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 10 September 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 Lead

3 September 2019

Telephone: 07 838 6983
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*

ITEM	TABLE OF CONTENTS	PAGE
1	Apologies	5
2	Confirmation of Agenda	5
3	Declarations of Interest	5
4	Public Forum	5
5	Confirmation of the Finance Committee Minutes - Open - 1 August 2019	6
6	Chair's Report - 10 September 2019	13
7	Deferral of Reports - Update on Stadia Facilities	16
8	Deferral of Reports - Waikato Local Authority Shared Services (WLASS) Year Result, Civic Financial Services Half Year Result, Waikato Regional Airport Limited (WRAL) Full Year Result.	19
9	Waikato Innovation Growth Limited (WIGL) Draft Letter of Expectation	21
10	Waikato Innovation Growth Ltd, NZ Food Innovation (Waikato) Ltd and NZ Food Innovation (Waikato) D2 Ltd combined Statement of Intent 2019/20 and Full Year Report 30 June 2019	29
11	New Zealand Local Government Funding Agency Limited - Annual Report 2019	130
12	Capital Portfolio Monitoring Report	216
13	Annual Monitoring Report to 31 July 2019	236
14	Financial Strategy Monitoring Report	263
15	Cost Savings Report	272
16	Contract 17281 - Playgrounds Renewal and Development Programme - Approved Contract Sum	277
17	Contract 13299A - Chemical Procurement for Water Treatment - Increase to Approved Contract Sum	281
18	Draft Submission to the Productivity Commission Report on Local Government Funding and Financing	285
19	Resolution to Exclude the Public	299

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:** 10 September 2019

Author: Rebecca Watson **Authoriser:** Becca Brooke

Position: Committee Advisor **Position:** Governance Team Leader

Report Name: Confirmation of the Finance Committee Minutes - Open - 1 August 2019

Report Status	*Open*

Staff Recommendation

That the Committee confirm the Open Minutes of the Finance Committee Meeting held on 1 August 2019 as a true and correct record.

Attachments

Attachment 1 - Finance Committee Open Minutes - 1 August 2019

Finance Committee

OPEN MINUTES

Minutes of a meeting of the Finance Committee held in Council Chamber, Municipal Building, Garden Place, Hamilton on Thursday 1 August 2019 at 9.30am.

PRESENT

Chairperson	Cr G Mallett
Members	Mayor A King
	Deputy Mayor M Gallagher
	Cr M Bunting
	Cr J R Casson
	Cr S Henry
	Cr A O'Leary
	Cr P Southgate
	Cr G Taylor
	Cr L Tooman
	Cr R Hamilton
	Maangai Bella Takiari-Brame
In Attendance	David Bryant – General Manager Corporate
	Sean Murray – General Manager Venues, Tourism and Major Events
	Chris Allen – General Manager Development
	Jen Baird – General Manager City Growth
	Eeva-Liisa Wright – General Manager Infrastructure Operations
	Sean Hickey – General Manager Strategy and Communications
	Helen Paki – Business and Planning Manager
	Tracey Musty – Financial Controller
	Natalie Young – PMO Manager
	Maire Porter – City Waters Manager
	Jason Harrison – Special Projects Manager
	Paul Gower – Programme Manager Assets Strategy
	Jayne Perry – Chief of Staff
	Julie Clausen – Programme Manager Strategy
	Natasha Ryan – Key Projects Programme Manager
	Emily Botje – Facilities Unit Manager
	Andrew Parsons – Strategic Development Manager
	Igor Magud – Procurement Manager
	Christie Harger – Corporate Business Manager
	Matthew Bell – Rates and Revenue Manager
	Liam Blackwell – Online Specialist
	Chris Barton – Capital Projects Manager
	Paul Gower – Programme Manager Assets Strategy
	Cory Lang – Building Control Manager

Attachment 1

Item 5

Governance Staff	Becca Brooke – Governance Lead Rebecca Watson – Committee Advisor

1. Apologies

Resolved: (Cr Mallett/Cr Casson)

That the apologies for absence from Crs Macpherson and Pascoe are accepted.

2. Confirmation of Agenda

Resolved: (Cr Mallett/Cr Casson)

That the agenda is confirmed.

3. Declarations of Interest

No members of the Council declared a Conflict of Interest.

4. Public Forum

Ray Mudford from the Hamilton Ratepayers and Residents Association spoke to item 8 (Annual Monitoring Report). He noted his concerns regarding the legislative timeframes for the circulation of agendas to Elected Members and requested a review of Standing Orders.

Staff action: *Staff undertook to confirm the minimum time period required under the 2010 Standing Orders for circulation of agendas to Elected Members.*

5. Confirmation of the Finance Committee Minutes - Open - 23 May 2019

Resolved: (Cr Mallett/Cr Casson)

That the Committee confirm the Open Minutes of the Finance Committee Meeting held on 23 May 2019 as a true and correct record.

6. Weathertight Buildings

The Building Control Manager introduced the report and responded to questions from Committee Members concerning inclusion of other costs such as legal costs in the reported figures, comparison of claim numbers with other centres and the reasons for low numbers of claims in Hamilton.

Staff action: *Staff undertook to include in future reports other costs associated with weathertight claims, such as legal costs as a separate column.*

Resolved: (Cr Mallett/Cr Bunting)

That the Finance Committee receives the report.

7. Capital Portfolio Monitoring Report

The Capital Projects Manager and the PMO Manager introduced the report and responded to questions from Committee Members concerning status of the various projects outlined in the report, costs and potential design of the central city jetty, NZTA funding and timeframes concerning the Te Awa cycleway.

Resolved: (Cr Mallett/Cr Southgate)

That the Finance Committee:

a) receives the report; and

b) notes that decisions will be made on the Central City Jetty project as part of the Financial Strategy Report to this Committee meeting.

8. Annual Monitoring Report to 30 June 2019

The Finance Manager introduced the report, noting the current financial position of Council.

Resolved: (Cr Mallett/Cr O'Leary)

That the Finance Committee receives the report.

9. Financial Strategy Monitoring Report

The Corporate Business Manager introduced the report, noting the extra funding request for the jetty. Staff responded to questions from Committee Members concerning interest rate swaps.

Resolved: (Cr Taylor/Cr Southgate)

That the Finance Committee:

a) receives the report.

That the Finance Committee recommends that the Council:

a) approves the rephasing and delay deferrals of an additional $6.53M capital projects from 2018/19 to future years as identified in the 1 August 2019 Capital Portfolio Monitoring Report;

b) approves the additional funding of $0.5M for the Central City Jetty as identified in the 1 August 2019 Capital Portfolio Monitoring Report;

c) approves the significant forecast adjustments as set out in paragraphs 20 to 24 of this report; and

d) approves the revised forecast Financial Strategy graphs for Debt to Revenue, Net Debt and Balancing the Books as set out in paragraphs 25 to 34 of this report.

Cr Mallett Dissenting.

The meeting adjourned 11.10am – 11.27am.

10. Waikato Regional Airport Limited - Terminal Refresh Project

The report was taken as read.

Resolved: (Cr Bunting/Cr Mallett)

That the Finance Committee:

a) receive the report as a shareholder of WRAL;

b) approves the funding of the Terminal Project as a major transaction of up to $13million; and

c) approves the adjustment of WRAL's debt position from $22m to $25m to finance the terminal project.

11. Deferral of Reports - Update on Stadia Facilities

The General Manager Major Events, Venues and Tourism introduced the report. He responded to questions from Committee members concerning timeframes to get information back from stadia suppliers.

Resolved: (Cr Mallett/Cr Hamilton)

That the Finance Committee:

a) receives the report; and

b) notes that the report concerning an update on stadia facilities is deferred to the 10 September 2019 Finance Committee meeting.

12. H3 Group - Quarter Four and Year End Report for 1 July 2018 to 30 June 2019.

The General Manager Major Events, Venues and Tourism introduced the report. He responded to questions from Committee Members concerning light towers at FMG Stadium, costs and timing of turf renewal, recycling at events, opportunities for usage of stadia and potential contributions from sporting organisations to offset operating costs.

***Staff action**: staff undertook to provide Elected Members with comparative information concerning other Council funding of stadia and major facilities around the country.*

Resolved: (Cr Mallett/Cr Casson)

That the Finance Committee receives the report.

13. Resolution to Exclude the Public

Resolved: (Cr Mallett/Cr Casson)

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 - 23 May 2019	) Good reason to withhold) information exists under) Section 7 Local Government) Official Information and) Meetings Act 1987	Section 48(1)(a)

C2.	Contract 18146 - General Security Services
C3.	Report on overdue debtors as at 30 June 2019 & Debt write-offs 2018/19
C4.	River Plan - Central City Jetty - Contract 18120
C5.	Waikato LASS Professional Services Panel Review

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 avoid the unreasonably, likely prejudice to the commercial position of a person who supplied or is the subject of the information to enable Council to carry out commercial activities without disadvantage	Section 7 (2) (b) (ii) Section 7 (2) (h)
Item C3.	to protect the privacy of natural persons to maintain the effective conduct of public affairs through protecting persons from improper pressure or harassment	Section 7 (2) (a) Section 7 (2) (f) (ii)
Item C4.	to enable Council to carry out commercial activities without disadvantage to enable Council to carry out negotiations	Section 7 (2) (h) Section 7 (2) (i)
Item C5.	to enable Council to carry out commercial activities without disadvantage	Section 7 (2) (h)

The meeting went into a public excluded session at 12.11pm.

The meeting was declared closed at 1.30pm.

Item 5

Attachment 1

Attachment 1

Item 5

APPENDIX 1

C2. Contract 18146 - General Security Services

Motion: (Deputy Mayor Gallagher/Mayor King)

That the Finance Committee approves:

a) the awarding of Contract 18146 General Security Services to Allied Security for a three-year term with one right of renewal for three years. The contract will commence 1 October 2019, with an Approved Contract Sum of $4.0 million;

b) that the contract includes provision for remunerating security staff a minimum of $20 per hour, which will amount to $13,330 in the first year; and

c) that the decision in relation to this matter be released to the public at the appropriate time (to be determined by the General Manager Corporate).

Amendment: (Cr O'Leary/Cr Henry)

a) the awarding of Contract 18146 General Security Services to Allied Security for a three-year term with one right of renewal for three years. The contract will commence 1 October 2019, with an Approved Contract Sum of $4.0 million that **does not** include provision for remunerating security staff a minimum of $20 per hour which will amount to $13,330 in the first year;

b) that the decision in relation to this matter be released to the public at the appropriate time (to be determined by the General Manager Corporate).

The amendment was put.

Those for the Amendment:	Crs Mallett, Tooman, O'Leary, Bunting, Casson and Henry.
Those against the Amendment:	Mayor King, Deputy Mayor Gallagher, Crs Southgate, Taylor, Hamilton and Maangai Takiari-Brame.

The Amendment was declared CARRIED on the casting vote of the Chair.

The amendment was then put as the Substantive Motion and declared CARRIED.

Those for the Substantive Motion:	Crs Mallett, Tooman, O'Leary, Bunting, Casson, Henry, Southgate and Hamilton.
Those against the Substantive Motion:	Mayor King, Deputy Mayor Gallagher, Cr Taylor and Maangai Takiari-Brame.

Resolved: (Cr O'Leary/Cr Henry)

a) the awarding of Contract 18146 General Security Services to Allied Security for a three-year term with one right of renewal for three years. The contract will commence 1 October 2019, with an Approved Contract Sum of $4.0 million that **does not** include provision for remunerating security staff a minimum of $20 per hour which will amount to $13,330 in the first year;

b) that the decision in relation to this matter be released to the public at the appropriate time (to be determined by the General Manager Corporate).

Council Report

Item 6

Committee:	Finance Committee	**Date:**	10 September 2019
Author:	Rebecca Watson	**Authoriser:**	Becca Brooke
Position:	Committee Advisor	**Position:**	Governance Team Leader
Report Name:	Chair's Report - 10 September 2019		

Report Status	*Open*

Staff Recommendation

That the Finance Committee receives the report.

Attachments

Attachment 1 - Finance Committee Chair's Report - 10 September 2019

Chair's Report

A Disturbing Trend Brought To Your Attention …

The goal of HCC's Financial Strategy is to (1) balance the Council's books (2) reduce debt & (3) provide 'Rates Certainty' to Ratepayers.

Over at least the past two terms of Council, those 3 goals have been challenged by Hamilton's rapid growth. With rapid growth comes extra-ordinary challenges, not the least being the requirement to fund that growth. This challenge has been regularly communicated to Elected Members who'll be aware of these issues.

However, there is another area of our 'business' which, in my humble opinion, has not had so much visibility or scrutiny & that's what we call Business As Usual (BAU).

I've addressed this matter to this Committee on a couple of occasions – first in my Chair's report 22 May 2018 & more recently (less directly) in my Chair's report 21 February 2019.

Don't worry if you can't remember these reports – both were judged to be unacceptable by the Executive & were buried never to be seen. Anyway, moving on …

… this risk/challenge, of ever-expanding costs of BAU, has not gone away.

At the time of writing the most recent report is the un-audited report for the 12 months ended 30 June 2019 (Finance Committee 1 August 2019).

My concern arises because every category of expenses, bar one, has risen from last year (2017/18).
(Ref - 1 August 2019 Finance Committee Agenda Item 8 Page 77)

	2017/18	2018/19	$Increase	%Increase
Personnel	$74,993,000	$79,965,000	$4,972,000	6.63%
Depn & Amort	$65,567,000	$69,033,000	$3,466,000	5.28%
Finance	$20,006,000	$20,246,000	$ 240,000	1.19%
Operating & Maintenance	$40,805,000	$46,213,000	$5,408,000	13.25%
Professional	$ 8,991,000	$10,114,000	$1,123,000	12.49%
Administration (Decrease)	$12,619,000	$11,335,000	$1,284,000	10.17%
Property	$11,400,000	$11,970,000	$ 570,000	5.0%
Total	$234,381,000	$248,876,000	$14,495,000	6.18%

BAU costs have risen 6.18% from last year. That's well ahead of inflation & GDP growth. More importantly, BAU costs are growing significantly faster than the annual 3.8% rates increases over the remaining 9 years of the 2018-28 Ten-year plan.

I bring this to the attention of Elected Members because, unless Council addresses its rapid growth in BAU spending, it's very likely that, in the not-too-distant future, Council will once again be faced with looming deficits and once again ratepayers will be faced with huge rate increases in order that Council can (1) balance the Council's books (2) reduce Debt and (3) provide 'Rates Certainty' to ratepayers.

Recommendation

That the Finance Committee receives the report.

Garry Mallett
Finance Committee – Chair
(021) 741 021
Garry.Mallett@hcc.govt.nz

Council Report

Committee:	Finance Committee	**Date:**	10 September 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: Deferral of Reports - Update on Stadia Facilities

Report Status	*Open*

Purpose

1. To seek approval to defer the report concerning an update on stadia facilities to a future closed Elected Member briefing.

Staff Recommendation

That the Finance Committee:

a) receives the report; and

b) approves the report concerning an update on stadia facilities be deferred to a future closed Elected Member briefing.

Background

<u>**EFTPOS options and facilities into stadium events**</u>

2. At the 23 May 2019 Finance Committee meeting it was resolved:

"That the Finance Committee;

a) receives the report; and

b) requests that staff explore the feasibility of introducing EFTPOS options and facilities into stadium events and report back at the 1 August 2019 Finance Committee meeting."

3. At the 1 August 2019 Finance Committee meeting it was further resolved:

"That the Finance Committee;

a) receives the report; and

b) notes that the report concerning an update on stadia facilities is deferred to the 10 September 2019 Finance Committee meeting."

4. Due to the time required to complete a comprehensive report and fully investigate options, staff recommend that this matter be further deferred to a future closed Elected Member briefing. Management have subsequently sought approval from the Finance Committee Chair and Mayor to further defer the report to a future closed Elected Member briefing session to allow further time to report back on all available options and take into consideration the commercial negotiations required.

Attachments

There are no attachments for this report.

Council Report

Committee:	Finance Committee	**Date:**	10 September 2019
Author:	Rebecca Watson	**Authoriser:**	Becca Brooke
Position:	Committee Advisor	**Position:**	Governance Team Leader

Report Name: Deferral of Reports - Waikato Local Authority Shared Services (WLASS) Year Result, Civic Financial Services Half Year Result, Waikato Regional Airport Limited (WRAL) Full Year Result.

Report Status	*Open*

Purpose

1. To seek approval to defer the following CCO reports to a future meeting of Council:
   - Waikato Local Authority Shared Services – Full Year Results
   - Civic Financial services – Half Year Results
   - Waikato Regional Airport Limited - Full Year Results

Staff Recommendation

That the Finance Committee:

a) receives the report; and

b) approves that the reports from the following Council Controlled Organisations are deferred to a future meeting of Council:
   i. Waikato Local Authority Shared Services – Full Year Results,
   ii. Civic Financial services – Half Year Results,
   iii. Waikato Regional Airport Limited - Full Year Results.

Background

2. At the first Finance Committee meeting of 2019, a schedule of reports was approved by the Committee (Attachment 1). This schedule included yearly and half yearly results from CCOs.

3. The yearly and half yearly results from the following CCOs will not be available in time to be included in this agenda:
   - Waikato Local Authority Shared Services – Full Year Results,
   - Civic Financial services – Half Year Results,
   - Waikato Regional Airport Limited - Full Year Results.

4. This is due to the time required by these CCOs to complete and finalise the audit on their respective accounts at the end of the financial year.

Attachments

Attachment 1 - Finance Committee Schedule of Reports 2019

Finance Committee 2019 Schedule of Reports						
Standard Reports	**21-Feb-19**	**9-Apr-19**	**21-May-19**	**1-Aug-19**	**10-Oct-19**	**TBC**
Capital Portfolio Monitoring Report						
Annual Monitoring Report						
Financial Strategy Monitoring Report	31-Dec-18	28-Feb-19	31-Mar-19	30-Jun-19	31-Aug-19	31-Oct-19
Overdue Debtors/Bad Debt Writeoffs (PX)						
H3 Quarterly Update	Q2 18/19		Q3 18/19	Q4 18/19		Q1 19/20
Weathertight Buildings Update - Financial Summary						
Annual Plan/LTP Reports	**21-Feb-19**	**9-Apr-19**	**21-May-19**	**1-Aug-19**	**10-Oct-19**	**TBC**
CE Savings Report	Q2 Oct - Dec		Q3 Jan - Mar	Q4 Apr - Jun		Q1 Jul - Sep
LTP Performance Measures						
Stakeholder Liaison Reports	**21-Feb-19**	**9-Apr-19**	**21-May-19**	**1-Aug-19**	**10-Oct-19**	**TBC**
CCO Statements of Intent and Half Yearly Reports:						
Waikato Local Authority Shared Services		SOI & Dec18			Jun-19	
New Zealand Local Government Funding Agency		SOI & Dec18			Jun-19	
Civic Financial Services Ltd (YE 31 December)		SOI & Jun 18			Dec-18	
Waikato Innovation Growth Ltd (WIGL) and NZ Food Innovation (Waikato) Ltd (NZFIWL)		SOI & Dec18			Jun-19	
Waikato Regional Airport Ltd		SOI & Dec18			Jun-19	
Accessible Properties New Zealand Limited – Management Accounts and Activity Report		Q1/Q2			Q3/Q4	
Accessible Properties New Zealand Limited – Audited Financial Statements (Full Year)						
Business As Usual (BAU) Reports	**21-Feb-19**	**9-Apr-19**	**21-May-19**	**1-Aug-19**	**10-Oct-19**	**TBC**
WLASS Update						
Cleaning Contract Award						
Rototuna Family Golf Centre - new lease						
Policy and Bylaw	**21-Feb-19**	**9-Apr-19**	**21-May-19**	**1-Aug-19**	**10-Oct-19**	**TBC**
Appointment and Remuneration of Board Members of Cos, CCOs and CCTOs Policy 2014						
Freeholding of Council Endowment Land Policy 2016						
~~Funding Needs Analysis Policy 2015~~						
Municipal and Domain Endowment Funds Policy 2016						
~~Rates Remissions and Postponements Policy 2018~~						
~~Rating Policy 2018~~						
~~Revenue and Financing Policy 2018~~						
~~Investment and Liability Management Policy~~						

Council Report

Item 9

Committee: Finance Committee **Date:** 10 September 2019

Author: Jana Hart **Authoriser:** Tracey Musty

Position: Senior Financial Accountant **Position:** Financial Controller

Report Name: Waikato Innovation Growth Limited (WIGL) Draft Letter of Expectation

---

Report Status	*Open*

Purpose

1. To seek approval of the Letter of Expectation for Waikato Innovation Growth Limited.

Staff Recommendation

That the Finance Committee approves the Draft Letters of Expectation.

Discussion

2. Best practice suggests that issuing Letters of Expectation to Council Controlled Organisations (CCO's) ahead of the development of the Statement of Intent assists CCOs to understand what Council may be expecting.

3. Civic Financial Services is not a CCO as Hamilton City Council only holds shares in them. They are therefore exempt from this process.

4. The Letter of expectation for the LFGA and WLASS will be prepared by the Shareholders Council (on behalf of all shareholding councils).

Attachments

Attachment 2 - WIGL and subsidiaries - Letter of Expectation 2020-21

Attachment 2

Item 9

21 August 2019

Hamilton City Council
Te kaunihera o Kirikiriroa

Private Bag 3010
Hamilton 3240
New Zealand

TEL 07 838 6699
FAX 07 838 6599
EMAIL info@hcc.govt.nz
hamilton.govt.nz

Mr Barry Harris (Chair)
Waikato Innovation Growth Ltd and
NZ Food Innovation (Waikato) Ltd
9 Melody Lane
Ruakura
HAMILTON

Dear Barry

Letter of Expectation (2020/21) for:

- **Waikato Innovation Growth Ltd (WIGL), and its subsidiaries**
  - **New Zealand Food Innovation (Waikato) Ltd (NZ Food)**
  - **Melody Dairies Limited Partnership (Melody Dairies)**

This letter sets out Hamilton City Council's (HCC) expectations of Waikato Innovation Growth Ltd (Group) (WIGL) for consideration in WIGL's business planning and the development of its 2020/21 Statement of Intent (SOI).

1. Statement of Intent

In accordance with the Local Government Act 2002, HCC expects the Board of WIGL to submit its SOI in advance of the next financial year. Council reviews all WIGL reports and accountability documents and we request that your draft SOI 2020/21 be provided as early as possible and no later than 13 March 2020.

In developing the SOI, Council welcomes discussion on the content of this letter and the Board's views on its priorities in drafting the SOI 2020/21. We expect the Company's strategic direction, as set out in its current SOI 2019/20 will continue in the SOI 2020/21 and beyond.

