable)	9,817	(50)	(9,867)	(655)	(630)
TOTAL CURRENT ASSETS	728,604	941,736	207,563	1,102,519	1,112,292
NON-CURRENT ASSETS					
SVDS - Intangible Asset	3,085,700	3,085,700	0	3,085,700	3,085,700
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	(5,383,750)	(5,383,750)	0	(5,383,750)	(5,383,750)
IT Equipment	0	6,307	6,307	6,307	6,307
Accumulated Depreciation - IT equipment		(5,568)		(6,307)	(6,307)
TOTAL NON-CURRENT ASSETS	0	739	6,307	(0)	(0)
NET ASSETS	**728,605**	**942,474**	**213,870**	**1,102,518**	**1,112,292**
LESS CURRENT LIABILITIES					
Accounts Payable	293,065	501,332	208,267	609,366	573,840
Accounts Payable Accrual	20,600	25,910	5,310	26,295	21,220
TOTAL CURRENT LIABILITIES	313,665	527,242	213,577	635,661	595,060
NET WORKING CAPITAL	**414,939**	**415,232**	**293**	**466,858**	**517,232**

Statement of Cashflows

Waikato Local Authority Shared Services
Statement of Cashflows
for the forecast financial years ended 30 June 2020-2022

	Budget 2018/19	Budget 2019/20	Variance	Budget 2020/21	Budget 2021/22
Cashflows from Operating Activities					
Interest Received	14,000	14,308	308	14,623	14,944
Receipts from Other Revenue	4,074,061	6,461,702	2,387,641	6,190,514	5,642,435
Payments to Suppliers	(4,873,426)	(6,355,833)	(1,482,407)	(5,867,628)	(5,618,847)
Taxes Paid	0	0	0	0	0
Goods & Services tax (net)	(119,906)	11,412	131,317	(5,057)	(5,339)
Net cash from operating activities	(905,269)	131,589	1,036,858	332,452	33,194
Cashflows from Investing Activities					
Capital enhancements	0	0	0	0	0
Purchase of PPE	0	0	0	0	0
Purchase of investments	0	0	0	0	0
Net cash from investing activities	0	0	0	0	0
Net increase in cash, cash equivalents and bank accounts	(905,269)	131,589	1,036,858	332,452	33,194
Opening cash and cash equivalents and bank overdrafts	1,171,586	266,317	(905,269)	397,907	730,359
Closing cash, cash equivalents and bank accounts	**266,317**	**397,906**	**131,590**	**730,359**	**763,552**

18

Appendix I: Nature and scope of current activities

The principal initiatives operating under the WLASS umbrella are:

- Shared Valuation Data Service
- Road Asset Technical Accord
- Waikato Regional Transportation Model
- Waikato Building Consent Group
- Future Proof
- Regional Infrastructure Technical Specifications
- Energy management
- Procurement
- Historic aerial photos
- Waikato Regional Aerial Photography Service
- Aligned resource consent planning
- Local government contract health & safety pre-qualification

Shared Valuation Data Service (SVDS)

This service provides timely and accurate valuation data to the participating Councils. The SVDS has become the accepted valuation database for the region. Data sales significantly reduce the net cost to the participating Councils and in the last 12 months the company entered into a new SAAS agreement which will further reduce cost.

Road Asset Technical Accord (RATA)

RATA was initially established as a centre of excellence for road asset planning in 2014 as a work stream under the Mayoral Forum. The activity transferred to WLASS on 1 July 2016.

The aim of RATA is to achieve best practice in road asset management by improving capability, capacity and outcomes through effective collaboration. By leading asset management best practice, RATA delivers better decision-making through the effective collection and use of good quality data, and the implementation of good practice processes and systems for data collection, analysis and management.

Waipa District Council acts as the host Council for RATA, providing accommodation and overheads (which are fully recovered from the participating Councils), and managing the employment agreements/relationships with the associated staff members.

Waikato Regional Transportation Model (WRTM)

The WRTM became fully operational in February 2010. It provides accurate information to Councils and to external users (for a charge) for their transport modelling requirements. The WRTM is the only recognised strategic transport modelling resource in the Waikato Region and is jointly funded by the NZTA.

WRTM is making a significant contribution to strategic planning surrounding land use and infrastructure within the region and has been involved in regionally and nationally significant investigations including the Waikato Expressway Network Plan, the Waikato Regional Land Transport Strategy and Regional Policy Statement and transport impact assessments in relation to the development of Ruakura.

Waikato Building Consent Group (WBCG)

The WBCG was initially set up by five Waikato local authorities in 2004 to foster co-operation, collaboration and consistency in building functions, legislative interpretation and process documentation across the partnering Councils. The activity transferred to WLASS on 1 July 2016 and now comprises eight Councils.

The WBCG has developed a common quality assurance system with associated supporting documentation and media that meet the legislative requirements of the Building Act 2004 and the Building (Accreditation of Building Consent Authorities) Regulations 2006. These regulations cover all aspects of the operational management and compliance of a Building Consent Authority (BCA).

Waikato District Council acts as the host Council for the WBCG, providing accommodation and overheads (which are fully recovered from the WBCG members), and managing the employment agreements/relationships with the two staff members and any contractors.

Future proof

Future Proof is a collaborative partnership between Hamilton City, Waikato and Waipa Districts, Waikato Regional Council and Tāngata whenua, with assistance from the NZTA. The partners have jointly developed the Future Proof Growth Strategy and Implementation Plan – a 50-year vision and implementation plan specific to the Hamilton, Waipa and Waikato sub-region, which was adopted by the partners in June 2009.

The accommodation, overhead and employment arrangements of the Future Proof Planner are managed by Hamilton City Council. The activity is fully funded by the participating Councils and operates as a separate cost centre. Future Proof transferred to WLASS on 1 July 2016.

Regional Infrastructure Technical Specifications (RITS)

The RITS document sets out how to design and construct transportation, water supply, wastewater, stormwater and landscaping infrastructure. Prior to developing RITS, each Council had its own technical specifications for infrastructure resulting in different standards having to be met across the Waikato region. RITS provides a single regional guide making business easier.

The RITS is published on the WLASS website (http://www.waikatolass.co.nz/), and ongoing maintenance of the document is the responsibility of a Project Co-ordinator, managed by WLASS.

Energy management

WLASS entered into a Collaboration Agreement with the Energy Efficiency Conservation Authority (EECA) in February 2016. Having met specific energy saving targets, EECA funding of ~$205,000 will have been received by the end of the three-year agreement.

EECA funding aside, the cost of the activity is met by 11 participating Councils (Matamata-Piako was not eligible, as it has previously received EECA funding), and operates as a separate cost centre.

Implemented projects have delivered 3.4m kWh in energy reduction (as against a target of 2.5m kWh), saved 540T of carbon emissions each year and saved $440k per annum.

Joint procurement initiatives

WLASS is a party to numerous joint procurement contracts between the company, shareholding Councils and suppliers. Councils choose whether to be a party to a particular contract. Wherever possible we negotiate a syndicated contract with the supplier to allow additional Councils to join later.

A procurement specialist was contracted in February 2018 to:

- Assist all Councils to utilise the existing WLASS contracts, AoG contracts and syndicated contracts that are appropriate for each Council, to ensure that opportunities for savings are being maximised; and
- Develop standard regional procurement policies, templates and procedures and provide training in each Council.

This programme of work will be completed in the first half of 2019.

Historic aerial photos

In May 2015, WLASS entered into a Memorandum of Understanding with LINZ to scan the Waikato Historic Aerial Photos archive. The LINZ Crown archive contains over 500,000 historic aerial photo negatives captured by surveys flown over New Zealand between 1936 and 2005. All shareholding Councils are participating in this 4-year project, which includes a subsidy of $56,000 from LINZ. Scanning is now complete.

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 five WRAPS contracts, the most recent in 2016, which is scheduled for completion by June 2019. We are considering changing the frequency of coverage to 4-yearly. WRAPS became a WLASS project in December 2014.

Aligned resource consent planning

The toolkit developed last financial year to provide regional consistency and best practice processes in the administration of resource consenting has now been implemented and is being used by nine Councils (Taupo and Otorohanga are not currently participating, and Waikato Regional Council processes different types of resource consents from the territorial local authorities). WLASS controls the documentation on the WLASS website, and the Waikato Resource Consent forum manages the process for making updates and amendments to the templates and documents in the toolkit.

Local government contractor health & safety pre-qualification scheme

The contract with SHE Software to manage the Local Government Health & Safety Contractor Pre-qualification Scheme, which was developed by WLASS, continues to operate well. Twenty Councils and one CCO are now using the scheme with approximately 1,600 contractors registered, which enables them to be pre-qualified to work for any of the participating Councils.

Further detail on these activities and the Councils involved in each can be found on the WLASS website at http://www.waikatolass.co.nz/.

Appendix II: Policy Statements

Statement of accounting policies

Reporting entity

Waikato Local Authority Shared Services Limited ("the Company") is a Company incorporated in New Zealand under the Companies Act 1993 and is domiciled in New Zealand. The company is a Council Controlled Organisation as defined under section 6 of the Local Government Act 2002 (LGA), by virtue of the shareholding Councils' right to appoint the Board of Directors.

The primary objective of the Company is to provide the Waikato region's local authorities with a vehicle to develop shared services that demonstrate a benefit to the ratepayers and provide those services to local authorities.

The Company has designated itself as a public benefit entity (PBE) for financial reporting purposes.

Summary of significant accounting policies

Basis of preparation

Financial statements are prepared on the going concern basis, and the accounting policies are applied consistently throughout the period.

Statement of Compliance

Financial statements are prepared in accordance with the requirements of the LGA, which include the requirement to comply with generally accepted accounting practice in New Zealand (NZ GAAP).

Financial statements are prepared in accordance with and comply with Tier 2 PBE Standards reduced disclosure regime (RDR). WLASS is eligible to report under the RDR as it:

- is not publicly accountable; and
- has expenses more than $2 million, but less than $30 million.

The accounting policies set out below are consistent with the prior year.

Measurement base

The financial statements are prepared on a historical cost basis.

Presentation currency and rounding

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest dollar unless otherwise stated. The functional currency of the Company is New Zealand dollars.

Goods and services tax

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

The net amount of GST recoverable from, or payable to, the Inland Revenue (IR) is included as part of receivables or payables in the statement of financial position.

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

Commitments and contingencies are disclosed exclusive of GST.

Critical accounting estimates and assumptions

In preparing the financial statements the Company makes estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. There are no areas requiring estimate or assumptions made that are considered to carry a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

Revenue

Revenue

Revenue comprises the fair value of the considerations received or receivable for the sale of goods and services, excluding Goods and Services Tax, rebates and discounts and after eliminating sales within the Company. No provisions have been recorded as all revenue and trade receivables are expected to be received.

Other Revenue

User charges for all activities are recognised when invoiced to the user (i.e. Councils). The recorded revenue is the net amount of the member charges payable for the transaction. Contributions received for projects that were not completed in a financial year are recognised when the Company provides, or is able to provide, the service for which the contribution was charged. Until such time, contributions are recognised as liabilities.

Income tax

Income tax expense includes components relating to both current tax and deferred tax.

Current tax is the amount of income tax payable based on the taxable surplus for the current year, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted at balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the statement of financial position and the corresponding tax bases used in the computation of taxable profit.

Deferred tax is measured at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at balance date. The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the entity expects to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable surpluses will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset or liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit.

Current and deferred tax is recognised against the surplus or deficit for the period, except to the extent that it relates to a business combination, or to transactions recognised in other comprehensive income or directly in equity.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, with original maturities of three months or less, and bank overdrafts.

Receivables

Short-term receivables are recorded at the amount due, less any provision for amounts not considered collectable.

Receivables are initially measured at nominal or face value. Receivables are subsequently adjusted for penalties and interest as they are charged and impairment losses. Non-current receivables are measured at the present value of the expected future cash inflows.

Debtors are amounts due from customers. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Intangible assets

Software acquisition and development

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs that are directly associated with the development of software are recognised as an intangible asset.

Costs associated with maintaining computer software are recognised as an expense when incurred.

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. The amortisation charge for each period is recognised in the surplus or deficit.

The useful lives and associated amortisation rates of major classes of intangible assets have been estimated as follows:

Computer Software	5 to 7 years	14 to 20%

Other financial assets

Investments in bank deposits are measured at fair value plus transaction costs.

At each balance date the Company assesses whether there is any objective evidence that an investment is impaired. Any impairment losses are recognised in the income statement.

Payables and deferred revenue

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

Trade and other payables are non-interest bearing and are normally settled on 30-day terms, therefore the carrying value of trade and other payable approximates their fair value.

Contributions received for projects that were not completed in a financial year are recognised as deferred revenue until the Company provides, or is able to provide, the service for which the contribution was charged.

Reconciliation of equity

Equity is the shareholders interest in WLASS and is measure as the difference between total assets and total liabilities. Equity is disaggregated and classified into the following components:

Contributed equity

Contributed equity is the net asset and liability position at the time the company was formed. The allocation of capital amongst shareholders is explained in this note.

Retained earnings

Retained earnings is the company's accumulated surplus or deficit since formation.

Attachment 3

Item 9

Waikato Local Authority
SHARED SERVICES

To	Shareholders of Waikato Local Authority Shared Services (WLASS)
From	Gavin Ion, Chair, WLASS Kelvin French, Chief Executive, WLASS
Date	13 March 2019
Report Title	**Changes to WLASS governance arrangements**

1. Purpose

To seek shareholders' resolutions and delegated authority on proposed changes to the governance arrangements of WLASS.

2. Recommendations

That the shareholders:

- **Amend the constitution** of the Company in the manner set out in the attached special resolution;
- **Approve**, by ordinary resolution that the independent Chair be paid a fee for service up to $45,000 per annum (plus reasonable costs and GST, if any);
- **Note** that the constitution as amended allows the independent Chair to be appointed by unanimous agreement of the Council Representative Directors;
- **Delegate authority** to the Council Representative Directors to agree a fee for service for the independent Chair up to the amount noted above; and
- **Delegate authority** to a duly authorised representative to sign the attached special and ordinary resolutions on behalf of your council.

3. Background

At its meeting in December last year, the WLASS Board accepted a recommendation to reduce the size of the Board to six, with the expectation being that it would be made up of:

- An independent Chair; and
- Council Representative Directors:
  - one each from Waikato Regional and Hamilton City Councils; and
  - one each from the remaining central, east and south Waikato sub-regions.

The company's constitution currently requires that each shareholder shall appoint one director.

The company's constitution allows the remuneration or provision of other benefits by the company to a director for services, but only where authorised by ordinary shareholder resolution.

4. Discussion

Board composition

As you are aware from previous reports, WLASS is undergoing a significant transformation, changing its operating model to be in a better position to add value for its shareholders.

A shortcoming identified with the current structure is that the board is large (12 members), which can reduce effectiveness in decision-making. It also comprises entirely of executive members (generally the Chief Executive), of the shareholding Councils. This has the potential to blur the line between governance and management, with Board decision-making potentially influenced by the individual Council rather than what is best for the collective.

Given these shortcomings, as noted above, the WLASS Board accepted a recommendation to reduce the size of the Board to six, with the expectation being that it would be made up of:

- An independent Chair; and
- Council Representative Directors:
  - one each from Waikato Regional and Hamilton City Councils;
  - one each from the remaining central, east and south Waikato sub-regions.

During discussion at its meeting in December, several Board members supported introducing three independent directors to realise the benefit of independent thought and transformational thinking. However, the additional cost associated with a greater number of independent directors aside, there was also a perceived risk that they could make WLASS run too fast and leave stakeholders behind. It was also noted that independent thinking could be introduced via other avenues (e.g. a Board workshop facilitated by an independent) and will come in any event from the WLASS CE and Business Analyst.

Therefore, the Board resolved to support the appointment of a single independent Chair at this time but recommends a watching brief on when it is appropriate to introduce additional independents to bring that number to three.

Board tenure

The proposed constitution provides for Board appointments to be for a three-year period with an ability for a person to be appointed for a second term. No person can remain a director for any longer than six years.

In order to achieve a degree of on-going continuity across the Board, it is proposed that the initial appointments be for staggered periods so that the initially appointed directors resign on a rotating basis (two after the first year, a further two after two years, and the final two after three years). In this way, four of the six directors should remain at any point in time.

Attachment 3

Item 9

Appointing the independent Chair

The WLASS Statement of Intent (SOI) sets out the objectives of the transformation the company is undergoing. A critical element is that the company is agile, acts at pace and delivers value to its shareholders early. The independent Chair (and reduced board numbers) is a key enabler for the transformation and for that reason WLASS wishes to proceed with the appointment as soon as practical to have the role in place on 1 July 2019.

A robust recruitment process will be undertaken for the role involving an independent agency. An initial skills assessment will be developed, including the Council Representative Directors, and used as part of the process to ensure that the right mix of skills are present across the Board.

We are seeking from the appointee, someone who has experience in chairing boards, and has been involved in change management, shared service delivery and/or transformational/disruptive thinking. They must be able to engage with key stakeholders in shareholding councils, appreciating the political environment in which WLASS operates.

The timeframe to appoint is tight, but achievable. To facilitate the expeditious appointment of the independent Chair, and given the recruitment process to be undertaken, 13.1 a. of the proposed constitution provides that the person can be appointed by the ***unanimous*** agreement of the Council Representative Directors.

Constitutional change

As noted above, the company's constitution currently requires that each shareholder appoint a director (current clauses 13 and 15.5 of the constitution are included in the appendix for information). Should shareholders agree with the Board's proposal regarding its composition, the constitution must therefore be changed.

The constitution may be changed by special resolution (approved by 75% or more), of the shareholders.

The resolution attached is worded such that council representatives *may*, but not *must*, be appointed by the relevant authority(s). Doing so means that if decisions are made to increase the number of independents to three, the Board size could increase to eight, but appointing groups could choose not to appoint, to retain the size of the Board at six. A special resolution of shareholders would be required for the appointment of any further independent directors and we are not seeking that resolution at this time.

We recommend that shareholders agree to the proposed changes to the WLASS constitution.

Independent Chair remuneration

The constitution allows for WLASS directors to be remunerated. It is not recommended that Council Representative Directors are remunerated but it will clearly be necessary for the independent Chair.

Initial discussions with organisations such as IOD indicate that for a role of this nature the market remuneration is likely to be up to $45,000 per annum (plus expenses). This will be negotiated as part of the appointment process. However, the constitution requires that any director remuneration must be authorised by ordinary shareholder resolution. We therefore recommend that shareholders agree to:

- The independent Chair being paid up to $45,000 per annum (plus disbursements); and
- Delegate authority to the Council Representative Directors to agree the remuneration up to this amount as part of the appointment process.

Resolutions giving effect to the independent Chair recommendations are attached and are by simple majority.

Shareholder reporting

To be effective the WLASS Board must be able to operate autonomously. However, recognising the public face of Councils it will be critical to ensure that there is appropriate reporting to, and communication with, shareholders, so that there are 'no surprises'. This will be achieved through:

- Regular shareholder forums (with Council CEs) – at least three per annum;
- A requirement of the shareholder forum to produce and send a letter of expectation from shareholders to WLASS ahead of the WLASS SOI being developed in response;
- Updates at Mayoral forums; and
- Statutory reporting including the company's SOI and annual report.

Appendix: Current clauses 13 and 15.5 of the WLASS's constitution

13 Appointment and removal of directors

Number of directors

13.1 The board shall consist of not less than three (3) and not more than twelve (12) directors.

13.2 Each of the Authority Shareholders shall appoint one director.

15.5 Chairperson

The board may elect a chairperson of its meetings and determine the period for which he or she is to hold office; but if no such chairperson is elected, or if at any meeting the chairperson is not present within five minutes after the time appointed for the meeting, the directors present may choose one of their number to be chairperson of the meeting.

Waikato Local Authority Shared Services Limited
(“Company”)

Resolution of shareholders altering constitution

Resolved on the day of 2019 as a special resolution by all shareholders of the Company, passed by written resolution in lieu of meeting as provided in section 122 of the Companies Act 1993, that the constitution of the Company be altered by the deletion of clauses 13 (as amended by special resolution on 30 June 2011) and 15.5, and substituted with the following:

13. Appointment and Removal of Directors

13.1 Number of directors

The board shall consist of not less than three (3) and not more than eight (8) directors, of whom:

a. one shall be appointed by unanimous resolution of the Council Representative Directors, and must be Independent;
b. one may be appointed by Waikato Regional Council;
c. one may be appointed by Hamilton City Council;
d. one may be appointed by the Waikato and Waipa District Councils;
e. one may be appointed by the Thames-Coromandel, Hauraki and Matamata-Piako District Councils;
f. one may be appointed by the Otorohanga, Waitomo, South Waikato, Taupo and Rotorua District Councils; and

[the appointments under 13.1 b. – f. above, collectively being referred to as the Council Representative Directors]

g. any other appointments shall be by special resolution of the shareholders.

13.2 Extended definition

For the purposes of rule 13.1:

a. a reference to a named Authority shall include any person or body for the time being entitled to and holding the shares of that Authority in accordance with this Constitution; and
b. a director is Independent if that person is not an executive or an elected member of a shareholder and does not have any direct or indirect relationship that could reasonably materially influence that person’s decisions in relation to the Company.

13.3 Appointment and removal

A body or persons that is or are entitled to appoint a director pursuant to clause 13.1 may remove any director so appointed and appoint a replacement director.

13.4 Manner of appointment and removal

Any such appointment or removal shall be in writing and served on the company and signed by the body or persons entitled to make the appointment or removal.

13.5 Default appointment

Where any vacancy on the board has the effect of reducing the number of directors below 3, and if any body or persons entitled to appoint a replacement director fails to do so within two (2) months of the date on which the number of directors fell below 3, the board may appoint a replacement director or directors to bring the number of directors to 3. Any such appointment shall only be made at a board meeting of which 14 days' notice in writing has been given to each director and the body or person concerned, and approved by a majority of the directors present at the meeting. A director appointed under this clause will be removed upon a person next exercising their right of appointment under clause 13.1. If there is more than one director appointed under this clause on the board at any time, but less than that number are being appointed under clause 13.1, each director appointed under this clause will be replaced pursuant to the preceding sentence alphabetically.

13.6 Tenure of office

13.6.1: Other than as set out under 13.6.2, all Board terms are three years. Any Board member may be reappointed for a further term but can serve only a maximum of six years consecutively.

13.6.2: To ensure continuity of knowledge, Board terms will initially be staggered such that:

a. on 30 June 2020, two of those persons appointed under 13.1 b. – f. shall resign (to occur in alphabetical order with reference to surname); and
b. on 30 June 2021, a further two of those persons appointed under 13.1 b. – f. (not being those who resigned on 30 June 2020) shall resign (to occur in alphabetical order with reference to surname); and
c. on 30 June 2022, the person appointed under 13.1 a. and the remaining person appointed under 13.1 b. – f., who has not previously resigned under a. or b. of this clause, shall resign.

13.6.3: Notwithstanding anything else in this clause, each director of the company can only hold office until:

a. Removal: removal in accordance with the constitution; or
b. Vacation of office: vacation of office pursuant to section 157 of the Act; or
c. Insolvency: an arrangement or composition with creditors made by him or her; or
d. Absence from meetings: vacation of office resulting ipso facto from being absent without permission of the board from 3 consecutive meetings of the board; or
e. Resignation: written notice of resignation to the address for service of the company.

15.5 Chairperson

The chairperson of the board is the person appointed pursuant to clause 13.1(a). However, if no person is appointed under that clause or if at any meeting the chairperson is not present within five minutes after the time appointed for the meeting, the directors present may choose one of their number to be chairperson of the meeting.

______________________________	______________________________
On behalf of Hamilton City Council	On behalf of Hauraki District Council
______________________________	______________________________
On behalf of Matamata-Piako District Council	On behalf of Otorohanga District Council
______________________________	______________________________
On behalf of Rotorua Lakes Council	On behalf of South Waikato District Council
______________________________	______________________________
On behalf of Thames-Coromandel District Council	On behalf of Taupo District Council
______________________________	______________________________
On behalf of Waikato District Council	On behalf of Waikato Regional Council
______________________________	______________________________
On behalf of Waipa District Council	On behalf of Waitomo District Council

Waikato Local Authority Shared Services Limited
("Company")

Resolution of shareholders remunerating Chair

Resolved on the day of 2019 as an ordinary resolution by all shareholders of the Company, passed by written resolution in lieu of meeting as provided in section 122 of the Companies Act 1993, that:

1. An independent person appointed under the Company's constitution to hold the office of Chair shall be remunerated up to $45,000 per annum, plus reasonable costs; and

2. Council Representative Directors on the Board of the Company are delegated authority to agree a fee with the appointed person for this role, up to this amount.

______________________________	______________________________
On behalf of Hamilton City Council	On behalf of Hauraki District Council
______________________________	______________________________
On behalf of Matamata-Piako District Council	On behalf of Otorohanga District Council
______________________________	______________________________
On behalf of Rotorua Lakes Council	On behalf of South Waikato District Council
______________________________	______________________________
On behalf of Thames-Coromandel District Council	On behalf of Taupo District Council

Item 9

On behalf of Waikato District Council

On behalf of Waikato Regional Council

On behalf of Waipa District Council

On behalf of Waitomo District Council

Attachment 5

Council Report

Committee: Finance Committee **Date:** 09 April 2019

Author: Sean Murray **Authoriser:** Sean Murray

Position: General Manager Venues, Tourism and Major Events **Position:** General Manager Venues, Tourism and Major Events

Report Name: Waikato Regional Airport Limited Draft Statement of Intent and Half Yearly Report to 31 December 2018

Report Status	*Open*

Purpose

1. To inform the Finance Committee of Waikato Regional Airport Limited (WRAL) Half Year Report to 31 December 2018.
2. To seek approval of the WRAL Draft Statement of Intent 2019/2020.

Staff Recommendation

That the Finance Committee:

a) receives the report; and

b) approves the Waikato Regional Airport Limited Draft Statement of Intent 2019/2020.

Background

3. WRAL is required to deliver a half year report and supply a draft statement of intent (SOI) for the following year to all shareholding Councils. HCC is one of five, holding 50% of the shares in the company.
4. The WRAL Board Chair and Chief Executive presented their half year report to shareholding Council Mayors and Chief Executives on 5 April 2019.

5. **Financial Considerations**
6. There are no financial considerations related to this matter

7. **Cultural Considerations**
8. This report is for information only and there are no cultural considerations.

9. **Legal and Policy Considerations**
10. Staff confirm that this matter complies with the Council's legal and policy requirements.

11. **Risks**
12. There are no risks associated with providing this information to Council.

13. **Significance**

14. Having considered the Significance and Engagement Policy, staff have assessed that the matters in this report have a low significance.

Item 10

Attachments

Attachment 1 - WRAL Half Year Report to 31 December 2018

Attachment 2 - WRAL Draft Statement of Intent 2019/2020 .

Attachment 1

Item 10

WAIKATO REGIONAL AIRPORT LIMITED

INTERIM REPORT

For the six months ended 31 December 2018

Hamilton Airport

Hamilton Airport

RESULTS AT A GLANCE

Passenger Volume Growth of 13,000 / 7%	**191,000**
Aircraft Movements Unchanged from prior year	**68,000**
Operating Revenue Growth of $474,000 / 11%	**$4,678,000**
EBITDA Growth of $152,000 / 10%	**$1,736,000**
Net Surplus After Tax Growth of $342,000 /397%	**$429,000**
Total Shareholder Funds Growth of $3,151,000 / 4%	**$85,846,000**

* growth is measured compared to the six months ended 31 December 2017

CHAIR'S REPORT

The Group's Directors and Management are pleased to report continued and significant growth across all areas of the WRAL Group including Hamilton Airport, the Titanium Park property development initiatives and Hamilton & Waikato Tourism as the regional tourism organisation for the Mighty Waikato. This has culminated in a $429,000 after tax profit for the period. While this profit includes the effect of Titanium Park land sales, the underlying earnings of the Group reflected in EBITDA, which exclude land sales, have still grown by 10% on the same time last year.

Year to date

Airport

The Airport has continued to enjoy another period of sustained passenger growth, with airline customers up 7% on the same time last year, this coming on the back of 12% and 8% increases in previous periods. A pleasing aspect of the passenger growth has been the corresponding revenue growth with all major streams experiencing increases in the last six months. Passenger growth is reflected in our financial results by aeronautical charges received from airlines which are levied on a "per passenger basis" and additionally through carparking and concessionary income – a variable component built into many of the lease and rental agreements we have with tenants and service providers in and around the terminal precinct.

The Airport completed a much-needed extension of the terminal carpark and installation of new control equipment shortly before Christmas. Carparking revenue has increased by 14% on the same period last year, at almost twice the rate of passenger movements which are a key driver of carpark utilisation. This is without any change to our pricing structure. Global ride sharing service Uber also joined the list of transport options available to travellers and visitors to Hamilton Airport in the period.

Our capital program has also included an upgrade to the first of our three rescue fire fighting appliances, with the second appliance to commence its upgrade in the latter stages of the financial year. The upgrades ensure the Airport's emergency response services meets and exceeds the requirements for an Airport of our size.

During the reporting period, management have been working on plans to significantly refresh and upgrade the terminal building. To date our architect has provided a re-design of the interior of the terminal with the primary aim of upgrading the look and feel of the terminal to enhance the customer experience. In addition, we are taking the opportunity to review all elements of the terminal. To date we have received a componentry report addressing non-structural elements of the terminal; in summary the report indicates there is only minor work to remediate which will be completed when the terminal is upgraded mid-2019.

We have also had specialist aviation consultants review the terminal from a passenger flow perspective and that report has confirmed we have a well-designed terminal with sufficient latent capacity to handle the passenger forecast volume growth in our 10 year plans.

Finally we have also commissioned a report on the resilience of the terminal structure. The draft structural report is still with our engineers as they are also completing reports on other Airport buildings including the fire station. We expect a substantive update in March which will then inform the level of any required remediation. The company will then be in a position to brief the shareholders at our half year update, proposed to be early April 2019.

Our investment into growing our social media presence has meant we have become much more engaged with travelers and visitors to our airport. Feedback from this process is being incorporated into our plans for the terminal refresh and infrastructure upgrades to ensure our terminal remains responsive to changing customer demands. Social media has also allowed us to break down common misconceptions about flying out of Hamilton by informing the local community, around airfare comparability with Auckland airport as well as the price of other relevant charges.

The terminal facilities continue to be well utilised as conferencing facilities. A number of Airport and Titanium Park tenants have taken the opportunity to hire these to give them short term additional space in close proximity to their current operations. In addition to the benefits they offer for visitors flying into the city, the facilities are proving popular with Waikato businesses due to their modern and vibrant feel, their unique location and outlook and the quality of the supporting services available in the terminal.

A major stream of work for the Airport operations team has been the re-certification approval by the Civil Aviation Authority. This is a five yearly process in addition to the routine ongoing audit and surveillance requirements, whereby the Airport must reapply for its Aerodrome Certificate. This certificate is required before the Airport can receive aircraft with more than 30 seats.

Activity around the Airport remained strong through winter with minimal fog disruptions and in August, the Airport received more flights diverted from other Airports due to bad weather than were lost due to local fog. Overall aircraft movements remain unchanged from the same period last year however the traditionally busier months unfold in the second half of the year, as late summer and autumn offer favourable months for flight training activity by the L3 Airline Academy.

The Group remains on track to achieve all operational KPIs set in the statement of intent and it is pleasing to once again report there have been no notifiable Health & Safety incidents involving Group personnel.

Property

We continue to receive very good levels of land sale inquiries. In response to the emerging demand for larger industrial lot sizes, the Southern Precinct has been introduced to the market. This is the first precinct development constructed by the Group itself, with all previous developments commenced under the former joint-venture with specialist property developers McConnell Group.

Of the 10 hectares on Southern precinct, over 4 hectares was under contract at 31 December 2018. Of these 4 hectares, 3 have been sold to a nationwide household brand name in the automotive industry, with the purchaser being unconditional and settlement due upon completion of the subdivision construction which is expected in the second half of the current financial year.

There have been three smaller lots sold on the Titanium Park Central Precinct as well, one having already settled by 31 December 2018. This sale is the only transaction reflected in the accompanying land sales figure in the half year financial statements as the Group recognises land sales as income on settlement, rather than on execution of a contract. The full year (to 30 June 2019) forecast is for 5 hectares of land sales, grossing revenue of $7.1 million and yielding a margin of at least $2.0 million.

Tourism

The first half of the year has seen Hamilton & Waikato Tourism expand its focus from business and events tourism to leisure and visitor tourism. This has culminated in the launch of a regional brand *"The Mighty Waikato: where the magic runs deep"* for use in both domestic and international campaigns.

The established business and major events tourism strategies continue to support the buoyant local market with a 60% increase in the level of inquiry received on the same time last year. The region has maintained its market share as the third largest multi-day business events hub in the country, which is a pleasing outcome as new facilities are emerging around the country providing increased competition. Visitor expenditure in the region is up 8% on the same time last year.

The significance of the growing influence Hamilton & Waikato Tourism is having in the local tourism industry to achieve is best reflected by the level of industry funding secured: at the half year period end, Hamilton & Waikato

Tourism have already exceeded their annual budget by some 20%. This is just one of several annual targets already achieved in the first six months of the June 2019 financial year.

Outlook for remainder of the year end beyond

The success of all three businesses in our group over the past six months have contributed to the double digit revenue and earnings growth compared to the same time last year. What the results do not however reflect is the significant milestones made in the foundation of several key strategic initiatives that will shape the future of the Group over the course of the next decade and beyond.

Airport

During the past twelve months the Airport has completed a consultation process with its major aviation customer Air New Zealand as part of the regulatory process to set its aeronautical charges for the coming three years through to December 2021. Aeronautical charges, which include landing charges applicable to all aircraft, small and large alike; and a terminal levy applicable for airline passengers were last revised in 2013 following the withdrawal of international air services.

The Group will begin to realise (approximately) an extra $1.5 million per annum in revenue as a result of the revised charges, this being in addition to the organic growth expected from continued increases in passenger numbers passing through the terminal. These charges do not result in any increased operational costs to the Airport however they do obligate the Airport to invest in some specific capital projects which are not a significant departure from the existing 10 year plan. Charges at these levels now mean the Airport is on track to achieving a commercial scale return on its aeronautical assets.

Property

The second half of the June 2019 financial year will see the Group complete the purchase of the Hamilton Airport Hotel and Conference Centre. The buildings were acquired in January 2018 and continue to be leased back to the incumbent operator. At the time of authoring this report, the Group is in the final stages of signing an agreement with a nationally recognised operator to take over the hotel in mid-2019. To secure an operator of this calibre, WRAL has made a commitment to spend approximately $4 million on a comprehensive refurbishment and upgrade, both internally and externally, that will see the Hotel brought up to a Qualmark 4 Star standard in keeping with the operator’s brand standards and a level of investment that optimises our return on the property while best meeting the demand in the region for higher quality accommodation.

Titanium Park is reaching a tipping point in its long term strategy. The successes of the industrial park development and land sale model have been covered earlier in this report however the next step for Titanium Park is to move to being a property investor through design/build to lease opportunities. Levels of strong and positive inquiry continue to accelerate, including from some national and global brand names looking to establish themselves in the Waikato or move within the region to a future-proofed and central location.

Tourism

The second half of the year will see the wider scale roll out of the Mighty Waikato regional visitor brand identity. The organisation will continue its work as an advocate for investment in local tourism and as a central organisation in the local industry with advice and support being provided for new accommodation facilities and tourism experiences and operators.

Hamilton & Waikato Tourism are also assisting in supporting Provincial Growth Fund applications for local tourism businesses and expect this activity to increase in the second half of the current financial year.

Overview

At our last Annual General Meeting we presented our ten year strategic plan to shareholders. We are halfway through the first year of this, and have already met and actually exceeded a number of critical milestones set for the first two years across all aspects of Airport, Property and Tourism. The positive outlook for the remainder of the year and into the coming financial year further indicates that the key initiatives across the group are on track and we expect these will be executed successfully.

John Spencer
Chairman

Hamilton Airport

FINANCIAL STATEMENTS

Consolidated Statement of Comprehensive Revenue & Expense

For the six months ended 31 December 2018

	GROUP $000	
	2018	**2017**
REVENUE		
Operating revenue	4,678	4,204
Land Sales	1,121	32
Other gains/(losses)	75	-
Total Revenue	**5,874**	**4,236**
EXPENSES		
Cost of land sales	812	41
Employee benefit expenses	1,191	1,134
Depreciation and amortisation expense	1,234	1,210
Operating expenses	1,633	1,347
Directors' fees	119	130
Finance costs	263	235
Total Expenses	**5,252**	**4,097**
Surplus Before Tax	**622**	**139**
Income tax expense	193	53
Surplus After Tax	**429**	**86**
Other Comprehensive Revenue		
Gain on property revaluation	-	-
Total Other Comprehensive Revenue and Expense	-	-
Total Comprehensive Revenue and Expense	**429**	**86**

The above results have not been audited.

Hamilton Airport

FINANCIAL STATEMENTS

Consolidated Statement of Financial Position

As at 31 December 2018

	GROUP $000 2018	2017*
ASSETS		
Current Assets		
Cash and cash equivalents	56	77
Receivables	602	449
Inventories	95	95
Prepayments	82	77
Development property	9,220	9,345
Total Current Assets	**10,055**	**10,043**
Non-Current Assets		
Property, plant and equipment	74,477	76,571
Intangible assets	814	979
Investment property	21,503	15,307
Other non-current assets	60	69
Total Non-Current Assets	**96,854**	**92,926**
Total Assets	**106,909**	**102,970**
LIABILITIES		
Current Liabilities		
Payables and accruals	1,262	812
Employee benefit liabilities	230	238
Revenue in advance	137	195
Total Current Liabilities	**1,629**	**1,245**
Non-Current Liabilities		
Term loans	12,680	11,248
Deferred tax liabilities	7,326	7,783
Total Current Liabilities	**20,006**	**19,031**
Total Liabilities	**21,635**	**20,276**
Net Assets	**85,274**	**82,694**
Equity		
Share capital	14,860	14,860
Retained earnings	23,822	21,100
Dividend to shareholders	(250)	(200)
Other reserves	46,842	46,934
Total Equity	**85,274**	**82,694**

The above results have not been audited. The balance sheet as at 31 December 2017 has been restated in line with the adjustment refered to in Note 26 of the 30 June 2018 annual report.

Hamilton Airport

PERFORMANCE REPORTING

Performance against Statement of Intent

For the six months ended 31 December 2018

MEASURES (all amounts $000)	Actual 31 Dec 2018	Forecast 30 Jun 2019	SOI 30 Jun 2019
Earnings before interest, taxation & depreciation (EBITDA) excluding land sales	1,736	3,845	3,400
Net surplus/(deficit) after tax	429	1,340	127
Net operating cash flow	814	2,374	1,900
Net investing cash flow	(412)	(1,570)	(4,300)
Total debt	12,680	13,290	18,000
Total liabilities/shareholders' funds (debt/equity ratio)	25:75	26:74	35:65
Shareholders' funds to total assets	20:80	21:79	26:74
Percentage of non-landing charges revenue to total revenue	76%	80%	74%
Interest cover	6.60	6.25	4.00

The above results have not been audited.

Hamilton Airport

CORPORATE DIRECTORY

For the six months ended 31 December 2018

Board of Directors	John Spencer CNZM (Chair) Annabel Cotton Carlos da Silva Margaret Devlin
Chief Executive	Mark Morgan
Chief Executive, Hamilton & Waikato Tourism	Jason Dawson
Group Finance & Corporate Services Manager	Scott Kendall
General Manager Operations	Simon Hollinger
Group Property Manager	Dion Merson
Commercial, Growth & Markeitng Manager	Rebecca Corbett
Registered Office	Hamilton Airport Terminal Building Hamilton Airport Airport Road, R D 2 Hamilton 3282
Telephone	07 848 9027
E-mail	wral@hamiltonairport.co.nz
Auditors	Audit New Zealand, Tauranga on behalf of the Controller and Auditor-General
Solicitors	Ellice Tanner Hart, Hamilton
Bankers	Bank of New Zealand
Website address	www.hamiltonairport.co.nz

Hamilton Airport

Attachment 2

Item 10

Waikato Regional Airport Limited

Draft Group Statement of Intent

2019/2020

February 2019

1.0 Introduction

This statement is presented by the Directors in accordance with s.64 (1) of the Local Government Act 2002 and sets out the Board's intentions for the Company and Group for the year ending 30 June 2020 and succeeding two financial years.

2.0 Strategic Intent

The Group 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 of Waikato Regional Airport Limited

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

Key Objectives of the Group ***(incorporating Titanium Park Limited, Hamilton & Waikato Tourism Limited and a proposed new entity to operate the current Hamilton Airport Hotel & Conference Centre business***

1. Operate an efficient, compliant, and resilient airport.
2. Enhance the traveller experience.
3. Maintain a viable aeronautical business.
4. Maximise revenue diversification through non-aeronautical business opportunities.
5. Develop and optimise the land holdings of the Group to generate a long-term property income from a diversified property portfolio.
6. Complete a major refurbishment of the Hotel facilities to achieve a Qualmark 4 star accreditation
7. To promote the Hamilton & Waikato region as an appealing destination to international and domestic visitors.
8. Deliver the regional major events strategy

3.0 In Pursuing its Goals the Group will:

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

4.0 Nature and Scope of Activities to be Undertaken

(4.1) Operate an efficient and compliant airport

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

(4.2) Enhance the traveller experience

Maximise traveller satisfaction and airport experience.

(4.3) Maintain a viable aeronautical business

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

Promote development and growth of the general aviation sector.

Remain cognisant of the runway extension designation that will expire in 2026.

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

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

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

TPL will continue marketing for sale, development and optimised investment, all available surplus airport-owned land in a planned and co-ordinated approach.

Land sales and property development are always subject to volatility dependent on regional and national economic conditions. Therefore, this presents a degree of risk for the Group that will be carefully managed through the staged precinct developments of Titanium Park.

Complete the refurbishment of the Hamilton Airport Hotel & Conference Centre to a Qualmark 4 star standard

Deliver on the major events strategy to attract and secure additional major tourism events to the Waikato region and increase industry partnership investment into local tourism.

(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) Key capital and investment projects and initiatives for the year ending 30 June 2020

4.6.1 Complete an upgrade of the airport terminal to ensures the terminal meets all regulatory requirements, remains fit for purpose and responsive to growing domestic passenger traffic.

4.6.2 Development and improvement of roading and underground services infrastructure on the eastern side of the airport precinct to ensure the Group can continue to develop Titanium Park and the terminal is serviced by modern infrastructure that is optimal to forecasted needs.

4.6.3 Upgrade and refurbishment of the Airport Hotel and Conference Centre property to a Qualmark 4 Star standard.

4.6.4 Develop a masterplan for Titanium Park's proposed Northern Precinct development (current site of the WRAL Farm) and prepare a private plan change submission to Waipa District Council to future proof development options.

5.0 Performance Targets

The following annual performance targets are proposed for Waikato Regional Airport Limited in relation to its core purpose and key objectives.

Years ending 30 June	**2020**	**2021**	**2022**
5.1 Shareholders' funds to total assets *a minimum of*	65%	65%	65%

Definitions:
Shareholders' funds: Total assets less the total liabilities.
Total assets: The value of all assets reported in the Group's statement of financial position at the end of each reporting period.