HCC expects this Letter of Expectation (LOE) to give the Board a clear sense of WIGL's purpose, strategic direction and its business outcomes. This LOE serves as notice to the Board that it, the Board, accepts and understands its powers, responsibilities and obligations as placed upon it by its shareholders.

2. Principle of good governance relationships with shareholders, information flows and no surprises

As a local government entity largely funded by ratepayers, HCC, as shareholder, can face more rigorous scrutiny in the conduct of its business and performance of its investments than private shareholders.

It is vital the Board of WIGL directly, or through its Executive team, keeps the shareholder(s) fully informed on matters material to the business and/or of public interest.

Where there are commercial sensitivities involved WIGL should communicate directly with the Chief Executive of HCC or the shareholder representative (Executive Director Special Projects Blair Bowcott) and can have total confidence that those matters will be handled appropriately and in confidence.

Board members should be aware of the major transactions thresholds that apply for the company and each subsidiary. These may be set out in the shareholder agreement or the constitution, rather than solely in the Companies Act.

In summary with regards to major transactions:

- Major transactions should be signalled via the SOI and identified as such. Approval of an SOI is not approval of a major transaction by the shareholder.

- Council staff will engage with you to assist in preparing necessary reports for HCC to facilitate consideration by Elected Members.

- Adequate time should be allowed for HCC approval, once your board approves the transaction for presentation to the Shareholder, prior to signing contracts for the major transaction.

As a minimum each SOI must clearly state the company's definition of a major transaction and whether there are major transactions planned during the SOI period.

HCC takes health and safety matters seriously. To ensure that HCC and the group as a whole are adequately addressing health and safety risks, the draft SOI should outline how the Board manage and monitor health and safety risks.

3. HCC Shareholding

HCC has an intention to test the sale of its investment in WIGL (specifically NZ Food) from 2020 once certain legal obligations relating to the Callaghan shareholding in NZ Food conclude. HCC therefore expects the Board to take measures to protect and maximise the value HCC would receive from any sell down (up to and including 100%) in its investment.

The resolution passed by Council on 7 November 2017 is:

e) that the CE (of HCC) investigate and report to council an exit strategy for NZ Food Innovation (Waikato) Ltd noting that this strategy is unable to be executed until 2020 at the earliest due the legal contractual considerations.

4. Consistency with wider objectives of HCC

It is important that the Board and Executive of WIGL be familiar with the relevant strategies and policies of Council that have a bearing on the WIGL operation.

Section 59 of the Local Government Act sets out the principle objectives of a Council Controlled Organisation (CCO). HCC sets out its own objective, in accordance with s59 (1)(a), in the 2018-28 Ten-Year Plan through Our Community Outcomes, and this should be considered when developing the SOI.

- A City That Embraces Growth – HCC sees its investment in WIGL enabling business activity and economic growth. WIGL has a material impact upon the city's and the surrounding region's economic activity. HCC expect the Board to report on those initiatives and outcomes where it has played a role in facilitating new business opportunities.

5. HCC Aspirations for WIGL and its subsidiaries

Council considers the following specific objectives and aspirations apply:

- **Core operation** – operate in full accordance with the terms of its agreements with third parties, lease and conditions as per relevant statutory requirements.

- **Diversification of revenue** – the Board should preserve its capacity to diversify its business base to add value to the WIGL operation.

- **Continue to develop and grow manufacturing revenues** – maximise utilisation and revenue diversification on the spray dryer facilities to ensure that the Callaghan investment requirements are achieved for NZ Food, the 10% investment in Melody Dairies aligns and supports the NZ Food activities, and that both subsidiaries are profitable.

- **Payment of Dividends** – subject to Board strategy, HCC expects a dividend from its investment in WIGL if possible and sustainable. Where no dividend is paid, HCC expects any trading surpluses to be invested back into the business or offset debt at the Board's direction. This will be a matter for ongoing review.

We recognise the significant achievements of WIGL over the last year including the approval of the Melody Dairies Limited Partnership by all partners and the commencement of the major construction project. We thank you for your diligence on behalf of Hamilton City Council and the company.

If you have any queries or comments, please don't hesitate to contact Tracey Musty, Financial Controller on 07 838 6544, or myself on 021 741 021.

Yours sincerely

Garry Mallet
Chair
Finance Committee
Hamilton City Council

Council Report

Committee:	Finance Committee	**Date:**	10 September 2019
Author:	Tracey Musty	**Authoriser:**	David Bryant
Position:	Financial Controller	**Position:**	General Manager Corporate

Report Name: Waikato Innovation Growth Ltd, NZ Food Innovation (Waikato) Ltd and NZ Food Innovation (Waikato) D2 Ltd combined Statement of Intent 2019/20 and Full Year Report 30 June 2019

Report Status	*Open*

Purpose

1. To inform the Finance Committee of the Waikato Innovation Growth Ltd and Group of companies Full Year Report to 30 June 2019. These reports are unsigned by the directors as of this date.
2. To seek approval of the Waikato Innovation Growth Ltd and Group of Companies Final 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 Statement of Intent 2019/2020.

Background

3. The 2019/20 Statement of Intent is consistent with the current years direction.
4. The financial surpluses for years 2020 to 2022 steadily increase as the Melody Dairies plant (spray drier 2) is completed and operational.
5. 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.
6. Refer to Attachment 1 for the full Statement of Intent 2019/20.

Financial Considerations

7. There are no financial considerations related to this matter

Wellbeing Considerations

8. The purpose of Local Government changed on the 14 May 2019 to include promotion of the social, economic, environmental and cultural wellbeing of communities in the present and for the future ('the 4 wellbeings').

Item 10

9. The subject matter of this report has been evaluated in terms of the 4 wellbeings during the process of developing this report as outlined below. The recommendations set out in this report are consistent with that purpose.

10. There are no known social, economic, environmental or cultural considerations associated with this matter.

Significance and Engagement Policy

Significance

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

Engagement

12. Given the low level of significance determined, the engagement level is low. No engagement is required.

Legal and Policy Considerations

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

Risks

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

Attachments

Attachment 1 - SOI 2020 Final

Attachment 2 - Final WIGL Accounts 2019-08-28 Unsigned

Attachment 3 - Final NZFIW D2 LP Accounts 2019-08-28 Unsigned

Attachment 4 - Final NZFIW Accounts 2019-08-28 Unsigned

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

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

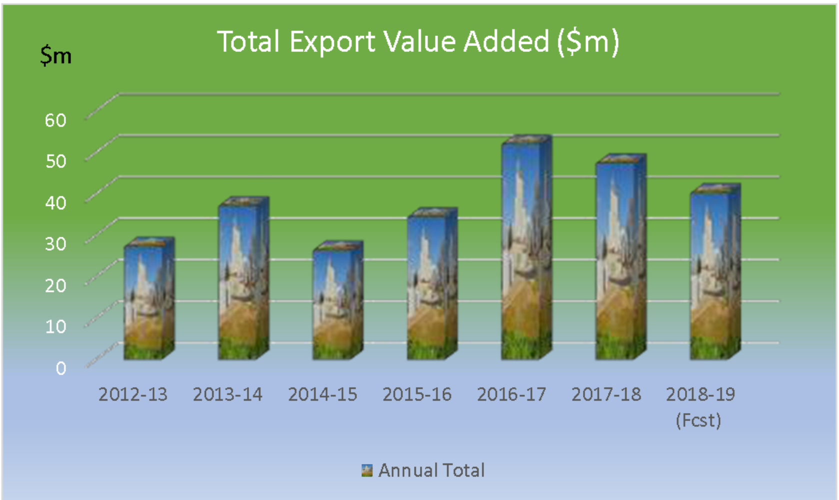
   vi. providing one of several tangible centres and organisations throughout New Zealand around which networks of food processors and exporters, food equipment manufacturers and other partners can develop.

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.

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

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.

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

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.

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

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.

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 10

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.

r. Compensation from local authority. No compensation has been sought from any local authority by any director.

s. The Directors have deemed the commercial value of the business is the same as the carry values expressed in the accounts.

Attachment 1

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.

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

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

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

WAIKATO INNOVATION GROWTH LIMITED

Annual Report 2019

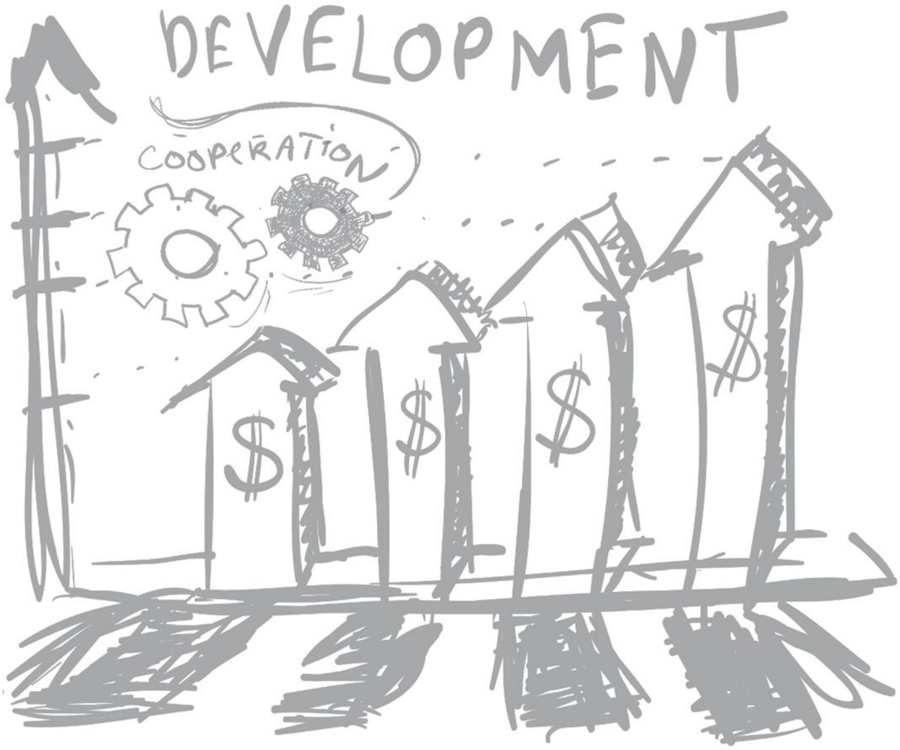


TABLE OF CONTENTS

For the year ended 30 June 2019

Directory	3
Chairman's and Chief Executives Annual Report	4
Annual Report	7
Statement of Comprehensive Income	8
Statement of Changes in Equity	9
Statement of Financial Position	10
Statement of Cash Flows	12
Notes to the Financial Statements	13
Performance Targets and Results	35
Auditors Report	37

DIRECTORY

As at 30 June 2019

Nature of Business	Service provider
Address	Waikato Innovation Park Ruakura Lane Hamilton 3216
Registered Office	Tompkins Wake 430 Victoria Street Hamilton 3204
Authorised Capital	4,000,100 Ordinary Shares
Directors	Barry Harris Earl Rattray David Stanley Peter Hobman
Shareholders	Hamilton City Council 4,000,100 Ordinary Shares
Auditors	Audit New Zealand on behalf of the Auditor-General PO Box 256 Hamilton 3240
Bankers	BNZ 354 Victoria Street Hamilton
Solicitors	Tompkins Wake 430 Victoria Street Hamilton
IRD Number	124-736-676

CHAIRMAN'S AND CHIEF EXECUTIVE'S ANNUAL REPORT

Major Milestones for the year include:

- Revenue for Food Waikato at $9,589,000 exceeded last year of $7,143,000 by $2,446,000.
- NZFIW obtain the Resource Consent to build a new spray dryer in December 2018 and sold that consent on to Melody Dairies Limited Partnership for profit on sale of $1,215,000. NZFIW received 5 % of the shares in Melody Dairies as compensation.
- Achievement of Group Profit after tax of $1,294,000 compared with last year of $368,000.
- Food Waikato undertook 13 days of manufacture of its own base infant formula compared to 9 days last year.
- Extra management were hired in the Quality area due to the complexity of Infant formula production.
- Food Waikato undertook 230 dryer days of manufacturing against a plan of 257.
- Food Waikato undertook 260 days of combined Wetside mixing thermalisation against a budget of 316.
- 277 tonnes of sheep milk manufactured at Food Waikato
- Manufacture of encapsulated Omega 3 and 6 powders under contract to Nu Mega of Australia.
- On the 1st July 2018 the contract for Regional Business Partnership was transferred to Waikato Regional Economic Development Limited. This company subsequently has been branded as Te Waka. This independent company was set up by regional local authorities and Waikato businesses to promote economic development across the whole of the Waikato.

Barry Harris
Chairman

Stuart Gordon
Chief Executive

Melody Dairies Limited Partnership - Created December 2018

The Melody Dairies Partnership Agreement along with the Construction contract, for a new spray dryer, with Tetra Pak were signed in December 2018. The four partners in Melody Dairies are:

1. Nu-Mega Ingredients (NZ) Limited, a company owned by Australian Listed Clover Corporation Ltd, with a 35 per cent stake in Melody Dairies;
2. Landcorp Farming Limited (Pāmu), with a 35 per cent in the partnership;
3. Dairy Nutraceuticals Limited, with a 20 per cent share; and
4. Food Waikato, with a 10 per cent share.

Food Waikato has been appointed manager of the complex. The plant forecasted commissioning date is April 2019. Burgeoning global demand for sheep milk products is the impetus behind the new project

Food Waikato contribution to the regional economy:

Food Waikato produced 1387 tonnes of product in the 2018-2019 year at an export value of $33m. This means that an estimated $258 million of export sales have been manufactured in the seven years of its life. A survey of customers indicates they have invested $218 million in farms, genetics, and or production facilities over the last seven years.

Financial Performance:

The year ending June 2019 produced a better overall financial performance for Waikato Innovation Growth Limited group. Group Revenue increased by 27% to $9,590,000 this year. Group Total Comprehensive Income for the year just ended was $2,850,000 compared to a $368,000 profit last year. The important Net Cash Flow from operating activities was a surplus of $1,682,000 this year. Food Waikato carried a closing balance of $1,483,000 in inventory as at 30 June 2019.

Total Equity improved by $2,850,000 to $13,975,000. It now is standing at a healthy 55% of Total Assets.

Board of Directors:

Given the unique role Food Waikato is performing as part of the New Zealand Food Innovation Network a Board with specialised skills governs Food Waikato. Barry Harris (chairman), Matt Kenny (Callaghan Innovation), Peter Hobman, Earl Rattray and Dave Stanley comprise the Food Waikato board. The Board of Directors met formally six times through the year.

The Board also met key Stakeholders, the auditors (Audit New Zealand) and its bankers (the Bank of New Zealand). The Board has set up a series of best practice policies and monitors those policies and the company risk register to ensure compliance.

The Board takes seriously its ongoing obligation to ensure public safety and a safe working environment. A strategic review of workplace safety policies and hazards has been undertaken and health and safety leadership is a priority for the board.

Strategic Direction:

The Board of New Zealand Food Innovation Waikato through its Statement of Intent for the 2020 year has set out clear aspirations to grow the sheep milk industry. The next year will be a difficult year as we transition some clients over to Melody Dairies and develop new clients in the space vacated. This is a difficult business model with the strategic aim to graduate our successful clients onto new plant while building relationships with new businesses.

Management:

The Food Waikato team had an excellent year and the Board thanks them for their dedication and achievements. Lead by our Chief Executive, Stuart Gordon, the team can be proud of the 2019-year achievements, which mean we are now well placed for growth in the future. In particular Food Waikato's opportunity to expand its capacity with a second dryer under its management. Food Waikato now has critical mass and financial stability and is looking forward to its next growth stage.

ANNUAL REPORT

For the year ended 30 June 2019

Approval and issue of financial statements

On this date the Directors approve and issue the annual report including the attached financial statements for Waikato Innovation Growth Limited for the year ended 30 June 2019.

Auditor

An auditor has been appointed.

For and on behalf of the Board

______________________________	Director	28 August 2019
______________________________	Director	28 August 2019

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2019

	NOTE	Group $000 2019	Group $000 2018	Company $000 2019	Company $000 2018
Revenue					
Revenue	4	9,590	7,567	-	424
Cost of sales		(2,957)	(358)	-	-
Gross profit		**6,633**	**7,209**	**-**	**424**
Share of profit/(loss) from associate	16	(7)	(20)	-	-
Sale of consent	5	1,610	-	-	-
Cost of consents	5	(395)	-	-	-
Expenses					
Operating expenses		(2,763)	(2,941)	(16)	(227)
Lease payments	25	(23)	(23)	-	-
Personnel costs	6	(2,017)	(2,017)	6	(248)
Depreciation	18	(1,187)	(1,182)	-	(5)
Audit fees	7	(55)	(26)	(15)	(7)
Directors fees		(161)	(139)	-	-
Other gains and losses	9	(47)	(20)	-	(1,200)
Write down of inventories		(30)	-	-	-
Total expenses		**(6,283)**	**(6,348)**	**(25)**	**(1,687)**
Finance income		1	-	-	-
Finance costs		(227)	(322)	(4)	(3)
Net finance costs	8	**(226)**	**(322)**	**(4)**	**(3)**
Profit/(loss) before tax		**1,332**	**519**	**(29)**	**(1,266)**
Subvention payment received/(paid)		-	-	65	-
Income tax	10	(37)	(151)	(10)	18
Profit/(loss) for the year, net of tax		**1,295**	**368**	**26**	**(1,248)**
Other comprehensive income					
Gain/(loss) on property revaluation	18	2,160	-	-	-
Income tax on other comprehensive income	10	(605)	-	-	-
Total other comprehensive income, net of tax		**1,555**	**-**	**-**	**-**
Total comprehensive income for the year		**2,850**	**368**	**26**	**(1,248)**
Total profit/(loss) attributable to:					
Waikato Innovation Growth Limited		914	243	26	(1,248)
Non-controlling interest		381	125	-	-
Total comprehensive income attributable to:					
Waikato Innovation Growth Limited		2,003	243	26	(1,248)
Non-controlling interest		847	125	-	-

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2019

Group	NOTE	$000 Share capital	$000 Revaluation reserve	$000 Retained earnings	$000 Non-controlling interest	$000 Total equity
Balance as at 1 July 2017		**-**	**3,402**	**1,327**	**2,028**	**6,758**
Total comprehensive income						
Profit for the year		-	-	243	125	368
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive income for the year		**-**	**-**	**243**	**125**	**368**
Transaction with owners of the company						
Share transactions with non-controlling interest		-	-	(1,200)	1,200	-
Proceeds from shares issued		4,000	-	-	-	4,000
Balance as at 30 June 2018		**4,000**	**3,402**	**371**	**3,353**	**11,125**
Balance as at 1 July 2018		**4,000**	**3,402**	**371**	**3,353**	**11,125**
Total comprehensive income						
Profit for the year		-	-	914	381	1,295
Other comprehensive income for the year		-	1,089	-	466	1,555
Total comprehensive income for the year		**-**	**1,089**	**914**	**847**	**2,850**
Balance as at 30 June 2019		**4,000**	**4,491**	**1,286**	**4,199**	**13,975**

Company	NOTE	$000 Share Capital	$000 Revaluation reserve	$000 Retained earnings	$000 Non-controlling interest	$000 Total equity
Balance as at 1 July 2017		**-**	**-**	**-**	**-**	**-**
Total comprehensive income						
Profit for the year		-	-	(1,248)	-	(1,248)
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive income for the year		**-**	**-**	**(1,248)**	**-**	**(1,248)**
Transaction with owners of the company						
Proceeds from shares issued		4,000	-	-	-	4,000
Balance as at 30 June 2018		**4,000**	**-**	**(1,248)**	**-**	**2,752**
Balance as at 1 July 2018		**4,000**	**-**	**(1,248)**	**-**	**2,752**
Total comprehensive income						
Profit for the year		-	-	26	-	26
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive income for the year		**-**	**-**	**26**	**-**	**26**
Balance as at 30 June 2019		**4,000**	**-**	**(1,222)**	**-**	**2,778**

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

		Group $000		Company $000	
	NOTE	2019	2018	2019	2018
ASSETS					
Non-current assets					
Investment in subsidiaries	17	-	-	2,800	2,800
Investment in associates	16	2,619	-	-	-
Property, plant and equipment	18	20,016	18,926	-	27
Assets under construction		40	15	-	-
Deferred tax assets	10	-	-	8	18
Intangible asset	19	1	1	-	-
Total non-current assets		**22,676**	**18,942**	**2,808**	**2,845**
Current assets					
Cash and cash equivalents	12	82	351	-	85
Inventories	13	1,483	2,329	-	-
Trade and other receivables	14	916	926	-	68
Prepayments		102	315	-	2
Total current assets		**2,583**	**3,921**	**-**	**155**
Total assets		**25,259**	**22,863**	**2,808**	**3,000**
EQUITY AND LIABILITIES					
Equity					
Share capital	11	4,000	4,000	4,000	4,000
Revaluation reserve	11	4,491	3,402	-	-
Retained earnings		1,286	371	(1,222)	(1,248)
Equity attributable to owners of the Company		**9,776**	**7,773**	**2,778**	**2,752**
Non-controlling interest		4,199	3,353	-	-
Total equity		**13,975**	**11,125**	**-**	**-**
Non-current liabilities					
Deferred tax liabilities	10	2,230	1,565	-	-
Deferred income	20	2,487	2,617	-	-
Term loans	23	4,274	4,574	-	-
Other loans	24	350	450	-	-
Provisions	22	168	356	-	-
Total non-current liabilities		**9,509**	**9,562**	**-**	**-**

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2019 (Continued)

		Group $000		Company $000	
	NOTE	2019	2018	2019	2018
Current liabilities					
Payables and accruals	15	721	742	4	42
Short term employee entitlements		268	282	-	6
Deferred income	20	296	302	-	-
Other loans	24	490	650	-	-
Related parties loans	21	-	200	26	200
Total current liabilities		**1,775**	**2,176**	**30**	**248**
Total liabilities		**11,284**	**11,738**	**30**	**248**
Total equity and liabilities		**25,259**	**22,863**	**2,808**	**3,000**

The accompanying notes form part of these financial statements.

Director
28 August 2019

Director
28 August 2019

STATEMENT OF CASH FLOWS

For the year ended 30 June 2019

	NOTE	Group $000 2019	Group $000 2018	Company $000 2019	Company $000 2018
Cash flow from operating activities					
Receipts from customers		9,509	7,628	59	366
Payments to suppliers and employees		(7,400)	(7,552)	(42)	(444)
Interest received		1	-	-	-
Interest paid		(249)	(319)	(6)	-
Tax payments		(16)	(242)	-	-
GST (net)*		(163)	(105)	5	(5)
Net cash from operating activities	28	**1,682**	**(590)**	**16**	**(83)**
Cash flow from investing activities					
Purchase of property, plant and equipment		(177)	(553)	-	(32)
Proceeds from sale of property, plant and equipment		27	-	27	-
Purchase of assets under construction		(25)	326	-	-
Investment in associate		(1,016)	-	-	-
Purchase of shares in subsidary		-	-	-	(4,000)
Net cash from/(used in) investing activities		**(1,191)**	**(227)**	**27**	**(4,032)**
Cash flow from financing activities					
Proceeds from borrowing		2,040	2,360	-	200
Proceeds from issues of shares		-	4,000	-	4,000
Repayment of borrowings		(2,800)	(5,400)	(128)	-
Net cash from/(used in) financing activities	26	**(760)**	**960**	**(128)**	**4,200**
Net increase/(decrease) in cash and cash equivalents		**(269)**	**143**	**(85)**	**85**
Cash and cash equivalents at 1 July		351	208	85	-
Cash and cash equivalents at 30 June	12	**82**	**351**	**-**	**85**

**The GST (net) component of operating activities reflects the net GST transactions with the Inland Revenue Department. The GST (net) component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.*

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

1. REPORTING ENTITY

Waikato Innovation Growth Limited (the "Company") 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 1st December 2017. The Company's parent and ultimate parent entity is Hamilton City Council.

The financial statements of Waikato Innovation Growth Limited and Group are for the year ended 30 June 2019. The financial statements were authorised for issue by the Board of Directors on the 28 August 2019. The owners or others do not have the power to amend the financial statements after issue.

The group consists of Waikato Innovation Growth Limited, its subsidiary New Zealand Food Innovation (Waikato) Limited (70% owned) and New Zealand Food Innovation (Waikato) Limited subsidiary's NZFIW D2 LP Limited (100% owned).

2. BASIS OF PREPARATION

a. Statement of Compliance

The financial statements for the Company and Group have been prepared in accordance with the requirements of the Companies Act 1993 and the Local Government Act 2002. Waikato Innovation Growth Limited is a for-profit entity.

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.

New and amended standards adopted this year

- NZ IFRS 15 - Revenue from Contracts with Customers

In the current year, the Group has applied NZ IFRS 15 Revenue from Contracts with Customers (as amended in 2016). NZ IFRS 15 introduces a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Details of these new requirements as well as their impact on the Entity's financial statements are described below.

The Group has applied NZ IFRS 15 in accordance with the fully retrospective transitional approach without using the practical expedients for completed contracts in NZ IFRS 15.C5(a), and (b), or for modified contracts in NZ IFRS 15.C5(c) but using the expedient in NZ IFRS 15.C5(d) allowing both non-disclosure of the amount of the transaction price allocated to the remaining performance obligations, and an explanation of when it expects to recognise that amount as revenue for all reporting periods presented before the date of initial application, i.e. 1 January 2017.

NZ IFRS 15 uses the terms 'contract asset' and 'contract liability' to describe what might more commonly be known as 'accrued revenue' and 'deferred revenue', however the Standard does not prohibit an entity from using alternative descriptions in the statement of financial position. The Group has adopted the terminology used in NZ IFRS 15 to describe such balances, as applicable.

The Group's accounting policies for its revenue streams are disclosed in detail in Revenue recognition. Apart from providing more extensive disclosures on the Group's revenue transactions, the application of NZ IFRS 15 has not had a significant impact on the financial position and/or financial performance of the Group. There has been no amount of adjustment required as determined in Management's assessment of the impact of the Standard.

- *NZ IFRS 9 Financial Instruments*

In the current year, the Group has applied NZ IFRS 9 Financial Instruments that are effective for an annual period that begins on or after 1 July 2018. Under NZ IFRS 9, financial assets are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

The Group has applied the classification and measurement requirements of NZ IFRS 9 to its financial instruments which are previously in accordance with NZ IAS 39. The transition to the new standard has not resulted in a change to the classification or measurement of financial assets held by the Group as at 1 July 2018.

NZ IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under NZ IAS 39. The Group applies the simplified approach permitted by NZ IFRS 9, which requires the Group to measure the loss allowance at an amount equal to lifetime expected credit losses from initial recognition of the trade and other receivables. The Group write off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospects of recovery. These amount are recognised in the profit and loss statements.

All regular purchases or sales of financial assets are recognised and derecognised on a trade date basis. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred.

b. Discontinued Operations

From the 1st of July 2018 the business growth operations have been transferred to Waikato Regional Economic Development Limited. Waikato Innovation Growth Limited will continue to exist and hold the shares of New Zealand Food Innovation (Waikato) Limited. The presentation requirements relating to discontinued operations have not been applied in the preparation of the financial statements on the basis that it is not material.

c. 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.

d. Functional and Presentational currency

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

e. 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.
Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

Note 18: Property, plant and equipment

Note 20: Deferred income

Note 22: Provisions

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

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. Basis of Consolidation

The consolidated financial statements are prepared adding together like items of assets, liabilities, equity, income and expenses on a line-by-line basis. All significant intragroup balances, transactions, income and expenses are eliminated on consolidation.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Subsidiaries

Subsidiaries are those entities that are controlled by the Company. Subsidiaries are consolidated from the date control is transferred to the Group. They are de-consolidated from the date that control ceases. All significant intercompany accounts and transactions are eliminated on consolidation. Control exists when the Company has power over the entity, exposure or rights to variable returns from its involvement with the entity, and the ability to use its power over the entity to offset the amount of the entity's returns.

Investments in subsidiaries are recorded at cost less the amount of estimated value of impairment in the parent company's financial statements.

The interest of minority shareholders is stated at the minority's proportion of the fair values of the identifiable assets and liabilities recognised on acquisition together with the minority interest's share of post acquisition surpluses.

The Company holds 70% shares in its subsidiary New Zealand Food Innovation (Waikato) Limited and there is no significant restriction on its ability to access or use assets or settle liabilities of the group.

The New Zealand Food Innovation (Waikato) Limited holds 100% shares in its subsidiary NZFIW D2 LP Limited and there is no significant restriction on its ability to access or use assets or settle liabilities, of the group. The reporting period for NZFIW D2 LP Limited is for the 10 months ending 30 June 2019.

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. The Group's associate is:

• Melody Dairies Limited Partnership. Melody Dairies Limited Partnership (MDLP) is 10% owned by NZFIW D2 LP Limited. Significant judgement and assumptions have been used to determine that New Zealand Food Innovation (Waikato) Limited Group (NZFIW Group) has significant influence over MDLP. NZFIW Group has a representation on the board of directors of MDLP. Due to the existing Management Agreement between NZFIW Group and MDLP, NZFIW Group is considered providing essential technical information to MDLP. As a result, it has been determined that NZFIW Group has significant influence over MDLP and therefore should account for it as an associate under NZ IAS 28 Investments in Associates and Joint Ventures.
Melody Dairies Limited Partnership's principle place of business is 12 Melody Lane, Hamilton.

• Melody Dairies GP Limited. Melody Dairies GP Limited (MDGPL) is 10% owned by New Zealand Food Innovation (Waikato) Limited (NZFIW). Significant judgement and assumptions have been used to determine that NZFIW has significant influence over MDGPL. NZFIW has a representation on the board of directors of MDGPL. As a result, it has been determined that NZFIW has significant influence over MDGLP and therefore should account for it as an associate under NZ IAS 28 Investments in Associates and Joint Ventures. MDGPL is dormant.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

Non-controlling interest (NCI)

The interests of the parent and the NCI in the subsidiaries are adjusted to reflect the relative change in their interests in the subsidiaries equity. Any difference between the amount by which the NCI is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owner of the parent.

b. Revenue

The Group recognises revenue from the rendering of spray dryer services and from rendering of sales of goods. Spray drying is a method of producing a dry powder from a liquid provided by customers by quickly drying this with a hot gas. The Group enters into a contract with the customer for usage of the spray dryer for a fixed period of time and the consideration includes the daily charge rates and utility costs oncharged. The Group enters into a contract with the customer to produce product per minimum quantity specified.

The Group satisfies its performance obligations as services are rendered. Payment terms are the customer must pay the amount due or before the 20th day of the month of invoice. No obligations for returns, refunds and other similar obligation or types and warranties and related obligations are attached to the contracts.

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer. The Group recognises revenue when it transfers control of the service to a customer.

Judgements around the timing of satisfaction of performance obligations, the transaction price and amounts allocated to performance obligations are determined per the contracts.

The directors are satisfied that control has been transferred and that recognition of the revenue in the current year is appropriate as the performance obligations are satisfied at a point in time, and there is no contractual liability for unsatisfied performance obligations at year end.

The Group recognises sale of consents revenue when it transfers the control of the consents to the customer.

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

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 (Note 27).

h. Work in progress

Work in progress is valued at cost.

i. 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

j. 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 and diminishing value basis to allocate the cost or revalued amounts over the estimated useful lives, as follows:

Buildings	25 years
Plant & Equipment	20 years
Computer hardware	3-5 years
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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

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.

k. Trade and Other Payables

Payables and accruals are recognised when the Group becomes obligated to make future payments resulting from the purchase of goods or services. They are recognised initially at fair value and subsequently at amortised 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

n. Short-term employee entitlements

Employee benefits that are due to be settled within 12 months after the end of the year in which the employee renders the related service are measured based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave and bonuses. Short-term employee entitlement 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 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 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

4. REVENUE	Group $000 2019	Group $000 2018	Company $000 2019	Company $000 2018
Revenue from contracts for the sale of goods	3,543	417	-	-
Revenue from contracts for the rendering of services	5,853	6,971	-	424
Revenue from the rendering of services	15	-	-	-
Deferred Grant income	179	179	-	-
Total operating revenue	**9,590**	**7,567**	**-**	**424**

Timing of revenue recognition - At point in time

5. OTHER INCOME	Group $000 2019	Group $000 2018	Company $000 2019	Company $000 2018
Sale of consent	1,610	-	-	-
less cost of consent	(395)	-	-	-
Total other income	**1,215**	**-**	**-**	**-**

6. PERSONNEL COSTS	Group $000 2019	Group $000 2018	Company $000 2019	Company $000 2018
Salaries and wages	1,981	1,983	(6)	246
Defined contribution plan	36	34	-	2
Total personnel costs	**2,017**	**2,017**	**(6)**	**248**

Annual remuneration by band for employees	2019 Number	2018 Number
< $100,000	21	23
$100,000 - $109,999	-	-
$110,000 - $119,999	3	1
$120,000 - $129,999	1	1
$130,000 - $139,999	1	-
$140,000 - $149,999	-	-
$150,000 - $159,999	1	1
Total Employees	**27**	**26**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

7. AUDIT FEES	Group $000 2019	Group $000 2018	Company $000 2019	Company $000 2018
Audit fee for 2018/19 year	41	-	8	-
Audit fee for 2017/18 year	14	26	7	7
Total audit fees	**55**	**26**	**15**	**7**

8. FINANCE COSTS	Group $000 2019	Group $000 2018	Company $000 2019	Company $000 2018
Finance income				
Interest income	1	-	-	-
Total finance income	**1**	**-**	**-**	**-**
Finance costs				
Bank fees	(5)	(5)	-	-
Interest on bank overdraft	-	(1)	-	-
Interest on Hamilton City Council loan	(4)	(3)	(4)	(3)
Interest on bank borrowings	(218)	(313)	-	-
Total finance costs	(227)	(322)	(4)	(3)
Net finance costs	**(226)**	**(322)**	**(4)**	**(3)**

9. OTHER GAINS AND LOSSES	Group $000 2019	Group $000 2018	Company $000 2019	Company $000 2018
Losses				
Net foreign exchange loss	(31)	(20)	-	-
Loss on disposal of fixed assets	(16)	-	-	-
Loss on disposal of shares	-	-	-	(1,200)
Total other gains and losses	**(47)**	**(20)**	**-**	**(1,200)**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

10. INCOME TAX	Group $000 2019	Group $000 2018	Company $000 2019	Company $000 2018
Current tax				
Current year	(2)	(126)	-	-
Adjustment for prior years	25	-	-	-
	23	(126)	-	-
Deferred tax				
Current year	(36)	(25)	8	18
Adjustment for prior year	(24)	-	(18)	-
Total income tax expense recognised	**(37)**	**(151)**	**(10)**	**18**
The income tax expense for the year can be reconciled to the accounting profit as follows:				
Profit before tax	1,332	519	(29)	(1,266)
Income tax expense at 28%	(373)	(145)	8	354
Effect of income that is exempt from tax	451	(6)	-	-
Effect of expenses that are not deductible	(115)	-	-	(336)
Adjustment for prior year - subvention payment	-	-	(18)	-
Income tax expense recognised in profit or loss	**(37)**	**(151)**	**(10)**	**18**

Deferred tax balances

Group ($000)	Opening Balance	Recognised in profit or loss	Recognised in other comprehensive income	Closing balance
Deferred tax assets/(liabilities) in relation to:				
Property, plant and equipment	(2,340)	15	(605)	(2,930)
Provisions	(3)	(19)	-	(22)
Deferred income	762	(50)	-	712
Tax losses	16	(6)	-	10
Balance as at 30 June 2019	**(1,565)**	**(60)**	**(605)**	**(2,230)**

($000)	Opening Balance	Recognised in profit or loss	Recognised in other comprehensive income	Closing balance
Deferred tax assets/(liabilities) in relation to:				
Property, plant and equipment	(2,356)	16	-	(2,340)
Provisions	4	(7)	-	(3)
Deferred income	812	(50)	-	762
Tax losses	-	16	-	16
Balance as at 30 June 2018	**(1,540)**	**(25)**	**-**	**(1,565)**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

Deferred tax balances

Company ($000)	Opening Balance	Recognised in profit or loss	Recognised in other comprehensive income	Closing balance
Deferred tax assets/(liabilities) in relation to:				
Provisions	2	(2)	-	-
Tax losses	16	(8)	-	8
Balance as at 30 June 2019	**18**	**(10)**	**-**	**8**

($000)	Opening Balance	Recognised in profit or loss	Recognised in other comprehensive income	Closing balance
Deferred tax assets/(liabilities) in relation to:				
Provisions	-	2	-	2
Tax losses	-	16	-	16
Balance as at 30 June 2018	**-**	**18**	**-**	**18**

	Group $000		Company $000	
11. EQUITY	**2019**	**2018**	**2019**	**2018**
Share capital				
Ordinary shares (4,000,100 shares)				
Balance 1 July	4,000	-	4,000	-
Shares issued *(4,000,100 shares)*	-	4,000	-	4,000
Total Ordinary shares	**4,000**	**4,000**	**4,000**	**4,000**
Total issued and called shares 30 June	**4,000**	**4,000**	**4,000**	**4,000**

Ordinary Shares

All ordinary shares carry equal voting rights and entitle the holder to participate in dividends and the right to share in any surplus on winding up. The shares have no par value.

4,000,100 shares have been issued and fully paid.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

Revaluation Reserve	Group $000		Company $000	
	2019	2018	2019	2018
Property				
Opening balance	(168)	(168)	-	-
Revaluation	198	-	-	-
Income tax on revaluation surplus	(55)	-	-	-
Closing balance	**(25)**	**(168)**	**-**	**-**
Plant and equipment				
Opening balance	3,956	3,956	-	-
Revaluation	1,962	-	-	-
Income tax on revaluation surplus	(549)	-	-	-
Closing balance	**5,369**	**3,956**	**-**	**-**
Total revaluation reserve	**5,343**	**3,788**	**-**	**-**

12. CASH AND CASH EQUIVALENTS	Group $000		Company $000	
	2019	2018	2019	2018
BNZ Bank account	82	351	-	85
Total cash and cash equivalents	**82**	**351**	**-**	**85**

New Zealand Food Innovation (Waikato) Limited has an overdraft facility with BNZ with a limit of $250,000.

13. INVENTORIES	Group $000		Company $000	
	2019	2018	2019	2018
Goods in transit	395	247	-	-
Raw materials	1,086	911	-	-
Finished goods	2	1,171	-	-
Total inventories	**1,483**	**2,329**	**-**	**-**

The cost of inventories recognised as an expense during the year was $2,956,168 (2018: $357,868).

The amount of inventories write down recognised as an expense during the year was $30,286 (2018: Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

14. TRADE AND OTHER RECEIVABLES	Group $000		Company $000	
	2019	2018	2019	2018
Contract assets	763	705	-	-
Trade receivables	2	68	-	68
Related parties receivable	24	100	-	-
Income tax receivable	91	53	-	-
Other receivables	36	-	-	-
Total trade and other receivables	**916**	**926**	**-**	**68**

15. PAYABLES AND ACCRUALS	Group $000		Company $000	
	2019	2018	2019	2018
Trade payables	633	626	-	29
Accruals	84	112	4	12
Other payables	4	3	-	1
Total payables and accruals	**721**	**741**	**4**	**42**

16. INVESTMENT IN ASSOCIATES	Group $000		Company $000	
	2019	2018	2019	2018
New Zealand Food Innovation Network Ltd				
Interest held by the group	-	25%	-	-
Opening balance	-	19	-	-
Share of revenue and expenses	-	(19)	-	-
Balance at 30 June	**-**	**-**	**-**	**-**
Melody Dairies Limited Partnership				
Interest held by the group	10%	-	-	-
Opening balance	-	-	-	-
Additions during the year	2,626	-	-	-
Share of revenue and expenses	(7)	-	-	-
Balance at 30 June	**2,619**	**-**	**-**	**-**
Melody Dairies GP Limited				
Interest held by the group	10%	-	-	-
Balance at 30 June	**-**	**-**	**-**	**-**
Total investment in associates	**2,619**	**-**	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

17. INVESTMENT IN SUBSIDIARIES	Group $000 2019	Group $000 2018	Company $000 2019	Company $000 2018
New Zealand Food Innovation (Waikato) Limited				
Shares at cost	-	-	4,000	4,000
Transfer of shares	-	-	(1,200)	(1,200)
Total investment in subsidiaries	**-**	**-**	**2,800**	**2,800**

18. PROPERTY, PLANT AND EQUIPMENT

Group ($000)	Property	Plant & Equipment	Computer & Office	Total
For the year ended 30 June 2018				
Opening net book amount	3,619	15,909	14	19,542
Additions	6	539	21	566
Depreciation charge	(175)	(1,005)	(2)	(1,182)
Closing net book amount	**3,450**	**15,443**	**33**	**18,926**
As at 30 June 2018				
Cost or valuation	4,396	20,102	36	24,534
Accumulated depreciation	(946)	(4,659)	(3)	(5,608)
Net book amount	**3,450**	**15,443**	**33**	**18,926**
For the year ended 30 June 2019				
Opening net book amount	3,450	15,443	33	18,926
Additions	12	144	8	164
Disposals	-	(41)	(6)	(47)
Revaluation	198	1,962	-	2,160
Depreciation charge	(177)	(1,004)	(6)	(1,187)
Closing net book amount	**3,483**	**16,504**	**29**	**20,016**
As at 30 June 2019				
Cost or valuation	3,483	16,504	38	20,025
Accumulated depreciation	-	-	(9)	(9)
Net book amount	**3,483**	**16,504**	**29**	**20,016**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

Company ($000)	Property	Plant & Equipment	Computer & Office	Total
For the year ended 30 June 2018				
Opening net book amount	-	-	-	-
Additions	-	25	7	32
Depreciation charge	-	(4)	(1)	(5)
Closing net book amount	**-**	**21**	**6**	**27**
As at 30 June 2018				
Cost or valuation	-	25	7	32
Accumulated depreciation	-	(4)	(1)	-
Net book amount	**-**	**21**	**6**	**27**
For the year ended 30 June 2019				
Opening net book amount	-	21	6	27
Disposals	-	(21)	(6)	(27)
Closing net book amount	**-**	**-**	**-**	**-**
As at 30 June 2019				
Cost or valuation	-	-	-	-
Accumulated depreciation	-	-	-	-
Net book amount	**-**	**-**	**-**	**-**

Property, plant & equipment was valued by North Langley & Associates Ltd, an independent registered valuer on 26 February 2019. The valuation technique used was the Optimised Depreciated Replacement Cost as the spray dryer has specialised equipment and comparable sale information is limited. North Langley & Associates Ltd are a reputable valuation company specialising in the valuation of plant, machinery and equipment

There was no impairment in 2019 (2018: NIL). No borrowing costs were capitalised during the year (2018: NIL).

The spray dryer plant is noted as security against the Bank loans to Waikato Innovation Park Ltd.

19. INTANGIBLE ASSETS	Group $000 2019	Group $000 2018	Company $000 2019	Company $000 2018
Cost - Trademark				
Balance 1 July 2018	1	**1**	-	**-**
Amortisation	-	-	-	-
Balance 30 June 2019	**1**	**1**	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

20. DEFERRED INCOME	Group $000 2019	Group $000 2018	Company $000 2019	Company $000 2018
Original Grant	3,794	3,794	-	-
less Deferred Grant recognised prior years	(1,074)	(895)	-	-
	2,720	**2,899**	**-**	**-**
Opening balance	2,720	2,899	-	-
less Deferred Grant recognised	(179)	(179)	-	-
Total deferred grant	**2,541**	**2,720**	**-**	**-**
Revenue received in advance	242	199	-	-
Total deferred income	**2,783**	**2,919**	**-**	**-**
Current portion	296	302	-	-
Non current portion	2,487	2,617	-	-
Total deferred income	**2,783**	**2,919**	**-**	**-**

Deferred Grant relates to Government Grants provided to develop the Spray Dryer Facility (part of property, plant and equipment). The Deferred Grant is written off over 20 and 25 years respectively for the Spray Dryer Facility being the estimated useful life of the assets.

21. RELATED PARTIES LOANS	Group $000 2019	Group $000 2018	Company $000 2019	Company $000 2018
Hamilton City Council	-	200	-	200
New Zealand Food Innovation (Waikato) Limited	-	-	26	
Total related parties loans	**-**	**200**	**26**	**-**

Parent Entity: Waikato Innovation Growth Limited is owned 100% by Hamilton City Council. Hamilton City Council provided a loan for working capital to Waikato Innovation Growth Limited.