	Year Ending 30 June		
Based on the Group forecasts	**2020**	**2021**	**2022**
5.2 .1 Earnings before interest, taxation & depreciation (EBITDA) but excluding land sales *of at least*	$4,500,000	$5,000,000	$5,200,000
5.2.2 EBITDA including land sales *of at least*	$5,500,000	$5,000,000	$6,500,000
5.3 Net profit after tax *of no less than*	$1,200,000	$1,200,000	$1,200,000
5.4 Net operating cash flow (excluding land sales)	$3,000,000	$3,250,000	$3,500,000

Total debt, excluding funding for design-build properties, *not exceeding*	$25,000,000	$25,000,000	$25,000,000
5.4 Total liabilities/shareholders' funds (debt/equity ratio) *a maximum of*	35:65	35:65	35:65
5.5 Net profit after tax to total shareholders funds	1.0%	1.0%	1.5%
5.6 Net profit after tax to total assets	1.3%	1.3%	1.7%
5.7 Percentage of non-landing charges revenue *of at least*	60%	60%	60%
5.8 Land sales *of at least*	$2,500,000	$600,000	$4,000,000
5.9 Interest cover *of at least* *(The interest cover measures the number of times the net profit before interest, tax and depreciation (EBITDA) covers interest paid on debt.)*	4.0x	4.0x	4.0x
Non-financial performance targets			
5.10 Health, Safety & Well being			
5.10.1 Facilitate Health & Safety meetings every 2 months with representatives from each company department			
5.10.2 Zero Work Safe notifiable accidents/injuries			
5.10.3 Independently review and audit the Health and Safety system each year.			
5.11 Operational Compliance			
5.11.1 To achieve the Airport Certification Standards as required by the Civil Aviation Authority and as evidenced by Civil Aviation Authority audit reports			
5.11.2 Ensure airport is operationally available for all scheduled passenger services (except for uncontrollable events)			
5.11.3 Facilitate noise management meetings every 4 months in accordance with the Noise Management Plan			
5.12 Property (Titanium Park Limited)			
5.12.1 Finalise subdivision plans for the 4th Stage of Titanium Park's Central Precinct			
5.12.2 Develop a masterplan for Titanium Park's Northern Precinct and prepare a private plan change submission to Waipa District Council.			
5.13 Tourism (Hamilton & Waikato Tourism Limited)			
5.13.1 Achieve 5% growth in visitor nights and visitor expenditure (as measured by key MBIE Tourism statistics)			

5.14	Hotel Operation
5.14.1	Complete a refurbishment program (both internally and externally) that will allow the hotel to be accredited to a Qualmark 4 Star standard.

6.0 Statement of Accounting Policies

The accounting policies adopted by the Group for the year ending 30 June 2020 and succeeding 2 years are those as adopted in the 2018 Annual Report prepared under Tier 2 of the Public Benefit Entity Standards Reduced Disclosure Regime (PBE Standards RDR). The impact of accounting standards changes is not expected to have a material impact on the Group's financial statements or their comparability with previous periods.

7.0 Dividend Policy

WRAL Directors will review any proposal for payment of a dividend based on the forecast Cash Flow for the following year and propose to make a decision in the last quarter of the financial year ending 30 June 2020.

8.0 Information to be provided to Shareholders

8.1 The Annual Report of the Company and Group.

8.2 An Interim Report circulated to Shareholders each half-year including a Chair's Report, Consolidated Income Statement, Consolidated Balance Sheet and progress against Financial Performance Targets.

8.3 Shareholder Briefings held at least twice annually

9.0 Future Investment Proposals

If the Group 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.

10.0 Commercial Value of the Shareholders Investment

No valuation of shares has been completed.

The consolidated balance sheet of WRAL as at 30 June 2018 shows shareholder equity of $84m based on recent independent valuations of the Group's property, plant and equipment and investment properties. The Group forecasts its 30 June 2020 shareholder equity on the same basis to be $87m.

11.0 Compensation from Local Authorities

There are no known activities of the Company or Group for which the Directors would seek compensation from any local authority.

12.0 Major Transactions

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

(a) the acquisition of, or an agreement to acquire (whether contingent or not), assets the value of which is more than 10% of the value of the Company's assets before the acquisition; or

(b) the disposal of, or an agreement to dispose of (whether contingent or not), assets the value of which is more than 10% of the value of the Company's assets before the disposition; or

(c) a transaction which has or is likely to have the effect of the Company acquiring rights or interests or incurring obligations or liabilities, the value of which is more than 10% of the value of the company's assets before the transaction;

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

13.0 Health and Safety & Wellbeing

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

Council Report

Item 11

Committee:	Finance Committee	**Date:**	09 April 2019
Author:	Tracey Musty	**Authoriser:**	David Bryant
Position:	Financial Controller	**Position:**	General Manager Corporate
Report Name:	Civic Financial Services Ltd Statement of Intent and Annual Report to 31 Decemebr 2018		

Report Status	*Open*

Purpose

1. To inform the Finance Committee of Civic Financial Services Limited's Annual Report to 31 December 2018.
2. To seek approval of the Civic Financial Services Limited's Draft Statement of Intent 2019/2020.

Staff Recommendation

That the Finance Committee:

a) receives the report; and

b) approves the Civic Financial Services Limited's Draft Statement of Intent 2019/20.

Financial Considerations

3. There are no financial considerations related to this matter.

Legal and Policy Considerations

4. There are no legal or policy considerations related to this matter.

Cultural Considerations

5. There are no cultural considerations related to this matter.

Sustainability Considerations

6. There are no sustainability considerations related to this matter.

Risks

7. There are no risk considerations related to this matter.

Item 11

Significance & Engagement Policy

Significance

8. Having considered the Significance and Engagement Policy, staff have assessed that the matter in this report is of low significance.

Engagement

9. Given the low level of significance there is no requirement for public engagement.

Attachments

Attachment 1 - Civic Annual Report 2018

Attachment 2 - Civic 2019 Statement of Intent .

Civic Financial Services Ltd
SERVICING LOCAL GOVERNMENT ACROSS NEW ZEALAND

Item 11

ANNUAL REPORT 2018

Attachment 1

ANNUAL REPORT AND STATEMENT OF ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2018

Your Directors have pleasure in submitting the 58th Annual Report of the affairs of the Company (formerly New Zealand Local Government Insurance Corporation Ltd trading as Civic Assurance) for the year ended 31 December 2018, which is to be presented at the Annual General Meeting of Members in June 2019.

1. PERFORMANCE

Civic's before-tax profit in 2018 was $1,196,342 (2017: $30,812).

This compares favourably to the forecasted surplus of $447,954 as set out in the 2018 Statement of Intent.

This is primarily due to an increase in administration income of $114,000, lower than anticipated administration expenses of $244,000 and the uplift in value associated with the completed portion of seismic strengthening work of $352,000 included in the latest valuation of Civic Assurance House.

2. OPERATIONS

Administration Services

Fees in 2018 from providing services to LAPP, Riskpool and the SuperEasy and SuperEasy KiwiSaver Superannuation Schemes were $2,792,697 (2017: $2,750,037).

Investment Revenue

Income from investments was $262,878 (2017: $173,515). Income from Civic Assurance House was $885,736 (2017: $808,771).

Civic Assurance House

At the Special General Meeting on 5 October 2017 held in Wellington our shareholders voted in favour of the resolution to sell Civic Assurance House.

As part of the sales pack we had requested an updated seismic assessment review before taking the building to market.

The ongoing seismic assessment review identified there was strengthening work required for the non-structural south and west boundary walls of Civic Assurance House. Having taken professional advice your Board decided to complete this work prior to taking the building to market. This work will be completed by 31 March 2019 at which time the building will be put on the market with an expected NBS rating of 70%.

Payment of Special Dividend

As communicated in the Statement of Intent in April of last year, if a satisfactory price for the building can be obtained the proceeds net of selling costs will be distributed to shareholders via a special dividend. It is felt that having undertaken the necessary work to obtain an earthquake NBS rating of 70% for the building will result in increased buyer interest when the property is placed on the market.

Timeline of the sale process

We have been advised the best time to take the property to market is after the strengthening work is complete and we are delivering a complete package with an NBS rating of 70%. This strengthening work will be completed by 31 March 2019.

Following through a sales and marketing campaign, and then negotiation and settlement period we expect we could be paying out the special dividend to our shareholders sometime during the third quarter of 2019.

Loan from ANZ Bank

Civic has entered into a loan arrangement whereby it borrowed an amount of $4 million on 15 November 2018 from the ANZ Bank which is to be repaid on 15 August 2019. Civic has lent the same amount of $4 million to Local Government Mutual Funds Trustee Limited (Riskpool) by way of a secured loan facility agreement on commercial terms, which is to be repaid to Civic by the end of July 2019.

Sponsorship and Support for the Sector

The Company continues as a sponsor of SOLGM (Society of Local Government Managers) events both at a regional and national level.

3. ASSOCIATED ENTITIES

Local Government Superannuation Trustee Limited

Local Government Superannuation Trustee Limited (LGST) is a 100% subsidiary of Civic and is the trustee to the SuperEasy and SuperEasy KiwiSaver Superannuation

Schemes. Both are administered by Civic and from 1 April 2016 both have been registered with the FMA (Financial Markets Authority). Director appointments to LGST are made by LGNZ (two), Civic (one), CTU (one), SOLGM (one) and one, who must be a Licensed Independent Trustee, by the LGST Board.

The SuperEasy schemes feature low member charges and simple administration for councils. Both make use of passive fund managers, which as well as allowing lower member fees removes the possibility of a fund manager making a bad call, which is something that can happen at any time.

The SuperEasy schemes also offer an '*Automatic Fund*', in which each member's risk exposure is gradually and automatically switched from growth assets to income assets as the member gets older.

Superannuation funds under management as at December 2018 were $340 million (December 2017: $323 million) and the combined membership 10,399. SuperEasy's fund managers are AMP Capital Investors (New Zealand) Ltd and ANZ New Zealand Investments Ltd. Of the councils that have a preferred provider for KiwiSaver, 94% have appointed Civic (70 out of 74 councils).

The SuperEasy website is www.supereasy.co.nz.

LAPP Disaster Fund

LAPP is a charitable trust that was set up by LGNZ and Civic in 1993. LAPP's membership is 22. It could be said that LAPP is New Zealand's original LASS (Local Authority Shared Services).

LAPP was designed to cover back-to-back major disasters and this is what happened of course with the Canterbury earthquakes in 2010 and 2011. LAPP settled the claims from Waimakariri District Council and Christchurch City Council for damage to their underground assets with a total payout of $217 million (excluding GST). LAPP's highest claim before this was just over $5 million for claims arising from the 2004 Manawatu floods.

LAPP extended its cover arrangement from two events to three events from July 2017.

LAPP is currently managing the Kaikoura-Hurunui earthquake claims involving the Kaikoura, Hurunui and Marlborough District Councils. LAPP has settled its claims with Kaikoura and Marlborough District Councils, and is making good progress towards settling with Hurunui District Council.

Civic is the administration and fund manager for LAPP. LAPP's website is: www.lappfund.co.nz.

Riskpool/Civic Liability Pool (CLP)

Riskpool provides public liability and professional indemnity cover for councils and has done so since 1997. It is not a company, but a mutual liability fund governed by a trust deed. CLP is similar to Riskpool, but has no facility for calls. For the fund year ending 30 June 2017 Riskpool/CLP had 31 members.

As support had dropped off in recent years to this low level Riskpool could no longer offer the competitively priced cover and risk management services that it had provided over the previous 20 years.

As a result Riskpool/CLP decided to no longer provide cover after 30 June 2017 and will therefore be in run-off mode for at least the next three to five years.

Local Government Mutual Funds Trustee Limited (LGMFT) is the trustee of Riskpool and CLP. Civic is the Fund Manager and Scheme Manager for Riskpool and Administration Manager for CLP.

Civic has entered into three arm's length, secured loan facility agreements on commercial terms with Local Government Mutual Funds Trustee Limited to enable Riskpool to manage its cashflows.

Riskpool members were advised in October 2018 that due to deteriorating claims experience in 2017-18 that Riskpool needs to make at least one interim call before a final call is made on wind up. The call will be $6 million payable on 1 July 2019, split $3 million each to fund years 7 and 10.

A final call from Riskpool is likely in 2023 or 2024. It is expected that the amount of that call will be less than the current call.

4. DIRECTORS

As at 31 December 2018 there were six directors: M.A. Butcher, A.T. Gray, M.C. Hannan, A.J. Marryatt, J.B. Melville and B.J. Morrison. The Company's constitution allows for up to six directors of which at least two are to be appointed from outside the local authority sector.

Director attendances at Board meetings held in 2018:

Mark Butcher	6 / 6
Tony Gray	6 / 6
Mike Hannan	6 / 6
Tony Marryatt	4 / 6
John Melville	5 / 6
Basil Morrison	6 / 6

The Chairmen of each of the Board and the Risk and Audit Committee are elected at the first meeting held after each year's AGM.

Section 139 of the Companies Act 1993

All Civic directors are directors of LGMFT except Mark Butcher who resigned from LGMFT in February 2017 to ensure that one Civic director was independent of LGMFT. Subsequently there are three secured loan facility agreements that have been entered into between the Company and LGMFT whereby Civic loans LGMFT up to $2,250,000 under each of two separate loans, and one loan for a fixed amount of $4 million, all at commercial interest rates to assist with Riskpool's cashflows.

There are no other notices required under section 139 of the Companies Act 1993 except for Directors' remuneration. Changes to the Directors' fee pool are approved by shareholders at an AGM. The Board determines the allocation per Director based on the duties of the individual Director. The Director fees for subsidiary companies are set by the Parent Company Board. For the year ended 31 December 2018, Directors' remuneration was:

Mark Butcher	$15,113
Tony Gray	$15,113
Mike Hannan	$15,113
Tony Marryatt	$30,224
John Melville	$22,668
Basil Morrison	$15,113
	$113,344

In addition, the following Directors received director fees in relation to their directorships of Riskpool or LGST:

Tony Gray	(Riskpool)	$8,310
Mike Hannan	(Riskpool)	$8,310
Tony Marryatt	(Riskpool)	$16,620
John Melville	(Riskpool)	$8,310
Basil Morrison	(Riskpool, LGST)	$18,844
		$60,394

Interests Register

Directors' interests are tabled at the beginning of each Board meeting. Directorship and other disclosures as at 31 December 2018 were:

M.A. Butcher — Chief Executive of Local Government Funding Agency Ltd; Chair of New Plymouth District Perpetual Investment Fund Guardians Ltd; Member of SuperEasy KiwiSaver Superannuation Scheme; Member of the Nominating Committee for the Guardians of NZ Superannuation Fund: Chair of Waikato – Tainui Group Investment Committee; Trustee of Civic Property Pool.

A.T. Gray — Eastland Group Ltd including Gisborne Airport Ltd, Eastland Port; Eastland Network Ltd; Chair of Ngati Pukenga Investments Ltd; Maungaharuru - Tangitu Ltd; Executive Project Advisor to Hastings District Council; Artemis Nominees Ltd; Quality Roading and Services (Wairoa) Limited; Local Government Mutual Funds Trustee Ltd; Trustee of Civic Property Pool; a party to agreements for finance with the LGMFT.

M.C. Hannan — Trustee of Civic Property Pool; Director of Local Government Mutual Funds Trustee Ltd; a party to agreements for finance with the LGMFT.

A.J. Marryatt — Chair of Local Government Mutual Funds Trustee Ltd; AJM Holdings Ltd; Trustee of Civic Property Pool; Member of SuperEasy KiwiSaver Superannuation Scheme; a party to agreements for finance with the LGMFT.

J.B. Melville — Trustee of Civic Property Pool; Director of Local Government Mutual Funds Trustee Ltd; a party to agreements for finance with the LGMFT.

B.J. Morrison — Chairman of Local Government Superannuation Trustee Ltd; Basil J Morrison & Associates Ltd; Member of SuperEasy KiwiSaver Superannuation Scheme; Trustee of Civic Property Pool; Director of Local Government Mutual Funds Trustee Ltd; Waitangi Tribunal Member; Independent Hearings Commissioner for Auckland Council; Thames-Coromandel District Council Hearings Panel; Waikato Regional Council Hearings Commissioner; Accredited Commissioner – RMA; a party to agreements for finance with the LGMFT.

DIRECTORS' REPORT

The Company provides Directors and officers with, and pays the premiums for, Directors' and Officers' liability insurance to the full extent allowed for, and in accordance with the requirements of the Companies Act 1993. The renewal of the Company's Directors' and Officers' liability insurance was entered in the Interests Register pursuant to sections 162 and 163 of the Companies Act 1993. This insurance does not cover liabilities arising from criminal actions or deliberate and reckless acts or omissions by the Directors. The cover includes indemnity of costs and expenses incurred in defending an action that falls within the scope of the indemnity.

Conduct of the Board and Board Committee

The Board has put in place and regularly reviews a number of good governance policies including Charters for the Board and the Risk and Audit Committee, Fit and Proper Policy, Code of Conduct, and a Risk Management Plan.

Use of Information

Directors, individually or collectively, may obtain independent professional advice relating to any matters concerning the Company's business or in relation to the discharge of the Director's responsibilities. Subject to approval of the Chairman the Company will reimburse the Director(s) some or all of the reasonable costs of the advice. During the reporting period, no Director has sought leave to obtain such advice.

Loans to Directors

No loans or advances have been made to Directors, their spouses or dependants, or to related parties during the year.

5. EMPLOYEE REMUNERATION

Detailed below is the number of employees who received remuneration in their capacity as employees of $100,000 or more during the year ended 31 December 2018.

Remuneration	Number of Employees
$110,000 - $120,000	1
$170,000 - $180,000	1
$200,000 - $210,000	1

The above remunerations include Company contributions to employees' superannuation (KiwiSaver and other), medical insurances and discretionary bonus payments.

6. AUDIT AND RISK MANAGEMENT

Pursuant to Section 15 of the Public Audit Act 2001 the Company's auditor is the Auditor General who has appointed Silvio Bruinsma using the staff and resources of Deloitte Limited to carry out the audit on his behalf.

The Risk and Audit Committee (RAC) comprises the full Board. John Melville is the Chairman of this committee. RAC met five times in 2018: the Auditor attended two of those meetings and a part of one of those meetings was held without management present.

7. DONATIONS

No donations have been made during the year by any Company in the Group (2017: $0).

8. STAFF

We sincerely thank the staff for their work during the year. They are: Caroline Bedford, Ian Brown, Chathuri Mendis, Sylvia Jackson, Tim Sole, Mersina Toulis, Bas van Laanen, and Glenn Watkin.

Tony Marryatt **Chairman**
March 2019

DIRECTORY

DIRECTORS

Anthony (Tony) J. Marryatt (Chairman)
Mark A. Butcher
Anthony (Tony) T. Gray
Michael C. Hannan
John B. Melville
Basil J. Morrison CNZM JP

EXECUTIVE OFFICERS

Chief Executive : Ian Brown
Chief Operating Officer : Caroline Bedford CPA

AUDITORS

The Auditor General, who has appointed Silvio Bruinsma, Deloitte Limited to carry out the audit on his behalf

BANKERS

ANZ Banking Group (New Zealand) Limited

LEGAL ADVISERS

Brandons
Kensington Swan

COMPANY REGISTRATION NO: 13271

REGISTERED OFFICE

Level 9, Civic Assurance House, 116 Lambton Quay, Wellington 6011

POSTAL ADDRESS

Civic Financial Services Ltd, PO Box 5521, Wellington 6140

OTHER CONTACT DETAILS

Telephone	(04) 978 1250
Facsimile	(04) 978 1260
Email	admin@civicfs.co.nz
Website	www.civicfs.co.nz

The Company is a participant in the Insurance & Financial Services Ombudsman Scheme (Inc)
Participant Number 2000427

Statement of Accounts

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	NOTE	2018 $	2017 $
REVENUE			
Administration Fees		2,792,697	2,750,037
Interest Income	4	262,878	173,515
Property Income		885,736	808,771
Other Income	15	202	120,355
Total Revenue		3,941,513	3,852,678
EXPENDITURE			
Audit Fee			
Statutory Audit of the Financial Statements		109,779	114,317
Other Fees Paid to Auditors Re Assurance Services		27,500	41,358
Other Fees Paid to Auditors Re Tax Compliance		30,500	22,550
Compliance Costs		110,085	110,899
Consultants		47,936	85,020
Depreciation	6	46,134	38,609
Amortisation	6	246	406
Directors' Remuneration	3	113,344	133,594
Interest Expense		9,429	-
Legal Fees		29,547	60,401
Property Operating Expenses		512,887	518,811
Other Expenses		989,600	977,958
Employee Remuneration	3	825,430	868,860
Superannuation Subsidies		25,824	51,040
Total Expenditure		2,878,241	3,023,823
Surplus Before Revaluation of Investment Property and Taxation		**1,063,272**	**828,855**
Net Change in Value of Investment Property	7	133,070	(798,043)
Surplus Before Taxation		**1,196,342**	**30,812**
Taxation Expense	10	298,891	186,932
TOTAL COMPREHENSIVE SURPLUS/(DEFICIT) AFTER TAX ATTRIBUTABLE TO OWNERS OF THE COMPANY	14	**897,451**	**(156,120)**

This statement is to be read in conjunction with the notes on pages 11 to 29.

Civic Financial Services Limited

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

	NOTE	2018 $	2017 $
SHAREHOLDERS' EQUITY			
Issued and Paid-Up Ordinary Shares			
Ordinary Shares fully paid up	14	10,763,506	10,763,506
Retained Earnings	14	7,181,545	6,284,094
TOTAL EQUITY		**17,945,051**	**17,047,600**
Represented By:			
CURRENT ASSETS			
Cash & Cash Equivalents		3,414,025	1,702,397
Term Deposits		1,200,000	3,500,000
Sundry Debtors and Prepayments	12	787,885	728,100
Loan Receivable	13	6,086,844	1,109,874
Income Tax Receivable	10	3,580	3,580
Total Current Assets		11,492,334	7,043,951
NON CURRENT ASSETS			
Property, Plant and Equipment	6	165,120	189,831
Intangible Assets (Software)	6	89,000	89,246
Deferred Tax Asset	10	2,786,961	3,085,852
Investment Property	7	7,777,583	7,175,000
Total Non Current Assets		10,818,664	10,539,929
TOTAL ASSETS		**22,310,998**	**17,583,880**
CURRENT LIABILITIES			
Sundry Creditors & Accrued Charges	12	204,028	150,901
Accrued Holiday Pay		45,228	42,853
Borrowings	13	4,000,000	-
CLP/ Riskpool Admin Fee Reserve		52,530	52,530
Total Current Liabilities		4,301,786	246,284
NON-CURRENT LIABILITIES			
CLP/ Riskpool Admin Fee Reserve		64,161	289,996
Total Non Current Liabilities		64,161	289,996
TOTAL LIABILITIES		**4,365,947**	**536,280**
EXCESS OF ASSETS OVER LIABILITIES		17,945,051	17,047,600

For and on behalf of the Directors:

TONY MARRYATT **Chairman**
15 March 2019

JOHN MELVILLE **Director**
15 March 2019

This statement is to be read in conjunction with the notes on pages 11 to 29.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2018

	NOTE	2018 $	2017 $
OPENING EQUITY		17,047,600	17,203,720
Total Comprehensive Surplus/(Deficit) Net of Tax		897,451	(156,120)
Ordinary Shares issued during the year	14	-	-
CLOSING EQUITY		**17,945,051**	**17,047,600**

This statement is to be read in conjunction with the notes on pages 11 to 29.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	NOTE	2018 $	2017 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Rent Received		889,802	808,516
Administration Fees Received		2,574,636	2,693,894
Other Income		202	179
Taxation (Paid)/Refunded		133	(5,390)
		3,464,773	3,497,199
Cash was applied to:			
Payments to Suppliers and Employees		2,838,687	3,382,809
		2,838,687	3,382,809
Net Cash Flow from Operating Activities	11	626,086	114,390
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from:			
Investment Income		76,150	91,914
Term Deposits		2,300,000	-
Loans Repaid from Related Parties		3,842,591	4,416,421
		6,218,741	4,508,335
Cash was applied to:			
Term Deposits		-	500,000
Purchase of Property, Plant and Equipment		21,423	39,285
Capital Additions to Investment Property		469,514	48,043
Loans Issued to Related Parties		8,790,242	5,512,974
		9,281,179	6,100,302
Net Cash Flow from Investing Activities		(3,062,438)	(1,591,967)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from:			
Loan Interest Received		157,409	68,280
Borrowings		4,000,000	-
		4,157,409	68,280
Cash was applied to:			
Interest Paid		9,429	-
		9,429	-
Net Cash Flow from Financing Activities		4,147,980	68,280
Net (Decrease)/Increase in Cash Held		1,711,628	(1,409,297)
Opening Cash Balance as at 1 January		1,702,397	3,111,694
Closing Cash Balance as at 31 December		**3,414,025**	**1,702,397**
Being: Cash & Cash Equivalents		**3,414,025**	**1,702,397**

This statement is to be read in conjunction with the notes on pages 11 to 29.

NOTE 1 REPORTING ENTITY

The reporting entity is Civic Financial Services Ltd (the "Company"), formerly known as New Zealand Local Government Insurance Corporation Ltd (trading as Civic Assurance). The Group comprises the Company and its subsidiaries listed in note 2 (b). The Group provides financial services principally for New Zealand local government and also provides property services. The Company provided insurance products to New Zealand local authorities until 31 December 2016 and subsequently opted to cancel its provisional insurance licence with the Reserve Bank of New Zealand. As a result this entity is not an FMC reporting entity from 17 January 2017.

Statement of Compliance

The Group is a Tier 2 Public Sector Public Benefit Entity and the financial statements have been prepared in accordance with and comply with Tier 2 Public Sector Public Benefit Entity (PBE) Standards.

NOTE 2 STATEMENT OF ACCOUNTING POLICIES

General Accounting Policies

The measurement and reporting of profits on a historical cost basis have been followed by the Group, except for specific policies as described below. The reporting currency is New Zealand dollars. The Group is no longer subject to the requirements under the Insurance (Prudential Supervision) Act 2010 as a provisional licence holder.

Critical Judgements and Estimates in Applying the Accounting Policies

In the application of the PBE Standards the Directors are required to make judgements, estimates and assumptions about the carrying value of assets and liabilities that are not readily apparent from other sources. These are based on historical experience and other various factors and are reviewed on an ongoing basis.

The Directors believe that, as at the date of these financial statements, there are no significant sources of estimation uncertainty that have not been disclosed in these notes. The most significant judgements, estimates and assumptions made in the preparation of these financial statements are in respect of the recognition of the deferred tax asset (Note 10) and the valuation of investment property (Note 7).

Particular Accounting Policies

The following particular accounting policies which materially affect the measurement of surplus and financial position have been applied. Further particular accounting policies are contained in the relevant notes to the financial statements.

(a) Consolidation of Subsidiaries

The Group financial statements incorporate the financial statements of the Company and its subsidiaries, which have been consolidated using the acquisition method. The results of any subsidiaries acquired or disposed of during the year are consolidated from the effective dates of acquisition or until the effective dates of disposal. All inter-company transactions, balances and unrealised profits are eliminated on consolidation.

(b) Investment in Subsidiaries

At 31 December 2018 the Company had four wholly owned subsidiaries which are all incorporated in New Zealand. Three of these, Local Government Superannuation Trustee Limited, SuperEasy Limited and Local Government Finance Corporation Limited with balance dates of 31 December and Local Government Mutual Funds Trustee Limited with its balance date of 30 June did not have any significant assets, liabilities, revenue or expenses during the years ended 31 December 2017 and 31 December 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 2 STATEMENT OF ACCOUNTING POLICIES CONTINUED

(c) Administration Fees

Administration fees are recognised at the agreed amounts based on time and expenses incurred. Administration fees collected during the year that will be utilised in future periods are held within the administration fee reserve on the Statement of Financial Position, until the point in time where administration services have been provided.

(d) Property Income

Property rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

(e) Employee Benefits

Provision is made for benefits accruing to employees in respect of wages and salaries and annual leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

(f) Basis of Measuring Other Income and Expenses

Income and expenses are accounted for on an accruals basis. All revenue is exchange revenue.

(g) Changes in Accounting Policies

There have been no material changes in the accounting policies during the year. All policies have been applied on bases consistent with those used in the prior year.

NOTE 3 KEY MANAGEMENT PERSONNEL AND RELATED PARTIES

The compensation of the Directors and executives, being the key management personnel of the Group, is set out below.

	2018	2017	2018	2017
	Number		$	$
Short term employee benefits				
Executive Management Personnel	3	3	479,523	537,194
Directors	6	6	113,344	133,594
			592,867	**670,788**

All related party transactions that the Group entered into during the year occurred within a normal client/supplier relationship and under terms equivalent to those that prevail in arm's length transactions in similar circumstances. Refer to Note 13 for information relating to loans with subsidiaries.

As at 31 December 2018 the Company had a loan receivable from New Zealand Mutual Liability Riskpool ("Riskpool") of $6,086,844 (2017: $1,109,874).

NOTE 4 FINANCIAL INSTRUMENTS

Accounting Policies:

i) *Classification and Measurement*

Financial instruments are transacted on a commercial basis to derive an interest yield / cost with the terms and conditions having due regard to the nature of the transaction and the risks involved. Financial instruments are recognised and accounted for on a settlement date basis.

Loans and Receivables

Other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate.

Bank and Cash Equivalents

Bank and cash equivalents are measured at amortised cost using the effective interest rate.

Financial Liabilities

Financial liabilities include Sundry Creditors, Accrued Charges and Subordinated Debt. Financial liabilities are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, liabilities are measured at amortised cost.

ii) *Offsetting Financial Instruments*

Financial assets and liabilities are not offset as there is no legally enforceable right to set-off.

iii) *Asset Quality*

Impairment of Financial Assets

Financial assets measured at amortised cost are reviewed at each balance date to determine whether there is any objective evidence of impairment. If any such condition exists, the asset's recoverable amount is estimated and provision is made for the difference between the carrying amount and the recoverable amount.

As at the date of these Financial Statements, no such evidence of impairment exists.

iv) *Fair Value of Financial Instruments*

Fair value measurements recognised in the Statement of Financial Position

Financial instruments are categorised into 3 levels:

- ***Level 1** fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;*
- ***Level 2*** fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- ***Level 3** fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).*

v) *Derivatives*

The Group do not use any derivative financial instruments.

NOTE 4 FINANCIAL INSTRUMENTS CONTINUED

Accounting Policies: continued

(1) Income Relating to Financial Assets

	2018 $	2017 $
Loans		
Interest Received – Loans	76,149	81,601
Cash & Cash Equivalents		
Interest Received – Short Term Deposits	186,729	91,914
Total Interest Income	**262,878**	**173,515**

(2) Financial Assets and Liabilities

The carrying amounts of all financial assets and liabilities are considered to be equivalent to their market value, which for these assets and liabilities is also considered to be fair value.

The Subordinated Debt is measured at amortised cost which is considered to be fair value.

All fixed interest investments were managed around a 90 day duration and carry a minimum Standard and Poors credit rating of "A" or equivalent.

Loans are secured against Riskpool's future contributions and repayable with six months notice (refer to Note 13).

NOTE 4 FINANCIAL INSTRUMENTS CONTINUED

(2) Financial Assets and Liabilities continued

Carrying value of Financial Assets and Financial Liabilities

	2018 $	2017 $
Financial Asset: Loans and Receivables		
Sundry Debtors	637,748	590,921
Loans	6,086,844	1,109,874
Total Loans and Receivables	**6,724,592**	**1,700,795**
Financial Asset: Amortised Cost		
Cash & Cash Equivalents	3,414,025	5,202,397
Financial Liability: Amortised Cost		
Sundry Creditors & Accrued Charges	204,028	150,901
Borrowings	4,000,000	-
Total Amortised Cost	**4,204,028**	**150,901**

(3) Financial Risk – Structure and Management

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern. The Group's overall strategy is reviewed annually and remains unchanged.

Financial instruments which potentially subject the Group to a concentration of credit risk consist principally of cash and interest bearing deposits. The Group has no debt liability instruments.

The Group does not require collateral or other security to support financial instruments with credit risk and as such, no collateral exists for any of the investments held by the Group. The maximum credit risk exposure is the carrying amount of the individual debtor and investment balances.

The Group has placed interest bearing deposits and funds to be managed with financial institutions and limits its amount of credit exposure to any one such institution.

(a) Market Risk

All financial assets and liabilities are New Zealand Dollar based and are recorded at amortised cost, therefore changes in interest rates and foreign currency values do not impact on their carrying value.

(b) Carrying Amount and Fair Value

The carrying amounts of all financial assets and liabilities are considered to be equivalent to their fair value.

NOTE 4 FINANCIAL INSTRUMENTS CONTINUED

(3) Financial Risk – Structure and Management continued

(c) Liquidity Risk

Liquidity Risk is the risk that the Group will encounter difficulties in raising funds at short notice to meet commitments associated with financial instruments. Management of liquidity risk is designed to ensure that the Group has the ability to meet financial obligations as they fall due.

The following tables include an analysis of the contractual undiscounted cash flows relating to the Group's financial assets and liabilities categorised by the maturity dates.

Maturity Analysis as at 31 December 2018

	Interest Rate Spread %	Within 6 months $	6 to 12 months $	1 to 2 years $	2 to 5 years $	Total $
Assets						
Cash & Cash Equivalents	0 to 3.45%	3,414,025	-	-	-	3,414,025
Term Deposits	3.05%	1,200,000	-	-	-	1,200,000
Other Receivables	n/a	637,748	-	-	-	637,748
Loans	4.71% to 6.28%	6,086,844	-	-	-	6,086,844
Total Financial Assets		**11,338,617**	**-**	**-**	**-**	**11,338,617**
Liabilities						
Sundry Creditors & Accrued Expenses	n/a	204,028	-	-	-	204,028
Borrowings	4.78%	-	4,000,000	-	-	4,000,000
Total Financial Liabilities		**204,028**	**4,000,000**	**-**	**-**	**4,204,028**

Maturity Analysis as at 31 December 2017

	Interest Rate Spread %	Within 6 months $	6 to 12 months $	1 to 2 years $	2 to 5 years $	Total $
Assets						
Cash & Cash Equivalents	0 to 3.45%	1,702,397	-	-	-	1,702,397
Term Deposits	2.10% to 3.45%	3,500,000	-	-	-	3,500,000
Other Receivables	n/a	590,921	-	-	-	590,921
Loans	5.13% to 5.15%	1,109,874	-	-	-	1,109,874
Total Financial Assets		**6,903,192**	**-**	**-**	**-**	**6,903,192**
Liabilities						
Sundry Creditors & Accrued Expenses	n/a	150,901	-	-	-	150,901
Total Financial Liabilities		**150,901**	**-**	**-**	**-**	**150,901**

NOTE 4 FINANCIAL INSTRUMENTS CONTINUED

(3) Financial Risk – Structure and Management continued

(d) Credit Risk

All investments are in the form of cash held at registered banks and loans. The registered banks have a credit rating of "A" or better. Loans are with Riskpool (refer to Note 13).

(i) Exposure to Credit Risk

	2018 $	2017 $
Cash & Cash Equivalents	3,414,025	1,702,397
Term Deposits	1,200,000	3,500,000
Other Receivables	637,748	590,921
Loans	6,086,844	1,109,874
Total	**11,338,617**	**6,903,192**

(ii) Concentration of Credit Exposure

94% of the Company's credit exposure is in the form of cash and term deposits held with registered banks and loans to Riskpool.

NOTE 5 OPERATING LEASE COMMITMENTS

	2018 $	2017 $
Operating Lease **Expense** Commitments:		
not later than one year	12,444	12,444
later than one year but not later than five years	29,035	41,478
	41,479	**53,922**
Operating Lease **Income** Commitments:		
not later than one year	792,940	823,306
later than one year but not later than five years	2,247,948	2,984,210
later than five years	96,562	285,729
	3,137,450	**4,093,245**

Operating lease income relates to a combination of office and retail tenancies to the Investment Property referred to in Note 7. The property is subject to a combination of multiple office and retail tenancies over varying lease periods.

NOTE 6 PROPERTY, PLANT & EQUIPMENT AND INTANGIBLE ASSETS

Accounting Policy:

Assets are depreciated on a straight line basis at rates calculated to allocate the assets' cost, in equal instalments over their estimated useful lives which are assessed and regularly reviewed.

Depreciation Rates	
Office Furniture and Equipment	up to 17 years
Intangibles – Software	5 years

	2018 $	2017 $
(a) Property, Plant and Equipment		
Office Furniture and Equipment – cost	669,274	629,989
Plus Additions	21,423	39,285
Less Disposals	-	-
Closing Value - cost	690,697	669,274
Office Furniture and Equipment - Accumulated Depreciation	(479,443)	(440,834)
Less Depreciation Charge	(46,134)	(38,609)
Less Disposals	-	-
Closing Accumulated Depreciation	(525,577)	(479,443)
Net Book Value	**165,120**	**189,831**

The Total Comprehensive Surplus/(Deficit) After Tax in the Statement of Comprehensive Income includes a $nil loss on disposal of fixed assets (2017: nil).

	2018 $	2017 $
(b) Intangible Assets		
Software - cost	519,453	519,453
Plus Additions	-	-
Less Disposals	-	-
Closing Value - cost	519,453	519,453
Software - Accumulated Amortisation	(430,207)	(429,801)
Less Amortisation Charge	(246)	(406)
Less Disposals	-	-
Closing Accumulated Amortisation	(430,453)	(430,207)
Net Book Value	**89,000**	**89,246**

NOTE 7 INVESTMENT PROPERTY

Accounting Policy:

Investment property is measured at fair value, by reference to an external market valuation (performed annually), with any resulting unrealised gain or loss recognised in the Statement of Comprehensive Income.

	2018 $	2017 $
Civic Assurance House, Lambton Quay, Wellington		
(a) Land and Building	7,150,000	7,900,000
Refurbishment	469,513	48,043
Increase/(Decrease) in value	133,070	(798,043)
Level 3 Fair Value	7,752,583	7,150,000
(b) Artwork valuation	25,000	25,000
Fair Value	25,000	25,000
	7,777,583	**7,175,000**

The Company has received preliminary advice that investigations and calculations as part of a seismic assessment review have highlighted an issue with unreinforced masonry in non-structural parts of the building and, under the Building (Earthquake-prone Buildings) Amendment Act 2016, the building is therefore potentially earthquake prone.

The Company has resolved to mitigate this risk and proceed with seismic strengthening with an expected completion date of 31 March 2019. Civic Assurance House is expected to achieve a 70% New Building Standard (NBS) rating when this strengthening work is completed. The investment property valuation has been obtained as at 30 October 2018 on an 'as if complete' basis in regards to the strengthening and asbestos works that are required to be completed. As at 31 December 2018 $352k had been spent on earthquake strengthening and $51k had been spent on asbestos works, with further works to be completed after 31 December 2018. The amount spent as at year end on the works has been added onto the valuers valuation of the property to reach the final fair value of the property.

The investment property is revalued every year. The investment property valuation as at 30 October 2018 was completed on 7 November 2018 by independent registered valuer Martin Veale (ANZIV, SPINZ) of the firm Telfer Young (Wgtn) Ltd. The property is valued in accordance with International Valuation Standards 2017. The Investment property is Level 3 fair value due to containing unobservable inputs.

The adopted market value has been established by consideration of the Income Capitalisation and Discounted Cashflow approaches. Major inputs and assumptions used in the valuation are rental income, capital expenditure, capitalisation rate and market rent per square metre, discount rate, occupancy and weighted average lease terms.

The Company borrowed $4,000,000 from the ANZ Bank with this loan secured over Civic Assurance House.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 7 INVESTMENT PROPERTY CONTINUED

Investment Property Metrics

	2018	2017
Average Growth Factor	1.52%	1.40%
Capitalisation Rate	8.00%	8.00%
Terminal Yield	8.00%	8.25%
Discount Rate	9.25%	9.25%
Rent per sqm	$368	$355
Occupancy (net lettable area)	94.22%	92.84%
Weighted average lease term (years)	1.90	2.00

NOTE 8 ANALYSIS OF FINANCIAL ASSETS NOT IMPAIRED

There are no financial assets that are impaired or past due at balance date (2017: $nil).

NOTE 9 CONTINGENT LIABILITIES

There are no contingent liabilities (2017: $nil).

NOTE 10 TAXATION

Accounting Policies:

i) Current Tax

The current income tax expense charged against the profit for the year is the estimated liability in respect of the taxable profit. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for the current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable). Tax assets are offset only when there is a legally enforceable right to set off the recognised amounts, and an intention to settle on a net basis.

ii) Deferred Tax

The liability method of accounting for deferred taxation is applied on a comprehensive balance sheet basis in respect of temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base of those items.

Deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Statement of Comprehensive Income.

iii) Goods and Services Tax (GST)

Revenue, expenses, assets and liabilities are recognised net of the amount of GST except:

- *When the GST incurred on a purchase of goods and services is not recoverable from the taxation authority the GST is recognised as part of the cost of the acquisition of the assets or as part of the expense item as applicable.*
- *Receivables and payables, which are stated with the amount of GST included.*

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 10 TAXATION CONTINUED

(a) Income tax recognised in the Statement of Comprehensive Income

	2018 $	2017 $
Tax expense comprises:		
Current tax expense	-	-
Adjustments recognised in the current year in relation to the current tax of prior years	-	(13,947)
Deferred tax relating to temporary differences	298,891	200,879
Total tax expense	298,891	186,932
Attributable to:		
Continuing operations	298,891	186,932
	298,891	**186,932**

The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

	2018 $	2017 $
Surplus before tax	1,196,342	30,812
Income tax calculated at 28%	334,977	8,628
Tax effect of permanent differences	(36,057)	192,251
Prior Period Adjustment	(28)	(13,947)
Income Tax Expense	**298,891**	**186,933**

NOTE 10 TAXATION CONTINUED

(b) Current tax assets and liabilities

	2018 $	2017 $
Tax refund receivable	3,580	3,580
	3,580	**3,580**

(c) Deferred tax balances

	2018 $	2017 $
Deferred tax assets comprise:		
Temporary differences	3,311,153	3,588,348
	3,311,153	3,588,348
Deferred tax liabilities comprise:		
Temporary differences	(524,191)	(502,496)
	(524,191)	(502,496)
Net Deferred Tax balance	**2,786,961**	**3,085,852**

NOTE 10 TAXATION CONTINUED

(c) Deferred tax balances continued

Gross taxable and deductible temporary differences for the Group arise from the following:

		Opening Balance $	Charged to Income $	Charged to Equity $	Prior Period Adjustment $	Closing Balance $
2018	Investment gains	-	-	-	-	-
	Building, property and equipment	(1,794,628)	(89,567)	-	12,086	(1,872,109)
		(1,794,628)	**(89,567)**	**-**	**12,086**	**(1,872,109)**
	Employee entitlements	40,265	867	-	-	41,132
	Losses carried forward	12,775,265	(978,865)	-	(11,987)	11,784,413
		12,815,530	**(977,998)**	**-**	**(11,987)**	**11,825,545**
	Attributable to:					
	Continuing operations	11,020,902	(1,067,565)	-	99	9,953,436
	Total	11,020,902	(1,067,565)	-	99	9,953,436
	Tax effect at 28%	3,085,852	(298,918)	-	28	2,786,961
2017	Investment gains	(40,315)	-	-	40,315	-
	Building, property and equipment	(1,698,639)	(95,989)	-	-	(1,794,628)
		(1,738,954)	**(95,989)**	**-**	**40,315**	**(1,794,628)**
	Employee entitlements	54,914	6,572	-	(21,221)	40,265
	Losses carried forward	13,372,556	(628,007)	-	30,716	12,775,265
		13,427,470	**(621,435)**	**-**	**9,495**	**12,815,530**
	Attributable to:					
	Continuing operations	11,688,516	(717,424)	-	49,810	11,020,902
	Total	11,688,516	(717,424)	-	49,810	11,020,902
	Tax effect at 28%	3,272,782	(200,877)	-	13,947	3,085,852

No liability has been recognised in respect of the undistributed earnings of subsidiaries because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

The deferred tax asset relating to tax losses carried forward has been recognised as the financial forecasts anticipate the Group maintaining sufficient profitability in future financial years (refer Note 19).