New Zealand Food Innovation (Waikato) Limited is owned by Waikato Innovation Growth (70%) and Callaghan (30%). New Zealand Food Innovation (Waikato) Limited has paid operating costs on behalf of Waikato Innovation Growth Limited.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

22. PROVISIONS	Group $000 2019	Group $000 2018	Company $000 2019	Company $000 2018
Nu-Mega Ingredients (NZ) Limited contract				
Opening balance	196	191	-	-
Charged to profit or loss	-	5	-	-
Unused amounts reversed	(196)	-	-	-
Balance 30 June	**-**	**196**	**-**	**-**
Silo contracts				
Opening balance	160	-	-	-
On acquisition	-	160	-	-
Charge to profit or loss	8	-	-	-
Balance 30 June	**168**	**160**	**-**	**-**
Total provisions	**168**	**356**	**-**	**-**

NZFIW entered into a contract with the following customers, Central Dairy Goat, Spring Sheep Dairy, NZ Nutritional Goat and Maui Milk for use of Silo 4 for five years and to each loan NZFIW $65,000 for the building of Silo 4 at the factory. NZFIW will reimburse the customers $43,333 on the 30th June 2022. Should the Customer still be manufacturing at the FoodWaikato site beyond May 2022 the repayment will be made at the end of the year, that the Customer stops manufacture at Food Waikato. NZFIW has created a provision (discounted to present value) for $43,333 of the loan.

23. TERM LOANS	Group $000 2019	Group $000 2018	Company $000 2019	Company $000 2018
BNZ 92346126-03 loan	4,274	4,574	-	-
	4,274	**4,574**	**-**	**-**
Current portion	-	-	-	-
Non current portion	4,274	4,574	-	-
Total term loan	**4,274**	**4,574**	**-**	**-**

Term loans are secured by a mortgage over the property at Ruakura Road, Hamilton certificate of title No. 135745.

	2019		2018	
	Interest rate	*Maturity Date*	*Interest rate*	*Maturity Date*
BNZ 92346126-03 loan	5.07%	August 2021	5.14%	August 2021

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

24. OTHER LOANS

	Group $000		Company $000	
	2019	2018	2019	2018
Bonds	840	1,100	-	-
Total other loans	**840**	**1,100**	**-**	**-**
Total current portion	490	650	-	-
Total non current portion	350	450	-	-
Total other loans	**840**	**1,100**	**-**	**-**

25. CAPITAL COMMITMENTS AND OPERATING LEASES

The following amounts have been committed to by the group but are not recorded in either the Statement of Comprehensive Income or the Statement of Financial Position.

Operating leases	Group $000		Company $000	
	2019	2018	2019	2018
Non-cancellable operating lease commitments				
No later than one year	23	23	-	-
Later than one year and no later than five years	93	93	-	-
Later than five years	301	301	-	-
	417	**417**	**-**	**-**

Operating lease amounts relates to the lease of land at Ruakura Road. The lease represents the first 20 years of a 1 x 20 and 1 x 30 year lease entered into in July 2018. Total lease expense for 2019 was $23,162 (2018: $23,162).

Capital commitments

As at 30 June 2019 New Zealand Food Innovation (Waikato) Limited has capital commitments of $9,848 to Combined Technologies Limited for the completion of a Store Management System (2018: $34,593).

NZFIW D2 LP Limited has capital commitments of $656,698 to Melody Dairies Limited Partnership for capital drawdown (2018: NIL).

26. RECONCILIATION OF FINANCING ACTIVITIES

Group $000	2018	Cash flows	Non-cash changes	2019
Financing activities			Fair value changes	
Term loans	4,574	(300)	-	4,274
Other loans	1,100	(260)	-	840
Provisions	356	-	(188)	168
Related parties	200	(200)	-	-
Total liabilities from financing activities	**6,230**	**(760)**	**(188)**	**5,282**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

	2017	Cash flows	Non-cash changes	2018
Financing activities			Fair value changes	
Term loans	8,174	(3,600)	-	4,574
Other loans	900	200	-	1,100
Provisions	191	160	5	356
Related parties	-	200	-	200
Share capital	-	4,000	-	4,000
Total liabilities from financing activities	**9,265**	**960**	**5**	**10,230**

Company $000	2018	Cash flows	Non-cash changes	2019
Financing activities				
Related parties	200	(128)	(72)	-
Total liabilities from financing activities	**200**	**(128)**	**(72)**	**-**

	2017	Cash flows	Non-cash changes	2018
Financing activities			Fair value changes	
Related parties	-	200	-	200
Share capital	-	4,000	-	4,000
Total liabilities from financing activities	**-**	**4,200**	**-**	**4,200**

	Group $000		Company $000	
27. FINANCIAL INSTRUMENTS	2019	2018	2019	2018
Financial assets at amortised cost				
Cash and cash equivalents	82	351	-	85
Trade and other receivables	789	693	-	68
Total loans and receivables	**871**	**1,044**	**-**	**153**
Financial liabilities at amortised cost				
Payables and accruals	721	742	4	624
Short term employee entitlements	268	282	-	6
Term loans	4,274	4,574	-	-
Other loans	840	1,100	-	-
Provisions	168	356	-	-
Related parties	-	-	26	200
Total financial liabilities at amortised costs	**6,271**	**7,054**	**30**	**830**

The Group has no financial liabilities classified at fair value through profit or loss, financial assets classified at fair value through profit or loss; or fair value through other comprehensive income.

Net gains or net losses on financial assets measured at amortised costs are recognised through the profit or loss and includes interest or dividend income. Net gains or net losses on financial liabilities at amortised cost are recognised in the profit or loss and includes interest expense.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

Per NZ IFRS 7, the entity should disclose the following information for each class of financial assets and financial liabilities as at the date of initial application:

- The original measure category and carrying amount determined in accordance with NZ IAS 39.

Company $000	Loans and receivables	Assets at fair value through profit or loss	Derivatives used for hedging	Available-for-sale	Total
Assets per balance sheet					
Cash and cash equivalents	85	-	-	-	85
Trade and other receivables	68	-	-	-	68
Balance as at 30 June 2018	**153**	**-**	**-**	**-**	**153**

Company $000	Liabilities at fair value through profit or loss	Derivatives used for hedging	Other financial liabilities at amortised cost	Total
Liabilities as per balance sheet				
Payables and accruals	-	-	624	624
Short term employee entitlements	-	-	6	6
Related parties	-	-	200	200
Balance as at 30 June 2018	**-**	**-**	**830**	**830**

Group $000	Loans and receivables	Assets at fair value through profit or loss	Derivatives used for hedging	Available-for-sale	Total
Assets per balance sheet					
Cash and cash equivalents	351	-	-	-	351
Trade and other receivables	693	-	-	-	693
Balance as at 30 June 2018	**1,044**	**-**	**-**	**-**	**1,044**

Group $000	Liabilities at fair value through profit or loss	Derivatives used for hedging	Other financial liabilities at amortised cost	Total
Liabilities as per balance sheet				
Payables and accruals	-	-	742	742
Short term employee entitlements	-	-	282	282
Term loans	-	-	4,574	4,574
Other loans	-	-	1,100	1,100
Provisions	-	-	356	356
Balance as at 30 June 2018	**-**	**-**	**7,054**	**7,054**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

28. RECONCILIATION OF PROFIT/(LOSS) FOR THE YEAR TO NET CASH	Group $000		Company $000	
	2019	2018	2019	2018
Profit/(loss) for the year	**1,295**	**368**	**26**	**(1,248)**
Add/(less) non-cash items				
Other income	(1,610)	-	-	-
Cost of consent	395	-	-	-
Interest - Provisions	(23)	-	-	-
Depreciation and amortisation	1,187	1,182	-	5
Subvention payment	-	-	(65)	-
Loss on disposal of fixed assets	16	-	-	-
Loss on disposal of shares	-	-	-	1,200
Share of associates (surplus)/deficit	7	20	-	-
Deferred income	(287)	(179)	-	-
Total non-cash items	**(315)**	**1,023**	**(65)**	**1,205**
Add/(less) movements in working capital				
Revenue received in advance	(15)	(44)	-	-
Trade debtors and other receivables	49	170	68	(68)
Prepayments	(182)	(234)	2	(2)
Income tax expense & subvention payment in profit/loss	37	89	10	(18)
Payables and accruals	(19)	268	(38)	48
Short term employee entitlements	(14)	-	(6)	-
Related parties loans	-	-	19	-
Inventories	846	(2,230)	-	-
Total movement in working capital	**702**	**(1,981)**	**55**	**(40)**
Net cash flow from operating activities	**1,682**	**(590)**	**16**	**(83)**

29. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties on normal commercial terms during the year:

Shareholder

Waikato Innovation Growth Limited has paid no venue hire to Hamilton City Council (2018: $6,141). No amount is outstanding at balance date (2018: NIL).

Waikato Innovation Growth Limited has received no sponsorship income from Hamilton City Council (2018: $1,000). No amount is outstanding at balance date (2018: NIL).

New Zealand Food Innovation (Waikato) Limited paid $131,720 (2018: $189,059) to Hamilton City Council for trade waste and application fees. No amount is outstanding at balance date (2018: NIL).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2019

Subsidiaries and associates

New Zealand Food Innovation (Waikato) Limited

New Zealand Food Innovation (Waikato) Limited has paid operating costs of $86,759.11 (2018: $76,083) on behalf of Waikato Innovation Growth Limited. No amount is outstanding at balance date (2018: $230).

New Zealand Food Innovation (Waikato) Limited has paid expenses of $68,597.50 (2018: NIL) to Waikato Innovation Growth Limited for insurances.

New Zealand Food Innovation Limited (Waikato) paid a subvention payment of $64,773 (2018: NIL) to Waikato Innovation Growth Limited for the 2018 tax year.

NZFIW D2 LP Ltd

New Zealand Food Innovation (Waikato) Limited made sales of $1,609,820 to NZFIW D2 LP Limited for consent costs in accordance with an agreement with NZFIW D2 LP Limited.

New Zealand Food Innovation (Waikato) Limited has paid operating costs of $1,786 on behalf of NZFIW D2 LP Limited. No amount is outstanding at balance date.

New Zealand Food Innovation (Waikato) Limited has paid $1,016,361 to NZFIW D2 LP Limited for capital amounts for Melody Dairies Limited Partnership.

Melody Dairies Limited Partnership

Melody Dairies Limited Partnership has paid $190,959 to New Zealand Food Innovation (Waikato) Limited for project management and have reimbursed $302,460 for project costs paid by the Company previously. A balance of $23,940 inclusive is outstanding at 30 June 2019.

New Zealand Food Innovation Network Ltd

New Zealand Food Innovation (Waikato) Limited made no sales in 2019 (2018: $15,000) to New Zealand Food Innovation Network Ltd for Business Development Manager services. No amount is outstanding at balance date (2018: NIL).

Callaghan Innovation

New Zealand Food Innovation (Waikato) Limited made sales of $80,004 (2018: $80,000) to New Zealand Food Innovation Network Ltd for Business Development Manager services. No amount is outstanding at balance date (2018: NIL).

Key Management Personnel Disclosure

Key management personnel compensation 2019: $560,227 2018: $533,122

Other

Stuart Gordon the CE of NZFIW and the Interim CE of WIGL (ceased 1 July 2018), is the CE of Waikato Innovation Park Limited which provides management services and lease to NZFIW & WIGL (ceased 1 July 2018). During the year Waikato Innovation Park Limited charged the Group $160,758 GST exclusive for these services (2018: $239,545). A balance of $8,068 inclusive is owing at 30 June 2019 (2018: $27,660)

Peter Hobman is a Director and Shareholder of Working Foods International (NZ) Limited which provides consultancy work. The Company was not charged for any consultancy work in 2019 (2018: $25,941) and no balance was outstanding at 30 June 2019 (2018: NIL).

Shane Kells an employee of NZFIW (resigned 31 August 2018) is a Director and Shareholder of Commercial Compliance Limited which provides consultancy work. During the year Commercial Compliance Limited charged NZFIW $19,460 GST exclusive (2018: $8,760) for consultancy work; A balance of $1,150 inclusive is owing at 30 June 2019 (2018: NIL).

30. CONTINGENCIES

No contingencies have been identified at balance date (2018: NIL).

PERFORMANCE TARGETS AND RESULTS

For the year ended 30 June 2019

The Group prepares an annual Statement of Corporate Intent, which is approved by the Shareholders and incorporates financial and performance measure for the ensuing year. This is in accordance with section 64(5) of the Local Government Act 2002. The 2018/19 Statement of Corporate Intent was approved by Hamilton City Council.

Performance information relevant to the Company is disclosed below:

Waikato Innovation Growth Limited (Group)

Budget and actual results	2019 Actual $000	2019 Statement of Corporate Intent $000	2018 Actual $000	2018 Statement of Corporate Intent $000
Group EBITDA	2,745	1,979	2,023	1,921
Group cash from operating activities	1,682	1,505	(590)	1,036
Net Profit after tax	1,295	385	368	170
Shareholder's funds/Tangible assets	55%	53%	38%	64%

Waikato Innovation Growth Limited

Waikato Innovation Growth Limited operations were transferred on the 1st of July 2018 to Waikato Regional Economic Development Limited. There was no operational activities taking place during the year, therefore the reporting of actual performance against the target is not applicable.

New Zealand Food Innovation (Waikato) Limited

Budget and actual results	2019 Actual $000	2019 Statement of Corporate Intent $000	2018 Actual $000	2018 Statement of Corporate Intent $000
Revenue NZFIW	11,200	7,461	7,143	6,104
EBITDA NZFIW	2,776	1,963	2,081	-

Key objectives and actual results to 30 June 2019

Key objectives	Actual results
1. 267 days of product development production via the spray dryer contributing $55 million to the regional economy.	242.5 days of production days 24.5 under budget while contributing $33.3m to the regional economy through exports.
2. Commitment by private capital to establish increased spray drying capacity alongside the existing dryer in 2018/2019.	New Spray dryer partnership and construction Agreement for $53.9m signed in December 2019. To date June 2019 $20.0 m capital contributed with a further $12.9 m to be contributed in the next financial
3. A 10% minority interest in new spray dryer is planned to increase open access space for the sheep industry customers. $1.4 million will available within the company's own cash flow.	NZFIW has contributed to date June 2019 $1.0 m and will contribute a further $0.6 m in the next financial year for its 10% share of Melody Dairies Limited Partnership.

4. Assist with the development of new valued added sheep milk industry products and the international launch of one substantial new product.	While trials and product development has been undertaken by various companies, the launch with a strategic partner of added value sheep milk product has been delayed to September 2019.

NZFIW D2 LP Limited

Annual Report 2019

TABLE OF CONTENTS

For the 10 Months Ended 30 June 2019

Directory	3
Annual Report	4
Statement of Comprehensive Income	5
Statement of Changes in Equity	6
Statement of Financial Position	7
Statement of Cash Flows	8
Notes to the Financial Statements	9
Auditors Report	16

DIRECTORY

As at 30 June 2019

Nature of Business	Investment
Address	Waikato Innovation Park Ruakura Lane Hamilton 3216
Registered Office	Ruakura Lane Ruakura Road Hamiltron 3216
Authorised Capital	2,628,281 Ordinary Shares
Directors	Barry Harris David Stanley
Shareholders	New Zealand Food Innovation (Waikato) Limited
Auditors	Audit New Zealand on behalf of the Auditor-General PO Box 256 Hamilton 3240
Bankers	BNZ 354 Victoria Street Hamilton
Solicitors	Tompkins Wake 430 Victoria Street Hamilton
IRD Number	127-998-663

ANNUAL REPORT

For the 10 Months Ended 30 June 2019

Approval and issue of financial statements

On this date the Directors approve and issue the annual report including the attached financial statements for NZFIW D2 LP Limited for the 10 months ended 30 June 2019.

Auditor

An auditor has been appointed.

For and on behalf of the Board

______________________________	Director	28 August 2019
______________________________	Director	28 August 2019

STATEMENT OF COMPREHENSIVE INCOME

For the 10 Months Ended 30 June 2019

	NOTE	$000 2019
Income		
Other income	4	1,610
Total Income		**1,610**
Expenses		
Consent costs		(1,610)
Operating expenses		(1)
Audit fees		(5)
Total expenses		**(1,616)**
Profit/(loss) before tax		**(6)**
Income tax		2
Profit/(loss) for the period, net of tax		**(4)**
Other comprehensive income		
Total other comprehensive income, net of tax		**-**
Total comprehensive income for the period		**(4)**
Total profit/(loss) for the period attributable to:		
New Zealand Food Innovation (Waikato) Limited		**(4)**
Total comprehensive income for the period attributable to:		
New Zealand Food Innovation (Waikato) Limited		**(4)**

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the 10 Months Ended 30 June 2019

	NOTE	$000 Share capital	$000 Retained earnings	$000 Total equity
Opening balance		**-**	**-**	**-**
Total comprehensive income				
Profit for the period		-	(4)	(4)
Other comprehensive income for the period		-	-	-
Total comprehensive income for the period		**-**	**(4)**	**(4)**
Total comprehensive income for the period attributed to the owner		**-**	**(4)**	**(4)**
Transaction with owners of the company				
Proceeds from shares issued		2,626	-	2,626
Balance as at 30 June 2019		**2,626**	**(4)**	**2,622**

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	NOTE	$000 2019
ASSETS		
Non-current assets		
Deferred tax	5	2
Investments	7	2,626
Total non-current assets		**2,628**
Total assets		**2,628**
EQUITY AND LIABILITIES		
Equity		
Share capital	6	2,626
Retained earnings		(4)
Total equity		**2,622**
Current liabilities		
Accruals		4
Related parties	8	2
Total current liabilities		**6**
Total liabilities		**6**
Total equity and liabilities		**2,628**

The accompanying notes form part of these financial statements.

Director
28 August 2019

Director
28 August 2019

STATEMENT OF CASH FLOWS

For the 10 Months Ended 30 June 2019

	NOTE	$000 2019
Cash flow from operating activities		
Receipts from customers		1,610
Payments to suppliers and employees		(1,612)
Receipts from related parties		2
Net cash from operating activities	10	**-**
Cash flow from investing activities		
Investment in Melody Dairies Limited Partnership		(2,626)
Net cash from/(used in) investing activities		**(2,626)**
Cash flow from financing activities		
Proceeds from issue of shares		2,626
Net cash from/(used in) financing activities		**2,626**
Net increase/(decrease) in cash and cash equivalents		**-**
Cash and cash equivalents at 1 July		-
Cash and cash equivalents at 30 June		**-**

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the 10 Months Ended 30 June 2019

1. REPORTING ENTITY

NZFIW D2 LP Limited (the "Company") 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 20th September 2018. The Company's parent entity is New Zealand Food Innovation (Waikato) Limited and the ultimate parent entity is Hamilton City Council.

The financial statements of NZFIW D2 LP Limited are for the 10 months ended 30 June 2019. The financial statements were authorised for issue by the Board of Directors on the 28 August 2019. The owners 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 2013, the Financial Reporting Act 1993 and the Local Government Act 2002. NZFIW D2 LP Limited is a for-profit entity.

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.

New and amended standards adopted this year

In the current year, the Company has applied NZ IFRS 9 Financial Instruments that are effective for an annual period that begins on or after 1 July 2018. Under NZ IFRS 9, investment in equity instruments that is not held for trading can irrevocable elect to designate as at fair value through other comprehensive income or measure as fair value through profit or loss.

b. Basis of Measurement

The financial statements have been prepared on an historical basis except for Investments which are measured to fair value.

This is the first period of operation and therefore there are no comparatives.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the 10 Months Ended 30 June 2019

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below.

a. Revenue

Revenue is measured at the fair value of the consideration received or receivable.

The Company is currently not in operation and revenue in the current year only relates to the sale of consents in accordance with an agreement with Melody Dairies Limited Partnership

b. Cash and Cash Equivalents

The Company does not handle cash, all payments are made/settled through intercompany transactions.

c. Payables and accruals

Payables and accruals are recognised when the Company becomes obligated to make future payments resulting from the purchase of goods or services. They are recognised initially at fair value and subsequently at amortised cost.

d. 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.

e. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the 10 Months Ended 30 June 2019

f. Impairment

At each reporting date, the Company 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 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.

g. Investments

Investments in equity instruments are not held for trading and are measured at fair value through profit of loss.

NOTES TO THE FINANCIAL STATEMENTS

For the 10 Months Ended 30 June 2019

4. Other income	$000 2019
Sale of consents	1,610
Total other income	**1,610**

5. INCOME TAX	$000 2019
Deferred tax	
Current year	(3)
Total income tax expense recognised	**(3)**

The income tax expense for the year can be reconciled to the accounting profit as follows:	$000 2019
Profit before tax	(6)
Income tax expense at 28%	(2)
Effect of income that is exempt from tax	-
Income tax expense recognised in profit or loss	**(2)**

Deferred tax balances ($000)	Opening balance	Recognised in profit or loss	Closing balance
Deferred tax assets/(liabilities) in relation to :			
Tax losses	-	2	2
Balance as at 30 June 2019	**-**	**2**	**2**

6. EQUITY	$000 2019
Share capital	
Ordinary shares	
Shares issued	2,626
Total Ordinary shares	**2,626**
Total issued and called shares 30 June	**2,626**

Ordinary Shares

All ordinary shares carry equal voting rights and entitle the holder to participate in dividends, and the right to share in any surplus on winding up.

2,626,281 shares have been issued and fully paid. The Par value per share is $1.

NOTES TO THE FINANCIAL STATEMENTS

For the 10 Months Ended 30 June 2019

7. INVESTMENTS	$000 2019
Melody Dairies Limited Partnership	
Acquisition during the year	2,626
Change in fair value	-
Balance 30 June	**2,626**
Total investment	**2,626**

The company holds 10% in Melody Dairies Limited Partnership and is a related party.

The fair value of the investment has been determined by the consideration of the sale of the consent and capital drawdowns paid. The investment is a level 1.

8. RELATED PARTIES	$000 2019
New Zealand Food Innovation (Waikato) Limited	2
Total related parties	**2**

NZFIW D2 LP Limited is owned by New Zealand Food Innovation (Waikato) Limited (100%) The related parties amount relates to day-to-day expenses paid by New Zealand Food Innovation (Waikato) Limited on behalf of NZFIW D2 LP Limited.

9. FINANCIAL INSTRUMENTS	$000 2019
Financial assets at fair value through profit or loss	
Investments	2,626
Total financial assets at fair value through profit or loss	**2,626**
Financial liabilities at amortised cost	
Accruals	4
Related parties	2
Total financial liabilities at amortised cost	**6**

The Company has no financial liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income or financial assets at amortised costs.

Net gains or net losses on financial assets measured at fair value through the profit or loss includes interest or dividend income.

Net gains or net losses on financial liabilities at amortised cost are recognised in the profit or loss and includes interest expense.

NOTES TO THE FINANCIAL STATEMENTS

For the 10 Months Ended 30 June 2019

10. RECONCILIATION OF PROFIT/(LOSS) FOR THE YEAR TO NET CASH	$000 2019
Profit/(loss) for the year	**(4)**
Add/(less) non-cash items:	
Income tax	(2)
Total non-cash items	**(2)**
Add/(less) movements in working capital:	
Accruals	4
Related parties	2
Total movement in working capital	**6**
Net cash flow from operating activities	**-**

11. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties on normal commercial terms during the year:

New Zealand Food Innovation (Waikato) Limited

The Company paid $1,609,820 to New Zealand Food Innovation (Waikato) Limited for consent costs in accordance with an agreement with New Zealand Food Innovation (Waikato) Limited.

New Zealand Food Innovation (Waikato) Limited has paid operating costs of $1,786 on behalf of NZFIW D2 LP Limited. There is an inter-company advance between the Company and New Zealand Food Innovation (Waikato) Limited for this amount which is not payable.

New Zealand Food Innovation (Waikato) Limited has paid capital drawdown amounts of $1,016,361 to Melody Dairies Limited Partnership on behalf of NZFIW D2 LP Limited.

Melody Dairies Limited Partnership

The Company holds 10% in Melody Dairies Limited Partnership. The Company sold consents of $1,609,820 to Melody Dairies Limited Partnership in accordance with an agreement with Melody Dairies Limited Partnership. No amount is outstanding at balance date.

12. CONTINGENCIES

No contingencies have been identified at balance date.

13. DIRECTORS EXPENSES

No remuneration or other benefits were received by the Directors from the Company during the year.

14. CAPITAL COMMITMENTS

As at 30 June 2019 NZFIW D2 LP Limited has capital commitments of $656,698 to Melody Dairies Limited Partnership for capital drawdown.

NOTES TO THE FINANCIAL STATEMENTS

For the 10 Months Ended 30 June 2019

15. PERFORMANCE TARGETS AND RESULTS

The Company's prepares an annual Statement of Corporate Intent, which is approved by the Shareholders and incorporates financial and performance measure for the ensuing year. This is in accordance with section 64(5) of the Local Government Act 2002. The 2018/19 Statement of Corporate Intent was approved by Hamilton City Council.

Budget and actual results	**2019** Actual $000	**2019** Statement of Corporate Intent $000
Assets		
Investment	2,626	3,286
Deferred tax	2	-
Total assets	**2,628**	**3,286**
Liabilities		
Payables and accruals	4	-
Related Parties - NZFIW	2	3,286
Total liabilities	**6**	**3,286**
Equity		
Share capital	2,626	-
Retained earnings	(4)	-
Total shareholders funds	**2,622**	**-**

Difference in Investment is due to the two remaining calls being pushed out beyond the 2019 financial year. The amount loan by NZFIW for the capital call amount has been transferred to shares in NZFIW D2 instead of an inter-company loan per the statement of corporate intent.

NEW ZEALAND FOOD INNOVATION (WAIKATO) LIMITED

Annual Report 2019

FOODWAIKATO

TABLE OF CONTENTS

For the Year Ended 30 June 2019

Directory	3
Annual Report	4
Statement of Comprehensive Income	5
Statement of Changes in Equity	6
Statement of Financial Position	7
Statement of Cash Flows	9
Notes to the Financial Statements	10
Performance Targets and Results	33
Auditors Report	34

DIRECTORY

As at 30 June 2019

Nature of Business	Development and operating of a pilot spray dryer in the Waikato Region
Address	Waikato Innovation Park Ruakura Lane Hamilton 3216
Registered Office	Waikato Innovation Park Ruakura Lane Hamilton 3216
Authorised Capital	210 Ordinary Shares
Directors	Barry Harris Earl Rattray David Stanley Erica Lloyd (Ceased 4 October 2018) Peter Hobman Matthew Kenny (Appointed 4 October 2018)
Shareholders	Waikato Innovation Growth Limited 147 Ordinary Shares Callaghan Innovation 63 Ordinary Shares 210
Auditors	Audit New Zealand on behalf of the Auditor-General PO Box 256 Hamilton 3240
Bankers	BNZ 354 Victoria Street Hamilton
Solicitors	Tompkins Wake 430 Victoria Street Hamilton
IRD Number	105-220-731

ANNUAL REPORT

For the Year Ended 30 June 2019

Approval and issue of financial statements

On this date the Directors approve and issue the annual report including the attached financial statements for New Zealand Food Innovation (Waikato) Limited for the year ended 30 June 2019.

Auditor

An auditor has been appointed.

For and on behalf of the Board

__________________________ Director 28 August 2019

__________________________ Director 28 August 2019

STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 30 June 2019

	NOTE	Group $000 2019	Group $000 2018	Company $000 2019	Company $000 2018
Income					
Revenue	4	9,589	7,143	9,589	7,143
Cost of sales		(2,957)	(358)	(2,957)	(358)
Gross profit		**6,632**	**6,785**	**6,632**	**6,785**
Share of profit/(loss) from associate	16	(7)	(19)	-	(19)
Sale of consents	5	1,610	-	1,610	-
Cost of consents	5	(395)	-	(395)	-
Expenses					
Operating expenses		(2,745)	(2,715)	(2,745)	(2,715)
Lease payments	25	(23)	(23)	(23)	(23)
Personnel costs	6	(2,023)	(1,769)	(2,023)	(1,769)
Depreciation	18	(1,187)	(1,177)	(1,187)	(1,177)
Audit fees	7	(40)	(19)	(35)	(19)
Directors fees		(161)	(139)	(161)	(139)
Other gains and losses	9	(47)	(20)	(47)	(20)
Write-down of inventories		(30)	-	(30)	-
Total expenses		**(6,256)**	**(5,862)**	**(6,251)**	**(5,862)**
Finance income	8	1	-	1	-
Finance costs	8	(223)	(319)	(223)	(319)
Net finance costs		**(222)**	**(319)**	**(222)**	**(319)**
Profit/(loss) before tax		**1,362**	**585**	**1,374**	**585**
Subvention payment received/(paid)		(65)	-	(65)	-
Income tax	10	(28)	(170)	(30)	(170)
Profit/(loss) for the year, net of tax		**1,269**	**415**	**1,279**	**415**
Other comprehensive income					
Gain/(loss) on property revaluation		2,160	-	2,160	-
Income tax on other comprehensive income		(605)	-	(605)	-
Total other comprehensive income, net of tax		**1,555**	**-**	**1,555**	**-**
Total comprehensive income for the year		**2,824**	**415**	**2,834**	**415**

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the Year Ended 30 June 2019

Group	NOTE	$000 Share capital	$000 Revaluation reserve	$000 Retained earnings	$000 Total equity
Balance as at 1 July 2017		3,333	3,788	(363)	6,758
Total comprehensive income					
Profit for the year		-	-	415	415
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		-	-	415	415
Transaction with owners of the company					
Proceeds from shares issued	11	4,000	-	-	4,000
Balance as at 30 June 2018		7,333	3,788	52	11,173
Balance as at 1 July 2018		7,333	3,788	52	11,173
Total comprehensive income					
Profit for the year		-	-	1,269	1,269
Other comprehensive income for the year		-	1,555	-	1,555
Total comprehensive income for the year		-	1,555	1,269	2,824
Balance as at 30 June 2019		7,333	5,343	1,321	13,997

Company	NOTE	$000 Share capital	$000 Revaluation reserve	$000 Retained earnings	$000 Total equity
Balance as at 1 July 2017		3,333	3,788	(363)	6,758
Total comprehensive income					
Profit for the year		-	-	415	415
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		-	-	415	415
Transaction with owners of the company					
Proceeds from shares issued	11	4,000	-	-	4,000
Balance as at 30 June 2018		7,333	3,788	52	11,173
Balance as at 1 July 2018		7,333	3,788	52	11,173
Total comprehensive income					
Profit for the year		-	-	1,279	1,279
Other comprehensive income for the year		-	1,555	-	1,555
Total comprehensive income for the year		-	1,555	1,279	2,834
Balance as at 30 June 2019		7,333	5,343	1,331	14,007

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	NOTE	Group $000 2019	Group $000 2018	Company $000 2019	Company $000 2018
ASSETS					
Non-current assets					
Related parties loans	20	26	-	28	-
Investment in associates	16	2,619	-	-	-
Investment in subsidiaries	17	-	-	2,626	-
Property, plant and equipment	18	20,016	18,899	20,016	18,899
Assets under construction		40	15	40	15
Intangible asset	19	1	1	1	1
Total non-current assets		**22,702**	**18,915**	**22,711**	**18,915**
Current assets					
Cash and cash equivalents	12	82	266	82	266
Inventories	13	1,483	2,329	1,483	2,329
Trade and other receivables	14	915	858	915	858
Prepayments		102	313	102	313
Total current assets		**2,582**	**3,766**	**2,582**	**3,766**
Total assets		**25,284**	**22,681**	**25,293**	**22,681**
EQUITY AND LIABILITIES					
Equity					
Share capital	11	7,333	7,333	7,333	7,333
Revaluation reserve	11	5,343	3,788	5,343	3,788
Retained earnings		1,321	52	1,331	52
Total equity		**13,997**	**11,173**	**14,007**	**11,173**
Non-current liabilities					
Deferred tax liabilities	10	2,238	1,583	2,240	1,583
Deferred income	21	2,487	2,617	2,487	2,617
Term loans	23	4,274	4,574	4,274	4,574
Other loans	24	350	450	350	450
Provisions	22	168	356	168	356
Total non-current liabilities		**9,517**	**9,580**	**9,519**	**9,580**
Current liabilities					
Payables and accruals	15	716	700	713	700
Short term employee entitlements		268	276	268	276
Deferred income	21	296	302	296	302
Other loans	24	490	650	490	650
Total current liabilities		**1,770**	**1,928**	**1,767**	**1,928**

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

		Group $000		Company $000	
	NOTE	2019	2018	2019	2018
Total liabilities		11,287	11,508	11,286	11,508
Total equity and liabilities		25,284	22,681	25,293	22,681

The accompanying notes form part of these financial statements.

Director
28 August 2019

Director
28 August 2019

STATEMENT OF CASH FLOWS

For the Year Ended 30 June 2019

	NOTE	Group $000 2019	Group $000 2018	Company $000 2019	Company $000 2018
Cash flow from operating activities					
Receipts from customers		9,440	7,108	9,440	7,108
Payments to suppliers and employees		(7,358)	(7,333)	(7,358)	(7,333)
Interest received		1	-	1	-
Interest paid		(245)	(319)	(245)	(319)
Tax payments		(16)	(242)	(16)	(242)
Subvention payment received/(paid)		(65)	-	(65)	-
GST (net)*		(163)	341	(163)	341
Net cash from operating activities	26	**1,594**	**(445)**	**1,594**	**(445)**
Cash flow from investing activities					
Purchase of property, plant and equipment		(177)	(529)	(177)	(529)
Purchase of assets under construction		(25)	272	(25)	272
Investment in assocaite		(1,016)	-	-	-
Investment in subsidiary		-	-	(1,016)	-
Net cash from/(used in) investing activities		**(1,218)**	**(257)**	**(1,218)**	**(257)**
Cash flow from financing activities					
Proceeds from borrowing		2,040	2,160	2,040	2,160
Repayment of borrowings		(2,600)	(5,400)	(2,600)	(5,400)
Proceeds from issue of shares		-	4,000	-	4,000
Net cash from/(used in) financing activities	27	**(560)**	**760**	**(560)**	**760**
Net increase/(decrease) in cash and cash equivalents		**(184)**	**58**	**(184)**	**58**
Cash and cash equivalents at 1 July		266	208	266	208
Cash and cash equivalents at 30 June	12	**82**	**266**	**82**	**266**

**The GST (net) component of operating activities reflects the net GST transactions with the Inland Revenue Department. The GST (net) component has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.*

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2019

1. REPORTING ENTITY

New Zealand Food Innovation (Waikato) Limited (the "Company") 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.

The financial statements of New Zealand Food Innovation (Waikato) Limited are for the year ended 30 June 2019. The financial statements were authorised for issue by the Board of Directors on the 28 August 2019. The owners 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 2013 and the Local Government Act 2002. New Zealand Food Innovation (Waikato) Limited is a for-profit entity.

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.

New and amended standards adopted this year

- NZ IFRS 15 - Revenue from Contracts with Customers

In the current year, the Group has applied NZ IFRS 15 Revenue from Contracts with Customers (as amended in 2016). NZ IFRS 15 introduces a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Details of these new requirements as well as their impact on the Entity's financial statements are described below.

The Group has applied NZ IFRS 15 in accordance with the fully retrospective transitional approach without using the practical expedients for completed contracts in NZ IFRS 15.C5(a), and (b), or for modified contracts in NZ IFRS 15.C5(c) but using the expedient in NZ IFRS 15.C5(d) allowing both non-disclosure of the amount of the transaction price allocated to the remaining performance obligations, and an explanation of when it expects to recognise that amount as revenue for all reporting periods presented before the date of initial application, i.e. 1 January 2017.

NZ IFRS 15 uses the terms 'contract asset' and 'contract liability' to describe what might more commonly be known as 'accrued revenue' and 'deferred revenue', however the Standard does not prohibit an entity from using alternative descriptions in the statement of financial position. The Group has adopted the terminology used in NZ IFRS 15 to describe such balances, as applicable.

The Group's accounting policies for its revenue streams are disclosed in detail in Revenue recognition. Apart from providing more extensive disclosures on the Group's revenue transactions, the application of NZ IFRS 15 has not had a significant impact on the financial position and/or financial performance of the Group. There has been no amount of adjustment required as determined in Management's assessment of the impact of the Standard.

- *NZ IFRS 9 Financial Instruments*

In the current year, the Group has applied NZ IFRS 9 Financial Instruments that are effective for an annual period that begins on or after 1 July 2018. Under NZ IFRS 9, financial assets are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2019

The Group has applied the classification and measurement requirements of NZ IFRS 9 to its financial instruments which were previously in accordance with NZ IAS 39. The transition to the new standard has not resulted in a change to the classification or measurement of financial assets held by the Group as at 1 July 2018.

NZ IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under NZ IAS 39. The Group applies the simplified approach permitted by NZ IFRS 9, which requires the Group to measure the loss allowance at an amount equal to lifetime expected credit losses from initial recognition of the trade and other receivables. The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospects of recovery. These amount are recognised in the profit and loss statements.

All regular purchases or sales of financial assets are recognised and derecognised on a trade date basis. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred.

b. Preparation of Group Financial Statements

On the 22nd of December 2017 Waikato Innovation Growth Limited acquired 70% of New Zealand Food Innovation (Waikato) Limited voting equity due to the restructure of Waikato Innovation Park Limited. Waikato Innovation Park Limited transferred their 105 shares in New Zealand Food Innovation (Waikato) Limited to Waikato Innovation Growth Limited for $1.

The Group financial statements have been prepared as though the merged entities have always been under common control

c. 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.

d. Functional and Presentational currency

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

e. 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.
Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following:

Note 18: Property, plant and equipment

Note 21: Deferred income

Note 22: Provisions

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2019

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. Basis of Consolidation

The consolidated financial statements are prepared adding together like items of assets, liabilities, equity, income and expenses on a line-by-line basis. All significant intragroup balances, transactions, income and expenses are eliminated on consolidation.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Subsidiaries

Subsidiaries are those entities that are controlled by the Company. Subsidiaries are consolidated from the date control is transferred to the Group. They are de-consolidated from the date that control ceases. All significant intercompany accounts and transactions are eliminated on consolidation. Control exists when the Company has power over the entity, exposure or rights to variable returns from its involvement with the entity, and the ability to use its power over the entity to offset the amount of the entity's returns.

Investments in subsidiaries are recorded at cost less the amount of estimated value of impairment in the parent company's financial statements.

The Company holds 100% shares in its subsidiary NZFIW D2 LP Limited and there is no significant restriction on its ability to access or use assets or settle liabilities, of the group. The reporting period for NZFIW D2 LP Limited is for the 10 months ending 30 June 2019.

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. The Group's associate is:

• Melody Dairies Limited Partnership. Melody Dairies Limited Partnership (MDLP) is 10% owned by NZFIW D2 LP Limited. Significant judgement and assumptions have been used to determine that New Zealand Food Innovation (Waikato) Limited Group (NZFIW Group) has significant influence over MDLP. NZFIW Group has a representation on the board of directors of MDLP. Due to the existing Management Agreement between NZFIW Group and MDLP, NZFIW Group is considered providing essential technical information to MDLP. As a result, it has been determined that NZFIW Group has significant influence over MDLP and therefore should account for it as an associate under NZ IAS 28 Investments in Associates and Joint Ventures.
Melody Dairies Limited Partnership's principle place of business is 12 Melody Lane, Hamilton.

• Melody Dairies GP Limited. Melody Dairies GP Limited (MDGPL) is 10% owned by New Zealand Food Innovation (Waikato) Limited (NZFIW). Significant judgement and assumptions have been used to determine that NZFIW has significant influence over MDGPL. NZFIW has a representation on the board of directors of MDGPL. As a result, it has been determined that NZFIW has significant influence over MDGLP and therefore should account for it as an associate under NZ IAS 28 Investments in Associates and Joint Ventures. MDGPL is dormant.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2019

b. Revenue

The Company recognises revenue from the rendering of spray dryer services and from rendering of sales of goods. Spray drying is a method of producing a dry powder from a liquid provided by customers by quickly drying this with a hot gas. The Company enters into a contract with the customer for usage of the spray dryer for a fixed period of time and the consideration includes the daily charge rates and utility costs oncharged. The Company enters into a contract with the customer to produce product per minimum quantity specified.

The Company satisfies its performance obligations as services are rendered. Payment terms are the customer must pay the amount due or before the 20th day of the month of invoice. No obligations for returns, refunds and other similar obligation or types and warranties and related obligations are attached to the contracts.

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer. The Group recognises revenue when it transfers control of the service to a customer.

Judgements around the timing of satisfaction of performance obligations, the transaction price and amounts allocated to performance obligations are determined per the contracts.

The directors are satisfied that control has been transferred and that recognition of the revenue in the current year is appropriate as the performance obligations are satisfied at a point in time, and there is no contractual liability for unsatisfied performance obligations at year end.

The Group recognises sale of consents revenue when it transfers the control of the consents to the customer.

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 Company 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. 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.

d. Foreign Currency Translation

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2019

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 and subsequently measured at amortised cost, less expected credit losses. 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 (Note 28).

h. 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

i. 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 hardware	3-5 years
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.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2019

j. Work in progress

Work in progress is valued at cost.

k. Payables and accruals

Payables and accruals are recognised when the Group becomes obligated to make future payments resulting from the purchase of goods or services. They are recognised initially at fair value and subsequently at amortised 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.

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 entitlements

Employee benefits that are due to be settled within 12 months after the end of the year in which the employee renders the related service are measured based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave and bonuses. Short-term employee entitlement 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 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.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2019

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 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.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2019

4. REVENUE	Group $000 2019	Group $000 2018	Company $000 2019	Company $000 2018
Revenue from contracts for the sale of goods	3,543	415	3,543	415
Revenue from contracts for the rendering of services	5,852	6,549	5,852	6,549
Revenue from the rendering of services	15	-	15	-
Deferred Grant income	179	179	179	179
Total operating revenue	**9,589**	**7,143**	**9,589**	**7,143**

Timing of revenue recognition - At point in time.

5. OTHER INCOME	Group $000 2019	Group $000 2018	Company $000 2019	Company $000 2018
Sale of consent	1,610	-	1,610	-
less cost of consent	(395)	-	(395)	-
Total other income	**1,215**	**-**	**1,215**	**-**

6. PERSONNEL COSTS	Group $000 2019	Group $000 2018	Company $000 2019	Company $000 2018
Salaries and wages	1,987	1,737	1,987	1,737
Defined contribution plan	36	32	36	32
Total personnel costs	**2,023**	**1,769**	**2,023**	**1,769**

Annual remuneration by band for employees	**2019 Number**	**2018 Number**
< $100,000	21	23
$100,000 - $109,999	-	-
$110,000 - $119,999	3	1
$120,000 - $129,999	1	1
$130,000 - $139,999	1	-
$140,000 - $149,999	-	-
$150,000 - $159,999	1	1
Total Employees	**27**	**26**

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2019

7. AUDIT FEES	Group $000		Company $000	
	2019	2018	2019	2018
Audit fee for 2018/19 year	33	-	28	-
Audit fee for 2017/18 year	7	19	7	19
Total audit fees	**40**	**19**	**35**	**19**

8. FINANCE COSTS	Group $000		Company $000	
	2019	2018	2019	2018
Finance income				
Interest income	1	-	1	-
Total finance income	**1**	**-**	**1**	**-**
Finance costs				
Bank fees	(5)	(5)	(5)	(5)
Interest on bank overdraft	-	(1)	-	(1)
Interest on bank borrowings	(218)	(313)	(218)	(313)
Total finance costs	**(223)**	**(319)**	**(223)**	**(319)**
Net finance costs	**(222)**	**(319)**	**(222)**	**(319)**

9. OTHER GAINS AND LOSSES	Group $000		Company $000	
	2019	2018	2019	2018
Net foreign exchange gain/(loss)	(31)	(20)	(31)	(20)
Loss on disposal of fixed assets	(16)	-	(16)	-
Total other gains and losses	**(47)**	**(20)**	**(47)**	**(20)**

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2019

	Group $000		Company $000	
10. INCOME TAX	**2019**	**2018**	**2019**	**2018**
Current tax				
Current year	(2)	(126)	(2)	(126)
Adjustment for prior years	24	-	24	-
	22	(126)	22	(126)
Deferred tax				
Current year	(44)	(44)	(46)	(44)
Adjustment for prior year	(6)	-	(6)	-
Total income tax expense recognised	**(28)**	**(170)**	**(30)**	**(170)**
The income tax expense for the year can be reconciled to the accounting profit as follows:				
Profit before tax	1,362	585	1,374	585
Income tax expense at 28%	(381)	(164)	(385)	(164)
Effect of income that is exempt from tax	451	(6)	451	(6)
Effect of expenses that are not deductible in determining	(116)	-	(114)	-
Adjustment for prior year - subvention payment	18	-	18	-
Income tax expense recognised in profit or loss	**(28)**	**(170)**	**(30)**	**(170)**

Deferred tax balances

Group ($000)	**Opening Balance**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Closing balance**
Deferred tax assets/(liabilities) in relation to:				
Property, plant and equipment	(2,340)	15	(605)	(2,930)
Provisions	(5)	(17)	-	(22)
Deferred income	762	(50)	-	712
Tax losses	-	2	-	2
Balance as at 30 June 2019	**(1,583)**	**(50)**	**(605)**	**(2,238)**

Group ($000)	**Opening Balance**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Closing balance**
Deferred tax assets/(liabilities) in relation to:				
Property, plant and equipment	(2,356)	16	-	(2,340)
Provisions	4	(9)	-	(5)
Deferred income	812	(50)	-	762
Balance as at 30 June 2018	**(1,540)**	**(43)**	**-**	**(1,583)**

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2019

Deferred tax balances Company ($000)	Opening Balance	Recognised in profit or loss	Recognised in other comprehensive income	Closing balance
Deferred tax assets/(liabilities) in relation to:				
Property, plant and equipment	(2,340)	15	(605)	(2,930)
Provisions	(5)	(17)	-	(22)
Deferred income	762	(50)	-	712
Balance as at 30 June 2019	**(1,583)**	**(52)**	**(605)**	**(2,240)**

Company ($000)	Opening Balance	Recognised in profit or loss	Recognised in other comprehensive income	Closing balance
Deferred tax assets/(liabilities) in relation to:				
Property, plant and equipment	(2,356)	16	-	(2,340)
Provisions	4	(9)	-	(5)
Deferred income	812	(50)	-	762
Balance as at 30 June 2018	**(1,540)**	**(43)**	**-**	**(1,583)**

11. EQUITY	Group $000		Company $000	
	2019	2018	2019	2018
Share capital				
Ordinary shares (105 shares)				
Balance 1 July	4,334	334	4,334	334
Shares issues *(60 shares)*	-	4,000	-	4,000
Transfer of preference shares	3,000	-	3,000	-
less uncalled shares	(1)	(1)	(1)	(1)
Total Ordinary shares	**7,333**	**4,333**	**7,333**	**4,333**
Preference shares (45 shares)				
Balance 1 July	3,000	3,000	3,000	3,000
Transfer of shares to Ordinary shares	(3,000)		(3,000)	
less uncalled shares	-	-	-	-
Total Preference shares	**-**	**3,000**	**-**	**3,000**
Total issued and called shares 30 June	**7,333**	**7,333**	**7,333**	**7,333**

Ordinary Shares

All ordinary shares carry equal voting rights and entitle the holder to participate in dividends, and the right to share in any surplus on winding up. The shares have no par value.