NOTE 10 TAXATION CONTINUED

(d) Imputation Credit Account

	2018 $	2017 $
Closing Balance	5,259,812	5,259,812

NOTE 11 RECONCILIATION OF COMPREHENSIVE INCOME AFTER TAX WITH CASH FLOW FROM OPERATING ACTIVITIES

Accounting Policy:

The Statement of Cash Flows is prepared exclusive of GST, which is consistent with the method used in the Statement of Comprehensive Income. The GST component of cash flows arising from investing and financing activities, which is recoverable from or payable to, the taxation authority is classified as operating cash flow.

The following are definitions of the terms used in the Statement of Cash Flows:

- *Bank comprises cash on hand and demand deposits.*
- *Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of Cash and which are subject to insignificant risk of changes in value.*
- *Cash flows are inflows and outflows of cash and cash equivalents.*
- *Operating activities are the principal revenue producing activities of the entity and other activities that are not investing or financing activities.*
- *Investing activities are the acquisition and disposal of long-term assets.*
- *Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.*

NOTE 11 RECONCILIATION OF COMPREHENSIVE INCOME AFTER TAX WITH CASH FLOW FROM OPERATING ACTIVITIES CONTINUED

	2018 $	2017 $
Total Comprehensive (Deficit)/Surplus	897,451	(156,120)
Add/(less) non cash items		
Loan Interest	(29,319)	(13,321)
Depreciation	46,134	38,609
Amortisation	246	406
Movement in CLP/ Riskpool Admin Fee Reserve	(225,835)	(43,879)
Movement in Deferred Tax Asset	298,891	186,932
Net change in fair value of investment property	(133,070)	798,043
Debt write-Off	-	(120,176)
	(42,953)	846,614
Add/(less) movements in other working capital items		
Sundry Debtors and Prepayments and Reinsurance Recoveries	(59,784)	(171,391)
Sundry Creditors and Accrued Charges	55,502	(241,936)
Tax Refund Due	-	(2,590)
	(4,282)	(415,917)
Add/(Less) Items Classified as Investing Activity	(76,150)	(91,914)
Add/(Less) Items Classified as Financing Activity	(147,980)	(68,273)
Net Cash Flow from Operating Activities	**626,086**	**114,390**

NOTE 12 SUNDRY DEBTORS AND CREDITORS

(a) Sundry Debtors and Prepayments

	2018 $	2017 $
Sundry Debtors	637,748	590,921
Prepayments	145,453	124,191
GST Receivable	4,684	12,987
Sundry Debtors and Prepayments	**787,885**	**728,099**

(b) Sundry Creditors and Accrued Charges

	2018 $	2017 $
Sundry Creditors and Accrued Charges	204,028	150,901
Sundry Creditors and Accrued Charges	**204,028**	**150,901**

NOTE 13 LOANS

Loan Receivable

Secured loan agreements between the Company and Local Government Mutual Funds Trustee Limited on behalf of New Zealand Mutual Liability Riskpool ("Riskpool") were entered into in February 2017, August 2017 and again in November 2018 to assist with Riskpool's cashflow. The amounts made available under the 2017 agreements were reduced in the current period to provide facilities of $2,250,000 each (2017: $3,000,000) and under the terms of the loans the interest rate is set as BKBM plus a margin. The November 2018 agreement provides a loan facility of $4,000,000. Under the terms of the loan agreement the interest rate is set at the ANZ Bank lending rate plus a margin. Riskpool may repay the loans and any interest at any time without penalty. The Company may at any time withdraw the facilities by notice in writing to Riskpool to that effect, from which time no further funds will be provided but without giving rise to a requirement for Riskpool to repay the outstanding balance of the loan. The Company may require repayment of the loans (including all interest) in full or in part at any time with six months' notice. Either party may terminate the agreements on six months' notice or any other such period that both parties agree to. On termination, the loan outstanding and any interest due to the date of repayment must be paid within the period of notice. The first loan including interest of $68,280 under the first agreement was repaid in full in October 2017. The loan outstanding at 31 December 2018 is $6,086,843.91.

Borrowings

The Company borrowed $4,000,000 from the ANZ Bank with this loan secured over Civic Assurance House.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

NOTE 14 SHAREHOLDERS' EQUITY

The Share Capital of the Group comprises solely authorised and issued ordinary shares with each share ranking equally in votes, dividends and surpluses. In 2017, there were no shares were issued. There were no shares issued during 2018.

	2018 $	2017 $
Retained Earnings		
Opening Balance	6,284,094	6,440,214
Net Surplus After Taxation	897,451	(156,120)
Closing balance	**7,181,545**	**6,284,094**
Shareholders Capital		
Opening Balance	10,763,506	10,763,506
Ordinary Shares issued during the year	-	-
Closing balance	**10,763,506**	**10,763,506**
Number of Ordinary Shares Fully Paid	**11,249,364**	**11,249,364**

NOTE 15 SUBORDINATED DEBT

New Zealand Local Government Finance Corporation Limited (NZLGFC) ceased active operations in February 2010 and was removed from the New Zealand Companies register on 25 September 2017. NZLGFC had total assets of $50,533 and total liabilities of $120,176 at 31 December 2016. On completion of the windup process during 2017, NZLGFC had no remaining assets available for distribution and was released from the remaining debt of $120,176. This amount is included in the Statement of Comprehensive Income in 2017. No impact in the current year.

NOTE 16 EQUITY RETAINED FOR FINANCIAL SOUNDNESS

All shareholder equity is retained to ensure the financial soundness of the Group. The cash is retained for cash flow purposes and to balance the funds allocated in the building investment.

NOTE 17 STANDARDS APPROVED BUT NOT YET EFFECTIVE

Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial report, one Standard and Interpretation was in issue that was relevant to the Group, but not yet effective.

Initial application of the following Standard is not expected to affect any of the amounts recognised in the financial report or change the presentation and disclosures presently made in or relation to the Group's financial report:

	Effective for annual reporting periods beginning on or after	*Expected to be initially applied in the financial year ending*
Revised NZ IFRS 9 'Financial Instruments'	1 January 2021	31 December 2021

NOTE 18 SUBSEQUENT EVENTS

There have been no material events subsequent to 31 December 2018 that require adjustment to or disclosure in the financial statements.

NOTE 19 CAPITAL COMMITMENTS

The Company has capital commitments at balance date totalling $431,527 (2017: $0) for contracts relating to the earthquake strengthening and asbestos works.

NOTE 20 GOING CONCERN

The financial statements have been prepared on a going concern basis.

The profitability of financial and property services supports the going concern assumption for Civic Financial Services Ltd as a whole. The deferred tax asset is reviewed regularly and at balance date against forecast profits and future business opportunities. The Directors believe that it is probable that sufficient taxable profits will be available in the future against which the unused tax losses can be utilised.

Deloitte.

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF CIVIC FINANCIAL SERVICES LIMITED'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

The Auditor-General is the auditor of Civic Financial Services Limited and its subsidiaries (the 'Group'). The Auditor-General has appointed me, Silvio Bruinsma, using the staff and resources of Deloitte Limited, to carry out the audit of the consolidated financial statements of the Group on his behalf.

OPINION

We have audited the consolidated financial statements of the Group on pages 7 to 29, that comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and notes to the consolidated financial statements that include accounting policies and other explanatory information.

In our opinion, the consolidated financial statements of the Group:

- present fairly, in all material respects:
  - its financial position as at 31 December 2018; and
  - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with Public Sector Public Benefit Entity Standards.

Our audit was completed on 15 March 2019. This is the date at which our opinion is expressed.

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

BASIS FOR OUR OPINION

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

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

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

RESPONSIBILITIES OF THE BOARD OF DIRECTORS FOR THE FINANCIAL STATEMENTS

The Board of Directors is responsible on behalf of the Group for preparing consolidated financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand. The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements that are free from material misstatement, whether due to fraud or error.

Deloitte.

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

The Board of Directors' responsibilities arise from the Companies Act 1993.

RESPONSIBILITIES OF THE AUDITOR FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

- We identify and assess the risk of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements, or if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Our responsibilities arise from the Public Audit Act 2001.

Deloitte.

INDEPENDENT AUDITOR'S REPORT *CONTINUED*

OTHER INFORMATION

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 1 to 5 but does not include the consolidated financial statements, and our auditor's report thereon.

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

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

INDEPENDENCE

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

In addition to the audit, we have carried out engagements in the areas of tax compliance and controls assurance, which are compatible with those independence requirements. Other than the audit and these engagements, we have no relationship with or interests in the Group.

Silvio Bruinsma
Deloitte Limited
On behalf of the Auditor-General
Wellington, New Zealand

Item 11

Attachment 1

Attachment 1

Item 11

CIVIC FINANCIAL SERVICES SHAREHOLDERS AS AT 31 DECEMBER 2018

SHAREHOLDER MEMBER	NO. OF SHARES	
CITY COUNCILS		
Auckland	2,195,042	19.51%
Christchurch	1,417,704	12.60%
Dunedin	470,966	4.19%
Hamilton	202,729	1.80%
Hutt	479,822	4.27%
Invercargill	407,927	3.63%
Napier	283,842	2.52%
Nelson	95,543	0.85%
Palmerston North	411,737	3.66%
Porirua	140,146	1.25%
Tauranga	124,242	1.10%
Upper Hutt	51,209	0.46%
Wellington	526,821	4.68%
DISTRICT COUNCILS		
Ashburton	56,016	0.50%
Buller	27,698	0.25%
Carterton	23,642	0.21%
Central Hawke's Bay	28,580	0.25%
Central Otago	91,238	0.81%
Clutha	33,711	0.30%
Far North	85,440	0.76%
Gisborne	99,404	0.88%
Gore	54,589	0.49%
Grey	33,742	0.30%
Hastings	129,170	1.15%
Hauraki	63,434	0.56%
Horowhenua	110,689	0.98%
Hurunui	14,000	0.12%
Kaikoura	10,000	0.09%
Kaipara	13,629	0.12%
Kapiti Coast	15,060	0.13%
Kawerau	31,161	0.28%
Manawatu	203,964	1.81%
Marlborough	86,022	0.76%
Masterton	127,230	1.13%
Matamata-Piako	122,554	1.09%
New Plymouth	441,456	3.92%
Opotiki	20,000	0.18%
Otorohanga	5,000	0.04%
Queenstown-Lakes	31,149	0.28%

SHAREHOLDER MEMBER	NO. OF SHARES	
DISTRICT COUNCILS (Cont'd)		
Rangitikei	35,338	0.31%
Rotorua	175,906	1.56%
Ruapehu	56,666	0.50%
South Taranaki	135,496	1.20%
South Waikato	42,374	0.38%
South Wairarapa	53,930	0.48%
Southland	13,715	0.12%
Stratford	65,608	0.58%
Tararua	99,972	0.89%
Tasman	65,584	0.58%
Taupo	83,971	0.75%
Thames-Coromandel	27,120	0.24%
Timaru	230,118	2.05%
Waikato	41,070	0.37%
Waimakariri	88,172	0.78%
Waimate	30,458	0.27%
Waipa	149,082	1.33%
Wairoa	22,992	0.20%
Waitaki	120,000	1.07%
Waitomo	16,940	0.15%
Wanganui	289,660	2.57%
Western Bay of Plenty	28,142	0.25%
Westland	28,356	0.25%
Whakatane	38,788	0.34%
Whangarei	63,524	0.56%
REGIONAL COUNCILS		
Bay of Plenty	55,000	0.49%
Canterbury	152,696	1.36%
Hawke's Bay	20,000	0.18%
Horizons	2,000	0.02%
Southland	10,000	0.09%
Taranaki	1,000	0.01%
Waikato	22,000	0.20%
Wellington	80,127	0.71%
OTHER		
TrustPower	137,251	1.22%
Total Shares	**11,249,364**	

Item 11

Attachment 2

CIVIC FINANCIAL SERVICES LIMITED

STATEMENT OF INTENT

FOR THE YEAR ENDED 31 DECEMBER 2019

TABLE OF CONTENTS

1.0 Mission Statement

Mission Statement of Civic Financial Services Ltd
To provide superannuation and risk-financing 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 superannuation and risk-financing services to the local government sector.

2.3 To investigate and facilitate, as appropriate, new products and markets in superannuation and risk-financing and such other markets that it believes could prove beneficial to its shareholders and the local government sector.

3.0 Nature and Scope of Activities

3.1 The Company administers superannuation services for local government and local government staff via SuperEasy and the SuperEasy KiwiSaver Superannuation Scheme.

3.2 The Company provides administration, accounting, and a range of other services to LAPP, Riskpool, CLP (Civic Liability Pool) and CPP (Civic Property Pool).

3.3 The Company investigates and facilitates as appropriate such new superannuation and risk-financing services and/or markets that it believes will prove beneficial to its shareholders and the local government sector.

3.4 In a modest and selective way the Company provides sponsorship for a range of local government activities at regional and national level.

Item 11

4.0 Financial Projections

Civic's projected profit outlook over the next three years is shown in the tables below.

Civic's main revenue streams will come from the two following sources: fees from providing administration services and investment income.

Profits from providing administration services: Civic's income in 2019 will come from providing administration services as described in section 3.1 and 3.2.

Profits from investment income: Civic's income in 2019 will come from investment income. This includes the rental income from Civic Assurance House, a ten-storey Wellington CBD office building. At the Special General Meeting held on 5 October 2017 there was overwhelming support from our shareholders to sell Civic Assurance House. A recent seismic assessment review identified there was strengthening work required for the non-structural south and west boundary walls of Civic Assurance House. Having taken professional advice, your Board decided to complete the strengthening work to prepare the building for sale. This work is scheduled to be completed by 31 March 2019; at which time the building will be taken to the market. If a satisfactory sale price can be obtained, the proceeds net of selling costs will be distributed to shareholders via a special dividend and it is anticipated this will occur during the third quarter of 2019. The forecasted sale and subsequent removal of rental income has been taken into consideration in the projections below.

Attachment 2

Financial projections for 2019 to 2021 are:

	2019	2020	2021
Administration Income	$2,109,028	$2,225,169	$2,314,719
Investment Income	$516,000	$153,000	$148,000
Revenue	$2,625,028	$2,378,169	$2,462,719
Expenses	$2,203,729	$2,026,743	$2,081,616
Surplus before tax	**$421,299**	**$351,426**	**$381,103**

Please note that these are projections, not firm predictions.

5.0 Performance Targets and Measures

5.1 To provide superannuation services to at least 90% of local authorities.

5.2 To continue to be an efficient and effective administration manager for LAPP, Riskpool, CLP and CPP.

6.0 Reporting to Shareholders

6.1 An audited annual report for 2018 by 30 April 2019.

6.2 A report on the first half of 2019 by 30 September 2019 containing a review of the Company's operations during the half year and unaudited half-yearly accounts.

7.0 Acquisitions/Disposals

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

8.0 Transactions with Related Parties

The Company has 72 local authority shareholder members plus TrustPower (holding 1.22%). 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), Riskpool, CLP and CPP are also considered to be related parties. Transactions with shareholder members include risk-financing services and superannuation related financial services.

Charges to and from 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.

***** END *****

Council Report

Item 12

Committee:	Finance Committee	**Date:**	09 April 2019
Author:	Natalie Young	**Authoriser:**	Chris Allen
Position:	PMO Manager	**Position:**	General Manager Development

Report Name: Capital Portfolio Monitoring Report for the 8 months ending 28 February 2019

Report Status	*Open*

Purpose

1. To inform the Finance Committee on the progress of the capital portfolio delivery against the 2018-28 10-Year Plan for the eight months ending 28 February 2019.

Staff Recommendation

That the Finance Committee receives the report.

Executive Summary

2. This report is to be read in conjunction with the:
   a) April 2019 Annual Monitoring Report; and
   b) April 2019 Financial Strategy Report
3. This report reflects the results for the 2018/19 financial year at the end of February 2019.
4. The 2018-19 approved capital budget is $254.8M and is a significant increase over the previous 2017-18 budget of $100.7M.
5. The YTD actuals for capital expenditure at the end of February 2019 are $78.5M compared with the same period last year of $44.8M, representing a 75% increase in spending on last year.
6. In addition to the capital expenditure forecast there is a revised revenue forecast of $34.2M which is adjusted from a baseline budget for revenue for 2018/19 of $44.8M. The movement in revenue is a result of the following items;
   a) $4.8M of new revenue (unbudgeted)
   b) $15.6M of deferred revenue (directly related to the capital expenditure deferrals)
   c) $0.2M of revenue for the new projects approved.
7. The YTD actuals for revenue at the end of February 2019 are $17.7M compared with the same period last year of $7.4M, representing a 139% increase in revenue on last year.

8. This report forecasts an annual spend of $186.9M and indicates;
    a) $64.2M of deferrals from 2018/19
    b) $4.1M of anticipated savings from 2018/19
    c) $0.9M of projects to be brought forward to 2018/19
    d) $0.4M of new projects approved for 2018/19 (to be directly off-set by revenue from the projects and revenue from other projects e.g. TEFAR)
9. Of the $64.2m of signalled deferrals, $48.4M relates to projects that are underway and will be complete within the 3-year period 2018-21 and $9.0M relates to projects where the timelines are set by third parties such as developers.
10. Staff are looking to present a 3-year view of delivery f the capital programme and a significant amount of work has gone into looking at the 3-year programme and rephasing budgets to align with the delivery programmes. This has resulted in changes to the forecasts for the next three years.
11. The Renewals and Compliance Programme is associated with Councils priority of looking after its existing assets. Staff will be seeking a change in financial delegations at the next Finance Committee meeting to support the ability to reprioritise and manage this 3-year programme across activities and across the 3 years while being careful to ensure that appropriate equitable investment is made across all of the Councils assets.
12. Staff consider the matters in this report have low significance and that the recommendations comply with the Council's legal requirements.

Programme Summary

13. The following definitions are relevant
    - Portfolio; refers to the HCC total capital budget $254.8M (including approved deferrals of $32.0M from 2017-18) in Year 1/2018-19 and $772M over 3 years (2018-21).
    - Programme; refers to the 8 programmes that are referred to in this report, which when added together equal the Portfolio.
    - Project; refers to an individual identified project under a particular programme which may have funding from multiple activities and across multiple years
14. Refer to the attached programme reports (Attachment 1) for full programme summaries. Key highlights across the portfolio include;
15. **Renewals and Compliance Programme**;
16. Project Kookiri has commenced and is on track with the first phase due for implementation by 1 July 2019. This project will replace the existing financial management system with the expanded use of Authority (currently in place for Rates and Regulatory systems).
17. **Transport Improvement Programme;**
18. We are continuing work on strategic planning and business case development with NZ Transport Agency which will enable the delivery of the capital programme over the next 3 years.
19. The NZ Transport Agency board has confirmed funding approval for Council and other parties to progress with the pre-implementation of the Rotokauri Transpot Hub to support the start-up rail passenger service from early 2020.
20. **City Wide Community Programme;**

21. The Waiwhakareke Natural Heritage Park project including the toilets, viewing platforms and paths is on track for completion 30 June 2019.
22. The designs are progressing for the Zoo and Waiwhakereke Entrance
23. **Peacocke Programme;**
24. The land acquisition programme is tracking well, however, remains a risk to the programme given the complex nature of the negotiations.
25. Investigation and design for the lead network infrastructure is underway and on track.
26. **Rotokauri Programme;**
27. There are opportunities to review alignment of the future planned urban upgrades of Brymer Road and Rotokauri Road with current associated development works. Further work to understand these opportunities is underway.
28. **Rototuna Programme;**
29. The Rototuna Village is on track to confirm the preferred concept by 30 June 2019. There has been a lot of positive feedback on the process and the proposed investment in community infrastructure.
30. A public open day was held recently as an engagement opportunity for the Rototuna Community. General feedback has been positive in regard to the information presented and opportunity for the community to have their say on works planned in the area.

Capital Portfolio Report

31. See Attachment 1 for the portfolio summary and programme reports.
32. See Attachment 2 for the capital expenditure by activity report.
33. Across the capital works portfolio, we now have contractual commitments in place to substantively deliver the city's largest ever capital works programme this year, including procurement of a number of multi-year contracts which will set us up well for continued delivery moving forward.
34. A key focus at the moment is leveraging the physical works contracts now in place to advance construction (particularly earthworks and civil construction) as much as possible as we near the end of the 2018/19 summer construction season.
35. A large programme of design is currently underway to prepare for a significant programme of planned physical works procurement in mid 2019.
36. We have been continuing to develop and refine our physical works bundling, procurement and contract models for the forward works programme to ensure that this is optimised to best deliver our works programmes efficiently and cost effectively. In developing this we have been taking a portfolio view, and seeking engagement with the construction industry as well as other key physical works clients in the region including NZTA, Waikato District Council and Waipa District Council.
37. Ensuring appropriate visibility of our forward works programme is important for us to ensure our contractors are aware of and can prepare for future contract opportunities. We have been providing industry updates and are planning to hold a further industry briefing session in May/June to provide an overview of key upcoming contracts.

Item 12

Capital Expenditure to end of February 2019

38. For the purposes of this Capital Portfolio Monitoring report there are 4 main types of capital budget movements that will impact on the forecasted total spend for this financial year. They are;

39. ***Rephasing Deferrals*** – this is where the project has started or there is confidence that the project will start and will finish on time but the expenditure across the years of the project is forecast to be different than budgeted. In general, this refers to projects where we have now received construction programmes from the contractors and with them the forecasts of expenditure have been rephased.

40. ***Delay Deferrals*** – this is where a movement of capital expenditure is required due to delays and will result in a shift of the project end date. Some of these delays will be due to third party issues outside our control- the more usual reason being that a developer is not ready to partner with HCC as anticipated when the 2018-28 10-Year Plan was developed.

41. ***Capital Savings*** – this is for the recording of efficiencies and capital savings that can be attributed to the capital savings target. The capital savings translate into operating savings through consequential opex, interest and depreciation savings. The contribution of the capital savings to operating savings are established through the six monthly Business Transformation Report.

42. The organisation has an increased focus on the capital portfolio and is putting in place disciplines to allow for the realisation of savings from projects. By regularly capturing the savings on projects the discipline of controlling scope and seeking savings from projects is becoming part of the organisational culture. There is regular checking and challenging of projects, project scopes and procurement methods to ensure that we are delivering the right outcomes to the community at the best value for money.

43. This discipline of capturing savings early to ensure no scope creep does come with risks and while we will declare the savings through this report every six weeks there will be times when situations will change and we may no longer be able to achieve the stated savings. It is important that we provide transparency around the changes but that we are supported in what will be a fluid and changing environment.

44. ***Capital Expenditure Brought Forward*** – this is where a project has been brought forward to align with other projects or to enable work ahead of schedule to achieve the outcomes required in the timeframes set.

45. Work has been undertaken on the 3 year programme to understand the impact of deferrals and the alignment with the future work programmes. The following movements have been signalled out over the 3 years and resulting changes to the forecasts at year end have been made;

Capital Expenditure	2018/19	2019/20	2020/21
Baseline Budget (for 2018/19 this includes deferrals from 2017/18)	$254.8M	$288.6M	$228.9M
Capital savings forecast in 2018/19	-$4.1M	$0	$0
Deferral Movements	-$64.2M	$8.8M	$55.3M
Capital expenditure to be brought forward from future years – this includes a movement from Year 5 to year 2.	$0.9M	$0.9M	-$0.2M

New Projects - Te Awa Cycleway Remediation	$0.4M	$1.4M	$0
Total Forecasted Capital Expenditure	**$187.8M**	**$299.6M**	**$284.1M**

Item 12

46. See attachment 3 for the total list of capital movements by project.

47. The deferral movements across the 3 years have been categorised as follows;

Deferral Type	2018/19	2019/20	2020/21
Delay Deferrals	-$15.7M	-$0.8M	$16.5M
Rephasing Deferrals	-$48.4M	$9.6M	$38.8M

48. These deferrals will enable us to deliver the right outcomes for the community while recognising the issues and constraints we have to deal with.

49. The savings forecast for this financial year have not changed from the last report. There have been some additional savings that we are awaiting confirmation of before reporting through. We expect to have more confidence in these additional savings in the next couple of months.

50. The capital expenditure to be brought forward relates to the following projects;

Programme	Project	Amount	To Year	From Year	Explanation
Peacocke	Sports Park	$0.2M	2018/19	2020/21	This was reported to 21 February 2019 Finance Committee. Required for Notice of Requirement to be issued to secure land for a sports park in Peacocke.
Rototuna	Storm Water Upsize	$0.7M	2018/19	2019/20	This request required funding from 2019/20 to be brought forward to 2018/19 for the construction of a wetland required to support development in this area.
Rototuna	North Ridge Road Urban Upgrade	$1.6M	2019/20	2022/23	This request requires funding to be brought forward from year 5 of the LTP to year 2. This funding will allow for the development of North Ridge Road to open up the area for approximately 100 lots ahead of what was initially predicted.

51. We are also seeking approval for the Waters Renewals and Compliance Programme to make the following requests to bring forward money for specific programme lines. These movements will be offset by deferrals (to be signalled next report) and so reduce the amount being pushed out to 2019/20 in total. The deferrals have been driven by unanticipated delays in delivery of goods, validating and replanning works based on site assessments, and alignment with other programmes of work.

52. The need to bring the request to bring forward money to off-set the expected deferrals to the Finance Committee is driven by the need to provide transparency and ensure the correct delegations are adhered to as the movements are across CE Codes. There will be a corresponding reduction in expenditure for these programmes during 2019/20. The relevant contractors have indicated that they are in a position to undertake these works if they are given the go ahead in a reasonable timefame.

53. Staff will be seeking a change in financial delegations at the next Finance Committee meeting to support the ability to reprioritise and manage the 3-year Renewals and Compliance Programme across activities and across the 3 years while being careful to ensure that appropriate equitable investment is made across all of the Councils assets.

Project	**Amount**	**Explanation**
Increased Capacity of wastewater pump stations	$65k	Movement of works ahead of schedule from 2019/20 to 2018/19.
Wastewater Reticulation Renewals	$300k	
Water Reticulation Renewals	$500k	
TOTAL	**$865k**	

54. The Te Awa Cycleway Remediation was approved at the 4 December 2018 Finance Committee subject to the ability to achieve NZTA subsidy. This project has now proceeded through the Point of Entry discussions with NZTA and is now in business case stage. As outlined in the previous report it is proposed that the local share funding for this work will be sourced from the reinvestment of TEFAR funding from Thomas/Gordonton Intersection.

Revenue to end of February 2019

55. The following table shows the movement in revenue forecasts signalled as a result of the review of the 3 year portfolio;

Revenue	**2018/19**	**2019/20**	**2020/21**
Baseline Revenue Budget	$44.8M	$65.4M	$42.6M
New Revenue	$4.8M	$2.3M	$2.3M
Revenue Deferral Movements	-$15.6M	$0.1M	$15.7M
New Projects - Te Awa Cycleway Remediation	$0.2M	$0.7M	$0
Total Forecasted Capital Expenditure	**$34.2M**	**$68.4M**	**$60.6M**

56. See Attachment 3 for the total list of revenue movements by project.

57. The revenue deferral movements are directly related to the movements in capital deferrals across the 3 years.

58. The list of projects with new revenue has had the following new item added and a continued increase in revenue for Customer Service Connections due to the demand driven nature of this work.

Programme	Project	Amount	Explanation
City Wide Waters	General Strategic Upgrades and Development Upsizing	$0.4M	

59. The revenue for the Te Awa Cycleway is based on achieving a 51% subsidy for this project from NZTA.

Work in Progress (WIP)

60. A total of $11.1m was capitalised in the month ending 28 February 2019. Over the last month, the balance of 'Outstanding WIP' has reduced from $13.1m at the end of January to $9.6m at the end of February. Staff continue to make this a priority to clear.

61. Capitalisations are occurring at a faster rate than in previous years.

62. The large capital programme in the 10 Year Plan is contributing to an increasing overall WIP balance. Despite the increase in the total WIP balance to over $144m, the percentage of WIP that is classified as 'current' has been increasing over the financial year and has remained in the range of 75-80% of all WIP over recent months.

63. Council makes a financial provision in its budgeting of depreciation to estimate and account for the impact of 'non-current' WIP that is still being capitalised.

Key Risks

64. **NZ Transport Agency Approval Processes**

65. We are continuing to work closely with NZ Transport Agency on the project business case processes but the dependency on NZ Transport Agency's approval processes remains a key risk for our transport projects as delays will impact on the ability to deliver and could have further financial implications for future financial years.

66. **NZ Transport Agency Subsidy**

67. The assumption made in the 10-Year Plan is that a significant number of capital transport projects will receive NZ Transport Agency subsidy.

68. There is a risk that HCC will not achieve subsidies for projects with subsidies budgeted.

69. NZ Transport Agency have communicated that the National Land Transport Fund is oversubscribed, which is raised in the General Managers report.

70. **Construction Industry**

71. Capacity of contract resources in the civil construction industry continues to be a potential risk to our delivery, particularly as a number of our key contractors have existing contractual commitments which may limit their ability to tender for and deliver more, so ensuring contract works packages are attractive and procured smartly is critical to effective delivery.

72. **Professional Services**

73. Professional service resources continue to be under pressure across the sub-regional due the increased requirements of the region and associated skills shortages within the industry. We are working with the LASS to retender the current professional services panel allowing us to have priority and efficient access to professional services.

74. **LASS Professional Services Panel**

75. We have received advice from consultants that they are going to take the opportunity to increase unit costs through the forthcoming retendering of the professional services panel. This will result in a resetting of the market and could have significant price implications.

Emerging Issues

76. **Renewals and Compliance Financial Delegations**

77. Due to the dynamic nature of the renewals and compliance programme and the need to be able to respond to emerging issues and early failures of assets, a decision will be sought at the

Item 12

next Finance Committee to make changes to the financial delegation which will allow for the flexibility to manage this programme across activities and as a 3 year programme.

78. **Opportunity to bring forward consolidated programmes of work**

79. There will be work done over the next month to understand opportunities to do large consolidated programmes in order to achieve efficiencies, allow effective bundling, and to save money. As an example, this may include opportunities to take the 5 year planned works for the sports field drainage and upgrade all of the fields in one year. Any recommendations for this realignment will be brought back to the Finance Committee for discussion.

Legal and Policy Considerations

80. Staff confirm that the matters discussed in this report complies with the Council's legal and policy requirements.

Cultural Considerations

81. A review of our project planning framework is underway to ensure that programmes and projects are assessed appropriately against the appropriate cultural considerations.

Significance & Engagement Policy

Significance

82. Having considered the Significance and Engagement Policy, staff have assessed that the matter in this report have low significance. This means that the projects and programmes are in line with the decisions of the 2018-28 10-Year Plan.

Engagement

83. Community views and preferences are already known to the Council through the 2018/28 10-Year Plan.

Attachments

Attachment 1 - Attachment 1 - Portfolio Summary Report as at 28 Feb 19

Attachment 2 - Attachment 2 - Capital Expenditure Summary by Activity February 2019

Attachment 3 - Attachment 3 - Capital Portfolio Movements List .

Hamilton City Council Capital Portfolio Report

Hamilton City Council
Te kaunihera o Kirikiriroa

Portfolio Status

	Last Month Status	Current Month	Forecast Next Month	Comments
Scope	G	A	A	The uncertainty and dynamic nature of the work occuring with developers in Rotokauri has meant that some scopes are not clear. Many of these projects have now been forecasted to be deferred to allow time for discussions and planning to progress. The scope of some projects in the Transport Improvement Programme are still subject to discussions and business cases with NZTA but will provide a clear pathway for delivery for years 2-3.
Time	G	G	G	Deferrals have been forecast to provide an up to date and clear picture of the time delays being faced by the portfolio. Many of these delays are due to third party dependencies and rephasing of budget to align with contractor programmes.
Cost	G	G	G	The forecasted capital expenditure to year end for 2018/19 is $187.8M.
Revenue	G	G	G	The forecasted capital revenue to year end for 2018/19 is $34.2M.

Green:	Amber:	Red:
Project is on track for delivery against scope, time and cost.	Project is off track but there is a plan to get it back on track.	Project is off track and requires intervention.

Portfolio Commentary/Highlights

- The capital portfolio forecasted year end result for 2018-19 is made up as follows;

Approved 2018-19 Capital Expenditure	$254.8M
Indicative Savings forecast to date	$4.1M
Deferrals forecast to date	$64.2M
Projects brought Forward	$0.9M
New Approved Projects	$0.4M
Forecasted Capital Expenditure 2018-19	**$187.8M**

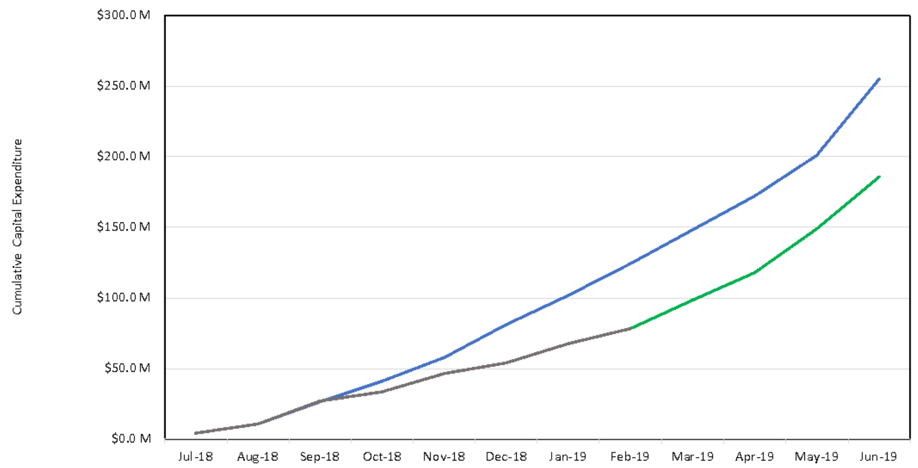
- The capital revenue forecasted year end result for 2018/19 is made up as follows;

Budgeted 2018-19 Capital Revenue	$44.8M
Deferrals forecast to date	$15.6M
New unbudgeted revenue	$4.8M
New Approved Projects	$0.2M
Forecasted Capital Revenue 2018-19	**$34.2M**

- There has been significant investment this year in strategic planning with our partners to ensure that we are delivering the right outcomes for the community and getting our base planning completed for delivery of the 3 year portfolio.
- Across the capital portfolio, the first half of the 2018/19 Financial Year has had a focus on tendering and awarding physical works and design engagements. With a large proportion of the forward works programme now contractually committed, we are in a good position to best utilise the rest of the summer construction season to continue delivering.

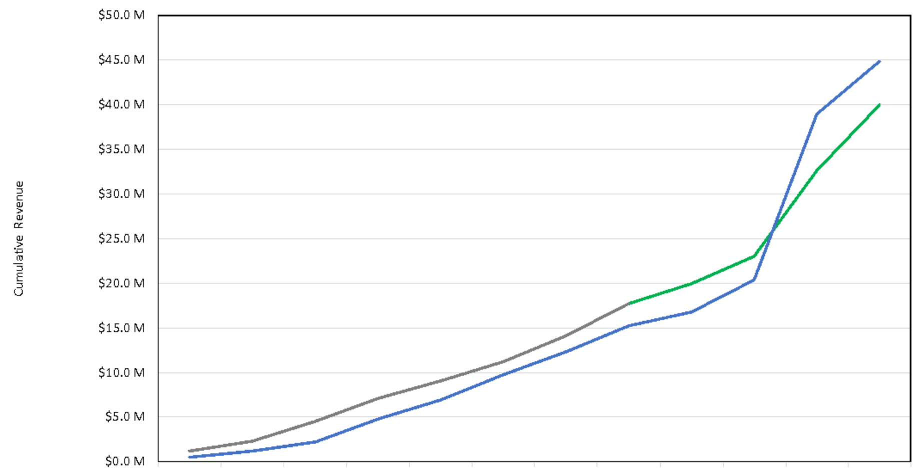
Financial Performance

HCC Capital Portofolio - Capital Expenditure 2018-19



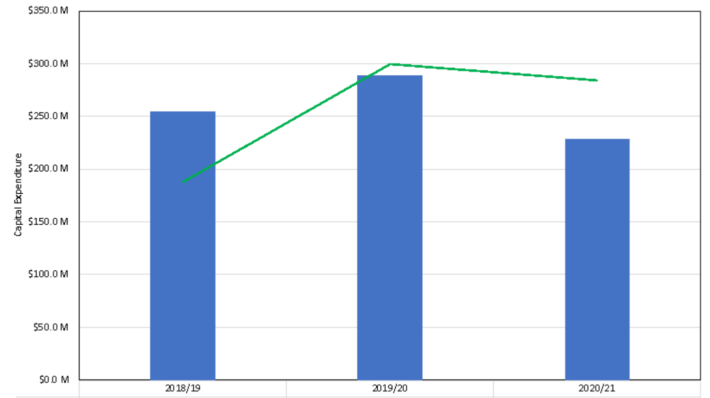
	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
Cumulative Forecast	$4.2 M	$10.8 M	$27.0 M	$33.6 M	$46.3 M	$53.7 M	$67.3 M	$78.5 M	$98.2 M	$117.9 M	$148.9 M	$185.6 M
Total Baseline Budget	$4.2 M	$10.6 M	$26.2 M	$40.7 M	$57.9 M	$81.0 M	$101.9 M	$124.2 M	$148.3 M	$172.0 M	$200.9 M	$254.8 M
Cumulative Actuals	$4.2 M	$10.8 M	$27.0 M	$33.6 M	$46.3 M	$53.7 M	$67.3 M	$78.5 M				

HCC Capital Portfolio - Revenue to 28/02/19



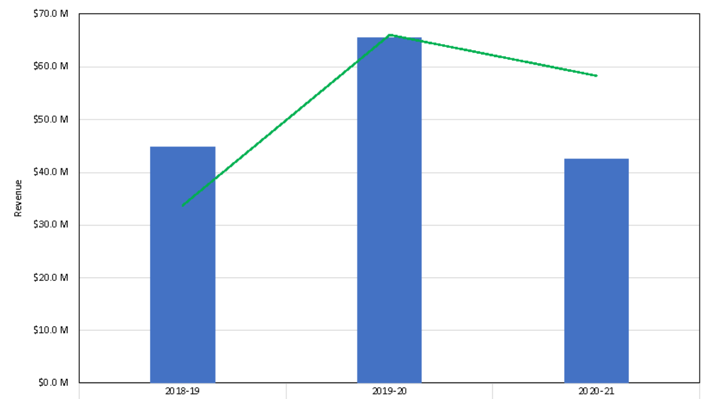
	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
Cumulative Forecast	$1.2 M	$2.4 M	$4.6 M	$7.1 M	$9.1 M	$11.2 M	$14.1 M	$17.7 M	$20.0 M	$23.1 M	$32.6 M	$40.0 M
Cumulative Budget	$0.5 M	$1.2 M	$2.3 M	$4.8 M	$7.0 M	$9.8 M	$12.4 M	$15.3 M	$16.8 M	$20.4 M	$39.0 M	$44.8 M
Cumulative Actuals	$1.2 M	$2.4 M	$4.6 M	$7.1 M	$9.1 M	$11.2 M	$14.1 M	$17.7 M				

HCC Capital Portfolio - 3 Year Capital Expenditure



	2018/19	2019/20	2020/21
budget	$254.8 M	$288.6 M	$228.9 M
Forecast	$187.8 M	$299.6 M	$284.1 M

HCC Capital Portfolio - 3 Year Revenue



	2018-19	2019-20	2020-21
Budget	$44.8 M	$65.4 M	$42.6 M
Forecast	$33.7 M	$66.1 M	$58.3 M

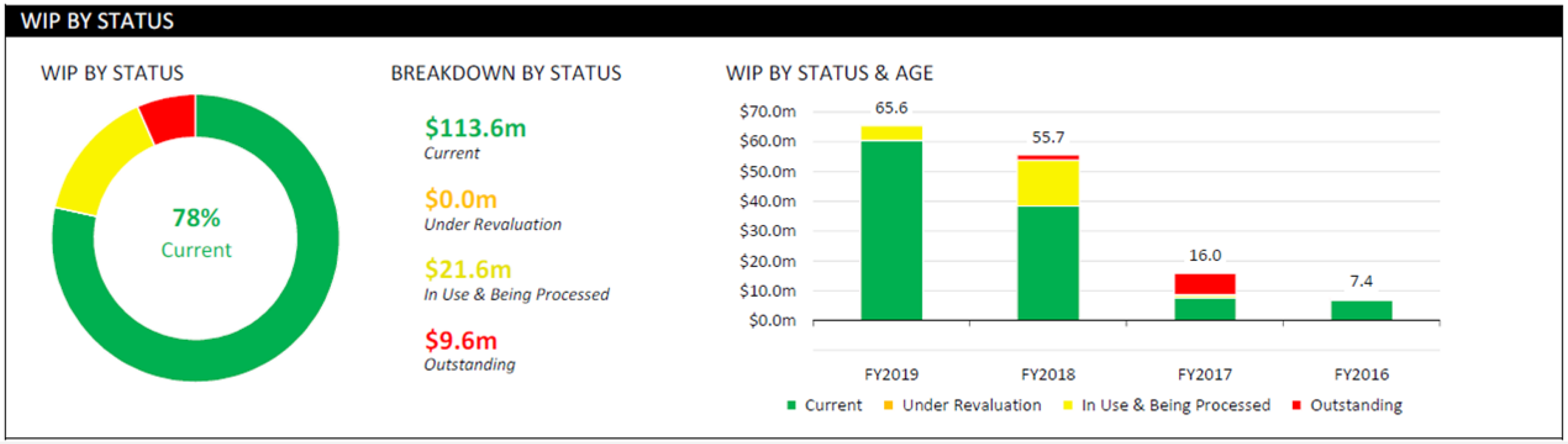
Attachment 1

Item 12

Total Capital Expenditure and Revenue at 28 February 2019

Programme	Status	Capex YTD Actual	Capex YTD Budget	Capex YTD Variance Fav/-Unfav	Capex Annual Budget	Forecasted Capex Deferrals	Capex Brought Forward	Forecasted Capex Savings	New Approved Projects	Capex Annual Forecast	Capex 3 Year Budget	Revenue YTD Actual	Revenue YTD Budget	Revenue YTD Variance Fav/-Unfav	Revenue Annual Budget	Forecasted Revenue Deferrals	Forecasted New Revenue	New Approved Projects	Revenue Annual Forecast	Revenue 3 Year Budget
Renewals & Compliance	G	$34.2 M	$45.2 M	$11.0 M	$78.6 M	($2.0)M	$0.0 M	$0.0 M	$0.0 M	$76.6 M	$207.9 M	$5.6 M	$3.9 M	$1.6 M	$5.5 M	$0.0 M	$2.3 M	$0.0 M	$7.8 M	$20.5 M
Rototuna	G	$7.3 M	$11.2 M	$4.0 M	$25.3 M	($2.7)M	$0.7 M	$0.0 M	$0.0 M	$23.3 M	$69.4 M	$2.1 M	$0.0 M	$2.1 M	$5.1 M	($0.3)M	$0.0 M	$0.0 M	$4.8 M	$8.2 M
Rotokauri	A	$1.2 M	$3.7 M	$2.4 M	$10.9 M	($5.7)M	$0.0 M	($1.5)M	$0.0 M	$3.7 M	$24.4 M	$0.0 M	$0.0 M	$0.0 M	$0.4 M	($0.4)M	$0.0 M	$0.0 M	$0.0 M	$1.6 M
Peacocke	G	$7.4 M	$16.9 M	$9.5 M	$38.4 M	($23.9)M	$0.2 M	($0.1)M	$0.0 M	$14.5 M	$178.0 M	$2.1 M	$6.0 M	($3.9)M	$11.2 M	($8.2)M	$0.0 M	$0.0 M	$3.0 M	$43.7 M
Ruakura	G	$4.8 M	$7.2 M	$2.3 M	$15.6 M	($2.7)M	$0.0 M	($1.0)M	$0.0 M	$11.9 M	$37.5 M	$0.0 M	$0.0 M	$0.0 M	$0.2 M	$0.0 M	$0.2 M	$0.0 M	$0.3 M	$2.9 M
City Wide - Waters	A	$6.3 M	$11.0 M	$4.7 M	$34.5 M	($14.7)M	$0.0 M	($1.0)M	$0.0 M	$18.8 M	$105.2 M	$1.7 M	$0.1 M	$1.7 M	$0.2 M	$0.0 M	$1.6 M	$0.0 M	$1.7 M	$1.6 M
City Wide - Community	G	$7.6 M	$8.6 M	$1.0 M	$12.6 M	($1.6)M	$0.0 M	($0.5)M	$0.0 M	$10.5 M	$25.7 M	$0.0 M	$0.0 M	$0.0 M	$0.6 M	$0.0 M	$0.0 M	$0.0 M	$0.6 M	$7.6 M
Transport Improvement	A	$9.6 M	$20.3 M	$10.8 M	$39.0 M	($10.8)M	$0.0 M	$0.0 M	$0.4 M	$28.6 M	$124.3 M	$6.2 M	$5.2 M	$1.0 M	$21.7 M	($6.7)M	$0.8 M	$0.2 M	$15.9 M	$66.7 M
TOTAL Portfolio	G	**$78.5 M**	**$124.2 M**	**$45.7 M**	**$254.8 M**	**($64.2)M**	**$0.9 M**	**($4.1)M**	**$0.4 M**	**$187.8 M**	**$772.3 M**	**$17.7 M**	**$15.3 M**	**$2.5 M**	**$44.8 M**	**($15.6)M**	**$4.8 M**	**$0.2 M**	**$34.2 M**	**$152.9 M**

WIP Balance



Rototuna Programme Capital Report

Hamilton City Council
Te kaunihera o Kirikiriroa

Programme Outcome:
Ko te aaheinga o te hanga he waahi ataahua, he waahi toiora ki Rototuna
Enabling the development of an attactive and sustainable community in the Rototuna growth area.