210 shares have been issued, 110 shares have been fully paid and 100 shares are uncalled.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2019

Preference Shares

On the fourth anniversary of the Completion Date (20 December 2018) the preference shares have converted on a 1:1 basis to Ordinary shares per the Subscription and Shareholders' agreement. Prefence shares had no par value.

Revaluation Reserve	Group $000		Company $000	
	2019	2018	2019	2018
Property				
Opening balance	(168)	(168)	(168)	(168)
Revaluation	198	-	198	-
Income tax on revaluation surplus	(55)	-	(55)	-
Closing balance	**(25)**	**(168)**	**(25)**	**(168)**
Plant and equipment				
Opening balance	3,956	3,956	3,956	3,956
Revaluation	1,962	-	1,962	-
Income tax on revaluation surplus	(549)	-	(549)	-
Closing balance	**5,369**	**3,956**	**5,369**	**3,956**
Total revaluation reserve	**5,343**	**3,788**	**5,343**	**3,788**

This reserve relates to the revaluation of property, plant and equipment.

12. CASH AND CASH EQUIVALENTS	Group $000		Company $000	
	2019	2018	2019	2018
BNZ Bank account	82	266	82	266
Total cash and cash equivalents	**82**	**266**	**82**	**266**

The Company has an overdraft facility with BNZ with a limit of $250,000.

13. INVENTORIES	Group $000		Company $000	
	2019	2018	2019	2018
Goods in transit	395	247	395	247
Raw materials	1,086	911	1,086	911
Finished goods	2	1,171	2	1,171
Total inventories	**1,483**	**2,329**	**1,483**	**2,329**

The cost of inventories recognised as an expense during the year was $2,956,168 (2018: $357,868).

The amount of inventories write-down recognised as an expense during the year was $30,286 (2018: Nil).

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2019

14. TRADE AND OTHER RECEIVABLES	Group $000 2019	Group $000 2018	Company $000 2019	Company $000 2018
Contract assets	763	705	763	705
Trade receivables	2	-	2	-
Related parties receivables	24	100	24	100
Income tax receivable	91	53	91	53
Other receivables	35	-	35	-
Total trade and other receivables	**915**	**858**	**915**	**858**

15. PAYABLES AND ACCRUALS	Group $000 2019	Group $000 2018	Company $000 2019	Company $000 2018
Trade payables	633	597	633	597
Accruals	80	100	76	100
Other payables	4	2	4	2
Total payables and accruals	**717**	**699**	**713**	**699**

16. INVESTMENT IN ASSOCIATES	Group $000 2019	Group $000 2018	Company $000 2019	Company $000 2018
New Zealand Food Innovation Network Ltd				
Interest held by the group	-	25%	-	25%
Opening balance	-	19	-	19
Share of revenue and expenses	-	(19)	-	(19)
Balance 30 June	**-**	**-**	**-**	**-**
Melody Dairies Limited Partnership				
Interest held by the group	10%	-	-	-
Opening balance	-	-	-	-
Addition during the year	2,626	-	-	-
Share of revenue and expenses	(7)	-	-	-
Balance 30 June	**2,619**	**-**	**-**	**-**
Melody Dairies GP Limited				
Interest held by the group	10%	-	10%	-
Balance 30 June	**-**	**-**	**-**	**-**
Total investment in associates	**2,619**	**-**	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2019

17. INVESTMENT IN SUBSIDIARIES	Group $000 2019	Group $000 2018	Company $000 2019	Company $000 2018
Shares at cost				
NZFIW D2 LP Limited	-	-	2,626	-
Total investment in subsidiaries	**-**	**-**	**2,626**	**-**

18. PROPERTY, PLANT AND EQUIPMENT

Group $000	Property	Plant & Equipment	Computer & Office	Total
For the year ended 30 June 2018				
Opening net book amount	3,619	15,909	14	19,542
Additions	6	514	14	534
Depreciation charge	(175)	(1,001)	(1)	(1,177)
Closing net book amount	**3,450**	**15,422**	**27**	**18,899**
As at 30 June 2018				
Cost or valuation	4,396	20,077	29	24,502
Accumulated depreciation	(946)	(4,655)	(2)	(5,603)
Net book amount	**3,450**	**15,422**	**27**	**18,899**
For the year ended 30 June 2019				
Opening net book amount	3,450	15,422	27	18,899
Additions	12	144	8	164
Disposals	-	(20)	-	(20)
Revaluation	198	1,962	-	2,160
Depreciation charge	(177)	(1,004)	(6)	(1,187)
Closing net book amount	**3,483**	**16,504**	**29**	**20,016**
As at 30 June 2019				
Cost or valuation	3,483	16,504	37	20,024
Accumulated depreciation	-	-	(8)	(8)
Net book amount	**3,483**	**16,504**	**29**	**20,016**

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2019

Company $000	Property	Plant & Equipment	Computer & Office	Total
For the year ended 30 June 2018				
Opening net book amount	3,619	15,909	14	19,542
Additions	6	514	14	534
Depreciation charge	(175)	(1,001)	(1)	(1,177)
Closing net book amount	**3,450**	**15,422**	**27**	**18,899**
As at 30 June 2018				
Cost or valuation	4,396	20,077	29	24,502
Accumulated depreciation	(946)	(4,655)	(2)	(5,603)
Net book amount	**3,450**	**15,422**	**27**	**18,899**
For the year ended 30 June 2019				
Opening net book amount	3,450	15,422	27	18,899
Additions	12	144	8	164
Disposals	-	(20)	-	(20)
Revaluation	198	1,962	-	2,160
Depreciation charge	(177)	(1,004)	(6)	(1,187)
Closing net book amount	**3,483**	**16,504**	**29**	**20,016**
As at 30 June 2019				
Cost or valuation	3,483	16,504	37	20,024
Accumulated depreciation	-	-	(8)	(8)
Net book amount	**3,483**	**16,504**	**29**	**20,016**

Property, plant & equipment was valued by North Langley & Associates Ltd, an independent registered valuer on 26 February 2019. The valuation technique used was the Optimised Depreciated Replacement Cost as the spray dryer has specialised equipment and comparable sale information is limited. North Langley & Associates Ltd are a reputable valuation company specialising in the valuation of plant, machinery and equipment

There was no impairment in 2019. (2018: NIL) No borrowing costs were capitalised during the year. (2018:NIL)

19. INTANGIBLE ASSETS	Group $000		Company $000	
	2019	2018	2019	2018
Cost - Trademark				
Balance 1 July 2018	1	1	1	1
Additions	-	-	-	-
Amortisation	-	-	-	-
Balance 30 June 2019	**1**	**1**	**1**	**1**

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2019

20. RELATED PARTIES LOANS	Group $000 2019	Group $000 2018	Company $000 2019	Company $000 2018
NZFIW D2 LP Limited	-	-	2	-
Waikato Innovation Growth Limited	26	-	26	-
Total related parties loans	**26**	**-**	**28**	**-**

New Zealand Food Innovation (Waikato) Limited is owned by Waikato Innovation Growth (70%) and Callaghan (30%). New Zealand Food Innovation (Waikato) Limited has paid operating costs on behalf of Waikato Innovation Growth Limited.

NZFIW D2 LP Limited is owned by New Zealand Food Innovation (Waikato) Limited (100%) The related parties amount relates to day-to-day expenses paid by New Zealand Food Innovation (Waikato) Limited on behalf of NZFIW D2 LP Limited.

21. DEFERRED INCOME	Group $000 2019	Group $000 2018	Company $000 2019	Company $000 2018
Original Grant	3,794	3,794	3,794	3,794
less Deferred Grant recognised prior years	(1,074)	(895)	(1,074)	(895)
	2,720	**2,899**	**2,720**	**2,899**
Opening balance	2,720	2,899	2,720	2,899
less Deferred Grant recognised	(179)	(179)	(179)	(179)
Total deferred grant	**2,541**	**2,720**	**2,541**	**2,720**
Revenue received in advance	242	199	242	199
Total deferred income	**2,783**	**2,919**	**2,783**	**2,919**
Current portion	296	302	296	302
Non current portion	2,487	2,617	2,487	2,617
Total deferred income	**2,783**	**2,919**	**2,783**	**2,919**

Deferred grant relates to Government Grants provided to develop the Spray Dryer Facility (part of property, plant and equipment). The Deferred grant is written off over 20 and 25 years respectively for the Spray Dryer Facility being the estimated useful life of the assets.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2019

22. PROVISIONS	Group $000 2019	Group $000 2018	Company $000 2019	Company $000 2018
Nu-Mega Ingredients (NZ) Limited contract				
Opening balance	196	191	196	191
Charged to profit or loss	-	5	-	5
Unused amounts reversed	(196)	-	(196)	-
Balance 30 June	**-**	**196**	**-**	**196**
Silo contracts				
Opening balance	160	-	160	-
On acquisition	-	160	-	160
Charge to profit or loss	8	-	8	-
Balance 30 June	**168**	**160**	**168**	**160**
Total provisions	**168**	**356**	**168**	**356**

NZFIW entered into a contract with the following customers, Central Dairy Goat, Spring Sheep Dairy, NZ Nutritional Goat and Maui Milk for use of Silo 4 for five years and to each loan NZFIW $65,000 for the building of Silo 4 at the factory. NZFIW will reimburse the customers $43,333 on the 30th June 2022. Should the Customer still be manufacturing at the FoodWaikato site beyond May 2022 the repayment will be made at the end of the year, that the Customer stops manufacture at Food Waikato. NZFIW has created a provision (discounted to present value) for $43,333 of the loan.

23. TERM LOANS	Group $000 2019	Group $000 2018	Company $000 2019	Company $000 2018
BNZ 92346126-03 loan	4,274	4,574	4,274	4,574
	4,274	**4,574**	**4,274**	**4,574**
Current portion	-	-	-	-
Non current portion	4,274	4,574	4,274	4,574
Total term loan	**4,274**	**4,574**	**4,274**	**4,574**

Term loans have perfected security interest in all present and after acquired property of New Zealand Food Innovation (Waikato) Limited.

	2019		2018	
	Interest rate	*Maturity Date*	*Interest rate*	*Maturity Date*
BNZ 92346126-03 loan	5.07%	August 2021	5.14%	August 2021

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2019

24. OTHER LOANS	Group $000 2019	Group $000 2018	Company $000 2019	Company $000 2018
Bonds	840	1,100	840	1,100
Total other loans	**840**	**1,100**	**840**	**1,100**
Total current portion	490	650	490	650
Total non current portion	350	450	350	450
Total other loans	**840**	**1,100**	**840**	**1,100**

25. CAPITAL COMMITMENTS AND OPERATING LEASES

The following amounts have been committed to by the Company but are not recorded in either the Statement of Comprehensive Income or the Statement of Financial Position.

Operating leases	Group $000 2019	Group $000 2018	Company $000 2019	Company $000 2018
Non-cancellable operating lease commitments as lessee				
No later than one year	23	23	23	23
Later than one year and no later than five years	93	93	93	93
Later than five years	301	301	301	301
	417	**417**	**417**	**417**

Operating lease amounts relates to the lease of land at Ruakura Road. The lease represents the first 20 years of a 1 x 20 and 1 x 30 year lease entered into in July 2017.

Total lease expense for 2019 was $23,162 (2018: $23,162).

Capital commitments

As at 30 June 2019 New Zealand Food Innovation (Waikato) Limited has capital commitments of $9,848 to Combined Technologies Limited for the completion of a Store Management System. (2018: $34,593)

NZFIW D2 LP Limited has capital commitments of $656,698 to Melody Dairies Limited Partnership for capital drawdown. (2018: NIL)

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2019

	Group $000		Company $000	
26. RECONCILIATION OF PROFIT/(LOSS) FOR THE YEAR TO NET CASH	**2019**	**2018**	**2019**	**2018**
Profit/(loss) for the year	**1,269**	**415**	**1,279**	**415**
Add/(less) non-cash items				
Sale of consent	(1,610)	-	(1,610)	-
Cost of consent	395	-	395	-
Interest - Provisions	(23)	-	(23)	-
Losses	16	-	16	-
Depreciation and amortisation	1,187	1,177	1,187	1,177
Share of associates (surplus)/deficit	7	19	-	19
Deferred income	(287)	(179)	(287)	(179)
Total non-cash items	**(315)**	**1,017**	**(322)**	**1,017**
Add/(less) movements in working capital				
Revenue received in advance	(15)	(43)	(15)	(43)
Trade debtors and other receivables	(17)	238	(17)	238
Prepayments	(184)	(232)	(184)	(232)
Income tax expense & subvention payment in profit/loss	28	170	30	170
Payables and accruals	16	220	13	220
Short term employee entitlements	(8)	-	(8)	-
Inventories	846	(2,230)	846	(2,230)
Related parties	(26)	-	(28)	-
Total movement in working capital	**640**	**(1,877)**	**637**	**(1,877)**
Net cash flow from operating activities	**1,594**	**(445)**	**1,594**	**(445)**

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2019

27. RECONCILIATION OF FINANCING ACTIVITIES

Group $000	2018	Cash flows	Non-cash changes	2019
Financing activities			Fair value changes	
Term loans	4,574	(300)	-	4,274
Other loans	1,100	(260)	-	840
Provisions	356		(188)	168
Total liabilities from financing activities	**6,030**	**(560)**	**(188)**	**5,282**

Group $000	2017	Cash flows	Non-cash changes	2018
Financing activities			Fair value changes	
Term loans	8,174	(3,600)	-	4,574
Other loans	900	200	-	1,100
Provisions	191	160	5	356
Share capital	3,333	4,000	-	7,333
Total liabilities from financing activities	**12,598**	**(3,240)**	**5**	**13,363**

Company $000	2018	Cash flows	Non-cash changes	2019
Financing activities			Fair value changes	
Term loans	4,574	(300)	-	4,274
Other loans	1,100	(260)		840
Provisions	356	-	(188)	168
Total liabilities from financing activities	**6,030**	**(560)**	**(188)**	**5,282**

Company $000	2017	Cash flows	Non-cash changes	2018
Financing activities			Fair value changes	
Term loans	8,174	(3,600)	-	4,574
Other loans	900	200	-	1,100
Provisions	191	160	5	356
Share capital	3,333	4,000	-	7,333
Total liabilities from financing activities	**12,598**	**(3,240)**	**5**	**13,363**

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2019

28. FINANCIAL INSTRUMENTS	Group $000 2019	Group $000 2018	Company $000 2019	Company $000 2018
Financial assets at amortised cost				
Cash and cash equivalents	82	266	82	266
Trade and other receivables	789	625	789	625
Related parties	28	-	28	-
Total financial assets at amortised cost	**899**	**891**	**899**	**891**
Financial liabilities at amortised cost				
Payables and accruals	713	700	713	700
Other loans	840	1,100	840	1,100
Term loans	4,274	4,574	4,274	4,574
Provisions	168	356	168	356
Total financial liabilities at amortised cost	**5,995**	**6,730**	**5,995**	**6,730**

The Group has no financial liabilities classified at fair value through profit or loss, financial assets classified at fair value through profit or loss; or fair value through other comprehensive income.

Net gains or net losses on financial assets measured at amortised costs are recognised through the profit or loss and includes interest or dividend income.

Net gains or net losses on financial liabilities at amortised cost are recognised in the profit or loss and includes interest expense.

Per NZ IFRS 7, the entity should disclose the following information for each class of financial assets and financial liabilities as at the date of initial application:

- The original measure category and carrying amount determined in accordance with NZ IAS 39.

Company $000	Loans and receivables	Assets at fair value through profit or loss	Derivatives used for hedging	Available-for-sale	Total
Assets per balance sheet					
Cash and cash equivalents	266	-	-	-	266
Trade and other receivables	625	-	-	-	625
Balance as at 30 June 2018	**891**	**-**	**-**	**-**	**891**

Company $000	Liabilities at fair value through profit or loss	Derivatives used for hedging	Other financial liabilities at amortised cost	Total
Liabilities as per balance sheet				
Payables and accruals	-	-	700	700
Other loans	-	-	1,100	1,100
Term loans	-	-	4,574	4,574
Provisions	-	-	356	356
Balance as at 30 June 2018	**-**	**-**	**6,730**	**6,730**

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2019

29. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties on normal commercial terms during the year:

Callaghan Innovation

The Company made sales of $80,004 (2018: $80,000) to New Zealand Food Innovation Network Ltd for Business Development Manager services. No amount is outstanding at balance date (2018: NIL).

Hamilton City Council

The Company's ultimate parent entity is Hamilton City Council. The Company paid $131,720 (2018: $189,059) to Hamilton City Council for trade waste and application fees. No amount is outstanding at balance date (2018: NIL).

Waikato Innovation Growth Limited

The Company has paid operating costs of $86,759 (2018: $76,083) on behalf of Waikato Innovation Growth Limited. No amount is outstanding at balance date (2018: $230).

The Company has paid expenses of $68,597 (2018: NIL) to Waikato Innovation Growth Limited for insurances.

New Zealand Food Innovation (Waikato) paid a subvention payment of $64,773 (2018: NIL) to Waikato Innovation Growth Limited for the 2018 tax year.

NZFIW D2 LP Limited

The Company made sales of $1,609,820 to NZFIW D2 LP Limited for consent costs in accordance with an agreement with NZFIW D2 LP Limited.

The Company has paid operating costs of $1,786 on behalf of NZFIW D2 LP Limited. No amount is outstanding at balance date.

The Company has paid $1,016,361 to NZFIW D2 LP Limited for capital amounts for Melody Dairies Limited Partnership.

Melody Dairies Limited Partnership

Melody Dairies Limited Partnership has paid $190,959 to New Zealand Food Innovation (Waikato) Limited for project management and have reimbursed $302,460 for project costs paid by the Company previously. A balance of $23,940 inclusive is outstanding at 30 June 2019.

New Zealand Food Innovation Network Ltd

The Company held 25% in the associate New Zealand Food Innovation Network Ltd in 2017/2018, the associate ceased operations in 2018/2019. The Company made no sales in 2019 (2018: $15,000) to New Zealand Food Innovation Network Ltd for Business Development Manager services. No amount is outstanding at balance date (2018: NIL).

Key Management Personnel Disclosure

Key management personnel compensation	2019: $560,227	2018: $466,039

Other

Stuart Gordon the CE of NZFIW is the CE of Waikato Innovation Park Limited which provides management services and ground lease to NZFIW. During the year Waikato Innovation Park Limited charged NZFIW $160,758 GST exclusive for these services (2018: $158,770). A balance of $8,068 inclusive is owing at 30 June 2019 (2018: $24,030)

Peter Hobman is a Director and Shareholder of Working Foods International (NZ) Limited which provides consultancy work. Peter Hobman completed no consultancy work in 2019 (2018: $25,941) and no balance was outstanding at 30 June 2019 (2018: NIL).

Matt Kenny is a Director of New Zealand Food Innovation Auckland Limited which provides CRM and innovation network support. During the year New Zealand Food Innovation Auckland Limited charged the Company $3,676 GST exclusive for these services (2018: $7,109). A balance of $182 inclusive is owing at 30 June 2019 (2018: $1,755)

Matt Kenny is a Director of New Zealand Food Innovation (South Island) Limited. During the year New Zealand Food Innovation (South Island) Limited charged the Company $408 GST exclusive for exhibitors stand fees (2018: NIL). No amount is outstanding at balance date. (2018: NIL)

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 30 June 2019

Shane Kells an employee of NZFIW (resigned 31 August 2018) is a Director and Shareholder of Commercial Compliance Limited which provides consultancy work. During the year Commercial Compliance Limited charged NZFIW $19,460 GST exclusive (2018: $8,760) for consultancy work; A balance of $1,150 inclusive is owing at 30 June 2019 (2018: NIL).

30. CONTINGENCIES

No contingencies have been identified at balance date (2018: NIL).

PERFORMANCE TARGETS AND RESULTS

For the Year Ended 30 June 2019

The Company's prepares an annual Statement of Corporate Intent, which is approved by the Shareholders and incorporates financial and performance measure for the ensuing year. This is in accordance with section 64(5) of the Local Government Act 2002. The 2018/19 Statement of Corporate Intent was approved by Hamilton City Council.

Budget and actual results	**2019** Actual $000	**2019** Statement of Corporate Intent $000	**2018** Actual $000	**2018** Statement of Corporate Intent $000
Revenue NZFIW	11,200	7,461	7,143	6,104
EBITDA NZFIW	2,783	1,963	2,081	-

Key objectives and actual results to 30 June 2019

Key objectives	**Actual results**
1. 267 days of product development production via the spray dryer contributing $55 million to the regional economy.	242.5 days of production days 24.5 under budget while contributing $33.3m to the regional economy through exports
2. Commitment by private capital to establish increased spray drying capacity alongside the existing dryer in 2018/2019.	New Spray dryer partnership and construction Agreement for $53.9m signed in December 2019. To date June 2019 $20.0m capital contributed with a further $12.9m to be contributed in the next financial year.
3. A 10% minority interest in new spray dryer is planned to increase open access space for the sheep industry customers. $1.4 million will available within the company's own cash flow	NZFIW has contributed to date June 2019 $1.0m and will contribute a further $0.6m in the next financial year for its 10% share of Melody Dairies LP
4. Assist with the development of new valued added sheep milk industry products and the international launch of one substantial new product.	While trials and product development has been undertaken by various companies, the launch with a strategic partner of added value sheep milk product has been delayed to September 2019.

Item 11

Council Report

Committee: Finance Committee **Date:** 10 September 2019

Author: Tracey Musty **Authoriser:** Tracey Musty

Position: Financial Controller **Position:** Financial Controller

Report Name: New Zealand Local Government Funding Agency Limited - Annual Report 2019

Report Status	*Open*

Purpose

1. To inform the Finance Committee regarding the New Zealand Local Government Funding Agency Limited (LGFA) Annual Report for the year ended 30 June 2019.
2. The Annual Report is attached to this report.

Staff Recommendation

That the Finance Committee receives the NZ Local Government Funding Agency Ltd Annual Report.

Discussion

3. Please refer to the attached cover letter and Annual Report for discussion.

Attachments

Attachment 1 - LGFA Cover Letter to Shareholders for Annual Report 2018-19

Attachment 2 - LGFA Annual Report 2019

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

Item 11

Attachment 1

30 August 2019

Dear Shareholder

LGFA 2019 Annual Report

I attach our Annual Report for 2019 as required under section 8 of our Statement of Intent (SOI).

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

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

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

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

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

3. **A strong financial position has ensured a dividend payment of 4.62% for shareholders.**

   The financial strength of LGFA has been enhanced with a Net Operating Profit of $11.2 million for the 2018/19 year and Shareholder Equity of $74.15 million as at 30 June 2019. A $1.155 million dividend has been declared by the LGFA Board for the year ended 30 June 2019 and we will be sending out the dividend notice to you shortly. The dividend rate is $0.0462 per paid up share and will be paid to you on Friday 6 September.

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

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

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

Kind regards

Mark Butcher
Chief Executive

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

Meeting the financing needs of New Zealand councils

Mā te huruhuru ka rere te manu

Annual report

30 June 2019

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

04 About us
Ko ngāi mātou

10 Message from the Chair
He karere mai i te Toihau

14 Performance highlights
Putanga mahi Matua

16 Corporate governance
Ārahitanga ā-rangatōpū

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

30 Enhancing local community wellbeing
Te whakarei i te oranga hapori ā-rohe

32 Treasury risk management
Whakahaeretanga ā-mōrearea

36 Performance against objectives
Tutukinga mahi ki ōna whāinga

48 Financial statements
Tauki pūtea

Directors' declaration **48**
Statement of comprehensive income 49
Statement of changes in equity 50
Statement of financial position 51
Statement of cash flows 52
Notes to financial statements 53
Auditor's report **74**

79 Other disclosures
Whākitanga

81 Appendix
Tāpiritanga

83 Directory
Rārangi tauwaea

About us
Ko ngāi mātou

Establishment

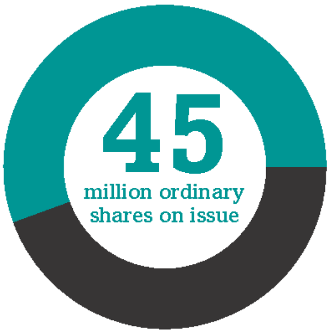
The New Zealand Local Government Funding Agency Ltd (LGFA) specialises in funding the New Zealand local government sector, the primary purpose being to provide more efficient funding costs and diversified funding sources for New Zealand local authorities. LGFA was established to raise debt on behalf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

Incorporated on 1 December 2011 under the Companies Act 1993.

Enabled by Local Government Borrowing Act 2011

Council-controlled organisation under the Local Government Act 2002.

Ownership



20 million of which remain **uncalled.**

20%
New Zealand Government

80%
30 councils

Share ownership is restricted to New Zealand Government or councils.

Guarantee structure

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

LGFA is not guaranteed by the New Zealand Government.

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

Credit rating

as at 30 June 2019

Domestic Currency AA+ / Foreign Currency AA (Positive Outlook)
Standard & Poor's

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

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

Face value of bonds on issue

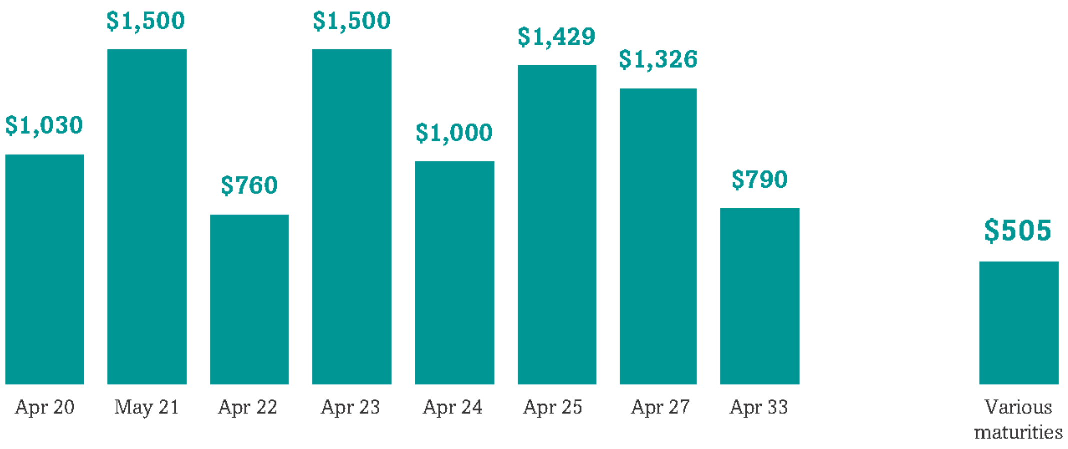
as at 30 June 2019 (NZ$ million)

$9,335 million

Bills on issue

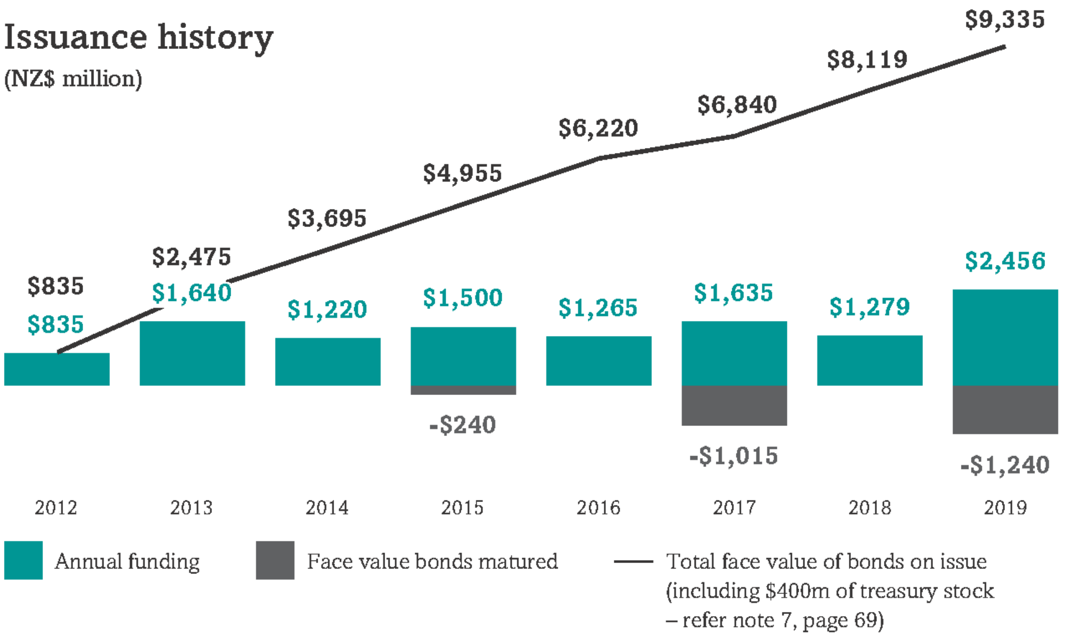
as at 30 June 2019 (NZ$ million)

$505 million



Issuance history

(NZ$ million)



Governance overview

20% **Shareholding**
New Zealand Government

80% **Shareholding**
30 councils

31 Shareholders

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

Shareholders' Council
Page 27

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

Review and report performance of LGFA and the Board;

Recommend to Shareholders as to the **appointment, removal, replacement and remuneration of directors;**

Recommend to Shareholders as to any **changes to policies**, or the SOI, requiring their approval;

Update Shareholders on LGFA matters and to coordinate Shareholders on governance decisions.

LGFA Board
Page 17-26

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

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

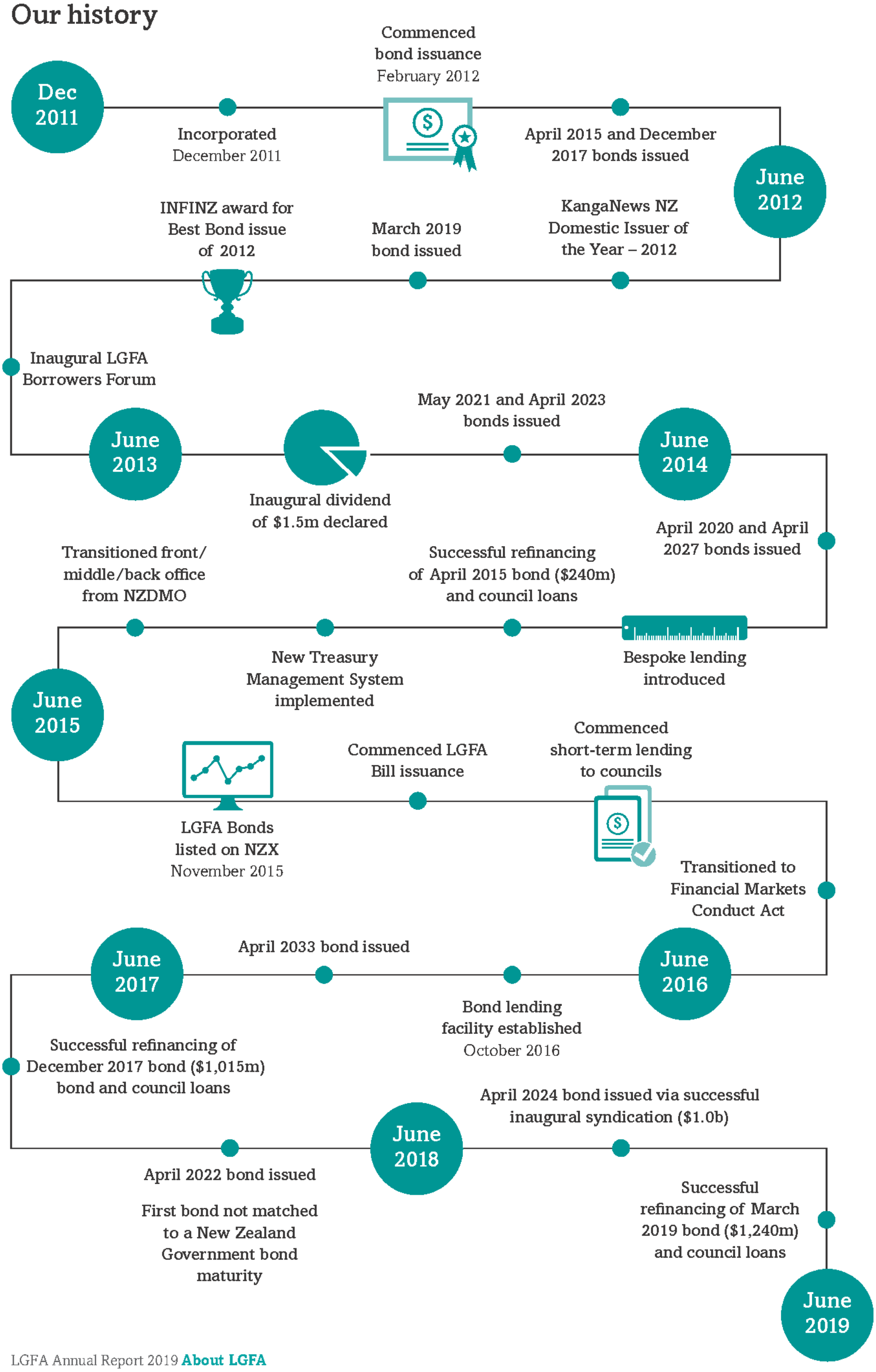
The Board comprises **five independent** and **one non-independent** directors appointed by shareholders.

Bonds listed on NZX Debt Market

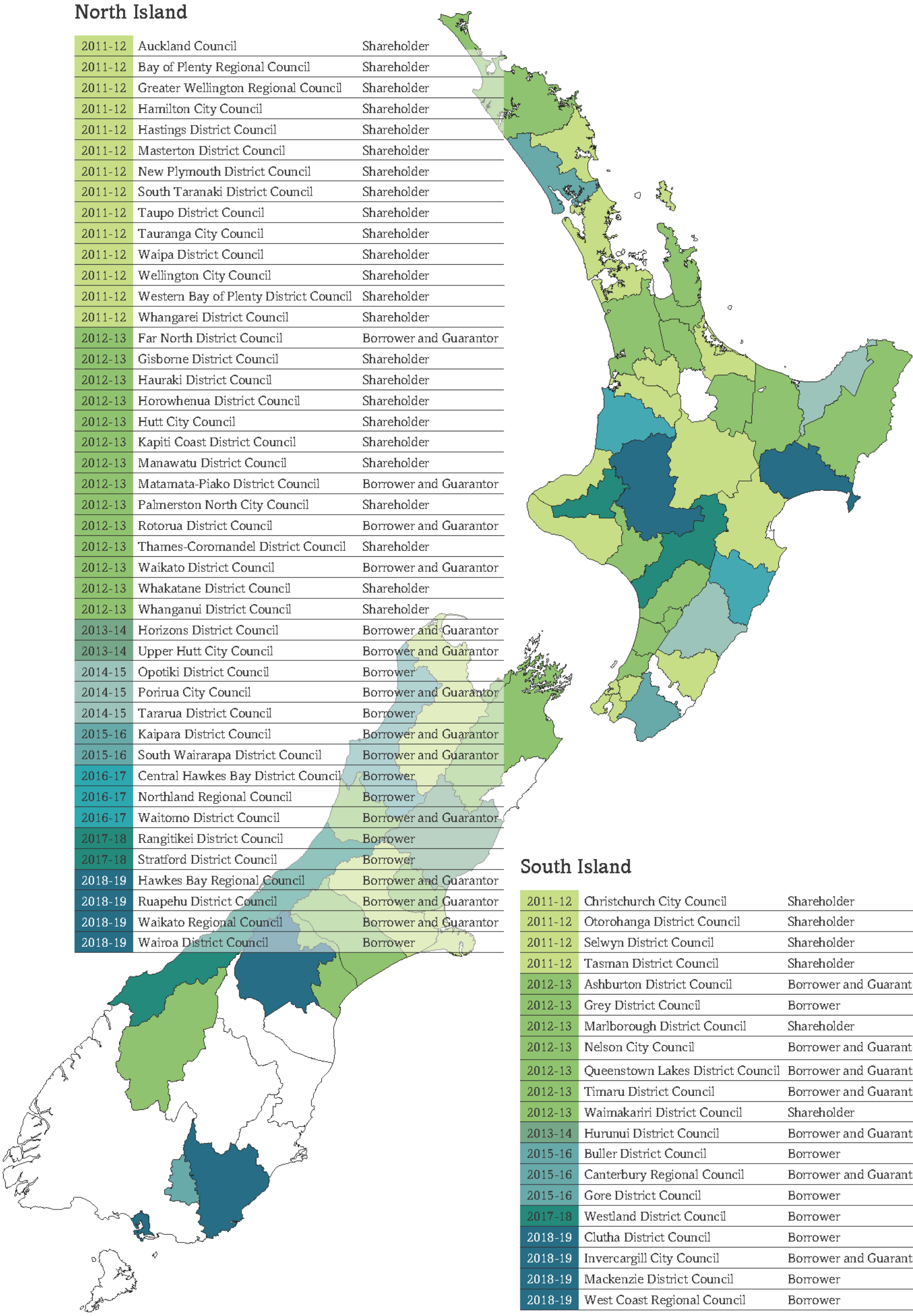
Issue of securities to the public under the Financial Markets Conduct Act and regulated by Financial Markets Authority

Supervised by independent trustee

Our history


Dec 2011
Incorporated
December 2011
Commenced
bond issuance
February 2012
April 2015 and December
2017 bonds issued
June 2012
KangaNews NZ
Domestic Issuer of
the Year – 2012
March 2019
bond issued
INFINZ award for
Best Bond issue
of 2012
Inaugural LGFA
Borrowers Forum
June 2013
Inaugural dividend
of $1.5m declared
May 2021 and April 2023
bonds issued
June 2014
April 2020 and April
2027 bonds issued
Bespoke lending
introduced
Successful refinancing
of April 2015 bond ($240m)
and council loans
New Treasury
Management System
implemented
Transitioned front/
middle/back office
from NZDMO
June 2015
LGFA Bonds
listed on NZX
November 2015
Commenced LGFA
Bill issuance
Commenced
short-term lending
to councils
Transitioned to
Financial Markets
Conduct Act
June 2016
Bond lending
facility established
October 2016
April 2033 bond issued
June 2017
Successful refinancing of
December 2017 bond ($1,015m)
bond and council loans
April 2022 bond issued
First bond not matched
to a New Zealand
Government bond
maturity
June 2018
April 2024 bond issued via successful
inaugural syndication ($1.0b)
Successful
refinancing of March
2019 bond ($1,240m)
and council loans
June 2019

LGFA's 64 participating councils by year of joining



North Island

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

South Island

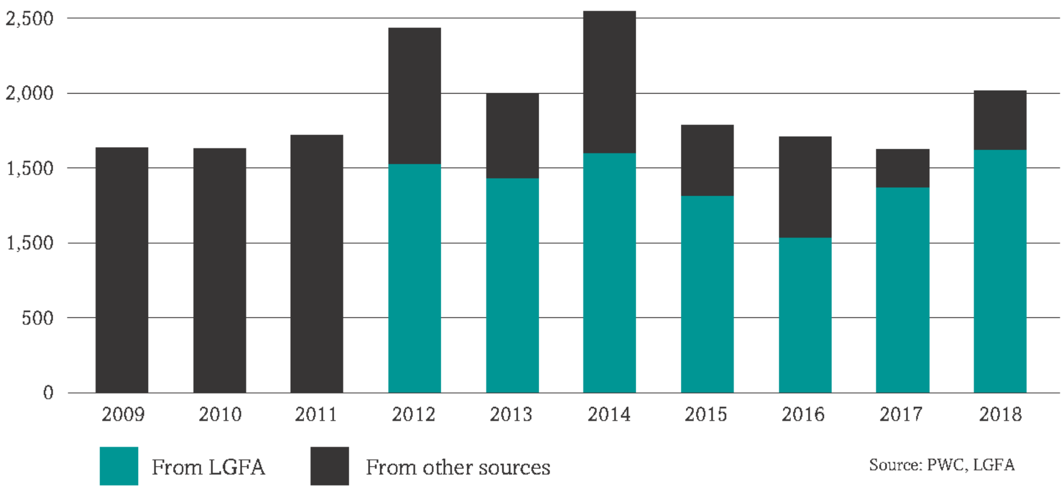
2011-12	Christchurch City Council	Shareholder
2011-12	Otorohanga District Council	Shareholder
2011-12	Selwyn District Council	Shareholder
2011-12	Tasman District Council	Shareholder
2012-13	Ashburton District Council	Borrower and Guarantor
2012-13	Grey District Council	Borrower
2012-13	Marlborough District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

Participating councils

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

Councils' borrowing

All councils (NZ$ million) calendar year



New member Councils

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

Clutha District Council

Hawkes Bay Regional Council

Invercargill City Council

Mackenzie District Council

Ruapehu District Council

Waikato Regional Council

Wairoa District Council

West Coast Regional Council

Message from the Chair

He karere mai i te Toihau

For the year ended 30 June 2019

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

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

Craig Stobo, Chair LGFA Board

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

Strong financial and operational performance

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

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

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

Investor relations

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

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

Borrowing activity

LGFA issued $2.456 billion of bonds over the financial year and outstandings now total $9.335 billion (including $400 million of treasury stock) across eight maturities from 2020 to 2033. The amount issued during the year was significantly more than the average historical issuance amount of $1.5 billion per financial year. The issuance highlight was the debut of an April 2024 bond by syndication which provided a new mid curve maturity for investors. The issuance of the new bond was undertaken via a syndicate of two banks and this was a change from the previous strategy of issuing via bond tenders. The issue size of $1 billion was a record amount issued in a single transaction by a New Zealand issuer other than the New Zealand Government. LGFA issued the new maturity to help reduce the mismatch between LGFA bond issuance and on-lending to councils, and issued via syndication because of the opportunity to cost effectively issue a large amount of bonds.