Overall this programme is on track.

- A public open day was held on 19 March 2019 to discuss a number of emerging projects including community, development and transport related projects. The Rototuna Community Facilities feasibility study was a key feature of the open day and is well underway to determine the location of the library, community facilities, town square, parking, as well as nature of any aquatic facilities and potential funding mechanisms.
- Schools are being engaged with (Primary and Secondary) in the Rototuna area to coordinate access and understand their needs to schools in alignment with number of active projects in the area.
- The Rototuna Sports Park and Park Lane is progressing well, to increase connectivity for the community and school pupils a temporary footpath has been laid between Kimbrae Dr and Chesham St.
- Borman West/Kay Intersection is underway and on track for completion in mid 2019.
- Resolution Drive construction is underway under the Expressway Alliance with NZTA. Expected completion is 2020 in line with the Expressway Opening.
- Contract for the North City Road Corridor - Borman to the first roundabout by the Sports Park is in progress. This improved and urbanised section of road is the first step in changing the rural environment and setting the foundations for creating a vibrant towncentre.
- Borman Horsham Upgrade has been given approval to proceed to a commence the Business Case subsidy application process.
- Borman Rd stormwater pond design has begun, early engagement with developers and landowners to take advantage of opportunities in transformational delivery options is underway.

Capital Expenditure:
Total capital deferrals of $2.7M have been signalled for this programme for 2018/19 consisting of;

- A delay deferral of $0.6M for the Borman/Horsham Urban upgrade to align with the decision made in the LTP to move construction out to Year 7.
- A delay deferral of $1.0M for the North City Road Corridor Borman to Kay to align with town centre development.
- A delay deferral of $1.1M for the Rototuna Neighbourhood Park due to the third party dependency and the inability to secure the land required at this stage.

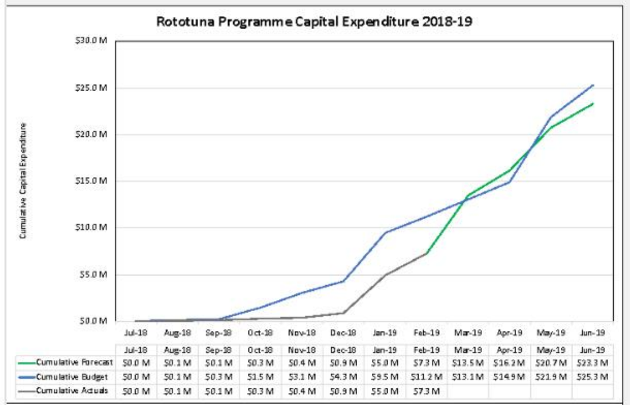
The following projects have requested money to be brought forward;

- It is proposed to bring forward $0.7M from 2019/20 to 2018/19 for a Stormwater Upsize project to allow for the construction of a wetland required to support development in the Rototuna area. This expenditure will be offset against the $2.7M of forecasted deferrals for this programme.
- It is proposed to bring forward $1.6M from Year 5(2022/23) to 2019/20 for the North Ridge Road Urban Upgrade to allow for the development in advance of the timing originally anticipated.

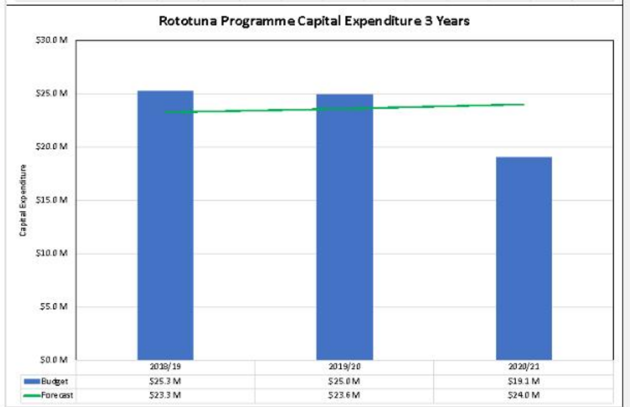
Revenue:

- A revenue deferral of $0.3M has been made in alignment with the capital deferral for the Borman/Horsham Urban Upgrade.

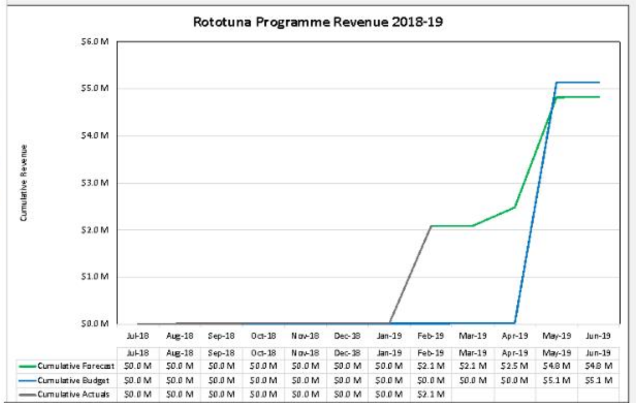
Financial Performance



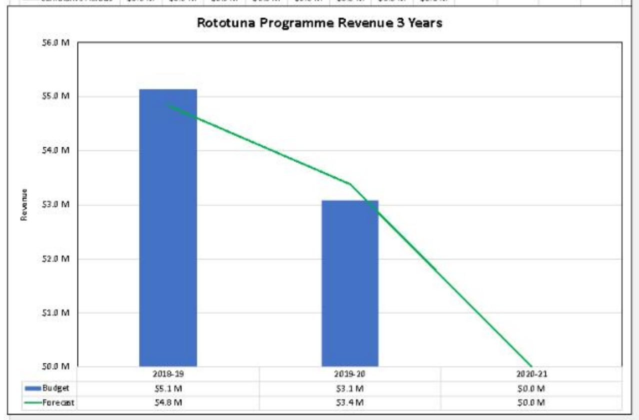
	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
Cumulative Forecast	$0.0 M	$0.1 M	$0.1 M	$0.3 M	$0.4 M	$0.9 M	$5.0 M	$7.3 M	$13.5 M	$16.2 M	$20.7 M	$23.3 M
Cumulative Budget	$0.0 M	$0.1 M	$0.3 M	$1.5 M	$3.1 M	$4.3 M	$9.5 M	$11.2 M	$13.1 M	$14.9 M	$21.9 M	$25.3 M
Cumulative Actuals	$0.0 M	$0.1 M	$0.1 M	$0.3 M	$0.4 M	$0.9 M	$5.0 M	$7.3 M				



	2018/19	2019/20	2020/21
Budget	$25.3 M	$25.0 M	$19.1 M
Forecast	$23.3 M	$23.6 M	$24.0 M



	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
Cumulative Forecast	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$2.1 M	$2.1 M	$2.5 M	$4.8 M	$4.8 M
Cumulative Budget	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$5.1 M	$5.1 M
Cumulative Actuals	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$2.1 M				



	2018-19	2019-20	2020-21
Budget	$5.1 M	$3.1 M	$0.0 M
Forecast	$4.8 M	$3.4 M	$0.0 M

Rototuna Sports Park development is due to be completed 30 June 2018. Works are progressing well.

A new roundabout has been installed for North City Road, Fergy Place and access to the Rototuna Sports Park. This roundabout was completed late 2018 to enable development of the supermarket.

Rotokauri Programme Capital Report

Hamilton City Council
Te kaunihera o Kirikiriroa

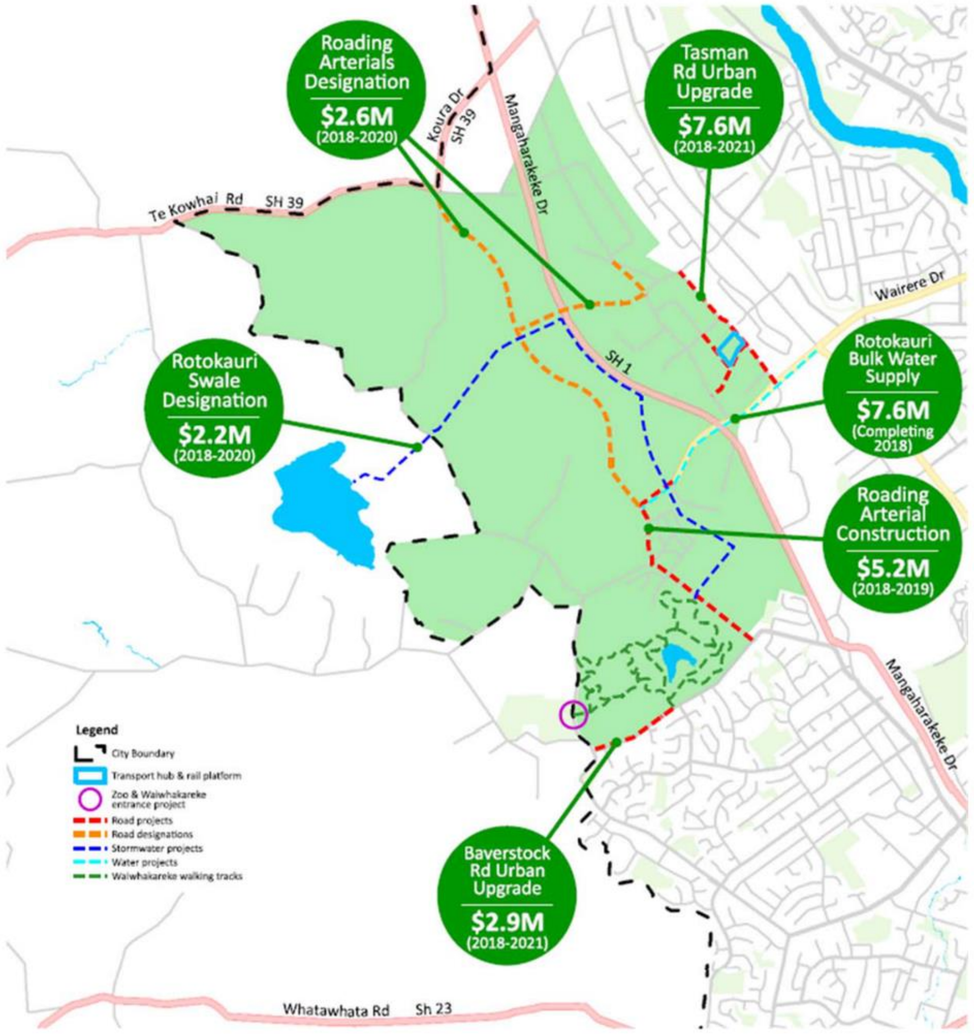
Programme Outcome:
Ko te aaheinga o te hanga he waahi ataahua, he waahi toiora ki Rotokauri
Enabling the development of an attactive and sustainable community in the Rotokauri growth area.

- Discussions are in progress with major developers about the future development of Rotokauri which is resulting in project deferrals and introducing uncertainty to the timing of transport arterial designations, development upsizing, and Central Swale land purchase.
- The $6m Rotokauri bulk water supply project is now complete which provides a more resilient level of service for water supply to support growth.
- Baverstock Road urbanisation detailed design is underway. Opportunities to integrate with the Zoo/Waiwhakareke entrance and future planned urbanisation of Brymer Road are being investigated.
- Issues currently exist where development has occurred in a pocket in the northern section of Rotokauri Road without the supporting urbanisation of Rotokauri Road. This is particularly an issues for walking and cycling connectivity of the new development to the existing city networks. Opportunities to address this issue are currently being investigated.

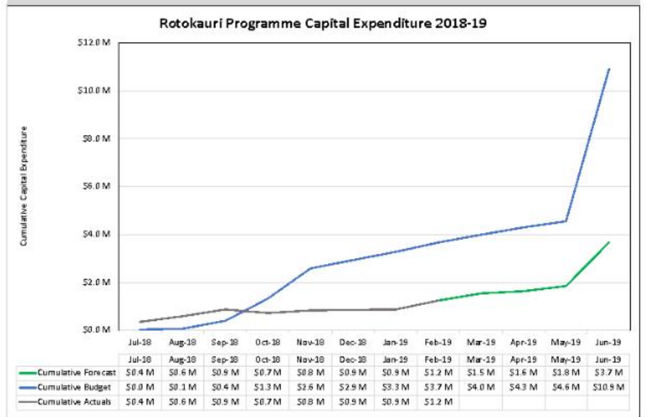
Capital Expenditure:
Total deferrals of $5.7M have been signalled for this programme. This is made up of the following;
- $2.8M for projects which have delay deferrals due to the need to align with developer timing.
- $2.5M for a rephasing deferral for Baverstock Road Upgrade to align with the contractors construction programme.

Savings of $1.5M have been in the Rotokauri Minor Arterials Programme through achievement of the roundabout and central arterial under budget due to the implementation of the private developer agreement.

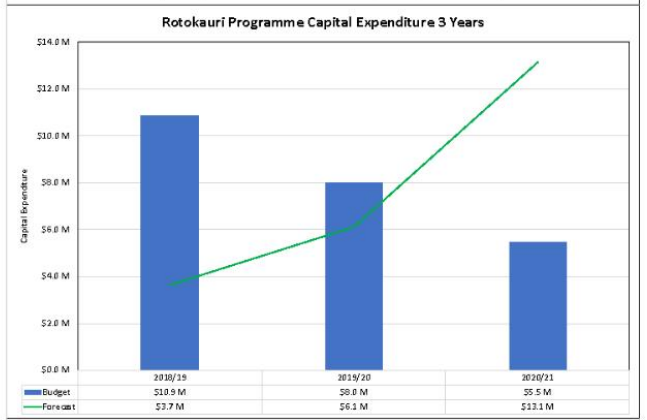
Revenue:
A revenue deferral of $0.4M has been made to align with the capital expenditure deferral for Rotokauri Minor Arterials.



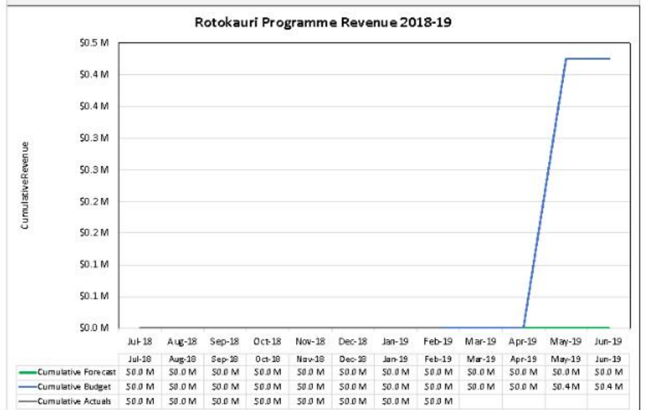
Financial Performance



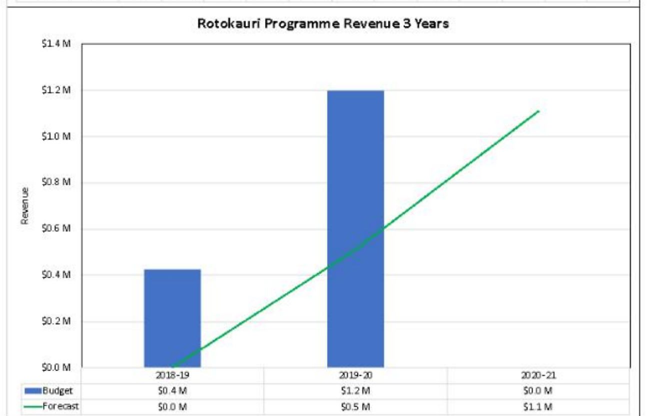
	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
Cumulative Forecast	$0.4 M	$0.6 M	$0.9 M	$0.7 M	$0.8 M	$0.9 M	$0.9 M	$1.2 M	$1.5 M	$1.6 M	$1.8 M	$3.7 M
Cumulative Budget	$0.0 M	$0.1 M	$0.4 M	$1.3 M	$2.6 M	$2.9 M	$3.3 M	$3.7 M	$4.0 M	$4.3 M	$4.6 M	$10.9 M
Cumulative Actuals	$0.4 M	$0.6 M	$0.9 M	$0.7 M	$0.8 M	$0.9 M	$0.9 M	$1.2 M				



	2018/19	2019/20	2020/21
Budget	$10.9 M	$8.0 M	$5.5 M
Forecast	$3.7 M	$6.1 M	$13.1 M



	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
Cumulative Forecast	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M
Cumulative Budget	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.4 M	$0.4 M
Cumulative Actuals	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M				



	2018-19	2019-20	2020-21
Budget	$0.4 M	$1.2 M	$0.0 M
Forecast	$0.0 M	$0.5 M	$1.1 M

Rotokauri Bulk watermain installation

Baverstock/ Bymer/Zoo-Waiwhakareke Entrance integration opportunity

Rotokauri Road urbanisation opportunity

Ruakura Programme Capital Report

Programme Outcome:
Ko te aaheinga o te hanga he waahi ataahua, he waahi toiora ki Ruakura
Enabling the development of an attactive and sustainable community in the Ruakura growth area.

This programme is well advanced and on-track.

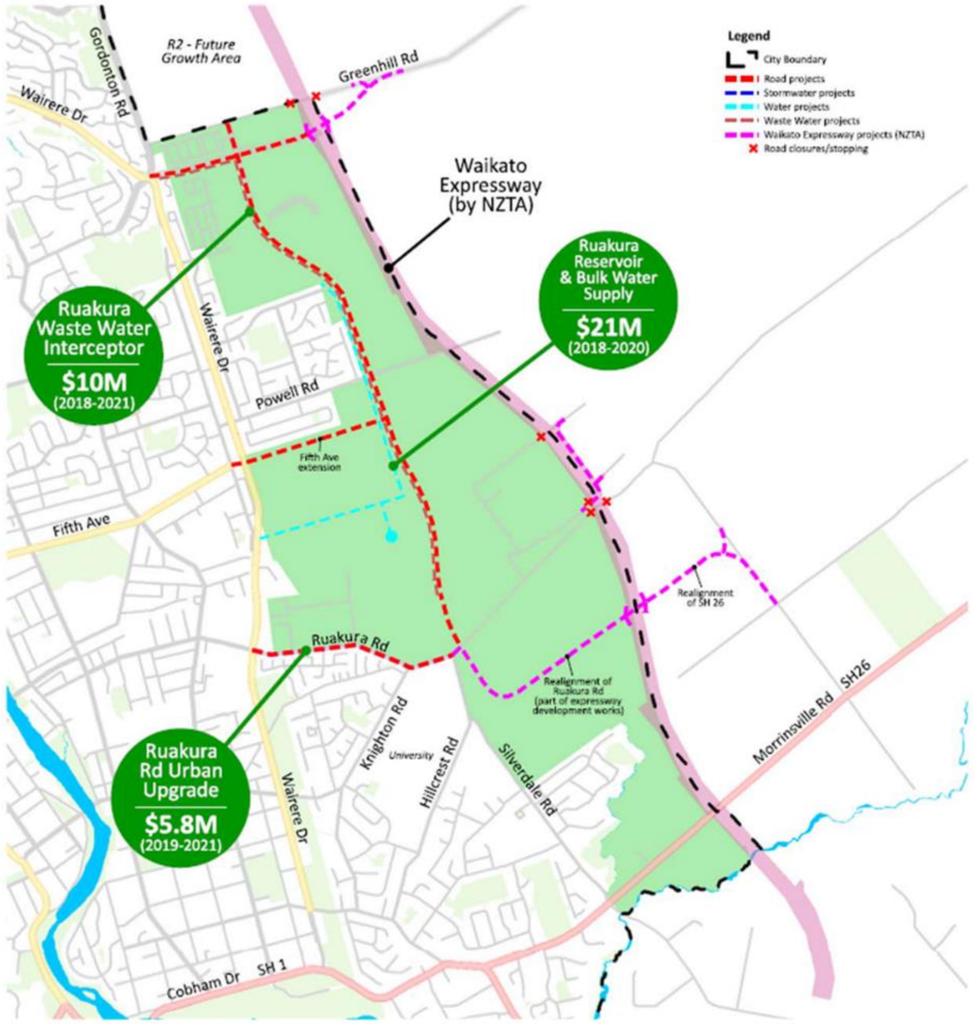
- The Programme is well aligned with development timing and meeting key benefits of enabling growth.
- Bulk water main installation is substantially complete.
- Reservoir construction has been publicly tendered and awarded to Spartan Construction.
- The construction of the Strategic Wastewater pipe (Far Eastern Interceptor) is contractually committed through a PDA with Chedworth Properties Ltd, physical works are progressing well.
- Development of an NZTA Business Case regarding the Spine Rd and Ruakura rd urban upgrade is underway. Timing of the Expressway, Spine Road and Port Developments needs to be understood.

Capital Expenditure:
Total deferrals of $2.7M have been signalled for 2018/19 for the Ruakura Programme consisting of;

- A delay deferral of $0.2M for the Chedworth Trunk Watermain project to align with developer timing.
- A rephasing deferral of $2.5M for the Ruakura Reservoir and Bulkmains project in line with the contractor construction programme.

$1M of savings has been identified through this programme as a result of a cost share negotiation and procurement planning with Ruakura Developers.

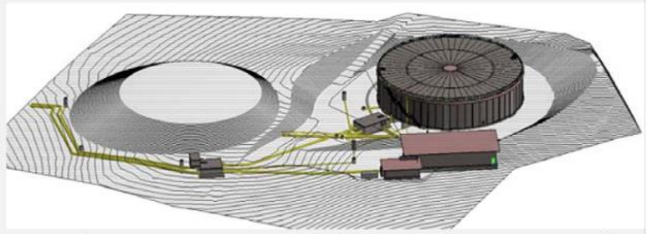
Revenue:
New, unbudgeted revenue of $0.2M has been achieved for the Ruakura Reservoir and Bulkmain due to cost share agreement in the development of the Ruakura Private Development Agreement.



Work continues on the Ruakura Bulk watermain connecting to the future Ruakura Reservoir. This work is progressing well and will be completed this financial year.

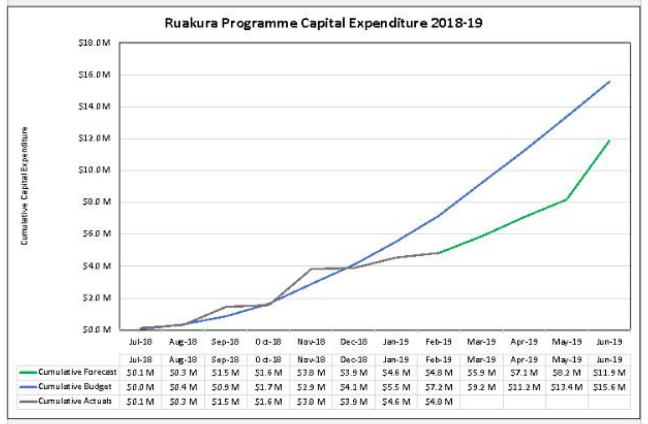
Ruakura Inland Port overview of port and logistics area (from TGH)

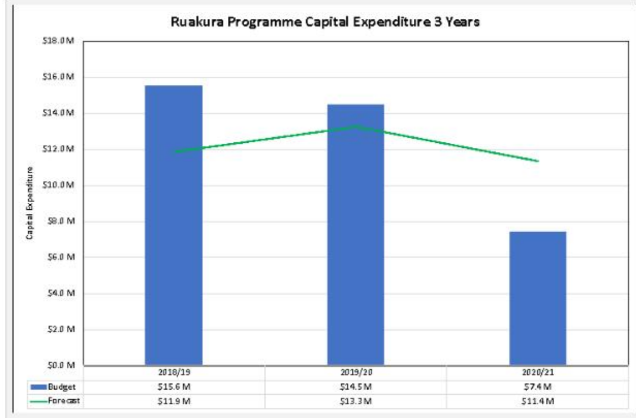
Ruakura green corridor concept with walking and biking facilities (from TGH)

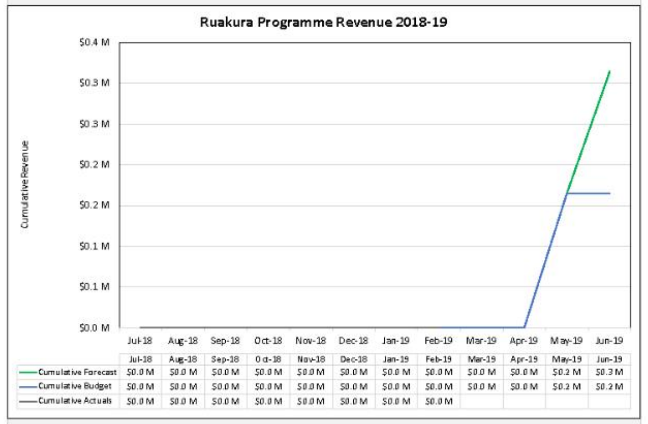


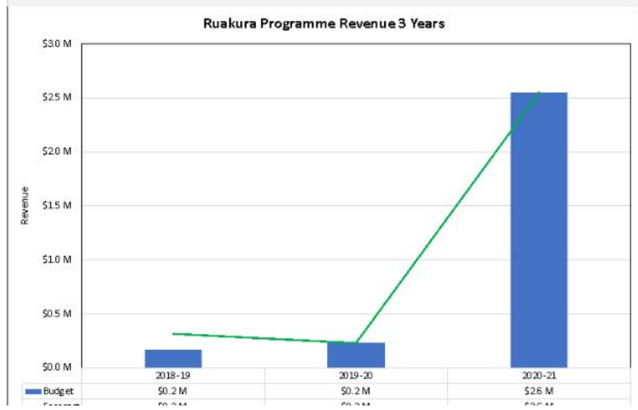
Ruakura Reservoir concept designs showing overall site including the first reservoir and pump house to be installed next finanical year and the future proposed site for the second reservior to be constructed Years 7 & 8 of LTP

Financial Performance









Renewals & Compliance Programme Capital Report

Hamilton City Council
Te kaunihera o Kirikiriroa

Programme Outcome:
Ko te tiaki aa taatou hua hei tika moo toona whainga.
Looking after the assets we have and making sure they are fit for purpose.

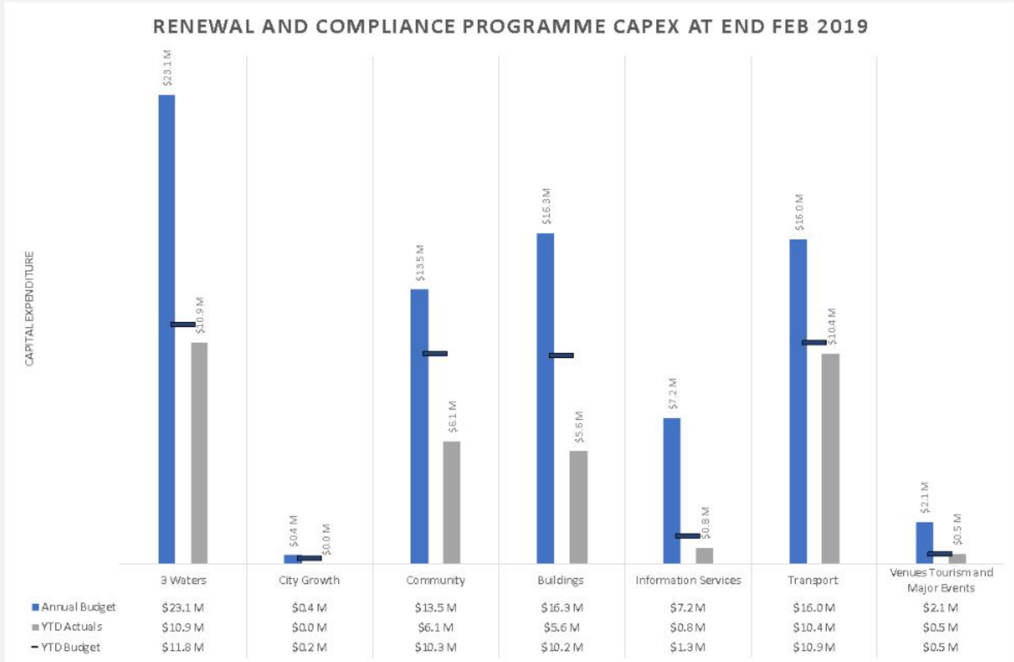
The programme is generally on track. Where there are concerns with delivery there are plans being put in place and programmes are being reset. This resetting and programming for next financial year and beyond will be the focus for the next month.

- Significant progress has been made with delivery of the larger renewals and compliance programme with little increase in staff resource. This is an enforced efficiency that is not recognizable in the financial performance metrics of the organisation.
- Resourcing for planning and delivery of future programmes and capitalization activities needs to be closely monitored as other organisational priorities (Kookiri) ramp up.
- There has been a marked improvement in programme delivery planning for year 1. Year 1 was significantly larger than following years (see graph on the right hand side).There is confidence that the pipeline planning for year 2/3 will place the organisation in a good place for successful delivery of the Renewals and Compliance programme.
- There are a number of great examples of cross team collaboration with the delivery of the programme e.g. Development group delivering Zoo water network works using the contract for water pipe renewals.

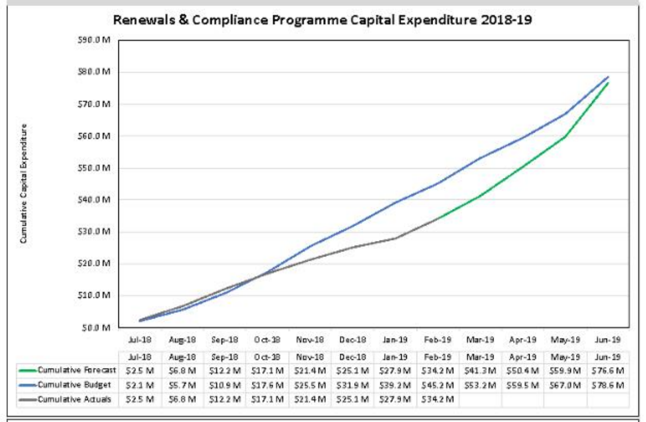
Capital Expenditure:
Total deferrals signalled of $2.0M consisting of;

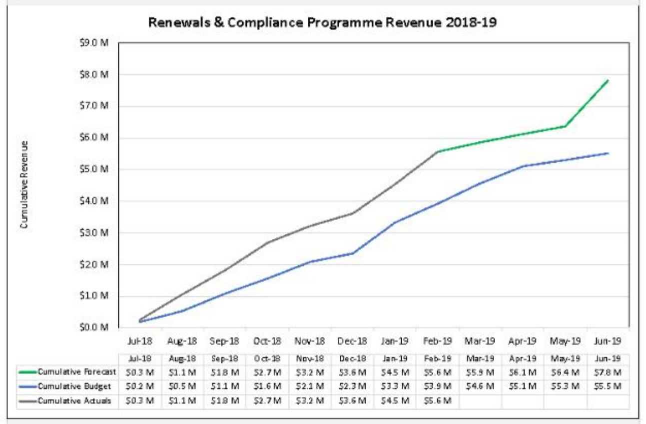
- A delay deferral of $0.4M for the Museum Roof to allow for appropriate seismic assessment design work to be completed prior to physical works.
- A delay deferral of $0.2M for the Council Chambers renewals to allow for completion in 2019/20 in alignment with the elected members period of absence.
- A rephasing deferral of $0.8M for the Crematorium building renewal to allow for the alignment with the physical works programme.
- A rephasing deferral of $0.2M for the Cemeteries Accessible Toilets to align with the contractors progamme for delivery.

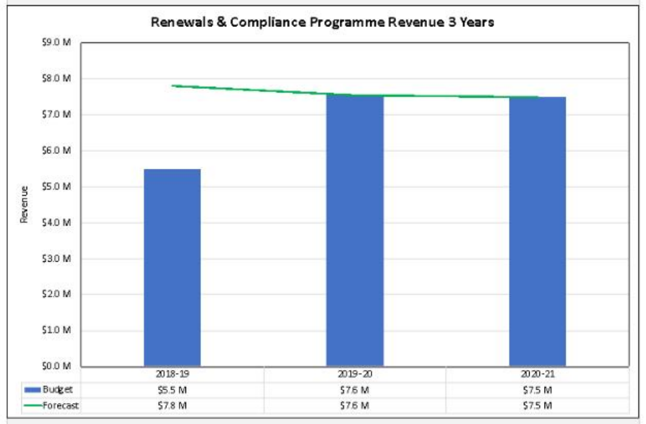
Revenue:
New, unbudgeted revenue has been secured for the Footpath renewals programme of $2.3M for 2018/19.



Financial Performance







Derek Heather Playground Renewal.

Swarbrick Park Toilet Renewals – before (left) and after (right)

Seddon Park Lights

Roof access walkways put in place to allow the safe access to air conditioning units at Claudelands.

Central Library Roof Renewal

Citywide Waters Programme Capital Report

Hamilton City Council
Te kaunihera o Kirikiriroa

Item 12

Attachment 1

Programme Outcome:
He wai tonu ka whai ture, ka haapai hoki I te tupuranga
Ensuring the provision of essential water services that allow for future growth and compliance

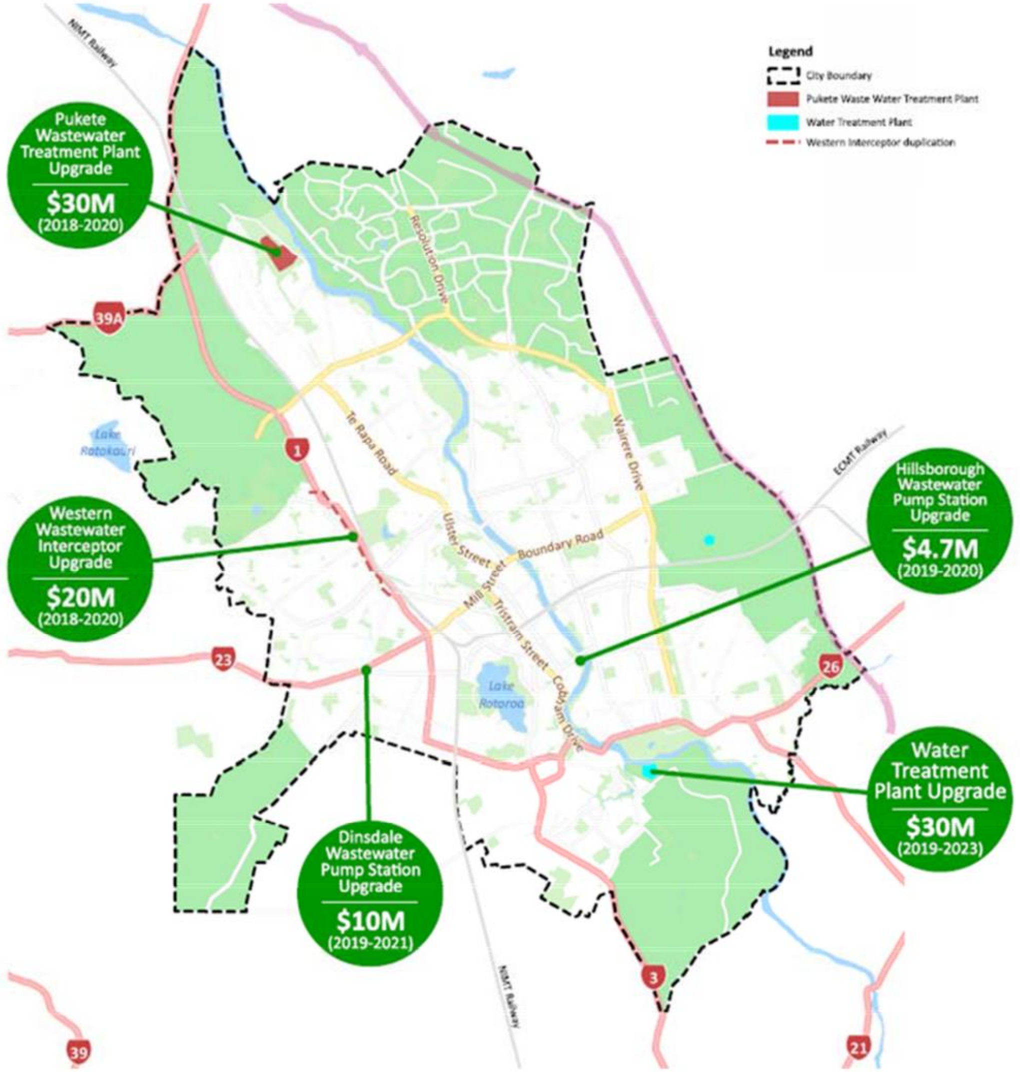
- Works are underway with the Pukete Wastewater Treatment Plant Upgrade including installation of a new chemical facility, Aeration basin and clarifier. The upgrade is essential to enable HCC to support future growth. There are several emerging risks, including identification of poor ground conditions below the clarifier site which require preloading to remedy.
- The Wairoa Water treatment plant upgrade is in design phase and is progressing well.
- The wastewater network capacity upgrade programme is progressing well. Contract Works for the duplication of the existing western interceptor between the Far Western Interceptor (Mangaharakeke Drive) to the twin mains at Rifle Range Road has commenced. A Tunnel Boring Machine (TBM) will be used to carry out trenchless excavation works under both state highway crossings and partway down Crawford Street. This methodology will ensure positional accuracy of the interceptor pipe, minimise traffic disruption and reduce impact to local businesses. Design of the Hillsborough pump station upgrade is well advanced.
- Water network improvement programme is progressing well and is on track. Work is underway in a total of 5 Demand Management Areas (DMAs). This work is proposed to create water supply zones from reservoirs. This programme will assist with enabling efficient water network supply, improve network resilience and reduce network water losses. The design of the Fairfield DMA is nearing completion and the Newcastle DMA concept design is being evaluated.
- Work is underway on erosion control projects on Te Awa O Katapaki Stream. We are currently scoping and designing 7 erosion projects on 5 streams to be undertaken over the next two to three years

Capital Expenditure:
Total deferrals of $14.7M have been made for 2018/19 consisting of;

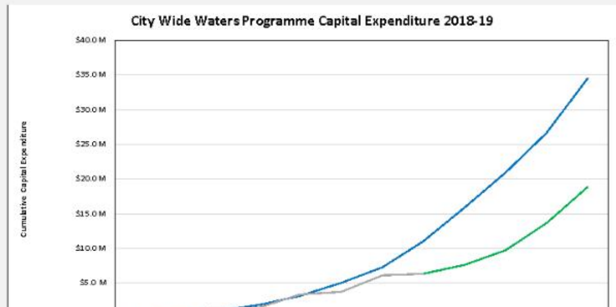
- A delay deferral of $1.1M for the DMA – Hillcrest Reservoir Zone to allow for extended investigation work.
- A rephasing deferral of $6.0M from 2018/19 out to 2019/20 and 2020/21 for the Pukete Wastewater Treatment Plant Upgrade to align with the contractor programme of works.
- A rephasing deferral of $1.4M is signalled for the Wairoa Wastewater Treatment Plant Upgrade to align with the programme of works.
- A rephasing deferral of $1.2M is signalled for the Dinsdale Pump Station Upgrade to allow for works over 3 years.
- A rephasing deferral of $3.3M is signalled for the Hillsborough Pump Station due to unexpected complexities in design. This is not expected to impact on the project end date.
- A rephasing deferral of $1.7M is signalled for the Western Interceptor Duplication to align with the contractors programme.

A $1m savings has been identified in relation to the Western Interceptor Duplication following award of the contract.

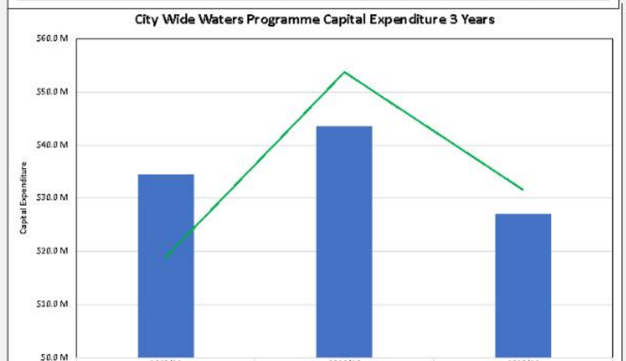
Revenue:
Additional revenue of $1.6M YTD has been received by this programme in relation to the customer service connections and the development upsizing contributions. This revenue is demand driven and is not budgeted.



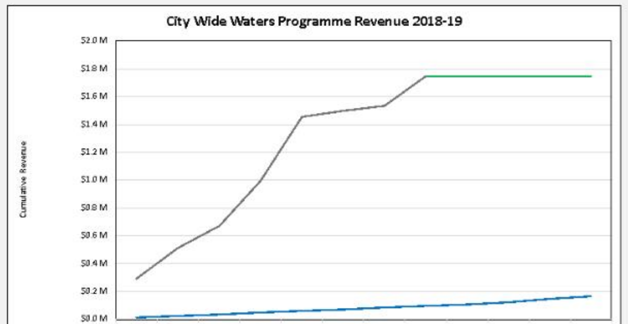
Financial Performance



	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
Cumulative Forecast	$0.1 M	$0.4 M	$1.0 M	$1.5 M	$3.4 M	$3.7 M	$6.1 M	$6.3 M	$7.6 M	$9.7 M	$13.7 M	$18.8 M
Cumulative Budget	$0.2 M	$0.5 M	$1.0 M	$1.8 M	$3.1 M	$5.0 M	$7.3 M	$11.0 M	$15.8 M	$20.9 M	$26.6 M	$34.5 M
Cumulative Actuals	$0.1 M	$0.4 M	$1.0 M	$1.5 M	$3.4 M	$3.7 M	$6.1 M	$6.3 M				



	2018/19	2019/20	2020/21
Budget	$34.5 M	$43.5 M	$27.1 M
Forecast	$18.8 M	$53.7 M	$31.6 M



	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
Cumulative Forecast	$0.3 M	$0.5 M	$0.7 M	$1.0 M	$1.5 M	$1.5 M	$1.5 M	$1.7 M	$1.7 M	$1.7 M	$1.7 M	$1.7 M
Cumulative Budget	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.1 M	$0.1 M	$0.1 M	$0.1 M	$0.1 M	$0.1 M	$0.1 M	$0.2 M
Cumulative Actuals	$0.3 M	$0.5 M	$0.7 M	$1.0 M	$1.5 M	$1.5 M	$1.5 M	$1.7 M				

	2018-19	2019-20	2020-21
Budget	$0.2 M	$0.4 M	$1.0 M
Forecast	$1.7 M	$0.4 M	$1.0 M

Photos from Pukete 3 Wastewater Treatment Plant

Work has commenced on the Clarifier 5.

Aeration basin ground preparation

Chemical building works

Citywide Community Programme Capital Report

Hamilton City Council
Te kaunihera o Kirikiriroa

Programme Outcome:
Whakapai atu te mauri o ngaa waahi taangata me ngaa waahi wairua auaha
Improving the vibrancy of our social and creative spaces

Initial consultation for the Zoo / Waiwhakareke Entry Precinct has been completed. Outline Plans and Resource Consent have been submitted, along with the lotteries funding application. Detailed design is progressing.

The Waiwhakareke Park Development is on track for completion this financial year.

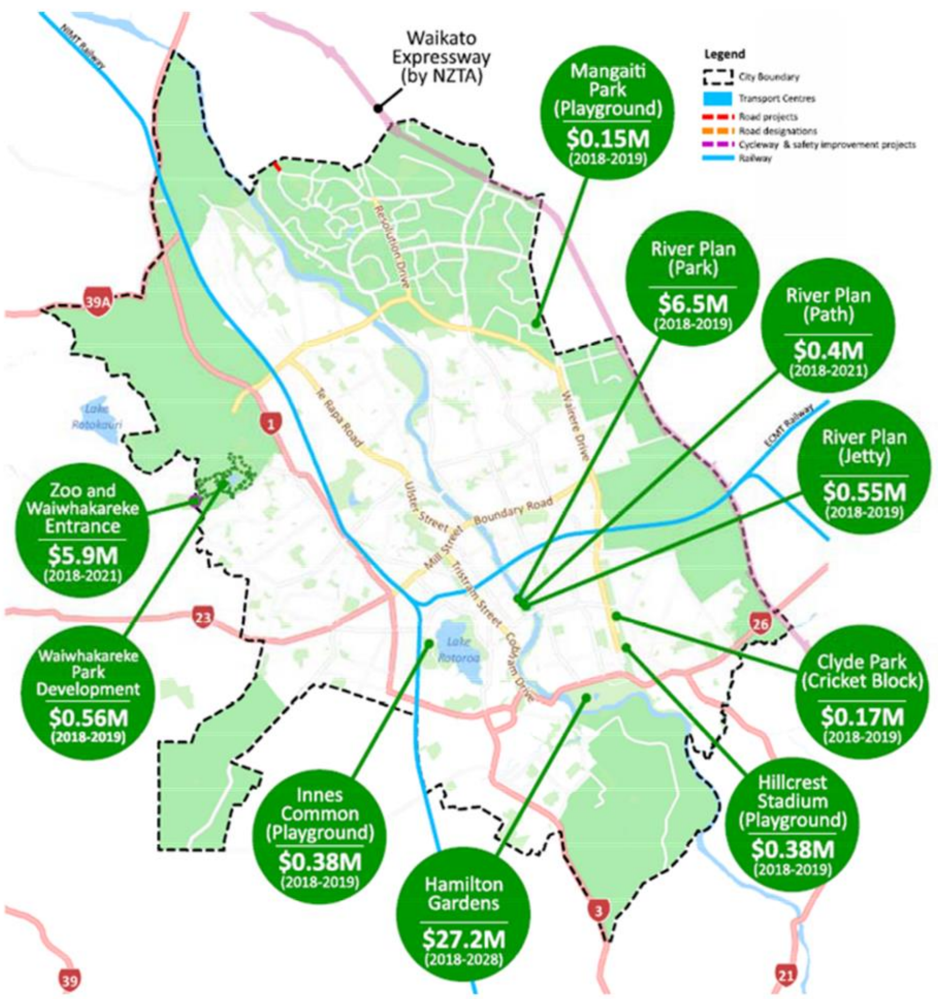
External funding for the Playgrounds Development programme has been confirmed for 2018/19 and staff are working through ways to address the $23k shortfall. Consultation on Hillcrest playgrounds is currently underway. The revised Playground Development Plan was adopted at this March 2019 Council Meeting.

The focus for the Hamilton Gardens Development Programme has been on defining the detailed staged planning to enable physical works to commence this year and continuing into next year. A deferral of $1.2M has been signalled to support this.

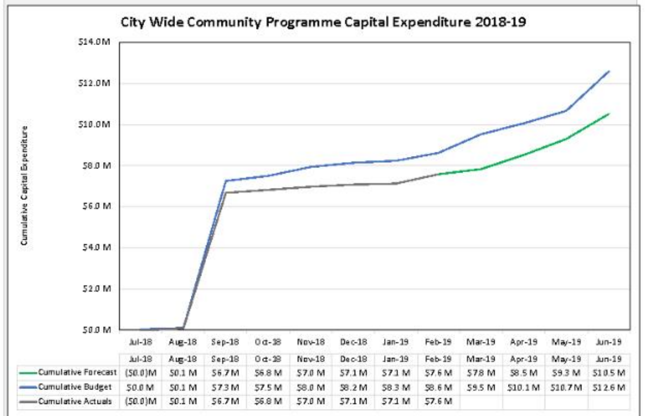
The Central City Jetty project is consented and work is progressing on contract negotiations. We are working on finding other Waikato River projects to share the cost of the barge while also aligning with the required timing for these works.

Capital Expenditure:
Total capital deferrals of $1.6M have been made for this programme consisting of:
- Hamilton Gardens Development delay deferral of $1.2M to align with the contractors programme.
- Land Purchase delay deferral of $0.4M as we await opportunities to acquire land as they arise.

Revenue:
This programme is on track to achieve the $0.6M for the Playground Development Programme and the Hamilton Gardens Development Programme.

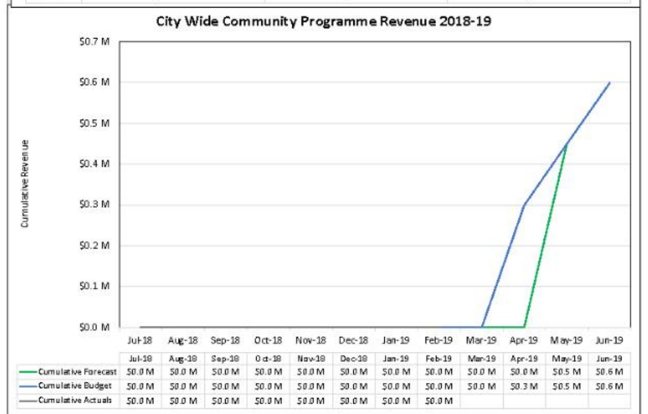


Financial Performance

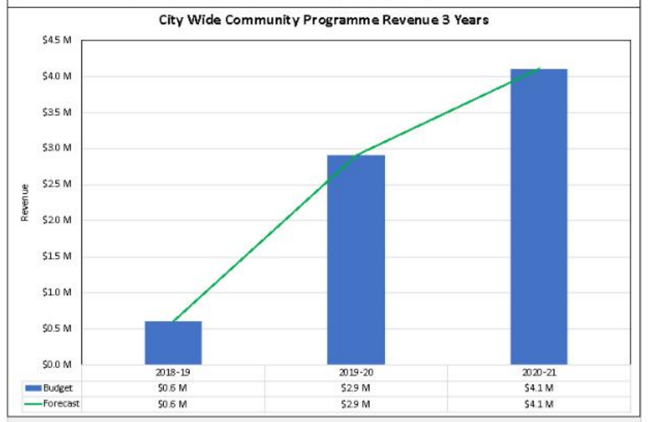


	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
Cumulative Forecast	($0.0)M	$0.1 M	$6.7 M	$6.8 M	$7.0 M	$7.1 M	$7.1 M	$7.6 M	$7.8 M	$8.5 M	$9.3 M	$10.5 M
Cumulative Budget	$0.0 M	$0.1 M	$7.3 M	$7.5 M	$8.0 M	$8.2 M	$8.3 M	$8.6 M	$9.5 M	$10.1 M	$10.7 M	$12.6 M
Cumulative Actuals	($0.0)M	$0.1 M	$6.7 M	$6.8 M	$7.0 M	$7.1 M	$7.1 M	$7.6 M				

	2018/19	2019/20	2020/21
Budget	$12.6 M	$4.4 M	$8.8 M
Forecast	$10.5 M	$6.0 M	$8.8 M



	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
Cumulative Forecast	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.5 M	$0.6 M
Cumulative Budget	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.3 M	$0.5 M	$0.6 M
Cumulative Actuals	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M	$0.0 M				



	2018-19	2019-20	2020-21
Budget	$0.6 M	$2.9 M	$4.1 M
Forecast	$0.6 M	$2.9 M	$4.1 M

Mangaiti Playground development is underway and expected to be complete by 30 June 2019.

Pacifica Garden concept diagram – part of the Hamilton Gardens Development Programme.

The new Hillcrest Park toilets are near completion.

The existing Central City Jetty due to be replaced with a new jetty.

Transport Improvement Programme Capital Report

Hamilton City Council
Te kaunihera o Kirikiriroa

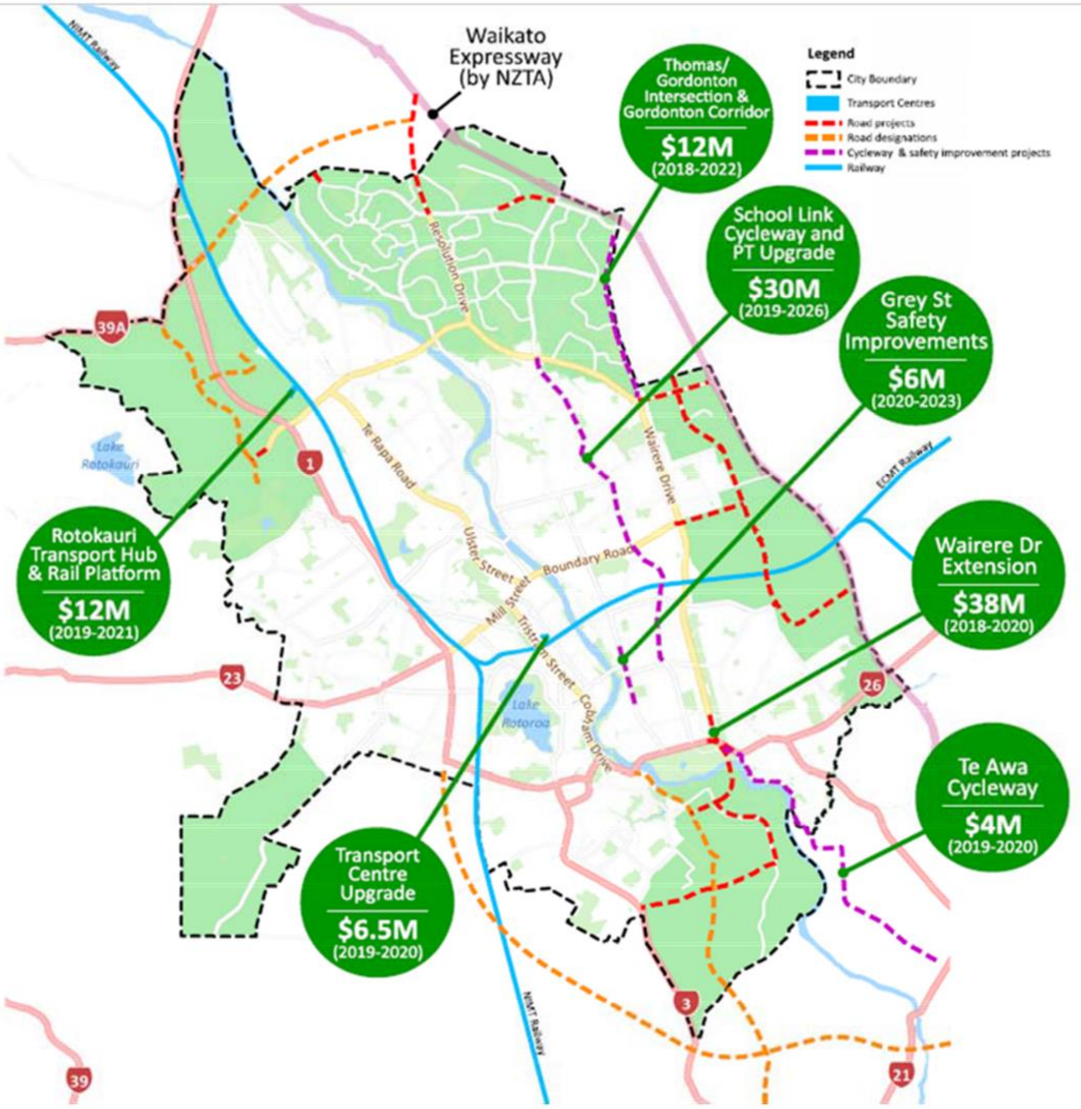
Programme Outcome:
Kia tika ano te hanga rori maa;
- *Aahienga whakatupu*
- *Whakapai atu haumaru, me*
- *Whakawhaanui atu ngaa koowhiringa waka*

Delivering a balanced transport system through;
- **Enabling growth**
- **Improving safety, and**
- **Improving transport choice**

- The programme is progressing well with positive outcomes from the HCC-NZTA engagements. Project identification and scoping are being done in relation to the Mass transit Programme and Auckland - Hamilton Corridor. Although there are significant risks regarding NZTA revenue, there is significant financial opportunities regarding Targeted Enhanced Funding Assistance Rate (TEFAR).
- A number of projects in this programme are in the initiation phase and require significant engagement with NZTA to move into planning and delivery. This is currently a significant risk in regard to both HCC & NZTA resourcing.
- A number of projects within this programme are also reliant on strategic outcomes/direction from the Hamilton-Auckland Corridor Plan and Mass Transit Plan. These dependencies are being further understood and addressed, however could result in significant impact on delivery of the works programme if there are any delays or if projects are put on hold to wait for confirmation of strategic alignment.

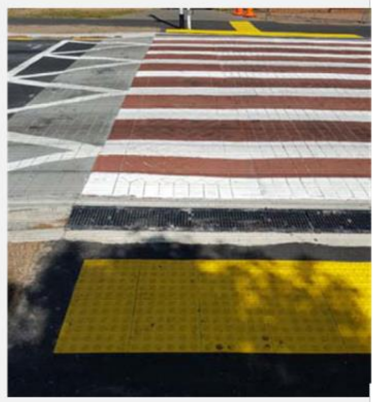
Capital Expenditure:
Total capital deferrals of $10.8M from 2018/19 have been made for this programme consisting of:
- Mass Transit delay deferral of $0.4M to ensure alignment with the Hamilton to Auckland corridor discussion.
- Rotokauri Park and Ride rephasing deferral of $1.6M for the delivery of the Rotokauri Rail Platform and Tasman Road works. Physical works for this will commence next financial year.
- School Link & University Route delay deferral of $1.8M to align with the expected commencement of physical works next financial year following the completion the business case this financial year.
- Transport Centre Upgrade & Bus Shed delay deferral of $0.3M due to ongoing third party discussions regarding the bus driver facilities on site with WRC and Go-Bus.
- Gordonton Road delay deferral of $1M signalled due to risk of third party land purchase not being completed.
- Ring Road rephasing deferral of $5.7M from 2018/19 and $3.3M from 2019/20 to 2020/21. This deferral is to align with the contractors work programme.

Revenue:
- Additional revenue of $0.8M has been successfully secured from NZTA TEFAR funding for the Thomas Gordonton Intersection.
- Total revenue deferrals of $6.7M have been signalled for this programme and are directly associated with the capital expenditure deferrals for projects with NZTA subsidy.



Wairere/Cobham(SH1) Interchange – works are underway.

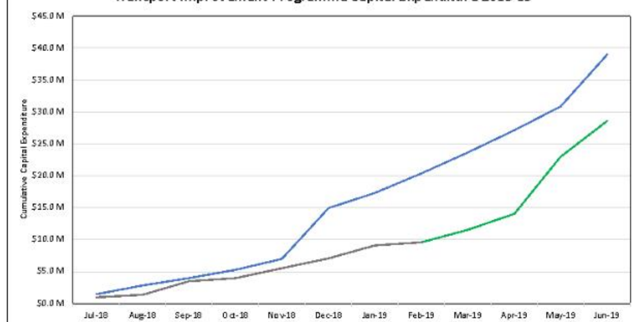
Thomas/Gordonton Road Intersection is on track from completion in April 2019.



An example of the new pedestrian crossings that have been implemented. This is the Knighton Road crossing outside the school.

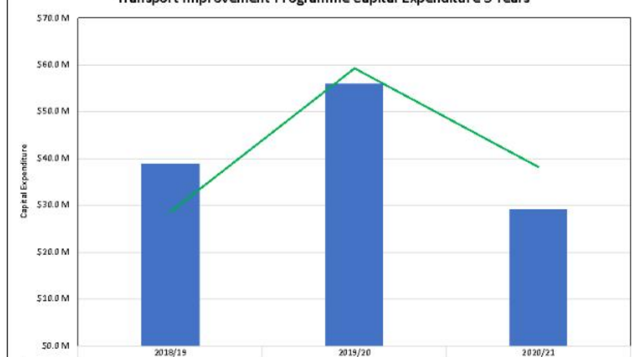
Financial Performance

Transport Improvement Programme Capital Expenditure 2018-19



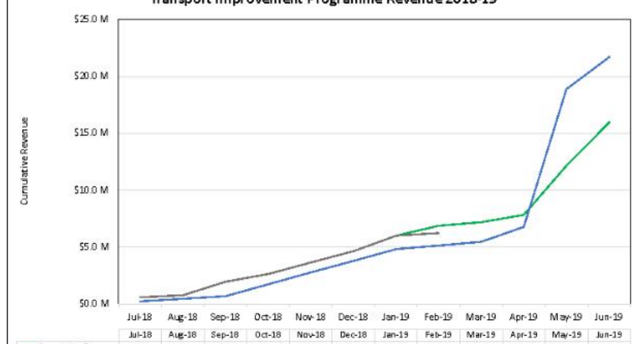
	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
Forecast	$1.0 M	$1.4 M	$3.5 M	$4.0 M	$5.5 M	$7.0 M	$9.1 M	$9.6 M	$11.5 M	$14.0 M	$23.0 M	$28.6 M
Budget	$1.4 M	$2.8 M	$3.9 M	$5.3 M	$6.9 M	$14.9 M	$17.3 M	$20.3 M	$23.7 M	$27.1 M	$30.9 M	$39.0 M
Actuals	$1.0 M	$1.4 M	$3.5 M	$4.0 M	$5.5 M	$7.0 M	$9.1 M	$9.6 M				

Transport Improvement Programme Capital Expenditure 3 Years



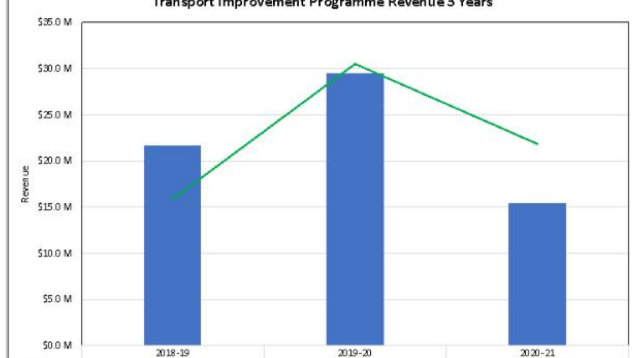
	2018/19	2019/20	2020/21
Budget	$39.0 M	$56.1 M	$29.2 M
Forecast	$28.6 M	$59.3 M	$38.2 M

Transport Improvement Programme Revenue 2018-19



	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
Cumulative Forecast	$0.6 M	$0.8 M	$2.0 M	$2.7 M	$3.6 M	$4.6 M	$6.0 M	$6.9 M	$7.2 M	$7.8 M	$12.1 M	$15.9 M
Cumulative Budget	$0.2 M	$0.5 M	$0.7 M	$1.7 M	$2.8 M	$3.8 M	$4.8 M	$5.2 M	$5.5 M	$6.8 M	$18.9 M	$21.7 M
Cumulative Actuals	$0.6 M	$0.8 M	$2.0 M	$2.7 M	$3.6 M	$4.6 M	$6.0 M	$6.2 M				

Transport Improvement Programme Revenue 3 Years



	2018-19	2019-20	2020-21
Budget	$21.7 M	$29.5 M	$15.5 M
Forecast	$15.9 M	$30.5 M	$21.9 M

Peacocke Programme Capital Report

Hamilton City Council
Te kaunihera o Kirikiriroa

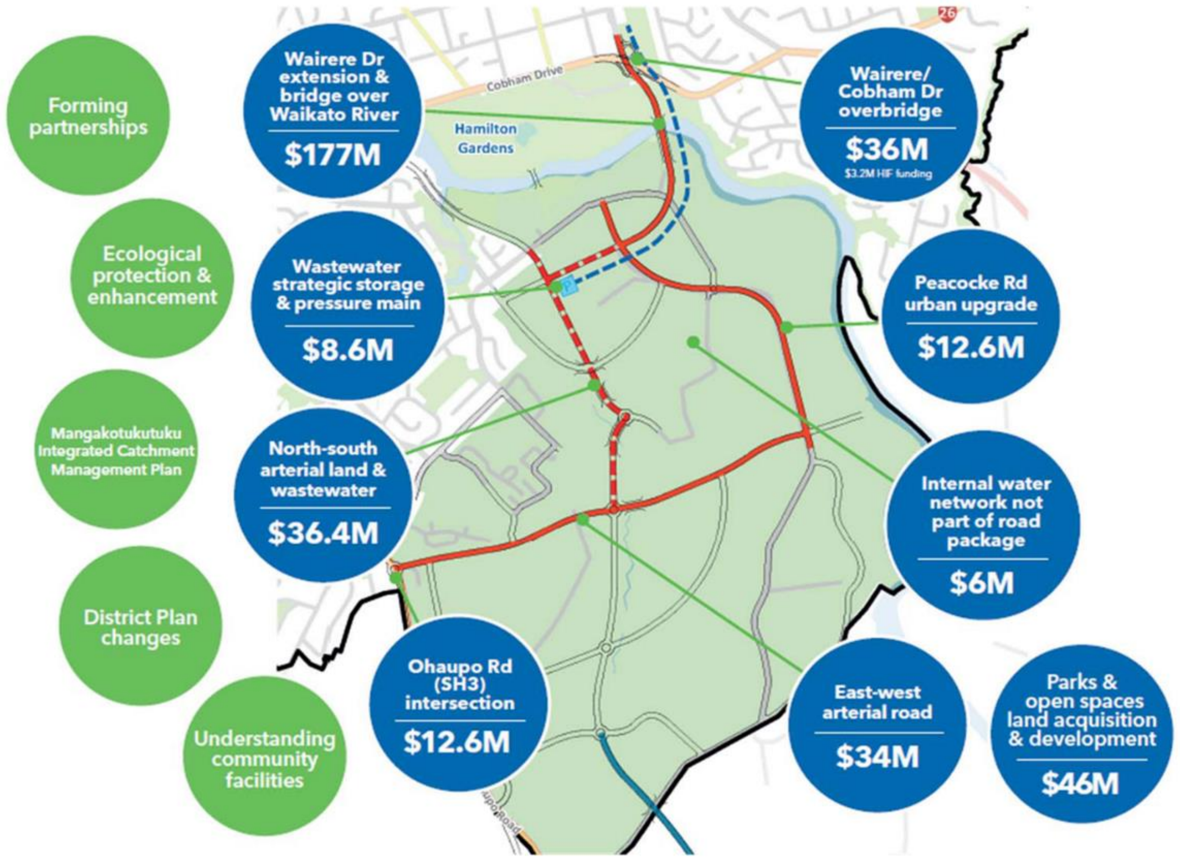
Programme Outcome:
Ko te aaheinga o te hanga he waahi ataahua, he waahi toiora ki Peacocke
Enabling the development of an attactive and sustainable community in the Peacocke growth area.

- The project management team delivering the Peacocke Capital Infrastructure Programme is now complete and active
- Land acquisition is tracking well in accordance with the business case, however remains a risk to the programme with several difficult conversations with landowners
- Investigation and design for the lead network infrastructure is underway and on track
- The bridge investigation and design is on track with Council approval of macroscope scheduled for May/June 2019
- SH3/Ohaupo Intersection and East-West Arterial is due to commence construction this summer with enabling works commencing in the coming months
- Land has been purchased for Stage 1 Neighbourhood Park, as per the 10 Year Plan
- Planning is under way for a public open day in April 2019

Capital Expenditure:
Total capital deferrals of $23.9M have been signalled for this programme consisting of;
- A rephasing deferral of $10.3M from 2018/19 to 2020/21 to align with the revised programme of works.
- A rephasing deferral of $13.7M for the Land Acquisition Programme to align with the expected programme.

The capital spending for the Peacocke Programme is gaining momentum as the professional services contracts are in place and work is progressing.

Revenue:
- The revenue received to date for this programme is NZTA subsidy received for designa dn investigation works and land acquisition.
- A revenue deferral of $8.2M has been signalled and is directly related to the capital expenditure deferrals for projects with NZTA funding.

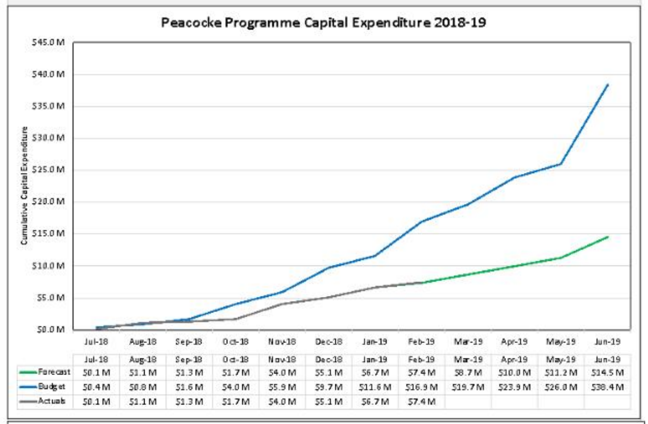


View from Peacockes back towards Hamilton

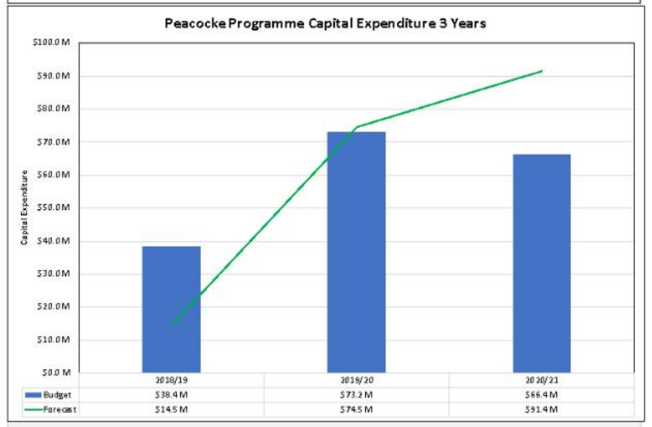
Peacocke land.

Peacocke provides a habitat for long tailed bats which means special consideration for infrastructure delivery and urbanisation of the area.

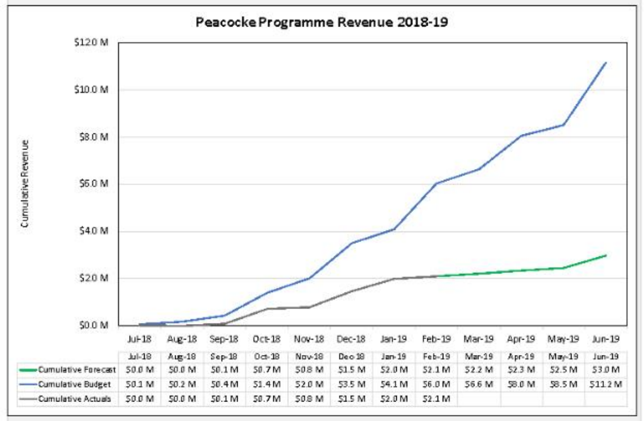
Financial Performance



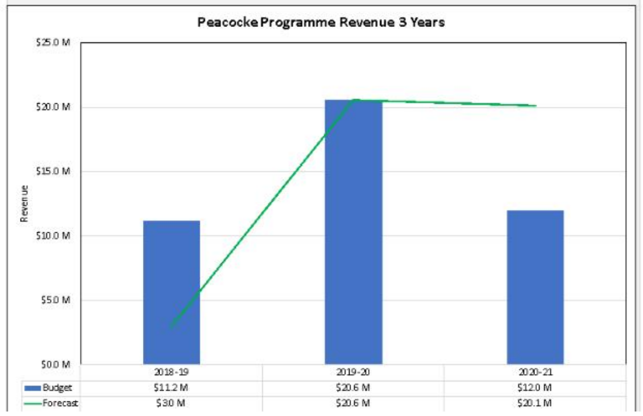
	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
Forecast	$0.1 M	$1.1 M	$1.3 M	$1.7 M	$4.0 M	$5.1 M	$6.7 M	$7.4 M	$8.7 M	$10.0 M	$11.2 M	$14.5 M
Budget	$0.4 M	$0.8 M	$1.6 M	$4.0 M	$5.9 M	$9.7 M	$11.6 M	$16.9 M	$19.7 M	$23.9 M	$26.0 M	$38.4 M
Actuals	$0.1 M	$1.1 M	$1.3 M	$1.7 M	$4.0 M	$5.1 M	$6.7 M	$7.4 M				



	2018/19	2019/20	2020/21
Budget	$38.4 M	$73.2 M	$66.4 M
Forecast	$14.5 M	$74.5 M	$91.4 M



	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
Cumulative Forecast	$0.0 M	$0.0 M	$0.1 M	$0.7 M	$0.8 M	$1.5 M	$2.0 M	$2.1 M	$2.2 M	$2.3 M	$2.5 M	$3.0 M
Cumulative Budget	$0.1 M	$0.2 M	$0.4 M	$1.4 M	$2.0 M	$3.5 M	$4.1 M	$6.0 M	$6.6 M	$8.0 M	$8.5 M	$11.2 M
Cumulative Actuals	$0.0 M	$0.0 M	$0.1 M	$0.7 M	$0.8 M	$1.5 M	$2.0 M	$2.1 M				



	2018-19	2019-20	2020-21
Budget	$11.2 M	$20.6 M	$12.0 M
Forecast	$3.0 M	$20.6 M	$20.1 M

CAPITAL EXPENDITURE
for the eight months ended 28 February 2019

	Type	YTD Expenditure: Actual	YTD Expenditure: Total YTD Budget	YTD Expenditure: Variance	Annual Budget: 2018/19 Approved Budget	Annual Budget: 2017/18 Deferrals	Annual Budget: Total Capital Budget	Capital Revenue: Actual	Capital Revenue: Annual Capital Revenue Budget
ARTS AND COMMUNITY		$000	$000	$000	$000	$000	$000	$000	$000
Libraries									
CE10005 - Library collection purchases	R	735	724	(11)	1,135		1,135	0	0
CE10006 - Library asset renewal	R	95	98	3	121		121	0	0
CE10007 - Library building asset renewal programme	R	228	203	(24)	343		343	0	0
CE19015 - Libraries Facilitation Plan	LOS	14	80	66	80		80	0	0
Total libraries		1,071	1,105	35	1,679	0	1,679	0	0
Theatres									
CE10013 - Technical services equipment renewals	R	213	225	12	386	0	386	0	0
Total Theatres		213	225	12	386	0	386	0	0
Community Development									
CE19070 - Community Facilities Building Renewals	R	51	49	(2)	49	0	49	0	0
Total Community Development		51	49	(2)	49	0	49	0	0
TOTAL ARTS AND COMMUNITY		1,335	1,379	44	2,114	0	2,114	0	0
VENUES, TOURISM AND MAJOR EVENTS									
CE10041 - Claudelands plant and equipment	R	141	0	(141)	214	200	414	0	0
CE10042 - Seddon Park plant and equipment	R	5	0	(5)	2	52	54	0	0
CE10043 - Waikato Stadium plant and equipment	R	13	172	159	330	0	330	0	0
CE10044 - Turf services plant and equipment	R	25	26	1	52	0	52	0	0
CE10046 - Seddon Park property renewals	R	23	23	0	60	160	220	0	0
CE10047 - Waikato Stadium property renewals	R	71	19	(52)	33	0	33	(2)	2
CE10048 - Stadia building renewals	R	561	842	281	3,070	0	3,070	0	0
CE10049 - Claudelands building renewals	R	514	327	(187)	413	0	413	0	0
CE15050 - Claudelands capital improvement programme	LOS		0	0	100	0	100	0	0
CE15051 - Stadia capital improvement function	LOS	32	560	528	970	0	970	0	0
TOTAL VENUES, TOURISM AND MAJOR EVENTS		1,384	1,969	585	5,244	412	5,656	(2)	2
PARKS AND RECREATION									
Pools									
CE10001 - Aquatic facilities building renewals	R	3,966	4,228	262	442	3,911	4,353	0	0
CE10003 - Waterworld operational asset renewals	R	480	581	101	734	0	734	0	0
CE10004 - Gallagher Aquatic Centre operational asset renewal	R	32	124	92	185	0	185	0	0
Total Pools		4,478	4,933	455	1,361	3,911	5,272	0	0
Cemeteries and Crematorium									
CE10021 - Building renewals cemeteries	R	700	936	236	1,679	318	1,997	0	0
CE10022 - Renewal of crematorium assets	R	30	0	(30)	21	24	45	0	0
CE10023 - Hamilton Park east and west cemeteries renewals	R	26	15	(11)	53	0	53	0	0
CE19001 - Hamilton Park Cemetery Accessible Toilet Block	LOS	47	427	380	427	28	455	0	0
CE15024 - Hamilton Park cemetery, burial and ash lawn extension	G	4	15	11	75	0	75	0	0
Total Cemeteries and Crematorium		808	1,393	585	2,255	370	2,625	0	0
Community Parks									
CE10029 - Toilet and changing room renewals	R	50	104	54	104	0	104	0	0
CE10030 - Building renewals parks and open spaces	R	9	83	74	83	0	83	0	0
CE10032 - Parks and open spaces assets and playgrounds renewals (R)	R	123	647	523	1,349	0	1,349	(9)	9
CE19004 - Destination Parks Renewals	R	7	485	478	977	0	977	0	0
CE15036 - Playground development programme	LOS	168	425	257	900	0	900	0	0
CE16001 - Victoria On The River Development	LOS	0	0	0	0	0	0	0	0
CE17004 - River Plan	LOS	6,626	7,000	374	7,000	962	7,962	0	0
CE19012 - Day's Park Erosion Remediation	LOS	4	3	(1)	242	0	242	0	0
CE19013 - Pooches and Parks	LOS	18	177	159	177	0	177	0	0
CE19014 - Waiwhakareke Natural Heritage Park Development	LOS	192	500	308	710	0	710	0	0
CE19022 - Alternative Weed Control	LOS		20	20	20	0	20	0	0
CE15033 - Land Purchase future Reserves	G	18	0	(18)	2,250	541	2,791	0	0
CE19007 - Peacocke Parks Development	G	2,101	0	(2,101)	1,094	0	1,094	0	0
CE19009 - Rototuna Parks Development	G		0	0	0	0	0	0	0
Total Community Parks		9,318	9,444	126	14,905	1,503	16,408	(9)	9
Sports Parks									
CE10031 - Sports area renewals	R	288	207	(81)	473	0	473	0	0
CE19003 - Parks Toilets Development/Upgrade	LOS	398	1,042	644	1,052	0	1,052	0	0
CE15035 - Rototuna Park Development	G	950	1,921	971	3,862	69	3,931	0	0
CE19005 - Sports Park Development (G)		139	0	(139)	0	0	0	0	
Total Sports Parks		1,776	3,170	1,394	5,387	69	5,456	0	0
TOTAL PARKS AND RECREATION		16,380	18,940	2,560	23,909	5,853	29,762	(9)	9
VISITOR ATTRACTIONS									
Hamilton Gardens									
CE10026 - Hamilton Gardens renewals	R	78	225	147	210	15	225	0	0
CE10028 - Hamilton Gardens building renewals	R	42	40	(2)	50	0	50	0	0
CE19023 - Hamilton Gardens Development	LOS	390	685	295	1,900	486	2,386	0	0
Total Hamilton Gardens		510	950	440	2,160	501	2,661	0	0
Hamilton Zoo									
CE10015 - Zoo animal enclosure renewals	R	4	328	323	388	0	388	0	0
CE10016 - Zoo building renewals	R	14	33	19	33	0	33	0	0
CE10017 - Property renewals	R	91	49	(42)	49	0	49	0	0
CE10020 - Zoo animal replacement	R	6	30	24	60	0	60	0	0
CE19021 - Water and Stormwater Reticulation	R	19	594	576	845	0	845	0	0
CE19019 -Zoo Safety Improvements	LOS	226	1,667	1,441	1,710	57	1,767	0	0
CE19020 - Hamilton Zoo Improvement programme	LOS	4	75	71	75	0	75	0	0
CE19030 - Zoo and Waiwhakareke Entrance Precinct	LOS	54	170	116	250	0	250	0	0
Total Hamilton Zoo		418	2,945	2,527	3,409	57	3,466	0	0

CAPITAL EXPENDITURE

for the eight months ended 28 February 2019

	Type	YTD Expenditure: Actual	YTD Expenditure: Total YTD Budget	YTD Expenditure: Variance	Annual Budget: 2018/19 Approved Budget	Annual Budget: 2017/18 Deferrals	Annual Budget: Total Capital Budget	Capital Revenue: Actual	Capital Revenue: Annual Capital Revenue Budget
Waikato Museum									
CE10008 - Museum asset renewal	R	69	94	24	110	0	110	0	0
CE19028 Collection Acquisition Fund	R	35	30	(5)	50	0	50	0	0
CE10010 - Public art support fund	R	56	22	(34)	30	58	88	0	0
CE10011 - Museum activity building renewals	R	64	45	(19)	589	41	630	0	0
CE10009 - ArtsPost earthquake strengthening	LOS	21	0	(21)	800	0	800	0	0
Total Waikato Museum		245	191	(54)	1,579	99	1,678	0	0
TOTAL VISITOR ATTRACTIONS		1,172	4,086	2,914	7,148	657	7,805	0	0
SAFETY									
CE10037 - CCTV renewals	R	0	20	20	50	0	50	0	0
TOTAL SAFETY		0	20	20	50	0	50	0	0
RUBBISH AND RECYCLING									
CE10054 - Replacement of closed landfill assets	R	40	140	100	519	0	519	0	0
CE10056 - Replacement of RTS & HOC assets	R	17	275	258	342	0	342	0	0
CE15055 - Closed landfill management	LOS	12	55	43	90	0	90	0	0
TOTAL RUBBISH AND RECYCLING		69	470	401	951	0	951	0	0
STORMWATER									
CE10058 - Replacement of stormwater assets	R	620	330	(290)	516	397	913		0
CE15067 - Comprehensive stormwater consent implementation	LOS	35	30	(5)	30	0	30		0
CE19026 - Erosion Control Works	LOS	20	507	487	1,306	0	1,306	(30)	30
CE15059 - Rototuna stormwater infrastructure	G	3,884	4,100	216	4,532	0	4,532		0
CE15060 - Rotokauri stormwater infrastructure stage 1	G	167	325	158	900	1,275	2,175		0
CE15062 - Peacocke stormwater infrastructure stage 1	G	9	50	41	998	0	998		0
CE15063 - Peacocke stormwater infrastructure stage 2	G	19	125	106	2,334	0	2,334		0
CE15064 - Stormwater pipe upgrade - growth	G	28	60	32	150	0	150		0
CE15066 - Existing network improvements in new areas	G	49	65	16	105	0	105	(94)	94
CE15068 - Stormwater customer connections to the network	G	356	32	(324)	50	0	50	(257)	225
CE15162 - Integrated catchment management plan	G	625	1,009	384	920	558	1,478		0
TOTAL STORMWATER		5,812	6,633	821	11,841	2,230	14,071	(381)	349
TRANSPORT									
Parking Management									
CE10069 - Resurfacing off street carparks	R		0	0	25	0	25	0	0
CE10070 - Replacement of parking enforcement equipment	R	8	83	75	188	83	271	0	0
CE10071 - Parking building renewal	R	206	687	481	408	279	687	0	0
Total Parking Management		214	770	556	621	362	983	0	0
Transport Network									
CE10072 - Replacement of footpath	R	2,614	3,042	428	4,552	0	4,552	(1,330)	1,330
CE10074 - Replacement of drainage (kerb and channel)	R	1,255	1,012	(243)	1,531	0	1,531	(662)	148
CE10075 - Replacement of road base	R	725	1,008	282	1,192	0	1,192	(383)	(126)
CE10076 - Road resurfacing	R	3,511	4,319	807	4,986	0	4,986	(1,853)	(346)
CE10077 - Replacement of bridges and culverts	R	375	411	36	1,245	0	1,245	(198)	(10)
CE10080 - Replacement of lighting	R	1,335	625	(710)	1,185	0	1,185	(761)	442
CE10081 - Replacement of traffic equipment	R	542	208	(334)	365	0	365	(286)	189
CE10098 - Building and property renewals	R	115	252	137	252	0	252	(80)	80
CE15085 - Minor improvements to transport network	LOS	1,409	1,334	(75)	2,000	0	2,000	(743)	63
CE15086 - Bus stop infrastructure	LOS	36	433	398	650	0	650	(9)	(212)
CE19052 - Intersection Safety Upgrade Programme	LOS		110	110	310	0	310		0
CE19054 - Bridge Safety Improvements	LOS	0	77	77	130	0	130		(39)
CE19062 - Bridge Resilience Programme	LOS		80	80	500	0	500		(41)
CE19064 - Transport Centre Rejuvenation	LOS	16	634	618	950	0	950	(8)	(315)
CE15087 - Network upgrades to allow new development	G	56	40	(16)	175	0	175		0
CE15088 - Roading upgrades and development in Peacocke stage 1	G	791	2,010	1,218	3,868	0	3,868	(414)	(611)
CE15089 - Roading upgrades and development in Peacocke stage 2	G	3,408	11,514	8,106	20,638	468	21,106	(1,793)	(3,220)
CE15090 - Roading upgrades and development in Rotokauri stage 1	G	117	2,535	2,418	8,247	0	8,247		0
CE15092 - Roading upgrades and development in Rototuna	G	3,585	5,834	2,249	15,284	3,206	18,490	(3,397)	76
CE15093 - Roading upgrades and development in Ruakura	G	37	115	78	325	0	325		0
CE15095 - Integrated transport initiatives	G	702	1,000	298	1,500	0	1,500	(367)	(143)
CE19057 - Biking Plan Implementation	G	348	1,314	966	3,750	0	3,750		(136)
CE19058 - Mass Transit	G	49	6,510	6,461	6,750	0	6,750		0
CE19037 - Hamilton Transport Model	G		5	5	50	0	50		0
CE19036 - Ring Road	G	5,178	7,697	2,519	12,122	3,931	16,053	(3,790)	3,790
CE19038 - Rotokauri rail platform	G	22	120	98	750	0	750		0
Total Transport Network		26,226	52,237	26,011	93,307	7,605	100,912	(16,074)	919
TOTAL TRANSPORT		26,440	53,007	26,567	93,928	7,967	101,895	(16,074)	919
WASTEWATER									
Wastewater Reticulation									
CE10100 - Replacement of wastewater pump stations	R	600	545	(55)	1,058	0	1,058		0
CE10101 - Replacement of wastewater assets	R	2,848	2,546	(302)	3,036	0	3,036		0
CE15103 - Increase capacity of wastewater pump stations	LOS	36	260	224	323	500	823		0
CE15104 - Wastewater pipe upgrade - growth	G		150	150	300	0	300		0
CE15105 - Increase capacity of wastewater network - Rototuna	G	39	55	16	312	0	312		0
CE15106 - Wastewater network upgrades to allow development	G	215	35	(180)	80	0	80	(145)	145
CE15107 - Increase capacity of network in Rotokauri stage 1	G	0	205	205	681	0	681		0
CE15109 - Increase capacity of network in Peacocke stage 1	G	6	134	128	189	0	189		0
CE19040 - Increase capacity network Peacocke Stage 2	G	234	1,754	1,520	4,090	0	4,090		0
CE15111 - Increase capacity of network throughout the city	G	27	250	223	0	250	250		0
Total Wastewater Reticulation		4,005	5,934	1,929	10,069	750	10,819	(145)	145

CAPITAL EXPENDITURE
for the eight months ended 28 February 2019

	Type	YTD Expenditure			Annual Budget			Capital Revenue	
		Actual	Total YTD Budget	Variance	2018/19 Approved Budget	2017/18 Deferrals	Total Capital Budget	Actual	Annual Capital Revenue Budget
Wastewater Treatment Plant									
CE15160 - Wastewater model	R		15	15	70	0	70		0
CE10115 - Replacement of wastewater treatment plant assets	R	1,249	1,549	299	2,632	1,105	3,737		0
CE19029 - Wastewater Seismic Strengthening	LOS	658	317	(341)	100	297	397		0
CE15120 - Wastewater treatment plant compliance	LOS	229	574	345	1,657	0	1,657		0
CE15161 - Wastewater Master Plan	G	91	70	(21)	150	0	150		0
CE15117 - Upgrade wastewater treatment plant (Pukete 3)	G	2,680	4,900	2,220	10,000	5,232	15,232		0
CE15121 - Wastewater customer connections to the network	G	608	32	(576)	50	0	50	(621)	589
CE19041 - Increase capacity WW Far East Network	G	894	1,965	1,071	2,000	2,065	4,065		0
CE19042 - Increase capacity WW South Network	G	302	1,175	873	3,300	0	3,300		0
CE19043 - Increase capacity WW West Network	G	702	2,569	1,867	6,963	535	7,498		0
CE19044 - Increase capacity WW East Network	G		115	115	250	0	250		0
CE19050 - Increase capacity WW Central Network	G	141	835	694	3,664	0	3,664		0
Total Wastewater Treatment Plant		**7,554**	**14,115**	**6,561**	**30,836**	**9,234**	**40,070**	**(621)**	**589**
TOTAL WASTEWATER		**11,559**	**20,049**	**8,490**	**40,905**	**9,984**	**50,889**	**(766)**	**734**
WATER SUPPLY									
Water Reticulation									
CE10123 - Replacement of watermains	R	2,358	1,422	(936)	2,744	0	2,744	0	0
CE10124 - Replacement of water meters, valves and hydrants	R	495	575	80	1,135	0	1,135	0	0
CE10145 - Tools of trade renewals	R	22	0	(22)	50	0	50	0	0
CE15133 - Water demand management - network water loss	LOS	208	260	52	500	0	500	0	0
CE15126 - Upgrade or build new watermains in Rototuna	G	546	600	54	1,625	0	1,625	0	0
CE15127 - Water pipe upgrade - growth	G		150	150	300	0	300	0	0
CE15128 - Upgrade/build new watermains in Rotokauri stage 1	G	1,010	776	(234)	576	500	1,076	0	0
CE15130 - Upgrade/build new watermains in Peacocke stage 1	G	1	0	(1)			0		0
CE16004 - Eastern Bulk Main Slip	G	50	312	262	800	247	1,047	0	0
CE19046- Upgrade/Build New Watermains - Peacockes Stage 2	G	572	91	(481)	163	0	163	0	0
CE15132 - Water network upgrades to allow new development	G	27	35	8	80	0	80	(110)	110
CE15134 - Water demand management - Pukete reservoir zone	G		0	0	135	0	135	0	0
CE15135 - Upgrade/build distribution watermains in Peacocke	G	2	70	68	85	0	85	0	0
CE15137 - Water demand management - Newcastle reservoir zone	G	7	15	8	50	0	50	0	0
Total Water Reticulation		**5,296**	**4,306**	**(990)**	**8,243**	**747**	**8,990**	**(110)**	**110**
Water Treatment Plant									
CE10138 - Replacement of treatment plant and reservoir assets	R	1,150	1,296	146	2,101	68	2,169		0
CE15158 - Water model	R	16	120	104	60	339	399		0
CE15139 - Water treatment plant compliance - minor upgrades	LOS	302	1,083	781	1,610	0	1,610		0
CE15141 - Water demand management - Hillcrest reservoir zone	G	19	190	171	1,119	0	1,119		0
CE15144 - Upgrade water treatment plant	G	61	550	489	1,900	910	2,810		0
CE15146 - Water customer connections	G	350	32	(318)	50	0	50	(491)	459
CE15148 - Upgrade or build new watermains in Ruakura	G	0	225	225	500	0	500		0
CE15159 - Water master plan	G	15	34	19	150	0	150		0
CE19045 - Ruakura Reservoir & Associated Bulk Mains	G	3,910	4,875	965	9,698	976	10,674		0
CE19049 - Water Demand Management - Fairfield Reservoir Zone	G	313	0	(313)	514	0	514		0
Total Water Treatment Plant		**6,136**	**8,405**	**2,269**	**17,702**	**2,293**	**19,995**	**(491)**	**459**
TOTAL WATER SUPPLY		**11,432**	**12,711**	**1,279**	**25,945**	**3,040**	**28,985**	**(601)**	**569**
OVERHEAD AND SUPPORT UNITS									
Facilities									
CE10151 - Renewals program	R	403	1,320	918	1,651	0	1,651	0	0
CE19034 - Key Control Project	R	23	44	21	44	0	44	0	0
CE10158 - Replacement of fleet vehicles	R	1,678	2,267	589	3,401	0	3,401	0	0
Total Facilities		**2,104**	**3,632**	**1,528**	**5,096**	**0**	**5,096**	**0**	**0**
Information Services									
CE10152 - Network and infrastructure	R	27	624	597	968	549	1,517	0	0
CE10153 - Core business applications	R	263	699	436	775	325	1,100	0	0
CE10154 - Minor applications	R		15	15	25	0	25	0	0
CE10156 - Lease funding of equipment	R	274	121	(154)	1,287	0	1,287	0	0
CE15155 - Mobility and eservices	R	147	544	397	355	529	884	0	0
CE19024 - IS Major Upgrades	R	90	373	283	1,898	0	1,898	0	0
CE15157 - Authority replacement	R		425	425	0	425	425	0	0
Total Information Services		**801**	**2,801**	**2,000**	**5,308**	**1,828**	**7,136**	**0**	**0**
Customer Services									
CE19025 - Smart Hamilton Initiatives	LOS		168	168	250	0	250	0	0
CE17001 - Customer Services Projects	LOS	26	100	74	0	100	100	0	0
Total Customer Services		**26**	**268**	**242**	**250**	**100**	**350**	**0**	**0**
Strategic Property									
CE10053 - Tenancy inducement renewals	R	0	48	48	75	0	75	0	0
Total Strategic Property		**0**	**48**	**48**	**75**	**0**	**75**	**0**	**0**
TOTAL OVERHEADS AND SUPPORT UNITS		**2,931**	**6,749**	**3,817**	**10,729**	**1,928**	**12,657**	**0**	**0**
TOTAL COUNCIL		**78,515**	**126,012**	**47,498**	**222,764**	**32,071**	**254,835**	**(17,833)**	**2,582**

Total Capital and Revenue Movements as at 28 February 2019

Capital Movements Summary

	2018/19	2019/20	2020/21	2021/22	2022/23
Baseline Budget - Capital	$254,834,680	$288,558,073	$228,912,319	$213,451,094	$200,704,198
Savings	-$4,143,810	$0	$0	$0	$0
Deferral Movements	-$64,176,019	$8,831,096	$55,344,923	$0	$0
Projects Brought Forward	$900,000	$875,698	-$200,000	$0	-$1,575,698
New Projects - Te Awa Cycleway Remediation	$380,000	$1,370,000	$0	$0	$0
New Total Capital Budget	**$187,794,851**	**$299,634,867**	**$284,057,242**	**$213,451,094**	**$199,128,500**

Revenue Movements Summary

	2018/19	2019/20	2020/21	2021/22	2022/23
Baseline Budget - Revenue	-$44,840,256	-$65,431,295	-$42,586,169	-$50,670,790	-$53,285,022
New Revenue	-$4,799,603	$0	$0	$0	$0
Deferral Movements	$15,620,193	$52,874	-$15,673,067	$0	$0
New Projects - Te Awa Cycleway Remediation	-$193,800	-$698,700	$0	$0	$0
New Total Revenue Budget	**-$34,213,466**	**-$66,077,121**	**-$58,259,236**	**-$50,670,790**	**-$53,285,022**

List of Deferrals as at 28 February 2019

Delay Deferrals

Programme	Project	Deferral Type	Reason	2018/19	2019/20	2020/21	Explanation
City Wide Community	Land Purchase - Deferral	Delay Deferral	Third Party Dependency	-$399,100	$399,100	$0	$141,900 spent this year and the remaining budget to be deferred until land is available.
City Wide Waters Programme	Network Improvement Programme	Delay Deferral	Other	-$1,090,000	$1,090,000	$0	DMA - Hillcrest Reservoir Zone: deferrals of $1,090,000 signalled to allow asset team to undertake network investigations.
Rotokauri Programme	Arterial Designations	Delay Deferral	Third Party Dependency	-$836,000	-$1,339,097	$2,175,097	Deferral of $836,000 indicated for 2018/19 and $1,339,097 for 2019/20 out to 2020/21 to align with Development timing. Discussions with developers are progressing but budget is not expected to be spent as budgeted.
Rotokauri Programme	Arthur Porter Drive Connection	Delay Deferral	Third Party Dependency	-$499,000	-$501,000	$1,000,000	Deferral signalled of $499,000 from 2018/19 and $501,000 from 2019/20 to 2020/21 to align with developer timing.
Rotokauri Programme	Rotokauri Central Swale	Delay Deferral	Third Party Dependency	-$1,275,000	$0	$1,275,000	Deferral signalled of $1,275,000 from 2018/19 to 2020/21 for the Rotokauri Swale due to ongoing third party land purchase negotiations with developers.
Rotokauri Programme	Southern Arterials - Te Wetini & Central	Delay Deferral	Third Party Dependency	-$2,000,000	$500,000	$1,500,000	$2m signalled for deferral for Te Wetini Drive Extension construction to align with developer timing.
Rotokauri Programme	Transport Upsizing Programme	Delay Deferral	Third Party Dependency	-$690,000	-$1,010,000	$1,700,000	Deferral of $690,000 signalled for Road 0357.1 Gilchrist Road Collector Rotokauri to align with the Arterial Designations deferral to align with developer timing.
Rototuna Programme	North City Road Corridor Borman to Kay	Delay Deferral	Other	-$1,000,000	-$2,848,415	$3,848,415	Deferrals of $1M from 2018/19 and $2,848,415 from 2019/20 to 2020/21 identified within this project to align with the town centre development.
Rototuna Programme	Rototuna Network - Neighbourhood Park	Delay Deferral	Third Party Dependency	-$1,094,000	$1,094,000	$0	Delay deferral - related to the land requirements and the inability to secure land at this stage due to third party dependency.
Transport Improvement Programme	Mass Transit	Delay Deferral	Other	-$400,000	$400,000	$0	Deferral of $400,000 signalled as part of the Hamilton to Auckland corridor discussion
Transport Improvement Programme	Rotokauri Park and Ride	Delay Deferral	Other	-$1,600,000	$1,600,000	$0	Deferral of $1,600,000 for Rotokauri rail platform and Tasman Road works - works will commence next year.
Transport Improvement Programme	School Link & University Route	Delay Deferral	Other	-$1,780,135	$1,780,135	$0	This project requires a business case to be developed with NZTA. The business case is expected to be completed this financial year with construction to commence in 2019/20.
Transport Improvement Programme	Transport Centre Upgrade & Bus Shed	Delay Deferral	Other	-$300,000	$300,000	$0	This project requires a business case to be developed with NZTA. The business case is expected to be completed this financial year with construction to commence in 2019/20.
Transport Improvement Programme	Gordonton Road Corridor	Delay Deferral	Third Party Dependency	-$1,000,000	$1,000,000	$0	Gordonton Road roundabouts -Thomas/Puketaha - $1m deferral signalled due to risk of third party land purchase not being completed.
Renewals & Compliance Programme	Service counter at St Andrews and Dinsdale	Delay Deferral	Other	-$18,000	$18,000	$0	This project has been deferred to align with the implementation of the RFID project.
Renewals & Compliance Programme	Museum Roof Renewal	Delay Deferral	Other	-$433,000	$433,000	$0	Deferral of $433,000 signalled to allow for the appropriate design work to be completed prior to physical works.
Renewals & Compliance Programme	Council Chambers Renewals Project	Delay Deferral	Other	-$214,406	$214,406	$0	Deferral of $214,406 signalled to allow works to be completed in 2019/20 in alignment with elected members period of absence.
Renewals & Compliance Programme	Replacement of Closed Landfill assets	Delay Deferral	Other	-$325,000	$325,000	$0	A deferral of $325,000 from 2018/19 to 2019/20 is required to support the renewal of the stage 2 gas extraction system at Rototuna Landfill. Renewal has been rescheduled to allow a more robust assessment of compliance requirements.
Rototuna Programme	Borman/Horsham Urban Upgrade	Delay Deferral	Other	-$590,000	$590,000	$0	Deferrals signalled due to the realignment of work with the decision made in the LTP ie the movement of construction out to year 7.
Rototuna Programme	Stormwater Upsize Programme	Delay Deferral	Third Party Dependency	$0	-$1,071,920	$1,071,920	$1,071,920 deferred from 2019/20 to 2020/21 to align with developer timing.
Ruakura Programme	Chedworth Trunk Watermain Upsize	Delay Deferral	Third Party Dependency	-$200,000	$200,000	$0	Developer upsizing deferral of $200k to align with developer timing.
Ruakura Programme	Ruakura Spine Road Strategic Line - 450mm	Delay Deferral	Third Party Dependency	$0	-$288,357	$288,357	$288,357 rephased from 2019/20 to 2020/21 to align with developer timing.
Ruakura Programme	Ruakura Wastewater Pipeline	Delay Deferral	Third Party Dependency	$0	-$3,643,500	$3,643,500	$3,643,500 deferral made from 2019/20 to 2020/21 is accordance with developer timing for installation of this line. This is a cost contribution from HCC only.
	Total Delay Deferrals		**TOTAL**	**-$15,743,641**	**-$758,648**	**$16,502,289**	

Rephasing Deferrals

Programme	Project	Deferral Type	Reason	2018/19	2019/20	2020/21	Explanation
City Wide Waters Programme	Pukete WWTP Upgrade	Rephasing Deferral	Align with contractor programme	-$6,039,786	$4,539,786	$1,500,000	Deferral of $6,039,786 of the 2018/19 budget out to 2019/20 and 2020/21 to align with contractor cash flow projection of the programme of works for the Pukete WWTP Upgrade.
City Wide Waters Programme	Wairoa 2 WTP Upgrade	Rephasing Deferral	Align with contractor programme	-$1,360,000	$1,360,000	$0	Deferral of $1,366,000 identified to align with contractor cash flow forecast for the programme of works at Waiora WTP
City Wide Waters Programme	Dinsdale PS Upgrade	Rephasing Deferral	Rephasing within completion date	-$1,195,960	-$804,040	$2,000,000	This project is scheduled to be carried out over 3 years into the 2021/22 period and this deferral of budget is not expected to impact on the project completion date.
City Wide Waters Programme	Hillsborough Pump Station	Rephasing Deferral	Align with contractor programme	-$3,324,120	$2,324,120	$1,000,000	Delays in design due to unexpected complexities. Majority of construction to be undertaken next financial year with some work expected to carry over to 2020/21.
City Wide Waters Programme	Western Interceptor Duplication - Mid Section	Rephasing Deferral	Align with contractor programme	-$1,700,000	$1,700,000	$0	Financial deferral signaled to align with contractors work programme.
Ruakura Programme	Ruakura Reservoir & Bulkmains	Rephasing Deferral	Align with contractor programme	-$2,500,000	$2,500,000	$0	Deferral of $2,500,000 signaled for Ruakura Reservoir in line with contractor construction programme.
Transport Improvement Programme	Ring Road - Cambridge to Cobham	Rephasing Deferral	Align with contractor programme	-$5,740,000	-$3,260,000	$9,000,000	Financial deferral signaled to align with contractors work programme.
City Wide Community Programme	Hamilton Gardens Development Programme	Rephasing Deferral	Align with contractor programme	-$1,200,000	$1,200,000	$0	Deferral of $1,200,000 signalled to align with the civil works programme.
Peacocke Programme	Peacocke Network Infrastructure Programme	Rephasing Deferral	Rephasing within completion date	-$10,285,492	-$1,397,022	$11,682,514	Deferral of $10,285,492 from 2018/19 and $1,397,022 to 2020/21 to align with the revised programme of work.
Peacocke Programme	Land Acquisition Programme	Rephasing Deferral	Rephasing within completion date	-$13,660,120	$0	$13,660,120	Deferral of $13,660,120 from 2018/19 to 2020/21 to rephase the land acquistion in line with expected programme.
Renewals & Compliance Programme	Crematorium Building Renewal project budget	Rephasing Deferral	Align with contractor programme	-$789,900	$789,900	$0	This project will span two financial years. This deferral seeks to align the budget with the remaining physical works in 2019/20.
Renewals & Compliance Programme	Cemeteries Accessible toilets	Rephasing Deferral	Align with contractor programme	-$200,000	$200,000	$0	Deferral of $200,000 signalled to align with the contractor programme.
Rotokauri Programme	Baverstock Road Upgrade	Rephasing Deferral	Align with contractor programme	-$437,000	$437,000	$0	Deferral of $437,000 for Baverstock Rpad Collector from 2018/19 to 2019/20 to align with construction programme.
	Total Rephasing Deferrals		**TOTAL**	**-$48,432,378**	**$9,589,744**	**$38,842,634**	

	Total Deferrals			**-$64,176,019**	**$8,831,096**	**$55,344,923**	

Signalled in previous Finance Reports

List of Other Capital Movements as at 28 February 2019

Capital to be Brought Forward

Programme	Project	2018/19	2019/20	2020/21	2021/22	2022/23	Explanation
Peacocke Programme	Peacocke Network Stage Two - Community/Sports Park	$200,000.00	$0.00	-$200,000.00	$0.00	$0.00	This capital movement was approved at the 21 February 2019 Finance Committee Meeting and was required to allow for the Notice of Requirement to be issued to secure land for a sports park in Peacocke.
Rototuna Programme	North Ridge Road Urban Upgrade	$0.00	$1,575,698.18	$0.00	$0.00	-$1,575,698.18	This request requires funding from Year 5 of the LTP to be brought forward to Year 2. This funding will allow for the development of the road to support development in this area ahead of what was initially predicted.
Rototuna Programme	SW Upsize Programme	$700,000.00	-$700,000.00	$0.00	$0.00	$0.00	This request requires funding from 2019/20 to be brought forward to 2018/19 to support the construction of the wetland required to support development in this area.
	Total Capital Movements	**$200,000.00**	**$1,575,698.18**	**-$200,000.00**	**$0.00**	**-$1,575,698.18**	

2018/19 Savings

Programme	Project	Savings 2018/19
City Wide Community	Central City Park / River plan	-$494,971.24
City Wide Waters Programme	Western Interceptor Duplication - Mid Section	-$1,000,000.00
Peacocke Programme	Peacocke Network Stage One - Neighbourhood Parks	-$148,838.70
Rotokauri Programme	Southern Arterials - Te Wetini & Central	-$1,500,000.00
Ruakura Programme	Ruakura FEI	-$1,000,000.00
	Total Savings	**-$4,143,809.94**

New Projects added to Portfolio

Programme	Project	Approved Changes 2018/19	Approved Changes 2019/20
Transport Improvement Programme	Te Awa Cycle Way Remediation	$380,000.00	$1,370,000.00
	Total New Projects	**$380,000.00**	**$1,370,000.00**

	Signalled in previous Finance Reports

Revenue Movements as at 28 February 2019

Revenue Deferrals - Directly Related to the Capital Deferrals

Programme	Project	2018/19	2019/20	2020/21
Transport Improvement Programme	Gordonton Road Corridor	$612,000	-$612,000	$0
Transport Improvement Programme	Ring Road - Cambridge to Cobham	$4,190,200	$2,199,800	-$6,390,000
Transport Improvement Programme	Rotokauri Park and Ride	$856,800	-$856,800	$0
Transport Improvement Programme	School Link & University Route	$907,869	-$907,869	$0
Transport Improvement Programme	Transport Centre Upgrade & Bus Shed	$153,000	-$153,000	$0
Rototuna Programme	Borman/Horsham Urban Upgrade	$300,900	-$300,900	$0
Rotokauri Programme	Arterial Designations	$426,000	$683,643	-$1,109,643
Peacocke Programme	Peacocke Network Infrastructure Programme	$2,951,694	$0	-$2,951,694
Peacocke Programme	Peacocke Land Acquisition Programme	$5,221,730	$0	-$5,221,730
	Total Revenue Deferrals	**$15,620,193**	**$52,874**	**-$15,673,067**

New Revenue

Programme 2	Project	2018/19	Explanation
City Wide Waters Programme	Customer Service Connections	-$1,218,922	Demand driven and offset directly by expenses
City Wide Waters Programme	General Strategic Upgrades and Development Upsizing	-$348,152	PDA and developer driven
Transport Renewals & Compliance Programme	125 Footpath Renewal	-$2,300,000	New revenue from NZTA
Ruakura Programme	Ruakura Reservoir & Bulkmains	-$150,000	Early completion of the trunk water network which is subject to development cost share in accordance with the Ruakura Private Developer Agreement. $150,000 of revenue which was not budgeted has been added to this project.
Transport Improvement Programme	Gordonton Road Corridor	-$782,530	Additional funding successfully secured from NZTA TEFAR funding for the Thomas Gordonton Intersection.
	Total New Revenue	**-$4,799,603**	

New Projects Revenue

Programme 2	Project	2018/19	2019/20	2020/21
Transport Improvement Programme	Te Awa Cycle Way Remediation	-$193,800	-$698,700	$0
	Total Revenue from New Projects	**-$193,800**	**-$698,700**	**$0**

	Signalled in previous Finance Reports

Council Report

Item 13

Committee:	Finance Committee	**Date:**	09 April 2019
Author:	Tracey Musty	**Authoriser:**	David Bryant
Position:	Financial Controller	**Position:**	General Manager Corporate
Report Name:	Annual Monitoring Report to 28 February 2019		

Report Status	*Open*

Purpose

1. To inform the Finance Committee on the Council's financial performance against the 2018/19 Annual Plan for the eight months ended 28 February 2019.

Staff Recommendation

That the Finance Committee receives the report.

Executive Summary

2. This report is to be read in conjunction with the:

   a) February 2019 (9 April 2019 meeting) Capital Portfolio Monitoring report; and
   b) February 2019 (9 April 2019 meeting) Financial Strategy Monitoring report

3. The financial results after eight months show a positive variance on the accounting result and the balancing the books result.

4. Staff consider the matters in this report have low significance and that the recommendations comply with the Council's legal requirements.

Discussion

Operating results

The accounting result

5. The Statement of Comprehensive Revenue and Expense discloses the accounting result in accordance with accounting standards.

6. The accounting result for the eight months ended 28 February 2019 is a surplus of $43.8M. This is $1.7M favourable against a year-to-date forecasted surplus of $42.1M.

Accounting Result For the eight months ended 28 February 2019		
YTD Actual	YTD Forecast	YTD Variance
$43.8M	$42.1M	$1.7M

7. The annual forecast has been adjusted to reflect the forecasting adjustments that are explained in Paragraph 30 below.

Annual Accounting Result		
Annual Forecast	Annual Budget	Forecasting Variance
$67.6M	$76.3M	$(8.7M)

Balancing the books result

8. The balancing the books result for the eight months ended 28 February 2019 is $9.3M. This is $6.6M favourable against a year-to date forecast of $2.7M.

Balancing the Books For the eight months ended 28 February 2019		
YTD Actual	YTD Forecast	YTD Variance
$9.3M	$2.7M	$6.6M

9. The Annual balancing the books result is currently forecast to be $9.3M favourable. The majority of this favourability is not savings but relates to operational maintenance and professional services work that is behind schedule. Significant effort is being made to catch up on planned work however current workloads have meant that some of this work will now be completed in the 2019/20 financial year.

Annual Balancing the Books Result		
Annual Forecast	Annual Budget	Forecasting Variance
$(0.1M)	$(9.4M)	$9.3M

10. The Local Government balancing the books result for the eight months ended 28 February 2019 is $17.7M. This is $7.3M favourable against a year-to date forecast of $10.4M.

Understanding the variances

11. The Statement of Comprehensive Revenue and Expense, Statement of Financial Position, and accompanying notes are contained in Attachment 1.

12. Individual Everyday Revenue and Expense statements for each of the Council's 12 activities, overheads and general are contained in Attachment 2.

13. A reconciliation of the accounting result to the balancing the books result is provided after the Statement of Comprehensive Revenue and Expense.

14. Year-to-date variances between actual and forecast that are greater than $0.1M are explained in each of the activity statements.

Operating revenue

15. Total Operating revenue YTD exceeds forecast by $2.6M.
16. Rates are $0.3M favourable YTD, which is due to greater than expected growth.
17. Fees and user charges are $1.6M favourable YTD, the majority of which arise in the following activities:
    a) Venues, Tourism and Major Events $0.8M favourable.
    b) Planning and Development $0.4M favourable.
    c) Water Supply $0.1M favourable.
    d) Transport $0.1M favourable.
    e) Visitor Attractions $0.1M favourable
    f) Parks & Rec $0.1M favourable
18. Subsidies and Grants are $0.5M unfavourable YTD, which arise from Transport.

    Please refer to the activity statements for variance explanations.
19. Interest revenue is $1.3M favourable YTD due to higher than budgeted term deposits. With $65M debt expiring in March 2019 we have pre-funded the repayment of this debt and put the funds on term deposit until then. These funds are earning more interest than the interest we pay on this debt.

Expenses

20. Total Expenses are $3.2M favourable YTD against forecast.
21. Personnel costs are $0.6M favourable YTD, the majority of which arise in the following activities:
    a) Venues, Tourism and Major Events $0.1M favourable.
    b) Planning and Development $0.2M favourable.
    c) Wastewater $0.3M favourable.
22. Finance costs are $0.6M favourable due to lower debt in the first eight months due to timing of capital spending.
23. Operating and Maintenance costs are $0.7M favourable, the majority of which arise in the following activities:
    a) Transport $0.5M favourable
    b) Rubbish and Recycling $0.2M favourable
24. Professional costs are $0.8M favourable, the majority of which arise in the following activities:
    a) Planning and Development $0.2M favourable
    b) Democracy $0.1M favourable
    c) Overheads $0.3M favourable
    d) Visitors and Attractions $0.1M favourable.
    e) Stormwater $0.1M favourable.
25. Administration costs $0.3M favourable made up of small variances across the activities.
26. Property costs $0.2M favourable, the majority of which arises from Visitors and Attractions.

Item 13

Development contributions revenue

27. Development contributions revenue YTD actuals of $16.0M are $4.3M ahead of YTD forecast of $11.7M. The DC revenue forecast has potential to be increased for the next four months however timing and recognition of DC's are variable and unpredictable.

Vested assets revenue

28. The timing and recognition of vested assets relies on being aware of when the s224c (clearance of title) is issued. Like DC revenue, vested assets revenue is variable month to month. Elevated levels of development activity results in more vested assets but timing is not easy to predict. $18.2M of vested assets were received for the first eight months of the financial year.

29. Vested assets revenue has been budgeted at $30M for 2018/19. This budget is broken down by class of asset on page 99 of the 10-Year Plan.

Vested Assets For the eight months ended 28 February 2019		
YTD Actual	YTD Forecast	YTD Variance
$18.2M	**$20.0M**	**$(1.8M)**

Asset class	YTD Actual $000	Annual Budget $000	Life Range (Years)	Estimated Annual Depreciation $000
Wastewater	2,134	3,000	15-100	27
Stormwater	2,999	5,100	30-100	37
Water Supply	979	1,800	50-80	12
Roading	5,548	8,000	12-140	111
Parks and Recreation#	230	-	-	-
Land		12,100		-
Land – Under Roads	4,397	-		-
Land – Local Purpose Reserves*	44	-		-
Land – Recreation Reserves	860	-		-
Land – Restricted+	42	-		-
Land - Infrastructure	949	-		-
Total	**18,182**	**30,000**		**187**

Playground

* Local Purpose Reserves is a legal description defined by the Reserves Act 1977. This type of land is invariably land that is used for drainage purposes.

+ Restricted Land is land that provides a benefit or serves to the community and cannot be disposed of due to legal or other restrictions.

30. The addition of vested assets increases the operating and maintenance costs for Council, as well as depreciation. An estimate of operating and maintenance costs and depreciation expense has been made in the 10-Year Plan to support the annual vested assets budget.

Forecasting

Forecasting adjustments 2018/19

31. Forecast financial budgets will provide a revised year-end result. The consequence on future years was addressed in the December 2018 Financial Strategy Monitoring Report.

32. The annual budget will be forecast monthly to reflect:

    a) Changes to capital budgets approved by the Capital Investment Board under delegation.

    b) Changes to operating budgets approved by CE or GM under delegation.

    c) Changes as a result of a Council decision.

    d) Changes recommended to the Finance Committee.

33. The annual forecast is \$(8.7M) unfavourable compared to annual budget. The ongoing impact of these changes will be addressed as part of the 2019/20 Annual Plan:

	\$000
Capital Contributions unfavourable New water connections have increased for the three waters. Deferral of the Ring Road to future years (which attracts a State Highway's capital contribution).	**(836)**
NZTA capital subsidy on renewals favourable This is a programme newly approved by NZTA. The Footpath Renewals programme was not eligible for NZTA subsidy at the time budgets were prepared, so only costs were included, not the subsidy.	**2,316**
NZTA capital subsidy (excluding renewals) unfavourable NZTA capital subsidy (excluding renewals) is \$12.4m unfavourable. (Total capital subsidy is \$12.4m unfavourable, of which \$2.3m favourable relates to subsidy on renewals as explained above, therefore subsidy on capital is \$14.7m unfavourable.) Of this, \$13.1m relates to Capital programmes deferred to future years which attract subsidy. \$1.3m is Thomas-Gordonton intersection subsidy over-budgeted; it has been adjusted for NZTA's Targeted Enhanced Financial Assistance Rate (TEFAR).	**(12,402)**
Potential Demolition of Founders and Municipal Pool favourable. Due to potential demolition costs that are expected to be undertaken in 2020/21	**1,557**
Operating Costs favourable This is due to a decrease in mainly Consultancy, Interest and Operating and Maintenance Costs.	**2,183**
HIF Fair Value Benefit adjustment unfavourable	**(2,727)**
Personnel favourable – Extra vacancy factor savings	**1,300**
Revenue favourable across activities	**2,338**

Interest Revenue - Special Fund and Waikato Airport dividend Fees and Charges - City Development, Building Control and Planning Guidance	
Depreciation unfavourable. Depreciation has been reforecasted in February 2019 and updated to include capital deferrals to future years. The unfavourable variance reflects the revaluation of the three waters.	**(2,206)**

Emerging Issues

34. There are no new emerging issues that have been identified in this period which could have a financial impact on operating budgets in the current year and/or which could require forecasting adjustments to a future year.

Emerging issues from previous report:

a) There were no emerging issues in previous report.

Debt and Treasury Management

Treasury Management

35. Council is fully compliant with all treasury policy measures as at 28 February 2019.

36. Refer to the Treasury Report in Attachment 3 for further detail.

Debt and Cash Investments

External debt, cash investments, and net debt as at 28 February 2019 is shown in the table below.

Debt and Cash Investments As at 28 February 2019			
	YTD Actual	Annual Budget	Variance
External Debt	$444M	$510M	$66M
Cash Investments	($98M)	($55M)	$43M
Net Debt	$346M	$455M	$109M

37. Net debt as at 28 February 2019 is $109M lower than the annual budget largely due to the timing of spend in the capital programme.

38. Cash investments are higher than budgeted due to pre-funding the $65M debt that expires in March 2019 which is currently on term deposit. Also refer to Paragraph 18.

Interest Rate Risk Management

39. The movement on interest rate swaps relates to valuations completed at a point in time. These are based on Council's total external debt and the difference between current market interest

rates and the fixed rates that Council has locked in. They are unrealised because on maturity of each interest rate swap contract no interest gain or loss eventuates.

40. As at 28 February 2019 our net unrealised loss on revaluation of interest rate swaps was $(5.7M) and our liability balance was $38.3M. The liability balance is increasing due to the impact of the market swap rate dropping against our fixed swap rate.

Legal and Policy Considerations

41. Staff confirm that the matters in this report complies with the Council's legal and policy requirements.

Cultural Considerations

42. In accordance with our obligation under the Local Government Act 2002, staff confirm that the content of this report has taken into consideration any cultural matters where possible to recognise and respect the Council's responsibility to take appropriate account of the principles of the Treaty of Waitangi, and to maintain and improve opportunities for Māori to contribute to local government decision-making processes.

Sustainability Considerations

43. This report addresses matter of financial sustainability. No other considerations have been identified relevant to the matters in this report.

Risks

44. There are no known risks associated with this matter.

Significance and Engagement Policy

Significance

45. Having considered the Significance and Engagement Policy, staff have assessed that the matters in this report have a low significance.

Engagement

46. Given the low level of significance determined, the engagement level is low. No engagement is required.

Attachments

Attachment 1 - Attachment 1 - Financial Statements February 2019

Attachment 2 - Attachment 2 - Everyday Revenue + Expense by Activity February 2019

Attachment 3 - Attachment 3 - Treasury Report February 2019 .

STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE
FOR THE EIGHT MONTHS ENDED 28 FEBRUARY 2019

YTD 2017/18		YTD Actual	YTD Forecast	YTD Variance Fav/(Unfav)	Annual Approved Budget	Annual Forecast	Annual Variance Fav/(Unfav)
$000		$000	$000	$000	$000	$000	$000
	Revenue						
	Operating revenue						
106,479	Rates	118,885	118,631	254	179,713	180,530	817
24,926	Fees and user charges	27,299	25,699	1,600	35,284	37,661	2,377
3,297	Subsidies and grants	4,436	4,977	(541)	7,120	7,229	109
2,418	Interest revenue	2,957	1,650	1,307	2,475	3,500	1,025
4,687	Other revenue	4,966	4,989	(23)	10,860	8,525	(2,335)
141,807	Total Operating revenue	158,543	155,946	2,597	235,452	237,445	1,993
	Capital revenue						
16,018	Development contributions	16,033	11,679	4,354	17,518	17,518	-
7,447	Capital revenue	17,835	17,264	571	44,840	31,933	(12,907)
26,740	Vested assets	18,184	20,001	(1,817)	30,000	30,000	-
50,205	Total Capital revenue	52,052	48,944	3,108	92,358	79,451	(12,907)
192,012	**Total revenue**	**210,595**	**204,890**	**5,705**	**327,810**	**316,896**	**(10,914)**
	Expenses						
49,143	Personnel costs	51,569	52,146	577	83,168	78,701	4,467
42,491	Depreciation and amortisation expense	47,027	47,092	65	68,473	70,679	(2,206)
13,159	Finance costs	12,959	13,532	573	22,010	20,287	1,723
24,716	Operating and maintenance costs	27,902	28,612	710	46,466	44,904	1,562
4,842	Professional costs	4,226	5,069	843	13,268	12,615	653
8,071	Administration costs	8,213	8,481	268	6,582	10,646	(4,064)
7,645	Property costs	7,677	7,846	169	12,067	11,961	106
150,067	**Total expenses**	**159,573**	**162,778**	**3,205**	**252,034**	**249,793**	**2,241**
41,945	**Operating surplus/(deficit)**	**51,022**	**42,112**	**8,910**	**75,776**	**67,103**	**(8,673)**
	Gains and losses						
(467)	Net gain/(loss) on revaluation of interest rate swaps	(5,735)	-	(5,735)	-	-	-
198	Gain on fair value of investment properties	-	47	(47)	565	565	-
(637)	Property, plant and equipment net gain/(loss)	(1,474)	-	(1,474)	-	-	-
(906)	**Total gains and losses**	**(7,209)**	**47**	**(7,256)**	**565**	**565**	
41,039	**Total surplus/(deficit)**	**43,813**	**42,159**	**1,654**	**76,341**	**67,668**	**(8,673)**

Refer to Activity Statements for variances against budget.

BALANCING THE BOOKS RESULT
FOR THE EIGHT MONTHS ENDED 28 FEBRUARY 2019

YTD 2017/18		YTD Actual	YTD Forecast	YTD Variance Fav/(Unfav)	Annual Approved Budget	Annual Forecast	Annual Variance Fav/(Unfav)
$000		*$000*	*$000*	*$000*	*$000*	*$000*	*$000*
41,039	**Surplus/(deficit)**	**43,813**	**42,159**	**1,654**	**76,341**	**67,668**	**(8,673)**
	Remove capital revenue						
(26,740)	Vested assets	(18,184)	(20,001)	1,817	(30,000)	(30,000)	-
(10,916)	Part of development and financial contributions	(11,078)	(7,592)	(3,487)	(11,387)	(11,387)	-
(877)	Capital subsidy (excluding subsidy on transport renewals)	(8,264)	(7,478)	(786)	(35,012)	(20,294)	14,718
(2,655)	Other capital contributions	(4,096)	(4,255)	159	(4,744)	(4,239)	505
-	Other items not considered everyday operating revenue	(115)	(115)	-	(4,233)	(1,400)	2,833
	Remove (gains)/losses						-
906	All (gains)/losses	7,209	(47)	7,256	(565)	(565)	-
	Remove other expenses						-
-	Other items not considered everyday operating expenses	7	1	6	197	91	(106)
757	**Everyday surplus/(deficit)**	**9,292**	**2,672**	**6,619**	**(9,403)**	**(126)**	**9,277**

LOCAL GOVERNMENT BALANCING THE BOOKS MEASURE
FOR THE EIGHT MONTHS ENDED 28 FEBRUARY 2019

YTD 2017/18		YTD Actual	YTD Forecast	YTD Variance Fav/(Unfav)	Annual Approved Budget	Annual Forecast	Annual Variance Fav/(Unfav)
$000		*$000*	*$000*	*$000*	*$000*	*$000*	*$000*
41,039	**Surplus/(deficit)**	**43,813**	**42,159**	**1,654**	**76,341**	**67,668**	**(8,673)**
	Adjustments for the Local Government Regulations measure						
(198)	Gains excluding gains on investment properties	-	(47)	47	(565)	(565)	-
2,811	Losses	8,135	-	8,135	-	-	-
(16,018)	Development and financial contributions	(16,033)	(11,679)	(4,354)	(17,518)	(17,518)	-
(26,740)	Vested assets	(18,184)	(20,001)	1,817	(30,000)	(30,000)	-
(40,145)	**Total adjustments**	**(26,082)**	**(31,727)**	**5,645**	**(48,083)**	**(48,083)**	**-**
894	**LG Regulations balancing the books surplus/(deficit)**	**17,731**	**10,432**	**7,299**	**28,258**	**19,585**	**(8,673)**

STATEMENT OF FINANCIAL POSITION

FOR THE EIGHT MONTHS ENDED 28 FEBRUARY 2019

Attachment 1

YTD 2017/18		Note	Actual	Annual Budget
$000			*$000*	*$000*
	Assets			
	Current assets			
17,969	Cash and cash equivalents		23,998	49,500
29,904	Receivables	1	45,773	17,910
2,111	Prepayments		2,804	1,670
159	Inventory		126	160
-	Other financial assets	2	85,786	2,125
50,143	**Total current assets**		**158,487**	**71,365**
	Non-current assets			
3,870,772	Property, plant and equipment		4,161,060	4,371,324
20,930	Intangible assets		18,785	22,283
22,059	Investment property		25,255	23,175
	Other financial assets		-	-
15,852	- Investment in CCOs and other similar entities		9,823	8,978
35,248	- Other investments		6,400	5,500
51,100	Total other financial assets		16,223	14,478
	Investment in associates		7,430	7,430
679	Derivative financial instruments	4	897	
3,965,540	**Total non-current assets**		**4,229,650**	**4,438,690**
4,015,683	**Total assets**		**4,388,137**	**4,510,055**
	Liabilities			
	Current liabilities			
41,020	Payables and deferred revenue		40,001	33,250
6,822	Employee entitlements		7,603	6,420
1,194	Provisions		1,503	337
33,372	Borrowings	3	77,500	83,300
322	Derivative financial instruments	4	535	4,628
82,730	**Total current liabilities**		**127,142**	**127,935**
	Non-current liabilities			
1,122	Employee entitlements		966	1,100
14,296	Provisions		15,100	24,413
315,440	Borrowings	3	366,885	427,194
30,972	Derivative financial instruments	4	38,719	19,025
361,830	**Total non-current liabilities**		**421,670**	**471,732**
444,560	**Total liabilities**		**548,812**	**599,667**
3,571,123	**Net assets**		**3,839,325**	**3,910,388**
	Equity			
1,730,077	Accumulated funds		1,840,798	1,801,331
1,841,046	Other reserves		1,998,526	2,109,057
3,571,123	**Total equity attributable to Hamilton City Council**		**3,839,324**	**3,910,388**
3,571,123	**Total equity**		**3,839,324**	**3,910,388**

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE EIGHT MONTHS ENDED 28 FEBRUARY 2019

Note 1: Rates and debtors receivables

	Actual			Actual Feb-2018		
	$000	$000	$000	$000	$000	$000
Rates	**Rates**	**Arrears**	**Total**	**Rates**	**Arrears**	**Total**
Balance as at 1 July	(2,355)	3,319	964	(2,037)	3,302	1,265
Instalments to date	153,351	-	153,351	134,757		134,757
Penalties, adjustments & postponed	604	-	604	686		686
Government rebate	(1,197)	-	(1,197)	(1,122)		(1,122)
Council hardship	(222)	-	(222)	(225)		(225)
Other remissions	(5,981)	-	(5,981)	(3,373)		(3,373)
Rates receipts	(122,498)	(2,940)	(125,438)	(110,602)	(2,969)	(113,571)
Balance as at 30 June	**21,701**	**379**	**22,081**	**18,085**	**333**	**18,417**
Water by meter			**1,207**			**1,165**
Sundry debtors						
Debtors			4,960			3,197
Rentals			440			399
Rates rebates Internal Affairs			440			114
NZTA			2,926			0
H3 debtors			1,597			1,078
GST refund			-			0
			10,364			**4,788**
Debtor accruals			12,523			4,645
Parking			3,236			3,432
Provision for doubtful debts			(2,742)			(2,544)
Total Rates and debtors receivables			**46,670**			**48,230**

Sundry debtors ageing		Actual		Actual Feb-2018
		$000		$000
	as at 28 February 2019		**as at 28 February 2018**	
	Current	8,917	Current	3,092
	0-30 days	420	0-30 days	864
	30-60 days	217	30-60 days	96
	60-90 days	322	60-90 days	241
	>90 days	487	>90 days	495
		10,364		**4,788**

Note 2: Other financial assets - current

	Actual	Actual Feb-2018
	$000	$000
Term deposits	65,000	15,148
Loan investments	20,786	26,270
Total other financial assets - current	**85,786**	**41,418**

Note 3: Borrowings

	Actual	Annual budget	Actual Feb-2018
	$000	$000	$000
Borrowings - current	77,500	83,300	33,372
Borrowings - non-current	366,885	427,194	315,440
Total external debt	**444,385**	**510,494**	**348,812**

Note 4: Derivative financial instruments

	Actual	Annual budget	Actual Feb-2018
	$000	$000	$000
Interest rate Swaps (current asset)	-	-	-
Interest rate Swaps (non-current asset)	(897)	-	(679)
Interest rate Swaps (current liability)	535	4,628	322
Interest rate Swaps (non-current liability)	38,719	19,025	30,972
Total net derivative financial instrument liabilities	**38,357**	**23,653**	**30,615**

DEMOCRACY SERVICES

Governance and Public Affairs | Partnership with Maaori

for the eight months ended 28 February 2019

YTD 2017/18		YTD Actual	YTD Forecast	YTD Variance Fav/(Unfav)	Annual Approved Budget	Annual Forecast	Annual Variance Fav/(Unfav)
$000		$000	$000	$000	$000	$000	$000
	Everyday revenue						
0	Rates	0	0	0	0	0	0
17	Fees and user charges	14	18	(4)	27	27	0
0	Subsidies and grants	0	0	0	0	0	0
0	Interest revenue	0	0	0	0	0	0
2	Other revenue	0	0	0	0	0	0
0	Plus NZTA capital subsidy on renewals	0	0	0	0	0	0
0	Plus DC interest	0	0	0	0	0	0
0	Less HIF fair value benefit	0	0	0	0	0	0
19	**Total everyday revenue**	**14**	**18**	**(4)**	**27**	**27**	**0**
	Everyday expenses						
127	Personnel costs	176	274	98	421	410	11
0	Depreciation and amortisation	0	0	0	0	0	0
0	Finance costs	0	0	0	0	0	0
8	Operating and maintenance costs	14	26	12	39	39	0
249	Professional costs	220	290	70	435	435	0
0	Property costs	0	0	0	0	0	0
809	Other costs	935	1,030	95	1,545	1,545	0
0	Internal capital recoveries	0	0	0	0	0	0
0	Less HIF discounting	0	0	0	0	0	0
1,193	**Total everyday expenses**	**1,345**	**1,620**	**275**	**2,440**	**2,429**	**11**
(1,174)	**Everyday surplus/(deficit)***	**(1,331)**	**(1,602)**	**271**	**(2,413)**	**(2,402)**	**11**
(1,174)	**OPERATING SURPLUS/(DEFICIT)**	**(1,331)**	**(1,602)**	**271**	**(2,413)**	**(2,402)**	**11**

* Everyday surplus/(deficit) excludes overhead allocation. Refer to Overheads activity statement for overhead results and variance explanations

The comments below explain the variance between year-to-date actual results and year-to-date forecast where they exceed $100k.
There are no significant variances to explain.

The comments below explain the variance between annual approved budget and annual forecast where they exceed $150k.
There are no significant variances to explain.

VENUES, TOURISM AND MAJOR EVENTS

Claudelands | FMG Stadium Waikato | Seddon Park | i-SITE | Tourism and Events Funding

for the eight months ended 28 February 2019

YTD 2017/18		YTD Actual	YTD Forecast	YTD Variance Fav/(Unfav)	Annual Approved Budget	Annual Forecast	Annual Variance Fav/(Unfav)
$000		$000	$000	$000	$000	$000	$000
	Everyday revenue						
74	Rates	96	89	7	124	124	0
3,930	Fees and user charges	4,410	3,607	803	5,432	5,432	0
0	Subsidies and grants	0	0	0	0	0	0
456	Interest revenue	286	160	126	240	339	99
580	Other revenue	446	500	(54)	742	742	0
0	Plus NZTA capital subsidy on renewals	0	0	0	0	0	0
0	Plus DC interest	0	0	0	0	0	0
0	Less HIF fair value benefit	0	0	0	0	0	0
5,040	**Total everyday revenue**	**5,238**	**4,356**	**882**	**6,538**	**6,637**	**99**
	Everyday expenses						
3,821	Personnel costs	3,718	3,871	153	6,268	5,858	410
3,070	Depreciation and amortisation	3,459	3,493	34	5,230	5,230	0
2,054	Finance costs	1,273	1,328	55	1,992	1,858	134
2,829	Operating and maintenance costs	2,983	2,880	(103)	4,332	4,332	0
151	Professional costs	177	180	3	318	318	0
954	Property costs	997	939	(58)	1,461	1,461	0
1,358	Other costs	1,224	1,397	173	1,882	1,882	0
0	Internal capital recoveries	0	0	0	0	0	0
0	Less HIF discounting	0	0	0	0	0	0
14,237	**Total everyday expenses**	**13,831**	**14,088**	**257**	**21,483**	**20,939**	**544**
(9,197)	**Everyday surplus/(deficit)***	**(8,593)**	**(9,732)**	**1,139**	**(14,945)**	**(14,302)**	**643**
	Capital revenue						
300	Capital contributions	2	0	2	100	100	0
300	**Total capital revenue**	**2**	**0**	**2**	**100**	**100**	**0**
(8,897)	**OPERATING SURPLUS/(DEFICIT)**	**(8,591)**	**(9,732)**	**1,141**	**(14,845)**	**(14,202)**	**643**

* Everyday surplus/(deficit) excludes overhead allocation. Refer to Overheads activity statement for overhead results and variance explanations

Attachment 2

VENUES, TOURISM AND MAJOR EVENTS

Claudelands | FMG Stadium Waikato | Seddon Park | i-SITE | Tourism and Events Funding

for the eight months ended 28 February 2019

The comments below explain the variance between year-to-date actual results and year-to-date forecast where they exceed $100k.

Fees and user charges are $803k favourable. The mix and volume of events across our venues continues to be favourable compared to the forecast phasing set. The favourable variance at Claudelands is attributed to a higher than forecasted level of fees and charges relating to business events.
Current forecasts indicates we will be above budget at year end.
Note, the uplift in Revenue achieved to date, has a corresponding impact on cost of sale

Interest revenue is $126k favourable. This is due to term deposits being greater than budget.

Personnel costs are $153k favourable. This is due to vacancies across the group. There have been several roles which have not been required this financial year. In addition there have been changes in the level and mix of staff.

Operating and maintenance costs are $103k unfavourable. This is due to the increase in volume of events. The cost of sales has increased accordingly.

Other costs are $173k favourable. The major reason for the variance is timing in event leverage spend. Indications are we will be underspent at year end by around $60k.

The comments below explain the variance between annual approved budget and annual forecast where they exceed $100k.

Personnel costs annual forecast is $410k favourable. This variance is due to the distribution of the vacancy factor across the VTME Group. The overall reduction is due to vacant roles that have occurred throughout the year and will contribute to the vacancy savings allocation.

Finance Costs annual forecast is $134k favourable. Overall finance costs (interest expense) for Council are favourable. This is due to the overall debt being lower than budget.

VISITOR ATTRACTIONS

Hamilton Gardens | Waikato Museum | Hamilton Zoo

for the eight months ended 28 February 2019

YTD 2017/18		YTD Actual	YTD Forecast	YTD Variance Fav/(Unfav)	Annual Approved Budget	Annual Forecast	Annual Variance Fav/(Unfav)
$000		$000	$000	$000	$000	$000	$000
	Everyday revenue						
370	Rates	421	398	23	595	595	0
1,786	Fees and user charges	1,978	1,899	79	2,872	2,872	0
53	Subsidies and grants	51	57	(6)	85	85	0
12	Interest revenue	26	15	11	22	31	9
55	Other revenue	100	94	6	141	141	0
0	Plus NZTA capital subsidy on renewals	0	0	0	0	0	0
0	Plus DC interest	0	0	0	0	0	0
0	Less HIF fair value benefit	0	0	0	0	0	0
2,276	**Total everyday revenue**	**2,576**	**2,463**	**113**	**3,715**	**3,724**	**9**
	Everyday expenses						
4,902	Personnel costs	5,231	5,194	(37)	7,930	7,699	231
1,259	Depreciation and amortisation	1,395	1,404	9	2,163	2,163	0
90	Finance costs	115	120	5	180	168	12
1,076	Operating and maintenance costs	1,371	1,490	119	2,306	2,356	(50)
208	Professional costs	211	294	83	494	494	0
524	Property costs	531	640	109	951	951	0
316	Other costs	340	380	40	573	573	0
0	Internal capital recoveries	0	0	0	0	0	0
0	Less HIF discounting	0	0	0	0	0	0
8,375	**Total everyday expenses**	**9,194**	**9,522**	**328**	**14,597**	**14,404**	**193**
(6,099)	**Everyday surplus/(deficit)***	**(6,618)**	**(7,059)**	**441**	**(10,882)**	**(10,680)**	**202**
	Capital revenue						
1,230	Capital contributions	0	0	0	300	300	0
1,230	**Total capital revenue**	**0**	**0**	**0**	**300**	**300**	**0**
(4,869)	**OPERATING SURPLUS/(DEFICIT)**	**(6,618)**	**(7,059)**	**441**	**(10,582)**	**(10,380)**	**202**

* Everyday surplus/(deficit) excludes overhead allocation. Refer to Overheads activity statement for overhead results and variance explanations

The comments below explain the variance between year-to-date actual results and year-to-date forecast where they exceed $100k.

Operating and maintenance costs $119k favourable. Building maintenance tracks below forecast at the Museum and Hamilton Gardens.

Property Costs are $109k favourable. Energy, cleaning and security costs track below forecast at the Museum and Hamilton Gardens.

The comments below explain the variance between annual approved budget and annual forecast where they exceed $100k.

Personnel costs annual forecast is $231k favourable. This is due to the vacancy factor being allocated across activities.

Attachment 2

ARTS AND COMMUNITY

Libraries | Community Development | Arts Promotion | Theatres

for the eight months ended 28 February 2019

YTD 2017/18		YTD Actual	YTD Forecast	YTD Variance Fav/(Unfav)	Annual Approved Budget	Annual Forecast	Annual Variance Fav/(Unfav)
$000		$000	$000	$000	$000	$000	$000
	Everyday revenue						
(6)	Rates	(11)	(13)	2	(24)	(24)	0
388	Fees and user charges	343	338	5	588	433	(155)
0	Subsidies and grants	0	1	(1)	2	2	0
24	Interest revenue	0	0	0	0	0	0
72	Other revenue	37	44	(7)	66	66	0
0	Plus NZTA capital subsidy on renewals	0	0	0	0	0	0
0	Plus DC interest	0	0	0	0	0	0
0	Less HIF fair value benefit	0	0	0	0	0	0
478	**Total everyday revenue**	**369**	**370**	**(1)**	**632**	**477**	**(155)**
	Everyday expenses						
3,505	Personnel costs	3,464	3,623	159	5,697	5,367	330
2,207	Depreciation and amortisation	1,765	1,788	23	3,364	3,454	(90)
108	Finance costs	3	3	0	4	4	0
316	Operating and maintenance costs	400	479	79	1,646	785	861
56	Professional costs	268	256	(12)	615	625	(10)
371	Property costs	428	505	77	764	757	7
1,580	Other costs	1,350	1,442	92	1,973	1,943	30
0	Internal capital recoveries	0	0	0	0	0	0
0	Less HIF discounting	0	0	0	0	0	0
8,143	**Total everyday expenses**	**7,678**	**8,096**	**418**	**14,063**	**12,935**	**1,128**
(7,665)	**Everyday surplus/(deficit)***	**(7,309)**	**(7,726)**	**417**	**(13,431)**	**(12,458)**	**973**
(7,665)	**OPERATING SURPLUS/(DEFICIT)**	**(7,309)**	**(7,726)**	**417**	**(13,431)**	**(12,458)**	**973**

* Everyday surplus/(deficit) excludes overhead allocation. Refer to Overheads activity statement for overhead results and variance explanations

The comments below explain the variance between year-to-date actual results and year-to-date forecast where they exceed $100k.

Personnel costs are $159k favourable. Due to vacancies at the Libraries. Positions have since been filled and any variances are included as per the vacancy factor

The comments below explain the variance between annual approved budget and annual forecast where they exceed $100k.

Fees and user charges annual forecast is $155k unfavourable. The contract with Waikato District Council rate payers to use Hamilton Library facilities has been amended. A fixed amount of memberships have been purchased 2018/19 and the revenue has reduced to reflect this.

Personnel costs annual forecast is $330k favourable. This is due to the vacancy factor being allocated across activities.

Operating and Maintenance annual forecast is $861k favourable. This is due to Founders Theatre demolition costs that are now expected to be undertaken 2020/21.

PARKS AND RECREATION

Community Parks | Natural Areas | Streetscapes | Sports Parks | Playgrounds | Cemeteries and Crematorium | Pools | Indoor Recreation

for the eight months ended 28 February 2019

YTD 2017/18		YTD Actual	YTD Forecast	YTD Variance Fav/(Unfav)	Annual Approved Budget	Annual Forecast	Annual Variance Fav/(Unfav)
$000		$000	$000	$000	$000	$000	$000
	Everyday revenue						
(100)	Rates	(81)	(124)	43	(196)	(196)	0
4,692	Fees and user charges	4,387	4,315	72	6,534	6,534	0
106	Subsidies and grants	5	5	0	7	7	0
197	Interest revenue	337	188	149	282	399	117
106	Other revenue	127	154	(27)	330	197	(133)
0	Plus NZTA capital subsidy on renewals	0	0	0	0	0	0
0	Plus DC interest	0	0	0	0	0	0
0	Less HIF fair value benefit	0	0	0	0	0	0
5,001	**Total everyday revenue**	**4,775**	**4,538**	**237**	**6,957**	**6,941**	**(16)**
	Everyday expenses						
7,438	Personnel costs	7,609	7,546	(63)	11,850	11,371	479
3,344	Depreciation and amortisation	3,921	3,875	(46)	5,898	5,938	(40)
990	Finance costs	1,498	1,563	65	2,344	2,186	158
2,583	Operating and maintenance costs	3,530	3,672	142	6,893	6,143	750
298	Professional costs	357	374	17	529	508	21
785	Property costs	758	795	37	1,212	1,212	0
445	Other costs	499	439	(60)	920	664	256
(135)	Internal capital recoveries	(16)	0	16	0	0	0
0	Less HIF discounting	0	0	0	0	0	0
15,748	**Total everyday expenses**	**18,156**	**18,264**	**108**	**29,646**	**28,022**	**1,624**
(10,747)	**Everyday surplus/(deficit)***	**(13,381)**	**(13,726)**	**345**	**(22,689)**	**(21,081)**	**1,608**
	Capital revenue						
16	Capital contributions	10	0	10	300	300	0
20	**Total capital revenue**	**12**	**0**	**12**	**300**	**300**	**0**
(10,727)	**OPERATING SURPLUS/(DEFICIT)**	**(13,369)**	**(13,726)**	**357**	**(22,389)**	**(20,781)**	**1,608**

* Everyday surplus/(deficit) excludes overhead allocation. Refer to Overheads activity statement for overhead results and variance explanations

PARKS AND RECREATION

Community Parks | Natural Areas | Streetscapes | Sports Parks | Playgrounds | Cemeteries and Crematorium | Pools | Indoor Recreation

for the eight months ended 28 February 2019

The comments below explain the variance between year-to-date actual results and year-to-date forecast where they exceed $100k.
Interest revenue is $149k favourable. This is due to term deposits being greater than budget. **Operating and maintenance costs are $142k favourable.** The programme of works for park assets tracks below budget but is expected to be on track at year end.

The comments below explain the variance between annual approved budget and annual forecast where they exceed $100k.
Interest revenue annual forecast is $117k favourable. This is due to term deposits being greater than budget. **Other revenue annual forecast is $133k unfavourable.** Income received for properties purchased in Victoria Street (Central City Park) was originally budgeted in Parks and has been moved to City Growth as these are Investment Properties. **Personnel costs annual forecast is $479k favourable.** This is due to the vacancy factor being allocated across activities. **Finance Costs annual forecast is $158k favourable.** Overall finance costs (interest expense) for Council are favourable. This is due to the overall debt being lower than budget. **Operating and Maintenance annual forecast is $750k favourable.** This is due to the municipal demolition costs that are expected to be undertaken 2019/20. **Other costs annual forecast is $256k favourable.** This is due to the cemetery management system that will not be implemented this year.

SAFETY

Animal Education and Control | Environmental Health | Alcohol Licensing | Public Safety | Civil Defence

for the eight months ended 28 February 2019

YTD 2017/18		YTD Actual	YTD Forecast	YTD Variance Fav/(Unfav)	Annual Approved Budget	Annual Forecast	Annual Variance Fav/(Unfav)
$000		$000	$000	$000	$000	$000	$000
	Everyday revenue						
(3)	Rates	(1)	0	(1)	0	0	0
1,821	Fees and user charges	1,686	1,704	(18)	2,139	2,049	(90)
0	Subsidies and grants	0	0	0	0	0	0
4	Interest revenue	0	0	0	0	0	0
15	Other revenue	13	20	(7)	31	31	0
0	Plus NZTA capital subsidy on renewals	0	0	0	0	0	0
0	Plus DC interest	0	0	0	0	0	0
0	Less HIF fair value benefit	0	0	0	0	0	0
1,837	**Total everyday revenue**	**1,698**	**1,724**	**(26)**	**2,170**	**2,080**	**(90)**
	Everyday expenses						
2,238	Personnel costs	2,323	2,332	9	3,568	3,333	235
58	Depreciation and amortisation	100	143	43	173	173	0
15	Finance costs	0	0	0	0	0	0
646	Operating and maintenance costs	623	678	55	1,176	1,070	106
109	Professional costs	94	127	33	211	143	68
49	Property costs	42	39	(3)	53	53	0
101	Other costs	101	65	(36)	107	107	0
(4)	Internal capital recoveries	(4)	0	4	0	0	0
0	Less HIF discounting	0	0	0	0	0	0
3,212	**Total everyday expenses**	**3,279**	**3,384**	**105**	**5,288**	**4,879**	**409**
(1,375)	**Everyday surplus/(deficit)***	**(1,581)**	**(1,660)**	**79**	**(3,118)**	**(2,799)**	**319**
(1,375)	**OPERATING SURPLUS/(DEFICIT)**	**(1,581)**	**(1,660)**	**79**	**(3,118)**	**(2,799)**	**319**

* Everyday surplus/(deficit) excludes overhead allocation. Refer to Overheads activity statement for overhead results and variance explanations

The comments below explain the variance between year-to-date actual results and year-to-date forecast where they exceed $100k.
There are no significant variances to explain.

The comments below explain the variance between annual approved budget and annual forecast where they exceed $100k.
Personnel costs annual forecast is $235k favourable. This is due to the vacancy factor being allocated across activities. **Operating and maintenance costs annual forecast is $106k favourable.** Reduction of Tag Busters, Animal Control and City Safe operating costs.

Attachment 2

Item 13

Attachment 2

PLANNING AND DEVELOPMENT

City Planning | Planning Guidance | Building Control

for the eight months ended 28 February 2019

YTD 2017/18		YTD Actual	YTD Forecast	YTD Variance Fav/(Unfav)	Annual Approved Budget	Annual Forecast	Annual Variance Fav/(Unfav)
$000		*$000*	*$000*	*$000*	*$000*	*$000*	*$000*
	Everyday revenue						
0	Rates	0	0	0	0	0	0
5,617	Fees and user charges	7,568	7,142	426	9,253	10,862	1,609
0	Subsidies and grants	0	0	0	0	0	0
178	Interest revenue	108	60	48	90	127	37
2	Other revenue	1	0	1	0	0	0
0	Plus NZTA capital subsidy on renewals	0	0	0	0	0	0
0	Plus DC interest	0	0	0	0	0	0
0	Less HIF fair value benefit	0	0	0	0	0	0
5,797	**Total everyday revenue**	**7,677**	**7,202**	**475**	**9,343**	**10,989**	**1,646**
	Everyday expenses						
5,205	Personnel costs	5,235	5,317	82	8,929	8,315	614
4	Depreciation and amortisation	2	3	1	4	4	0
790	Finance costs	479	499	20	749	699	50
195	Operating and maintenance costs	141	224	83	358	283	75
1,319	Professional costs	977	1,188	211	2,055	1,421	634
22	Property costs	26	14	(12)	21	21	0
695	Other costs	787	906	119	1,000	1,396	(396)
(59)	Internal capital recoveries	(60)	0	60	0	0	0
0	Less HIF discounting	0	0	0	0	0	0
8,171	**Total everyday expenses**	**7,587**	**8,151**	**564**	**13,116**	**12,139**	**977**
(2,374)	**Everyday surplus/(deficit)***	**90**	**(949)**	**1,039**	**(3,773)**	**(1,150)**	**2,623**
(2,374)	**OPERATING SURPLUS/(DEFICIT)**	**90**	**(949)**	**1,039**	**(3,773)**	**(1,150)**	**2,623**

* Everyday surplus/(deficit) excludes overhead allocation. Refer to Overheads activity statement for overhead results and variance explanations

PLANNING AND DEVELOPMENT

City Planning | Planning Guidance | Building Contro

for the eight months ended 28 February 2019

The comments below explain the variance between year-to-date actual results and year-to-date forecast where they exceed $100k.

Fees and user charges are $426k favourable. This is due to increased revenue in the Planning Guidance department, and is because of higher activity. This is linked to the reasons for the increase in Building Control revenue and is demand driven.

Professional costs are $211k favourable. This is largely due to an underspend on professional costs in the City Growth Admin cost centre, which the planning and development group get 32% of. This is due to the timing of the REEP project and how the roll out has occurred. The budget will be spent in the next few months as the project moves into the customer journey mapping phase.

Other costs are favourable by $119k. This is due to a provision for Weathertight Homes in the budget and the provision is yet to be released.

The comments below explain the variance between annual approved budget and annual forecast where they exceed $100k.

Fees and user charges annual forecast is $1609k favourable. Fees and user charges are $937k favourable. This variance is largely due to higher than budgeted activity for duplexes, townhouses or apartments and large commercial building consents. We have already exceeded our year to date budgeted number of consents by 141% and there are still 4 months remaining in the financial year. As such, we have made a forecast adjustment to revenue to reflect this higher than budgeted consent numbers.

The new district plan encourages building of multiple duplexes, townhouses or apartments on one section. At the time the budget was set there was no historic information on the uptake of this type of development. Therefore, it was difficult to predict the level of consents of this nature which would be processed this financial year. In addition, while information about building of large commercial building may be available to the council, it is difficult to know the financial year which the build will occur in. After planning consent is granted, there is a 5-year window in which the build can occur.

Personnel costs annual forecast is $614k favourable. This is due to the vacancy factor being allocated across activities.

Professional costs annual forecast is $634k favourable. This is largely due to underspend in consulting in the City Planning department. The underspend in City Planning is due to a number of factors, including the following:

- Delays in detailed scoping and initiating key projects resulting from structural changes in the City Growth Group
- Delays in commencing work on important plan changes until receiving final authority from Council to initiate key plan changes in the first quarter of 2019
- Delays associated with significant private plan changes applicants wanting to re-schedule expected hearing dates from 2018 until mid to late 2019
- Receiving less than anticipated Special Housing Area requests in the second stage of Expressions of Interest resulting from changes in Government policy

Other costs annual forecast is $396k unfavourable. This is due to a provision made for a legal claim which the Building Control unit are dealing with. There has also been a $100k budget added for IT spend in the Building Control department. This is for enhancements to the end to end online building consent process.

Attachment 2

WATER SUPPLY

Water Treatment | Water Storage | Water Distribution

for the eight months ended 28 February 2019

YTD 2017/18		YTD Actual	YTD Forecast	YTD Variance Fav/(Unfav)	Annual Approved Budget	Annual Forecast	Annual Variance Fav/(Unfav)
$000		$000	$000	$000	$000	$000	$000
	Everyday revenue						
5,547	Rates	5,818	5,690	128	8,107	8,353	246
(81)	Fees and user charges	104	(20)	124	(215)	(89)	126
0	Subsidies and grants	0	0	0	0	0	0
305	Interest revenue	584	326	258	489	692	203
0	Other revenue	0	0	0	0	0	0
0	Plus NZTA capital subsidy on renewals	0	0	0	0	0	0
0	Plus DC interest	0	0	0	0	0	0
0	Less HIF fair value benefit	0	0	0	0	0	0
5,771	**Total everyday revenue**	**6,506**	**5,996**	**510**	**8,381**	**8,956**	**575**
	Everyday expenses						
2,335	Personnel costs	2,559	2,569	10	4,152	3,684	468
4,680	Depreciation and amortisation	5,505	5,469	(36)	7,662	8,002	(340)
2,169	Finance costs	2,599	2,712	113	4,068	3,794	274
1,926	Operating and maintenance costs	1,909	1,909	0	3,448	3,448	0
109	Professional costs	92	142	50	745	745	0
1,113	Property costs	1,125	1,157	32	1,754	1,754	0
45	Other costs	48	54	6	82	82	0
(826)	Internal capital recoveries	(1,022)	(996)	26	(1,494)	(1,494)	0
0	Less HIF discounting	0	0	0	0	0	0
11,551	**Total everyday expenses**	**12,815**	**13,016**	**201**	**20,417**	**20,015**	**402**
(5,780)	**Everyday surplus/(deficit)***	**(6,309)**	**(7,020)**	**711**	**(12,036)**	**(11,059)**	**977**
	Capital revenue						
324	Capital contributions	601	602	(1)	50	620	570
324	**Total capital revenue**	**601**	**602**	**(1)**	**50**	**620**	**570**
(5,456)	**OPERATING SURPLUS/(DEFICIT)**	**(5,708)**	**(6,418)**	**710**	**(11,986)**	**(10,439)**	**1,547**

* Everyday surplus/(deficit) excludes overhead allocation. Refer to Overheads activity statement for overhead results and variance explanations

WATER SUPPLY

Water Treatment | Water Storage | Water Distribution

for the eight months ended 28 February 2019

The comments below explain the variance between year-to-date actual results and year-to-date forecast where they exceed $100k.

Rates are $128k favourable. Water by meter revenue is favourable due to a higher than anticipated level of water use in some sectors year to date.

Fees and user charges are $124k favourable. Predominantly due to higher than expected revenue from the water supply's sub-division engineering fees, and a trade waste accrual error has overstated the favourable result this month.

Interest revenue is $258k favourable. This is due to term deposits being greater than budget.

Finance Costs - $113k favourable. Overall finance costs (interest expense) for Council are favourable. This is due to the overall debt being lower than budget.

The comments below explain the variance between annual approved budget and annual forecast where they exceed $100k.

Rates annual forecast is $246k favourable. Water by meter revenue is favourable due to a higher than anticipated level of water use in some sectors to date. This additional revenue will offset the cost of illegal dumping under the Rubbish and Recycling activity.

Fees and user charges annual forecast is $126k favourable. This is increased subdivision engineering fees ($76k) and fees for water drawn from hydrants, particularly during February 2019 ($50k).

Interest revenue annual forecast is $203k favourable. This is due to term deposits being greater than budget.

Personnel costs annual forecast is $468k favourable. This is due to the vacancy factor being allocated across activities.

Depreciation and amortisation annual forecast is $340k unfavourable. This is due to the impact of the three-waters asset revaluation, which resulted in higher than budgeted asset values.

Finance Costs annual forecast is $274k favourable. Overall finance costs (interest expense) for Council are favourable. This is due to the overall debt being lower than budget.

Capital contributions annual forecast is $570k favourable. Contributions towards new water connections exceed budget due to higher than budgeted applications. This revenue will offset capital installation costs.

WASTEWATER

Wastewater Collection | Wastewater Treatment | Wastewater Disposal

for the eight months ended 28 February 2019

YTD 2017/18		YTD Actual	YTD Forecast	YTD Variance Fav/(Unfav)	Annual Approved Budget	Annual Forecast	Annual Variance Fav/(Unfav)
$000		$000	$000	$000	$000	$000	$000
	Everyday revenue						
(34)	Rates	(29)	(27)	(2)	(41)	(41)	0
3,236	Fees and user charges	3,230	3,243	(13)	4,466	4,542	76
0	Subsidies and grants	0	0	0	0	0	0
388	Interest revenue	658	367	291	551	779	228
13	Other revenue	0	0	0	0	0	0
0	Plus NZTA capital subsidy on renewals	0	0	0	0	0	0
0	Plus DC interest	0	0	0	0	0	0
0	Less HIF fair value benefit	0	0	0	0	0	0
3,603	**Total everyday revenue**	**3,859**	**3,583**	**276**	**4,976**	**5,280**	**304**
	Everyday expenses						
2,719	Personnel costs	2,856	2,958	102	4,941	4,785	156
6,069	Depreciation and amortisation	7,964	7,928	(36)	9,778	11,034	(1,256)
2,123	Finance costs	2,927	3,054	127	4,581	4,273	308
3,532	Operating and maintenance costs	3,992	3,884	(108)	6,463	6,263	200
77	Professional costs	294	343	49	742	742	0
1,314	Property costs	1,237	1,258	21	2,087	1,987	100
31	Other costs	121	108	(13)	149	149	0
(680)	Internal capital recoveries	(862)	(855)	7	(1,283)	(1,283)	0
0	Less HIF discounting	0	0	0	0	0	0
15,185	**Total everyday expenses**	**18,529**	**18,678**	**149**	**27,458**	**27,950**	**(492)**
(11,582)	**Everyday surplus/(deficit)***	**(14,670)**	**(15,095)**	**425**	**(22,482)**	**(22,670)**	**(188)**
	Capital revenue						
565	Capital contributions	766	767	(1)	50	785	735
565	**Total capital revenue**	**766**	**767**	**(1)**	**50**	**785**	**735**
(11,017)	**OPERATING SURPLUS/(DEFICIT)**	**(13,904)**	**(14,328)**	**424**	**(22,432)**	**(21,885)**	**547**

* Everyday surplus/(deficit) excludes overhead allocation. Refer to Overheads activity statement for overhead results and variance explanations

WASTEWATER

Wastewater Collection | Wastewater Treatment | Wastewater Disposal

for the eight months ended 28 February 2019

The comments below explain the variance between year-to-date actual results and year-to-date forecast where they exceed $100k.
Interest Revenue is $291k favourable. This is due to term deposits being greater than budget.
Personnel costs are $102k favourable. This is predominantly due to short term vacancies within the City Waters team.
Finance Costs - $127k favourable. Overall finance costs (interest expense) for Council are favourable. This is due to the overall debt being lower than budget.
Operating and maintenance costs are $108k unfavourable. This is due mainly to reactive maintenance at the Wastewater Treatment Plant required by breakdowns and failures.

The comments below explain the variance between annual approved budget and annual forecast where they exceed $100k.
Interest Revenue annual forecast is $228k favourable. This is due to term deposits being greater than budget.
Depreciation and amortisation annual forecast is $1.3m unfavourable. This is due to the impact of the three-waters asset revaluation, which resulted in higher than budgeted asset values.
Personnel costs annual forecast is $156k favourable. This is due to the vacancy factor being allocated across activities.
Finance Costs annual forecast is $308k favourable. Overall finance costs (interest expense) for Council are favourable. This is due to the overall debt being lower than budget.
Operating and maintenance costs annual forecast is $200k favourable. This is the current level of expected savings in chemicals costs at the Wastewater Treatment Plant.
Property costs annual forecast is $100k favourable. These are the level of expected energy cost at the Wastewater Treatment Plant, predominantly associated with electricity.
Capital contributions annual forecast is $735k favourable. Contributions towards new wastewater connections exceed budget due to higher than budgeted applications. This revenue will offset capital installation costs.

Attachment 2

STORMWATER

Stormwater Network

for the eight months ended 28 February 2019

YTD 2017/18		YTD Actual	YTD Forecast	YTD Variance Fav/(Unfav)	Annual Approved Budget	Annual Forecast	Annual Variance Fav/(Unfav)
$000		$000	$000	$000	$000	$000	$000
	Everyday revenue						
0	Rates	0	0	0	(1)	(1)	0
152	Fees and user charges	217	168	49	202	240	38
0	Subsidies and grants	0	0	0	0	0	0
36	Interest revenue	180	101	79	151	214	63
0	Other revenue	0	0	0	0	0	0
0	Plus NZTA capital subsidy on renewals	0	0	0	0	0	0
0	Plus DC interest	0	0	0	0	0	0
0	Less HIF fair value benefit	0	0	0	0	0	0
188	**Total everyday revenue**	**397**	**269**	**128**	**352**	**453**	**101**
	Everyday expenses						
1,701	Personnel costs	1,820	1,956	136	3,047	2,969	78
5,409	Depreciation and amortisation	6,361	6,311	(50)	8,776	9,186	(410)
301	Finance costs	800	835	35	1,252	1,168	84
588	Operating and maintenance costs	587	503	(84)	765	765	0
148	Professional costs	(59)	(5)	54	294	132	162
270	Property costs	272	261	(11)	392	392	0
29	Other costs	31	31	0	48	48	0
(640)	Internal capital recoveries	(710)	(641)	69	(961)	(961)	0
0	Less HIF discounting	0	0	0	0	0	0
7,806	**Total everyday expenses**	**9,102**	**9,251**	**149**	**13,613**	**13,699**	**(86)**
(7,618)	**Everyday surplus/(deficit)***	**(8,705)**	**(8,982)**	**277**	**(13,261)**	**(13,246)**	**15**
	Capital revenue						
107	Capital contributions	381	382	(1)	64	414	350
107	**Total capital revenue**	**381**	**382**	**(1)**	**64**	**414**	**350**
(7,511)	**OPERATING SURPLUS/(DEFICIT)**	**(8,324)**	**(8,600)**	**276**	**(13,197)**	**(12,832)**	**365**

* Everyday surplus/(deficit) excludes overhead allocation. Refer to Overheads activity statement for overhead results and variance explanations

STORMWATER

Stormwater Network

for the eight months ended 28 February 2019

The comments below explain the variance between year-to-date actual results and year-to-date forecast where they exceed $100k.
Personnel costs are $136k favourable. This is predominantly due to short term vacancies within the City Waters team.

The comments below explain the variance between annual approved budget and annual forecast where they exceed $100k.
Depreciation and amortisation annual forecast is $410k unfavourable. This is due to the impact of the three-waters asset revaluation, which resulted in higher than budgeted asset values. **Professional costs annual forecast is $162k favourable.** $102k of this is removing the 2017/18 accrual reversal error where capital costs were accrued incorrectly to an operational budget with the remaining $60k is being an expected underspend on resource consent compliance. **Capital contributions annual forecast is $350k favourable.** Contributions towards new stormwater connections exceed budget due to higher than budgeted applications. This revenue will offset capital installation costs.

TRANSPORT

Transport Network | Transport Centre | Parking Management

for the eight months ended 28 February 2019

YTD 2017/18		YTD Actual	YTD Forecast	YTD Variance Fav/(Unfav)	Annual Approved Budget	Annual Forecast	Annual Variance Fav/(Unfav)
$000		*$000*	*$000*	*$000*	*$000*	*$000*	*$000*
	Everyday revenue						
3,282	Rates	13	(12)	25	(9)	(9)	0
2,729	Fees and user charges	2,801	2,645	156	3,080	3,852	772
2,706	Subsidies and grants	3,868	4,453	(585)	6,460	6,532	72
803	Interest revenue	762	425	337	638	902	264
1,638	Other revenue	1,856	1,918	(62)	2,520	2,878	358
3,915	Plus NZTA capital subsidy on renewals	5,474	5,531	(57)	5,084	7,400	2,316
0	Plus DC interest	0	0	0	0	0	0
0	Less HIF fair value benefit	0	0	0	0	0	0
15,073	**Total everyday revenue**	**14,774**	**14,960**	**(186)**	**17,773**	**21,555**	**3,782**
	Everyday expenses						
2,955	Personnel costs	3,463	3,516	53	6,219	5,439	780
12,291	Depreciation and amortisation	12,296	12,317	21	18,652	18,652	0
4,757	Finance costs	3,390	3,538	148	5,306	4,949	357
6,921	Operating and maintenance costs	8,091	8,594	503	12,269	12,569	(300)
321	Professional costs	278	266	(12)	1,322	1,422	(100)
1,615	Property costs	1,512	1,540	28	2,325	2,325	0
572	Other costs	846	829	(17)	772	1,222	(450)
(210)	Internal capital recoveries	(979)	(1,122)	(143)	(1,683)	(1,683)	0
0	Less HIF discounting	0	0	0	0	0	0
29,222	**Total everyday expenses**	**28,897**	**29,478**	**581**	**45,182**	**44,895**	**287**
(14,149)	**Everyday surplus/(deficit)***	**(14,123)**	**(14,518)**	**395**	**(27,409)**	**(23,340)**	**4,069**
	Capital revenue						
113	Capital contributions	2,337	2,504	(167)	3,880	1,720	(2,160)
4,792	NZTA capital subsidy	13,738	13,009	729	40,096	27,694	(12,402)
(3,915)	Less NZTA capital subsidy on renewals	(5,474)	(5,531)	57	(5,084)	(7,400)	(2,316)
990	**Total capital revenue**	**10,601**	**9,982**	**619**	**38,892**	**22,014**	**(16,878)**
(13,159)	**OPERATING SURPLUS/(DEFICIT)**	**(3,522)**	**(4,536)**	**1,014**	**11,483**	**(1,326)**	**(12,809)**

* Everyday surplus/(deficit) excludes overhead allocation. Refer to Overheads activity statement for overhead results and variance explanations

The comments below explain the variance between year-to-date actual results and year-to-date forecast where they exceed $100k.

Fees and user charges are $156k favourable. This is mainly due to increased recoveries of costs, such as trench reinstatement fees.

Subsidies and grants are $585k unfavourable. This is largely due to delays to date in commencing bridge maintenance work on Anzac bridge. In addition, work on developing the Freight Management and Environmental Management Plans have progressed slower than expected while we recruit the new strategic asset manager.

Interest revenue is $337k favourable. This is due to term deposits being greater than budget.

Finance Costs - $148k favourable. Overall finance costs (interest expense) for Council are favourable. This is due to the overall debt being lower than budget.

Operating and maintenance costs are $503k favourable. This is due to delays in bridge maintenance, specifically the contract award for Anzac bridge and the water alert level meant washing of the bridge occurred later than planned. Scaffolding is now up and work is proceeding. Completion prior to the end of the financial year is dependent on environmental conditions but at this stage it is expected.

Internal capital recoveries are $143k unfavourable. Time cost recoveries are down on expectations, largely due to staff vacancies during the first six months, as advised under Personnel costs.

Capital contributions are $167k unfavourable. This is due to the State Highways contribution to the Ring Road; no progress was made in the month of Feb.

NZTA capital subsidy (excluding renewals) is $786k favourable. (Total capital subsidy is $729k favourable, of which $57k unfavourable relates to subsidy on renewals as explained above, therefore subsidy on capital is $786k favourable.) This is mainly due NZTA giving the go-ahead to claim for the historical land purchase at Resolution Drive ahead of expectations. This more than offsets major work programmes (e.g. Peacockes Stage 2) which are behind budget and for which deferrals to future years are starting to be identified.

The comments below explain the variance between annual approved budget and annual forecast where they exceed $100k.

Fees and user charges annual forecast is $722k favourable. This reflects mainly the favourable trend of Parking fees and recoveries of costs added to infringements ($362k). $130k is a one-off recovery for State Highways maintenance early in the year. Favourable trends of additional subdivision engineering fees ($190k) and Ooh! Media (formerly Adshel) as a result of digital advertising ($90k) have also been captured.

Interest revenue annual forecast is $264k favourable. This is due to term deposits being greater than budget.

Other revenue annual forecast is $358k favourable. Parking and traffic infringement trends have been extrapolated to the full year; this is offset by increased cost of collection. There is also a reduction in commercial rents from Jan 2019 while the Transport Centre is renovated.

NZTA capital subsidy on renewals annual forecast is $2.3m favourable. This is a programme newly approved by NZTA. The Footpath Renewals programme was not eligible for NZTA subsidy at the time budgets were prepared so only costs were included, not the subsidy.

Personnel costs annual forecast is $780k favourable. Expected savings due to vacancies.

Finance Costs annual forecast is $357k favourable. Overall finance costs (interest expense) for Council are favourable. This is due to the overall debt being lower than budget.

Operating and maintenance costs annual forecast is $300k unfavourable. Due to late advice by KiwiRail, work on the Te Kowhai level crossing was unbudgeted.

Professional costs annual forecast is $100k unfavourable. Parking Management Plan $75k (G&I approval 23-Oct-18) and Youth Bus initiative $25k (Council chair). Being funded by additional Parking revenue above.

Other costs annual forecast is $450k unfavourable. Recognition budget sending unpaid Parking infringements to Court (filing fees and commission) was inadequate, especially in light of increased infringements.

Capital contributions annual forecast is $2.2m unfavourable. Most of this is a deferral to future years of components of the Ring Road project which impacts on the 43.4% State Highways contribution from NZTA ($2.5m capital revenue deferral). The balance of $332k is a recategorisation of revenue from an operating grant to a capital contribution; it relates to funds received from WRC for Bus Stop Infrastructure.

NZTA capital subsidy (excluding renewals) annual forecast is $14.7m unfavourable. (Total capital subsidy is $12.4m unfavourable, of which $2.3m favourable relates to subsidy on renewals as explained above, therefore subsidy on capital is $14.7m unfavourable.) Of this, $13.1m relates to Capital programmes deferred to future years which attract subsidy. $1.3m is Thomas-Gordonton intersection subsidy over-budgeted; it has been adjusted for NZTA's Targeted Enhanced Financial Assistance Rate (TEFAR).

Attachment 2

RUBBISH AND RECYCLING

Refuse Collection | Waste Minimisation | Landfill Site Management

for the eight months ended 28 February 2019

YTD 2017/18		YTD Actual	YTD Forecast	YTD Variance Fav/(Unfav)	Annual Approved Budget	Annual Forecast	Annual Variance Fav/(Unfav)
$000		$000	$000	$000	$000	$000	$000
	Everyday revenue						
0	Rates	0	0	0	0	0	0
(171)	Fees and user charges	(57)	(43)	(14)	(64)	(64)	0
432	Subsidies and grants	474	425	49	566	566	0
15	Interest revenue	14	8	6	12	17	5
312	Other revenue	330	334	(4)	445	445	0
0	Plus NZTA capital subsidy on renewals	0	0	0	0	0	0
0	Plus DC interest	0	0	0	0	0	0
0	Less HIF fair value benefit	0	0	0	0	0	0
588	**Total everyday revenue**	**761**	**724**	**37**	**959**	**964**	**5**
	Everyday expenses						
900	Personnel costs	974	993	19	1,595	1,517	78
289	Depreciation and amortisation	378	337	(41)	436	476	(40)
78	Finance costs	63	66	3	1,267	1,261	6
3,291	Operating and maintenance costs	3,491	3,701	210	5,317	5,467	(150)
325	Professional costs	130	143	13	247	247	0
32	Property costs	32	46	14	68	68	0
88	Other costs	48	12	(36)	(1,486)	(1,486)	0
(151)	Internal capital recoveries	(67)	(72)	(5)	(108)	(108)	0
0	Less HIF discounting	0	0	0	0	0	0
4,852	**Total everyday expenses**	**5,049**	**5,226**	**177**	**7,336**	**7,442**	**(106)**
(4,264)	**Everyday surplus/(deficit)***	**(4,288)**	**(4,502)**	**214**	**(6,377)**	**(6,478)**	**(101)**
(4,264)	**OPERATING SURPLUS/(DEFICIT)**	**(4,288)**	**(4,502)**	**214**	**(6,377)**	**(6,478)**	**(101)**

* Everyday surplus/(deficit) excludes overhead allocation. Refer to Overheads activity statement for overhead results and variance explanations

The comments below explain the variance between year-to-date actual results and year-to-date forecast where they exceed $100k.

Operating and maintenance costs are $210k favourable. These are predominantly due to timing of waste minimisation grant payments and education and engagement programmes scheduled to be implemented in the last quarter.

The comments below explain the variance between annual approved budget and annual forecast where they exceed $100k.

Operating and maintenance costs annual forecast is $150k unfavourable. This is the expected annual cost of clean-up and disposal of illegal rubbish dumping which was unbudgeted. The cost will be offset by additional Water By Meter revenue under Water Supply activity. The original forecast in February 2019 was reviewed down from $200k based on recent data.

OVERHEADS

CE's Office | Corporate | Strategy and Communications | Strategic Property

for the eight months ended 28 February 2019

YTD 2017/18 $000		YTD Actual $000	YTD Forecast $000	YTD Variance Fav/(Unfav) $000	Annual Approved Budget $000	Annual Forecast $000	Annual Variance Fav/(Unfav) $000
	Everyday revenue						
(177)	Rates	(194)	(195)	1	(265)	(265)	0
810	Fees and user charges	618	683	(65)	969	969	0
0	Subsidies and grants	38	38	0	0	38	38
1	Interest revenue	0	0	0	0	0	0
1,441	Other revenue	1,721	1,590	131	2,247	2,405	158
0	Plus NZTA capital subsidy on renewals	0	0	0	0	0	0
0	Plus DC interest	0	0	0	0	0	0
0	Less HIF fair value benefit	0	0	0	0	0	0
2,075	**Total everyday revenue**	**2,183**	**2,116**	**67**	**2,951**	**3,147**	**196**
	Everyday expenses						
11,297	Personnel costs	12,142	11,998	(144)	18,552	17,954	598
3,811	Depreciation and amortisation	3,880	4,025	145	6,337	6,337	0
45	Finance costs	39	47	8	70	70	0
424	Operating and maintenance costs	769	572	(197)	928	858	70
1,471	Professional costs	1,184	1,469	285	5,262	5,382	(120)
596	Property costs	715	652	(63)	979	979	0
5,580	Other costs	5,902	5,979	77	8,890	9,004	(114)
(324)	Internal capital recoveries	(310)	(229)	81	(343)	(343)	0
0	Less HIF discounting	0	0	0	0	0	0
22,900	**Total everyday expenses**	**24,321**	**24,513**	**192**	**40,675**	**40,241**	**434**
(20,825)	**Everyday surplus/(deficit)***	**(22,138)**	**(22,397)**	**259**	**(37,724)**	**(37,094)**	**630**
(20,825)	**OPERATING SURPLUS/(DEFICIT)**	**(22,138)**	**(22,397)**	**259**	**(37,724)**	**(37,094)**	**630**

* Everyday surplus/(deficit) excludes overhead allocation. Refer to Overheads activity statement for overhead results and variance explanations

OVERHEADS

CE's Office | Corporate | Strategy and Communications | Strategic Property

for the eight months ended 28 February 2019

The comments below explain the variance between year-to-date actual results and year-to-date forecast where they exceed $100k.
Other revenue is $131k favourable Income received for properties purchased in Victoria Street (Central City Park) was originally budgeted in Parks and has been moved to City Growth as these are Investment Properties. **Personnel costs is $144k favourable.** Additional costs associated with the inclusion of the GM Growth Funding and Analytics which was a role established and not entered into the 10YP budget. **Depreciation and amortisation is $145k favourable.** The favourable result from capital projects not completed for capitalisation at the expected and budgeted timeframe is currently being reassessed to identify correct phasing and/or savings. **Operating and maintenance costs are $197k unfavourable.** This is due to costs incurred by the facilities team for the Capital Delivery team move. These are awaiting transfer to the Capital Delivery team and then capitalisation. Therefore this variance represents a timing difference. **Professional costs are $285k favourable.** Market research and Information Services projects will start later than budgeted. There is also an underspend in consultants across Smart Hamilton Initiatives. This will be spent in the coming months.

The comments below explain the variance between annual approved budget and annual forecast where they exceed $100k.
Other revenue annual forecast is $158k favourable. Income received for properties purchased in Victoria Street (Central City Park) was originally budgeted in Parks and has been moved to City Growth as these are Investment Properties. **Personnel costs annual forecast is $598k favourable.** This is due to the vacancy factor. The overall reduction is due to vacant roles that have occurred throughout the year and will contribute to the vacancy savings allocation. This is partially offset by the inclusion of salary for the GM Growth Funding and Analytics which was a role established and not entered into the 10YP budget. **Professional costs annual forecast is $120k unfavourable.** This is due to predicted spend on consultancy as a result of the work around the Growth & Funding Model – Phase 2. **Other costs annual forecast is $114k unfavourable.** This is due to the ongoing licence and IT support for the DC Growth Model. This cost was intended to be included in the 10 Year Plan but was incorrectly excluded.

GENERAL

for the eight months ended 28 February 2019

YTD 2017/18		YTD Actual	YTD Forecast	YTD Variance Fav/(Unfav)	Annual Approved Budget	Annual Forecast	Annual Variance Fav/(Unfav)
$000		$000	$000	$000	$000	$000	$000
	Everyday revenue						
97,527	Rates	112,852	112,826	26	171,424	171,994	570
0	Fees and user charges	0	0	0	0	0	0
0	Subsidies and grants	0	0	0	0	0	0
0	Interest revenue	0	0	0	0	0	0
451	Other revenue	336	335	1	4,337	1,620	(2,717)
0	Plus NZTA capital subsidy on renewals	0	0	0	0	0	0
5,102	Less DC interest	4,955	4,087	868	6,131	6,131	0
0	Less HIF fair value benefit	(115)	(115)	0	(4,233)	(1,400)	2,833
103,080	**Total everyday revenue**	**118,028**	**117,133**	**895**	**177,659**	**178,345**	**686**
	Everyday expenses						
0	Personnel costs	0	0	0	0	0	0
0	Depreciation and amortisation	0	0	0	0	30	(30)
(359)	Finance costs	(227)	(232)	(5)	197	(142)	339
(157)	Operating and maintenance costs	11	(68)	(79)	526	539	(13)
0	Professional costs	0	0	0	0	0	0
0	Property costs	0	0	0	0	0	0
0	Other costs	0	(208)	(208)	(4,000)	(624)	(3,376)
0	Capital recoveries	0	0	0	0	0	0
0	Less HIF discounting	(7)	(1)	6	(197)	(91)	(106)
(516)	**Total everyday expenses**	**(223)**	**(509)**	**(286)**	**(3,474)**	**(288)**	**(3,186)**
103,596	**Everyday surplus/(deficit)***	**118,251**	**117,642**	**609**	**181,133**	**178,633**	**(2,500)**
	Capital revenue						
16,014	Development contributions	16,031	11,679	4,352	17,518	17,518	0
(5,102)	Less DC interest (everyday revenue section)	(4,955)	(4,087)	(868)	(6,131)	(6,131)	0
26,740	Vested assets	18,184	20,001	(1,817)	30,000	30,000	0
37,652	**Total capital revenue**	**29,260**	**27,593**	**1,667**	**41,387**	**41,387**	**0**
0	**HIF fair value and discounting adjustment**	**0**	**0**	**0**	**4,036**	**1,309**	**2,727**
141,248	**OPERATING SURPLUS/(DEFICIT)**	**147,511**	**145,235**	**2,276**	**226,556**	**221,329**	**227**
1,904						**0**	

* Everyday surplus/(deficit) excludes overhead allocation. Refer to Overheads activity statement for overhead results and variance explanations

GENERAL

for the eight months ended 28 February 2019

The comments below explain the variance between year-to-date actual results and year-to-date forecast where they exceed $100k.
DC interest is $868k favourable. This is due to the DC interest budget being set before a final DC interest figure could be accurately calculated. As such, we expect this to be favourable at year end and this will be adjusted through the forecasting process.
Other costs $208k unfavourable. Credit budget that represents efficiency savings that have been identified in other activities.
Development contributions (net of DC interest) is $3,484k favourable. Council have experienced high growth activity in the first eight months of the financial year, which has meant higher than expected DC revenue.
Vested assets are $1,817k unfavourable. The annual budget for vested assets is $30M and the budget phasing assumes an even amount of revenue each month. In practice, vested assets revenue is unpredictable in its timing.

The comments below explain the variance between annual approved budget and annual forecast where they exceed $100k.
Rates annual forecast is $570k favourable. Due to expected growth.
Other revenue annual forecast is $2.72m unfavourable. $2.83m is due to the reduced draw down on Housing Infrastructure Fund (HIF) due to project deferral. This is partially offset by dividend increase received from the Waikato Airport.
HIF fair value benefit annual forecast is $2.83m favourable. Elimination of non cash benefit associated with the Housing Infrastructure Func (HIF) draw down.
Finance Costs annual forecast is $339k favourable. Overall finance costs include interest revenue as surplus borrowings have been reinvested.
Other costs annual forecast is $3,376k unfavourable. This represents vacancy factor savings that have been deducted from activity salary budgets.

Attachment 3

TREASURY REPORT

for the eight months ended 28 February 2019

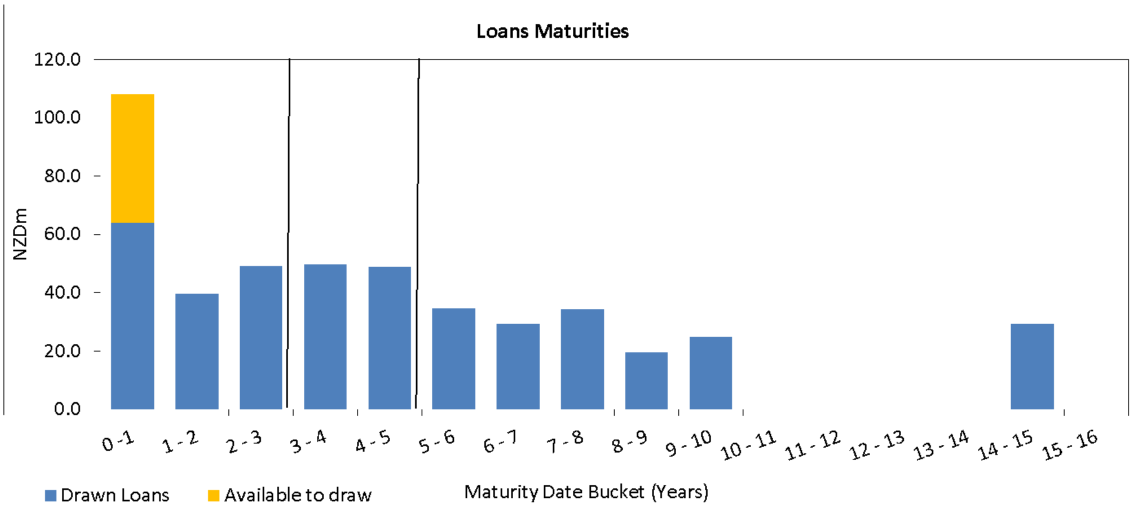
Policy Compliance

		Policy	Result @ 28-Feb-19	Policy Compliance
Fixed rate debt maturity	all years	within annual parameters	**achieved for all years**	✓
Funding maturity	0 - 3 years	15% - 60%	**33%**	✓
	3 - 5 years	15% - 60%	**24%**	✓
	5 years plus	10% - 60%	**43%**	✓
Liquidity ratio	minimum	110%	**116%**	✓
Counterparty credit risk	maximum	$75m per bank	**achieved**	✓

Comments on policy breaches

There are no breaches of policy.

Fixed rate debt maturity

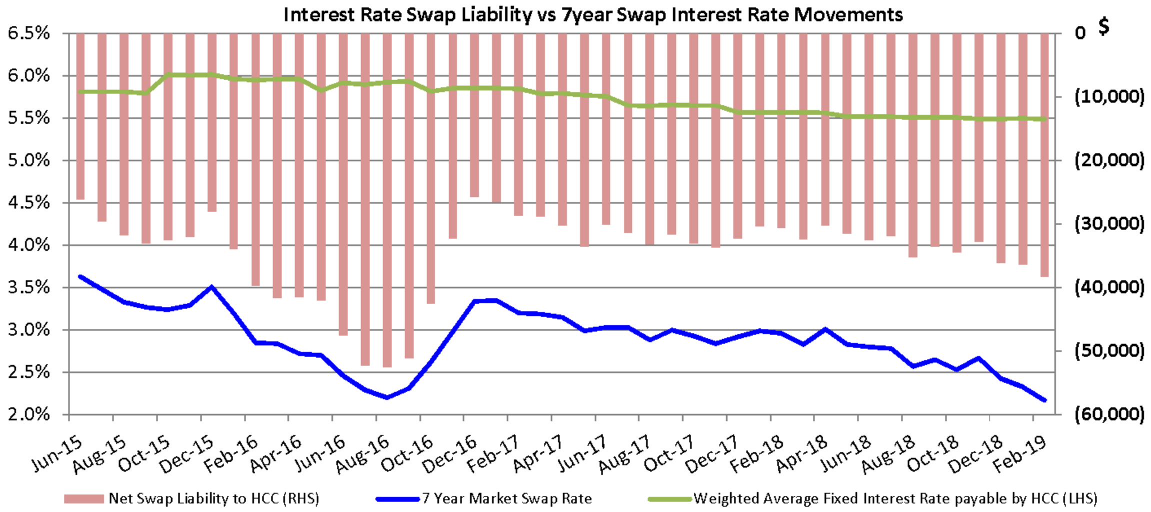


Debt and Cash Investment ($000)

	Result @ 28-Feb-19	Budget @ 30-Jun-19	Variance Fav/(Unfav)
External debt	**444,385**	510,494	66,109
less **Cash investments**	**(98,491)**	(55,000)	43,491
Net debt	**345,894**	455,494	109,600
Gross cost of funds (12 month rolling average)	**4.67%**	**4.31%**	**-0.35%**

Attachment 3

Item 13



The above graph shows how the movements in 7 year swap interest rates impact HCC's swap position in the balance sheet. If the swap interest rate decreases, the swap liability increases. Recent months have seen swap interest rates decrease, causing an increase in HCC's liability.

Definitions

Fixed rate debt maturity is a 15 year forward looking policy that guides our fixed and floating rate mix and shows how we are tracking.

Funding maturity is a policy that guides our debt maturity and the purpose is to spread our debt maturities. There are three policy tranches.

Liquidity ratio is a measure to show that in an event that we will need short term cash we will be sufficiently covered.

Counterparty credit risk is a measure that acts to spread all our treasury transactions across banks to reduce risk of having all our eggs in one basket.

External debt is all debt held externally with LGFA, banks, MBIE and lease liabilities.

Cash investments is the total of all amounts in our bank account (General and Treasury account), term deposits and LGFA borrower notes. (1.6% of all LGFA loans held by LGFA as an investment for HCC).

Gross cost of funds shows our actual interest expense over average debt.

Swaps are financial instruments that basically swap a floating rate for a fixed rate (vice versa). We use these to provide us certainty in fixing interest rates.

Swap liability is our unrealised loss on swaps and totals each swap difference between deal date rate and market value for a certain period. Can only be realised if a swap is broken.

Council Report

Item 14

Committee:	Finance Committee	**Date:**	09 April 2019
Author:	Christie Harger	**Authoriser:**	David Bryant
Position:	Corporate Business Manager	**Position:**	General Manager Corporate
Report Name:	April 2019 Financial Strategy Monitoring Report		

Report Status	*Open*

Purpose

1. To inform the Finance Committee of the status of the 2018-28 10-Year Plan Financial Strategy as at 28 February 2019.

Staff Recommendation *(Recommendation to Council)*

1. That the Finance Committee:

   a) receives the report.

2. That the Finance Committee recommends the Council:

   a) approves the rephasing and delay deferrals of an additional $26.3M capital projects from 2018/19 to future years as listed in the 9 April 2019 Capital Portfolio Monitoring Report;

   b) approves the significant forecast adjustments as set out in paragraphs 20 to 32 of this report; and

   c) approves the revised forecast Financial Strategy graphs for Debt to Revenue, Net Debt and Balancing the Books as set out in paragraphs 33 to 42 of this report.

Executive Summary

3. This report is to be read in conjunction with the:

   a) February 2019 (9 April 2019 meeting) Annual Monitoring Report; and
   b) February 2019 (9 April 2019 meeting) Capital Portfolio Monitoring Report.

4. This report provides a forecast update of the key 10-Year Plan Financial Strategy metrics.

5. One key goal of the 10-Year Plan Financial Strategy is to maintain or better the balancing the books result so that the need to borrow to fund everyday expenses is eliminated.

6. Not borrowing to fund everyday expenses maintains Council's borrowing capacity to fund investment in community and infrastructure initiatives.

7. For the first 4 years of the Plan there is very little margin for over-budget spending, be that operating or capital.

Item 14

8. If there are negative variances from either the operating and/or capital budgets Council may need to consider increasing revenue and/or reducing expenditure in other budgets.

9. The staff recommendation reflects matters raised in the February 2019 (9th April 2019 meeting) Capital and Annual Monitoring Reports. These matters have been collated into this report to allow for the sum of the matters to be considered in the context of Council's financial strategy.

10. Staff consider the matters in this report have low significance and that the recommendations comply with the Council's legal requirements.

Background

11. **Financial Strategy**

12. The Financial Strategy (pages 67-71, 2018-28 10-Year Plan) is designed to:

    a) Fund everyday expenses from everyday revenues,
    b) maintain service levels and assets,
    c) create surpluses to repay debt
    d) support investment in community, infrastructure and growth initiatives,
    e) fund investments from debt.

13. The key outcomes are:

    a) Balancing the books after three years (2022/23).
    b) Maintaining a Debt to Revenue Ratio of less than 230%.
    c) Setting rates increases for existing ratepayers at 9.7% (2018/19) and 3.8% per annum thereafter for existing ratepayers.

14. The adopted 10-Year Plan Financial Strategy provides for $40M unused debt capacity for the next four years. Changes to the actual and forecast operating and capital budgets affects this capacity. If there are negative variances from either the operating and/or capital budgets the Council will need to consider increasing revenue and/or reducing expenditure in other budgets.

15. Forecasting changes made since the adoption of the 10-Year Plan show an improvement in the Financial Strategy measures.

16. **Significant Forecasting assumptions**

17. Any changes in significant forecasting assumptions (pages 72-81, 2018-28 10-Year Plan) will result in changes to the Financial Strategy outcomes.

18. The following forecasting assumptions directly impact the Financial Strategy. An adverse change would have a material impact.

- Growth

  i. Revenue budgets for rates, development contributions, building and resource consents are linked to growth assumptions based on the National Institute of Demographic and Economic Analysis (NIDEA) Low projections. Sensitivity analysis (page 81, 2018-28 10-Year Plan) shows the impact of a 15% increase and reduction on the Financial Strategy.

- Interest on borrowing

  ii. Interest rates on debt is forecast at 4.85% reducing to 4.6%. A 1% movement could impact interest costs by $5.6M p.a.

- Inflation

  iii. Inflation was forecast by Business and Economic Research Ltd (BERL) under contract to SOLGM, with a modification for the Waikato. Waikato is experiencing higher inflation on capital projects than is being experienced across the rest of New Zealand. These BERL local government forecasts are updated annually every October.

19. These assumptions will be considered and if necessary adjusted in each Annual Plan.

Financial Strategy Significant Forecast Adjustments

20. This report forecasts the debt to revenue measure and balancing the books measure compared with the 10-Year Plan budget.

21. The forecast takes account of changes:

    a. to capital budgets approved by the Capital Investment Board, under delegation.
    b. to operating expenditure approved by staff under delegation.
    c. by Council decision.
    d. recommended to Council (but not yet approved) by other Council Committees.

22. All significant changes made since the 10-Year Plan and up to 14 March 2019 are listed in Attachment 1.

23. Significant forecasting adjustments since the 14 March 2019 Council meeting are:

    a. Electricity Savings in 2020/21 and 2021/22
    b. Elected Members Remuneration Increase
    c. Insurance Increase 20% Y3-10
    d. Capital rephasing and delay deferrals from 2018/19 to future years
    e. Capital Savings
    f. Depreciation Y1 Update
    g. Founders Theatre Demolition deferral from 2019/20 to 2020/21
    h. Municipal Pools Demolition deferral from 2018/19 to 2019/20
    i. Chief Executive Budget Items

24. **Electricity Savings in 2020/21 and 2021/22**

Item 14

Discussion
Council was advised on 26th February 2019 Council Meeting as part of Annual Plan emerging issues that the Electricity contract was up for renewal. Details have been confirmed and the new Electricity contract comes into effect on 1 July 2019. With an increase in electricity unit rates, year 2 of the 10-Year Plan will not result in savings. As prices drop coupled with ongoing operational efficiencies and renewal projects, there will be a return to the savings in years 3 and 4. These savings amount to $0.314M in year 3 and $0.576M in year 4 and will be included as operational savings that were set in the 10-Year Plan. More information is in the 4th April 2019 Council Report.

Financial Strategy Impact

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Balancing the Books $(000)	-	-	344	662	50	52	53	56	59	62
Debt to revenue %	-	-	0.12	0.31	0.31	0.33	0.33	0.33	0.33	0.33
Net Debt $(000)	-	-	344	1,006	1,056	1,108	1,161	1,217	1,276	1,338

Numbers in brackets represent an adverse outcome.

25. **Elected Members Remuneration Increase**

Discussion
The Remuneration Authority completed a major review of the remuneration of elected members of local government in 2018. As a result, each council was resized and completed the first stage of adjusting remuneration. The next stage will take effect on 1 July 2019 and the third stage will take effect following this year's local government elections. For more information, here is a link to the information paper published in June 2018: https://www.remauthority.govt.nz/assets/Uploads/REM/Determining-the-Remuneration-of-Local-Government-Elected-Members-Information-Paper.pdf

Financial Strategy Impact

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Balancing the Books $(000)	-	(161)	(172)	(184)	(197)	(211)	(225)	(240)	(256)	(273)
Debt to revenue %	-	(0.05)	(0.11)	(0.16)	(0.21)	(0.27)	(0.33)	(0.37)	(0.42)	(0.48)
Net Debt $(000)	-	(161)	(333)	(518)	(715)	(926)	(1,151)	(1,391)	(1,647)	(1,920)

Numbers in brackets represent an adverse outcome.

26. **Insurance Increase 20% Y3-10**

Item 14

Discussion
Council was advised on 26th February 2019 Council Meeting as part of Annual Plan emerging issues that the Insurance contract was up for renewal. Year 2 of the 10-Year Plan was increased by $0.850M as approved by Council on 26 February 2019 and advised to Audit & Risk Committee on 27 November 2018. We have received advice from our insurers (AON) and undertaken further analysis. The 10-Year Plan has been updated with an increase of 20% year on year for Years 3-10.

Financial Strategy Impact

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Balancing the Books $(000)	-	-	(566)	(721)	(915)	(1,154)	(1,445)	(1,810)	(2,260)	(2,818)
Debt to revenue %	-	-	0.19	0.40	0.65	0.99	1.38	1.78	2.27	2.91
Net Debt $(000)	-	-	(566)	(1,287)	(2,202)	(3,356)	(4,801)	(6,610)	(8,870)	(11,688)

Numbers in brackets represent an adverse outcome.

27. Capital rephasing and delay deferrals from 2018/19 to future years

Discussion
The February 2019 (9th April 2019 meeting) Capital Portfolio Monitoring Report advised $63.2M of full rephasing and delay deferrals for the year to date. An additional $26.3M has been added since the 21st February 2019 Financial Strategy update. The table below shows the impact of the additional $26.3M movement in 2019/20. There is a subsidy of $8.2M also deferred from 2018/19. The change in timing of spend reduces debt and interest costs in 2018/19. Capital spend has been deferred into future years with $9.7M (plus NZTA subsidy of $7.5M) into 2019/20, $55.1M into 2020/21 (plus NZTA subsidy of $15.7M) and $1.6M into 2022/23. This benefit is then removed by 2022/23 when all projects are completed. There is a small permanent interest saving.

Financial Strategy Impact

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Balancing the Books $(000)	927	1,955	(57)	(59)	26	27	28	29	31	32
Debt to revenue %	2.10	8.89	11.92	(0.39)	0.16	0.17	0.17	0.17	0.17	0.17
Net Debt $(000)	19,117	41,586	(1,205)	(1,254)	551	578	606	635	665	698

Numbers in brackets represent an adverse outcome.

28. Capital Savings

Item 14

Discussion
The February 2019 (9th April 2019 meeting) Capital Portfolio Monitoring Report advised $4.8M of savings for the year to date. Savings have increased by $0.7M since last advised at 21 February 2019 Finance Committee.
There is an initial debt saving of $0.69M in 2019, which is a permanent change, resulting in debt and interest savings which accumulate each year.

Financial Strategy Impact

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Balancing the Books $(000)	33	34	36	37	39	41	42	44	47	49
Debt to revenue %	0.25	0.24	0.25	0.25	0.25	0.26	0.27	0.26	0.26	0.26
Net Debt $(000)	690	724	760	797	837	878	920	965	1,011	1,060

Numbers in brackets represent an adverse outcome.

29. Depreciation Y1 Update

Discussion
There has been an increase in depreciation costs of $2.1M in 2018/19 since the 10-Year Plan was confirmed. This update is to re-align the current year with the latest forecast information. A detailed review of depreciation is in progress and future years will be updated once confirmed.

Financial Strategy Impact

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Balancing the Books $(000)	(2,206)	-	-	-	-	-	-	-	-	-
Debt to revenue %	-	-	-	-	-	-	-	-	-	-
Net Debt $(000)	-	-	-	-	-	-	-	-	-	-

Numbers in brackets represent an adverse outcome.

30. Founders Theatre Demolition deferral from 2019/20 to 2020/21

Discussion
Original budget in 10-Year Plan was for demolition in 2018/19. Council approved on 26 February a timing correction deferring to 2019/20. A further deferral to 2020/21 is being proposed today based on the latest time estimates. Additional operating costs of $0.045M will be incurred to maintain Founders Theatre until demolition.

Financial Strategy Impact

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Balancing the Books $(000)	-	868	(844)	-	-	-	-	-	-	-
Debt to revenue	-	0.28	-	-	-	-	-	-	-	-

%										
Net Debt $(000)	-	868	-	-	-	-	-	-	-	-

Numbers in brackets represent an adverse outcome.

Item 14

31. **Municipal Pools Demolition deferral from 2018/19 to 2019/20**

Discussion
Original budget in 10-Year Plan was for demolition in 2018/19. A further deferral to 2019/20 is being proposed today based on the latest time estimates.

Financial Strategy Impact

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Balancing the Books $(000)	788	(765)	-	-	-	-	-	-	-	-
Debt to revenue %	0.29	-	-	-	-	-	-	-	-	-
Net Debt $(000)	788	-	-	-	-	-	-	-	-	-

Numbers in brackets represent an adverse outcome.

32. **Chief Executive Budget Items**

Discussion
The annual forecast is $(8.7M) unfavourable compared to annual budget. The ongoing impact of these changes will be addressed as part of the 2019/20 Annual Plan. Annual forecast adjustments have been made to align to expected 2018/19 year end results.

Financial Strategy Impact

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Balancing the Books $(000)	4,689	231	243	255	267	280	288	302	316	331
Debt to revenue %	3.07	1.60	1.73	1.67	1.68	1.77	1.80	1.76	1.76	1.79
Net Debt $(000)	4,689	4,921	5,163	5,418	5,685	5,966	6,253	6,555	6,871	7,202

Numbers in brackets represent an adverse outcome.

Financial Strategy Graphs

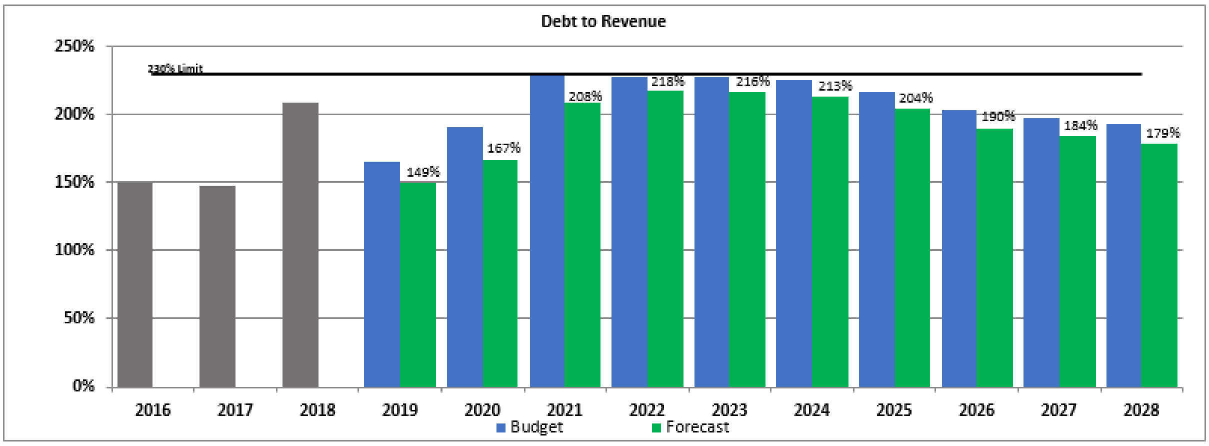
33. The following graphs show the 10-Year Plan budgets (in blue) and the total of all Council approved changes listed in Attachment 1 as well as the significant forecast adjustments as set out in paragraphs 24 to 32 above (in green).

34. Forecast changes include matters contained in this agenda and subject to decision by the:

    a) Finance Committee; or
    b) Council.

35. The potential impact of the Financial Strategy risks is not adjusted for in these graphs.

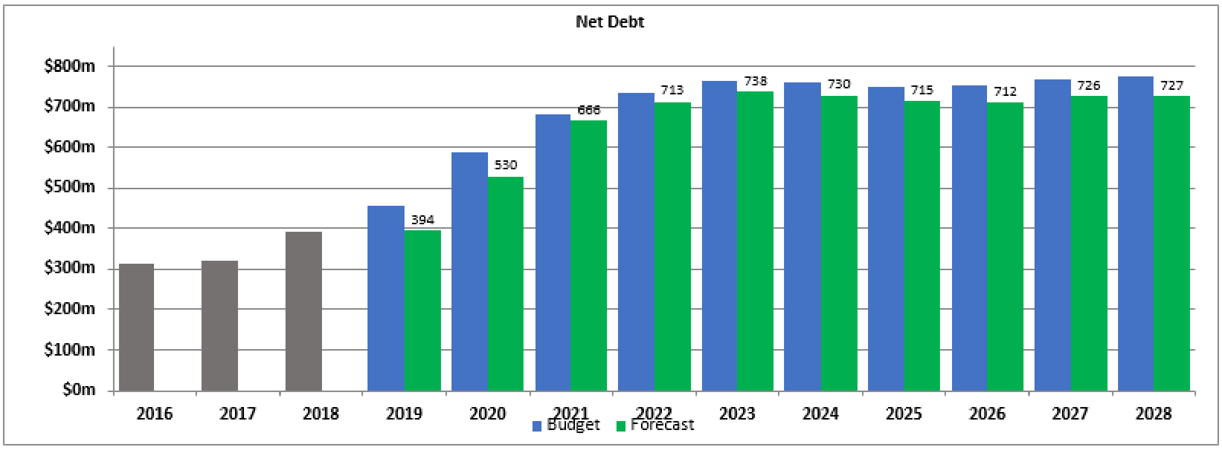
36. **Debt to Revenue**



37. The Debt to Revenue graph includes all adjustments identified in this report and shows that the forecast debt to revenue is improved against the 10-Year Plan budget.

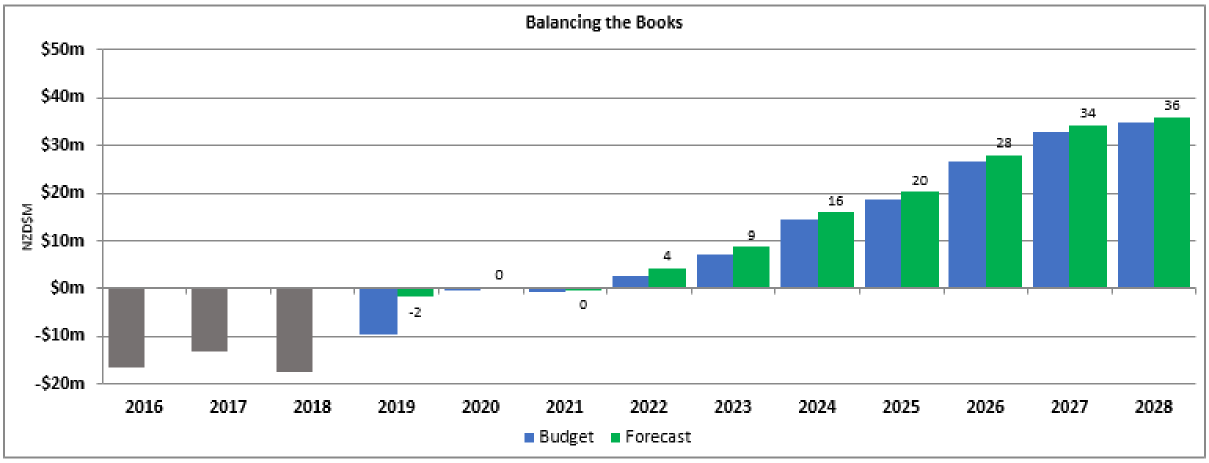
38. At 2021/22 debt capacity is $40M.

39. **Net Debt**



40. The Net Debt graph shows a decrease in net debt against the 10-Year Plan, with debt in 2028 being $48M lower. This updated 2028 result is $3.6M more favourable than reported on 21 February 2019.

41. **Balancing the Books**



42. Council is forecasting to largely balance the books in year two (2019/20) with a small forecast deficit decrease in year one (2018/19) of $7.6M. Increased rates growth previously forecast has the largest impact over 10 years.

Risks to the Financial Strategy

43. The forecast adjustments above lead to improved Financial Strategy metrics. However emerging issues reported in the February 2019 (9th April 2019 meeting) Annual and Capital Portfolio Monitoring Reports indicate unfavourable movements could put these improvements at risk.

44. A debt to revenue margin on debt capacity is $40M in three years (2021/22) provides a small amount of resilience. This is an improvement from the 10-Year plan budget but should be considered in the context of the extent of change that has occurred already since the plan was adopted and the amount of spending budgeted to occur before the end of 2021/22.

Emerging Issues

45. The February 2019 (9th April 2019 meeting) Annual Monitoring Report has no new emerging issues. Previously listed and future emerging issues could impact the balancing the books result and consequentially debt across the 10-Year Plan.

46. The February 2019 (9th April 2019 meeting) Capital Portfolio Monitoring Report lists emerging issues that could impact the capital portfolio and consequently debt and the balancing the books result across the 10-Year Plan.

47. Emerging issues additional to and not included in the above reports are:

a) Library funding – This item has been advised to the Committee and an adjustment was made to the 2018/19 budget. The Annual Plan has reduced this for 2019/20. Future years (2020/21 – 2027/28) need to be considered.

b) Depreciation – This has been assessed and a forecast adjustment was added for 2018/19. A detailed review of depreciation is in progress and future years will be updated once confirmed.

c) Development Contributions – At the time of writing this report, the updates to DC's is a proposal and will be presented to Council on 4 April 2019. The outcome of this will impact the long term financial strategy.

48. Some of these issues are large and may require an intervention so that the Financial Strategy limits continue to be achieved.

Item 14

Item 14

Other Matters

Legal and Policy Considerations

49. Staff confirm that the staff recommendations in this report comply with the Council's legal and policy requirements.

Cultural Considerations

50. No cultural considerations have been identified relevant to the matters in this report.

Sustainability Considerations

51. This report addresses matter of financial sustainability. No other considerations have been identified relevant to the matters in this report.

Risks

52. This report is based on decisions that have been made in the context of assumptions that may change.

Significance & Engagement Policy

Significance

53. Staff have considered the key considerations under the Significance and Engagement Policy and have assessed that the matter(s) in this report has/have a low level of significance.

Engagement

54. Given the low level of significance determined, the engagement level is low. No engagement is required.

Attachments

Attachment 1 - Register of Significant Forecast Changes April 2019 .

Register of Significant Forecast Changes

The follow signficant forecasting changes have previously been approved.

$000's
BB = Balancing the books impact ND = Net Debt impact
Numbers in brackets have an adverse impact.

Date	Change		2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
16-Oct-18	Additional Rates revenue from Growth	BB	599	663	733	808	890	978	1,067	1,168	1,276	1,393
		ND	599	1,262	1,995	2,803	3,693	4,670	5,737	6,905	8,181	9,575
	Defered Capital 2017/18 to 2018/19	BB	257	-	-	-	-	-	-	-	-	-
		ND	-	-	-	-	-	-	-	-	-	-

Date	Change		2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
4-Dec-18	Library revenue adjustment 2018/19	BB	(163)	(8)	(8)	(9)	(9)	(10)	(10)	(10)	(11)	(12)
		ND	(163)	(171)	(179)	(188)	(197)	(207)	(217)	(228)	(239)	(250)
	Footpath new revenue 2018 -2028	BB	542	655	829	1,040	1,238	1,452	1,599	1,813	2,042	2,252
		ND	2,858	5,955	9,362	12,927	16,786	20,961	24,906	29,159	33,744	38,646
	Thomas - Gordonton Road Project additional revenue - enhanced subsidy	BB	40	41	43	45	47	49	50	53	55	58
		ND	822	863	906	950	997	1,046	1,097	1,150	1,205	1,263
	Capital rephasing and delay deferrals from 2018/19 to future years	BB	1,147	11	12	12	13	13	14	14	15	16
		ND	23,647	235	247	259	272	285	299	314	329	345
	Increase capacity WW West Network (Western Interceptor Duplication)	BB	41	357	375	465	485	505	516	538	560	584
		ND	841	7,598	7,973	8,366	8,778	9,211	9,655	10,121	10,609	11,121
	Te Awa Cycleway Remediation (new project)	BB	(19)	(43)	(80)	(83)	(85)	(87)	(89)	(91)	(94)	(97)
		ND	(399)	(920)	(965)	(1,013)	(1,063)	(1,116)	(1,169)	(1,226)	(1,285)	(1,347)

Date	Change		2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
21-Feb-19	Housekeeping adjustments	BB	-	-	-	-	-	-	-	-	-	-
		ND	-	-	-	-	-	-	-	-	-	-
	Capital rephasing and delay deferrals from 2018/19 to future years	BB	168	2	2	2	2	2	2	2	2	2
		ND	3,468	35	36	38	40	42	44	46	48	51
	Capital savings	BB	160	163	171	179	188	198	203	212	223	233
		ND	3,303	3,466	3,637	3,816	4,005	4,202	4,405	4,617	4,840	5,073
	Adjustment to WW West Network (Western Interceptor Duplication)	BB	10	(305)	(320)	(397)	(414)	(431)	(441)	(459)	(478)	(498)
		ND	210	(6,495)	(6,815)	(7,152)	(7,504)	(7,874)	(8,254)	(8,652)	(9,069)	(9,506)
	Rototuna Family Golf Centre new lease	BB	(7)	(30)	(32)	(34)	(37)	(39)	(42)	(44)	(47)	(51)
		ND	(7)	(37)	(69)	(103)	(140)	(179)	(221)	(265)	(312)	(363)

Date	Change		2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	
26-Feb-19	Capital and NZTA capital subsidy deferred from 2018/19 to 2019/20	BB	(2)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	
		ND	(36)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(1)	
	Reduction in libraries revenue due to Waikato DC countract ceased	BB	-	(322)	(16)	(17)	(17)	(18)	(19)	(20)	(21)	(22)	
		ND	-	(322)	(338)	(354)	(372)	(390)	(409)	(429)	(449)	(471)	
	Cleaning contract increase to be advised at	BB	-	(578)	(29)	(30)	(31)	(33)	(34)	(35)	(37)	(39)	
		ND	-	(578)	(607)	(636)	(668)	(701)	(735)	(770)	(807)	(846)	
	Insurance premiums 30% increase from	BB	-	(912)	(45)	(47)	(49)	(52)	(53)	(56)	(59)	(61)	
		ND	-	(912)	(956)	(1,004)	(1,053)	(1,105)	(1,158)	(1,214)	(1,273)	(1,334)	
	Increased Corporate personnel budget	BB	-	(77)	(4)	(4)	(4)	(4)	(4)	(5)	(5)	(5)	
		ND	-	(77)	(80)	(84)	(88)	(93)	(97)	(102)	(107)	(112)	
	Demolition of Founders Theatre costs	BB	850	(826)	1	1	1	1	1	2	2	2	
		ND	850	25	26	27	28	30	31	33	34	36	
	Operating costs to maintain Founders	BB	-	(48)	(2)	(2)	(3)	(3)	(3)	(3)	(3)	(3)	
		ND	-	(48)	(51)	(53)	(56)	(59)	(61)	(64)	(67)	(71)	
	Reduced WRC revenue at Transport Centre	BB	-	(59)	(3)	(3)	(3)	(3)	(3)	(4)	(4)	(4)	
		ND	-	(59)	(62)	(65)	(68)	(72)	(75)	(79)	(82)	(86)	
	Chief Executive budget items - net zero	BB	-	(4)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	
		ND	-	(4)	(4)	(4)	(5)	(5)	(5)	(5)	(6)	(6)	
	GM budget items - net 'zero' impact,	BB	-	(24)	(1)	(1)	(1)	(1)	(1)	(1)	(2)	(2)	
		ND	-	(252)	(264)	(277)	(291)	(305)	(320)	(335)	(351)	(368)	
	Citysafe extension to suburbs	BB	-	(252)	(12)	(13)	(14)	(14)	(15)	(15)	(16)	(17)	*
		ND	-	(252)	(264)	(277)	(291)	(305)	(320)	(335)	(351)	(368)	
	Greenwood Street/Kahikatea Road roundabout option	BB	-	(161)	(8)	(8)	(9)	(9)	(9)	(10)	(10)	(11)	*
		ND	-	(161)	(169)	(177)	(186)	(195)	(204)	(214)	(225)	(235)	
	Alternative platform for river swimmers near Hamilton Gardens Jetty	BB	-	(8)	(8)	(8)	(9)	(9)	(10)	(10)	(11)	(11)	*
		ND	-	(164)	(172)	(180)	(189)	(199)	(208)	(218)	(229)	(240)	

Date	Change		2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	
14-Mar-19	Social Housing funding provision change	BB	-	(643)	(689)	382	411	442	(5)	(5)	(5)	(5)	*
		ND	-	(643)	(1,333)	(950)	(539)	(97)	(101)	(106)	(111)	(117)	

* (Annual Plan Budget Proposal, subject to change)

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. Confirmation of Finance Committee Meeting Minutes - Public Excluded - 21 February 2019 C2. Report on overdue debtors as at 28 February 2019 & Debt write-offs 2018/19	Good reason to withhold information exists under Section 7 Local Government Official Information and Meetings Act 1987	Section 48(1)(a)

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 protect the privacy of natural persons	Section 7 (2) (a)
	to maintain the effective conduct of public affairs through protecting persons from improper pressure or harassment	Section 7 (2) (f) (ii)