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

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

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

Lending to the sector

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

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

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

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

The sector outlook and impact on LGFA

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

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

Acknowledgments

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

Craig Stobo
Chair, LGFA Board


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

Performance highlights
Putanga mahi matua

Bonds issued over the financial year

$2.456 billion

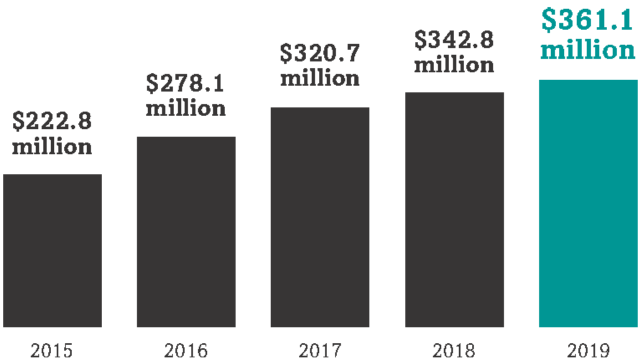
Lending to councils over the financial year

$2.446 billion

Total interest income

$361.1 million

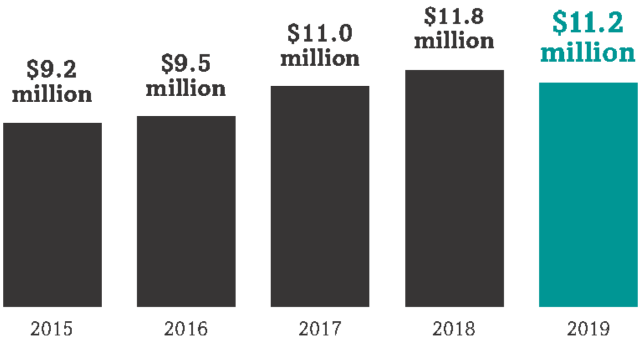
▲ **5.3%**
increase over the 2017-18 financial year



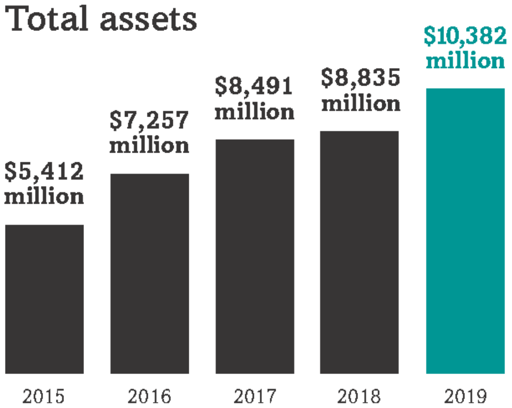
Net operating profit

$11.2 million

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



Total assets



Liquidity as at 30 June 2019

Cash
$56m

Marketable securities
$256m

Deposits
$136m

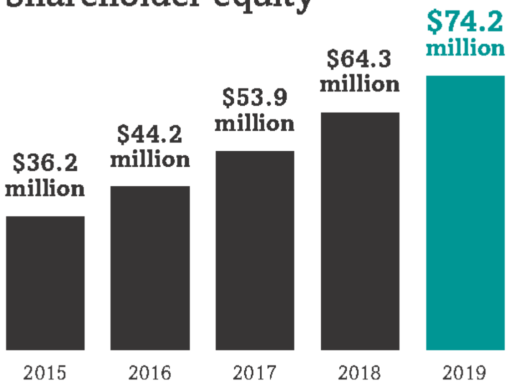
Government committed liquidity facility
$700m

Shareholder funds 30 June 2019

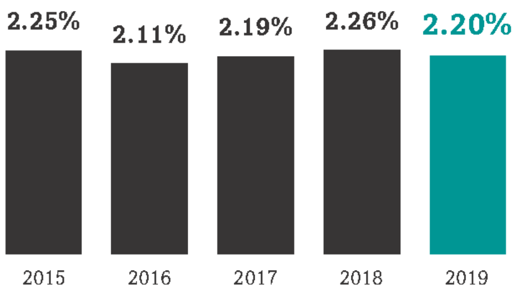
Fully paid shares
$25m

Retained earnings
$49m

Shareholder equity



Shareholder funds and borrower notes / total assets



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

Corporate governance
Ārahitanga ā-rangatōpū

NZX Corporate Governance Best Practice Code

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

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

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

An Issuer should establish a nomination committee to recommend director appointments to the Board.	The process for the nomination and remuneration of directors is documented in the Constitution of New Zealand Local Government Funding Agency Limited and outlined below.
An Issuer should have a remuneration committee which operates under a written charter.	

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

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

Attachment 2 Item 11

Principle 1
Code of ethical behaviour

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

Code of Ethics

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

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

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

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

Protected Disclosures and Whistle Blowing

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

Financial Products Trading Policy

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

Principle 2
Board composition and performance

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

LGFA Board Charter

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

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

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

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

Board composition

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

The directors of LGFA as at 30 June 2019:

Craig Stobo
Independent Chair

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

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

John Avery
Independent Director

LLB, C.F.Inst.D

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

Philip Cory-Wright
Independent Director

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

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

Linda Robertson
Independent Director

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

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

Mike Timmer
Non-Independent Director

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

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

Anthony Quirk
Independent Director

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

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

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

Nomination of Directors

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

Retirement and re-election of Directors

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

Director tenure

As at 30 June 2019

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

Meetings of the Board

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

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

Board performance review

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

Director training

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

Diversity

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

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

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

Gender diversity of directors

2019
Female 1, Male 5

2018
Female 1, Male 5

Gender diversity of employees

2019
Female 2, Male 5

2018
Female 2, Male 4

Indemnities and insurance

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

Principle 3
Board committees

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

Audit and Risk Committee

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

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

- Risk management framework and processes;
- Internal control environment and mechanisms;
- The operations and effectiveness of the internal audit function;
- Processes relating to the preparation and audit of financial statements of LGFA;
- The integrity of performance information, including financial reporting;
- The governance framework and process;
- Policies, processes and activities to ensure compliance with legislation, policies and procedures; and
- Statutory/regulatory disclosure and reporting and performance against Statement of Intent targets.

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

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

Principle 4
Reporting and disclosure

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

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

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

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

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

Principle 5
Remuneration

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

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

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

Approved Director annual fee breakdown

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

Director remuneration

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

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

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

Chief Executive remuneration

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

Staff remuneration

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

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

Principle 6
Risk management

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

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

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

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

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

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

Internal audit

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

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

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

Health and safety

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

Principle 7
Auditors

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

External audit

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

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

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

Principle 8
Shareholder rights and relations

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

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

New Zealand Government
Auckland Council
Bay of Plenty Regional Council
Christchurch City Council
Gisborne District Council
Greater Wellington Regional Council
Hamilton City Council
Hastings District Council
Hauraki District Council
Horowhenua District Council
Hutt City Council
Kapiti Coast District Council
Manawatu District Council
Marlborough District Council
Masterton District Council
New Plymouth District Council
Otorohanga District Council
Palmerston North City Council
Selwyn District Council
South Taranaki District Council
Tasman District Council
Taupo District Council
Tauranga City Council
Thames-Coromandel District Council
Waimakariri District Council
Waipa District Council
Wellington City Council
Western Bay of Plenty District Council
Whakatane District Council
Whanganui District Council
Whangarei District Council

Foundation documents

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

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

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

LGFA Shareholders' Council

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

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

Members of the Shareholders' Council as at 30 June 2019

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

Sustainability and Social Responsibility

Te Rōnakitanga me te Haepapa ā-Pāpori

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

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

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

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

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

Craig Stobo
Chair, LGFA Board

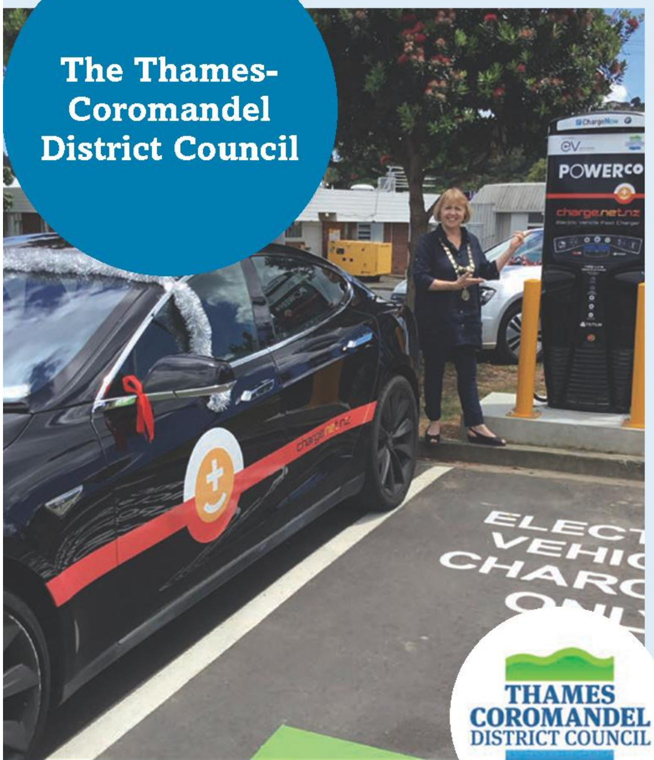

LGFA staff assisted BNZ staff with planting of Kauri trees in the Coromandel region in June 2019. The planting commemorated BNZ's association with the Kauri 2000 Trust and the issue of LGFA's first syndicated bonds. BNZ was the Arranger to the issue.
Kauri 2000 evolved out of a project to mark the start of the new millennium with a goal to plant 2000 kauri. To date the Trust has planted over 50,000 kauri on the Coromandel Peninsula and continues to plant kauri throughout the Coromandel. The Kauri 2000 Trust is a non-profit charitable trust, established in 2000 and registered in New Zealand under the Charities Act 2005.
KAURI 2000

Enhancing local community wellbeing

Te whakarei i te oranga hapori ā-rohe

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

The Thames-Coromandel District Council



Clean green travel

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

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

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

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

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

Better Lighting, safer communities

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

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

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

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

Hamilton City Council
Te kaunihera o Kirikiriroa

Treasury risk Management

Whakahaeretanga ā-mōrearea

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

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

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

- Effectively manage treasury risks within approved compliance limits to protect LGFA's capital position and Net Interest Margin over time.
- Fund participating local authorities in the most cost-effective manner and in accordance with the operating principles, values and objectives of the LGFA.
- Protect LGFA's assets and prevent unauthorised transactions.
- Promote professional expertise of financial and management control to all external parties.
- Minimise operational risk by maintaining adequate internal controls, systems and staffing competencies.
- Provide timely reporting to the LGFA Board with meaningful and accurate reporting of interest rate exposures, liquidity, asset and liability maturity, funding, counterparty credit, performance and Policy compliance.

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

Liquidity risk

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

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

Interest rate risk / market risk

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

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

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

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

Counterparty credit risk

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

Counterparty credit risk is managed through:

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

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

Foreign currency risk

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

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

Operational risk

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

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

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

Lending risk

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

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

All Local Authorities that borrow from LGFA:

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

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

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

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

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

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


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

Performance against objectives
Tutukinga mahi ki ōna whāinga

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

Performance against primary objectives

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

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

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

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

2018-19 performance objectives

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

Primary objectives

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

Additional objectives

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

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

There will be periods within the interest rate and credit market cycles when LGFA bonds will outperform its benchmarks (spread narrowing) and there will be periods of time when LGFA bonds underperform (spread widening). It is also very difficult to find an appropriate benchmark to measure performance against.

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

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

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

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

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

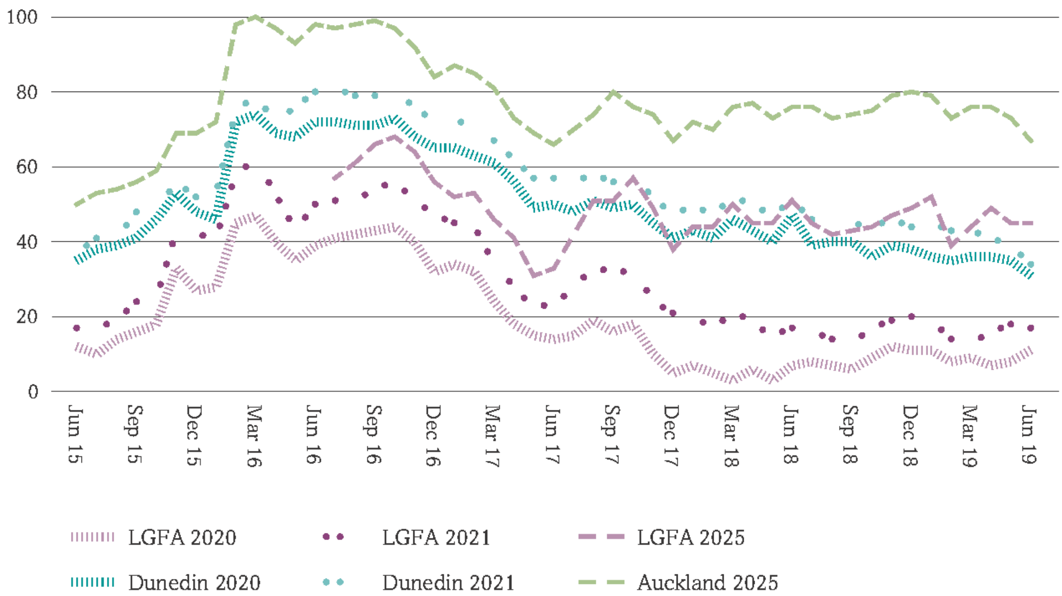
* The first tranche of the 2024 bond was issued in March 2019.

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

Attachment 2

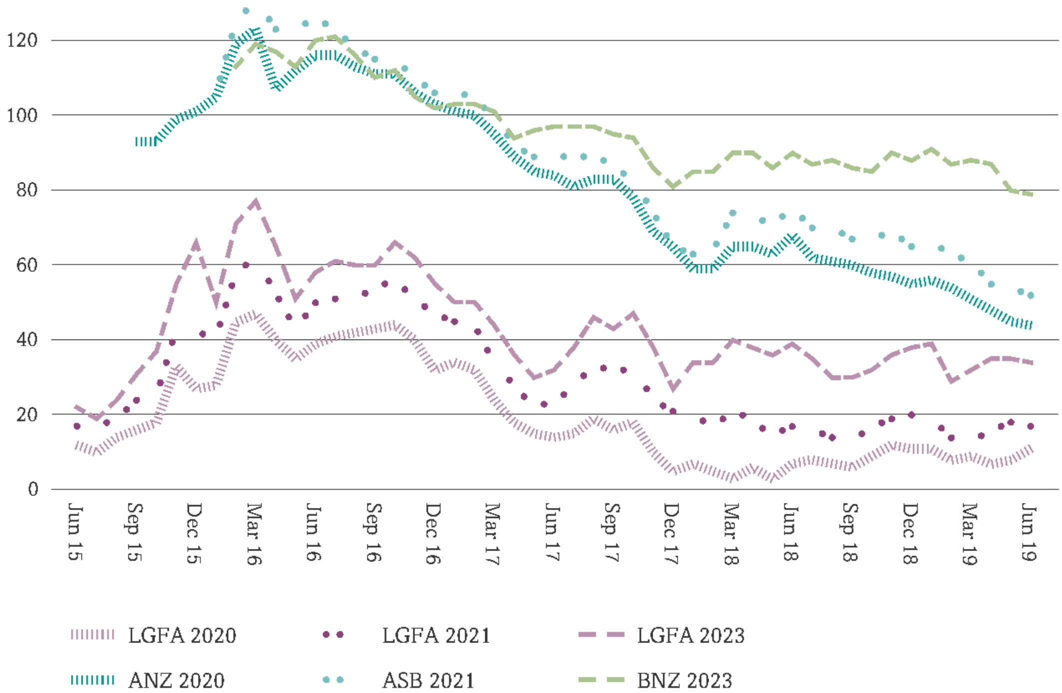
Item 11

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

Item 11

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

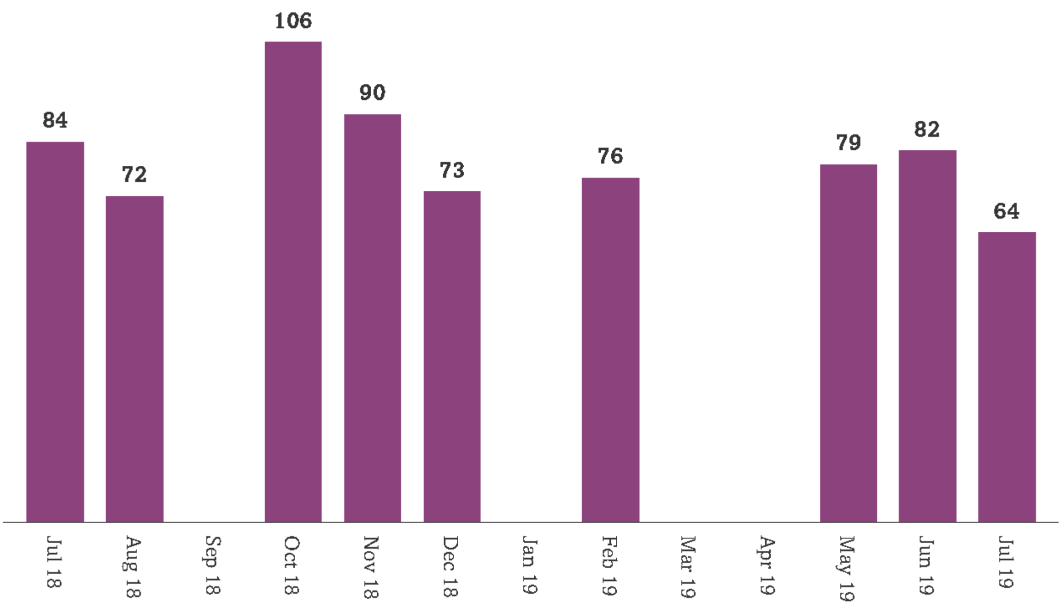
30 June 2019	Dunedin 2020	Dunedin 2021	Auckland 2022	Auckland 2025	Auckland 2025
AA-rated councils' margin to swap	29	34	39	58	73
Less LGFA margin to swap	(11)	(15)	(22)	(41)	(53)
LGFA Gross Funding Advantage	18	19	17	17	20
Less LGFA Base Margin	(10)	(10)	(10)	(10)	(10)
Total Saving	8	9	7	7	10

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

The average borrowing term (excluding short-dated borrowing) for the 12-month period to June 2019 by council members was 6.0 years and this was longer than the average borrowing term of 4.5 years for the prior year. The lengthening in term was due to councils reacting to the narrowing in borrowing spreads and low outright yields. However, the length of borrowing remains short relative to the 2015/16 year (7.8 years) and 2016/17 year (8.1 years) and relative to the forecast increase in sector projected debt levels in the future combined with low interest rates.

Attachment 2

Average total months to maturity – on-lending to councils



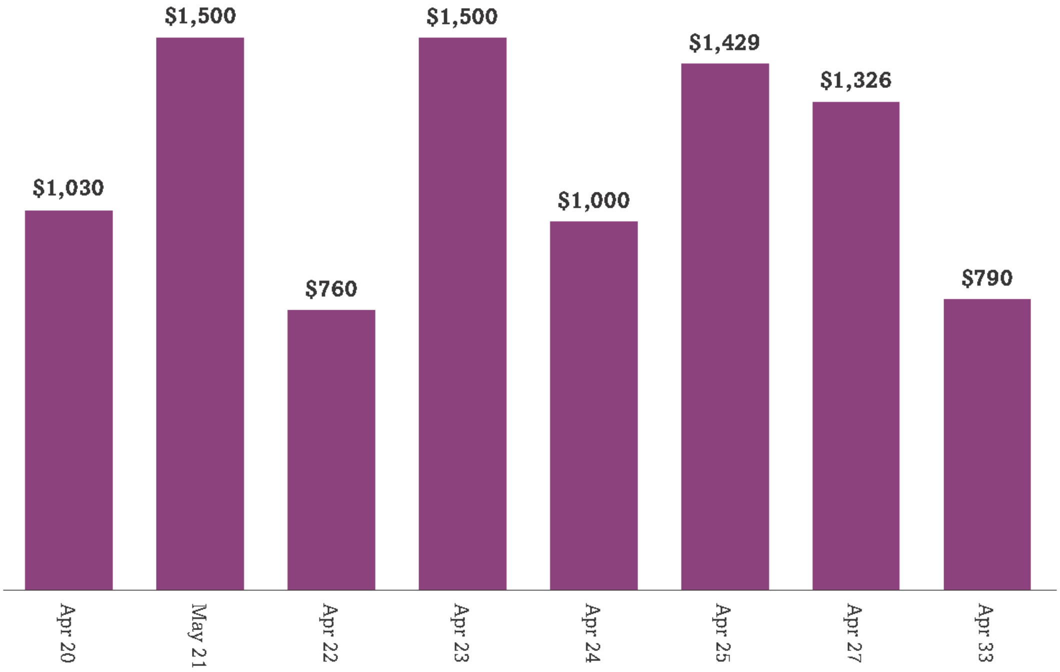
While LGFA provides councils with the ability to borrow from LGFA for terms from one month to 14 years, it is up to the councils to determine their preferred term of borrowing.

In March 2019 LGFA commenced the issuance of a 5-year bond (April 2024) and this shorter maturity was, for the second consecutive year, against the previous trend of introducing a new longer-dated bond each financial year. The decision to issue a new mid-curve bond maturity was made to reduce the mismatch between bond issuance and council on-lending. However, with the ongoing issuance of the April 2033 LGFA bond, councils can borrow on a bespoke basis out to 14 years.

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

LGFA bonds on issue (NZ$ million)

As 30 June 2019 : NZ$9,335 million
Includes NZ$400 million treasury stock



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

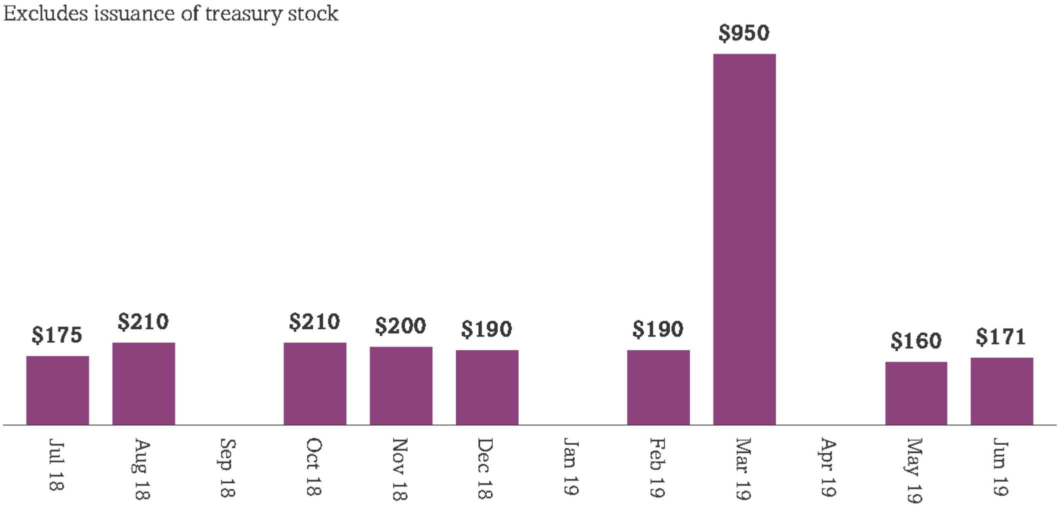
LGFA listed its bonds on the NZX Debt Market in November 2015 and this has led to greater awareness and participation in LGFA bonds by domestic retail and offshore investors. Average turnover on the NZX Debt Market since listing has been $11 million per month or 8% of the total turnover of the NZX Debt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

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

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

LGFA bond issuance by tender (NZ$ million)

Excludes issuance of treasury stock



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

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

* $1.0 billion issued via syndication.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Item 11

Attachment 2

Performance against additional objectives

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

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

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

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

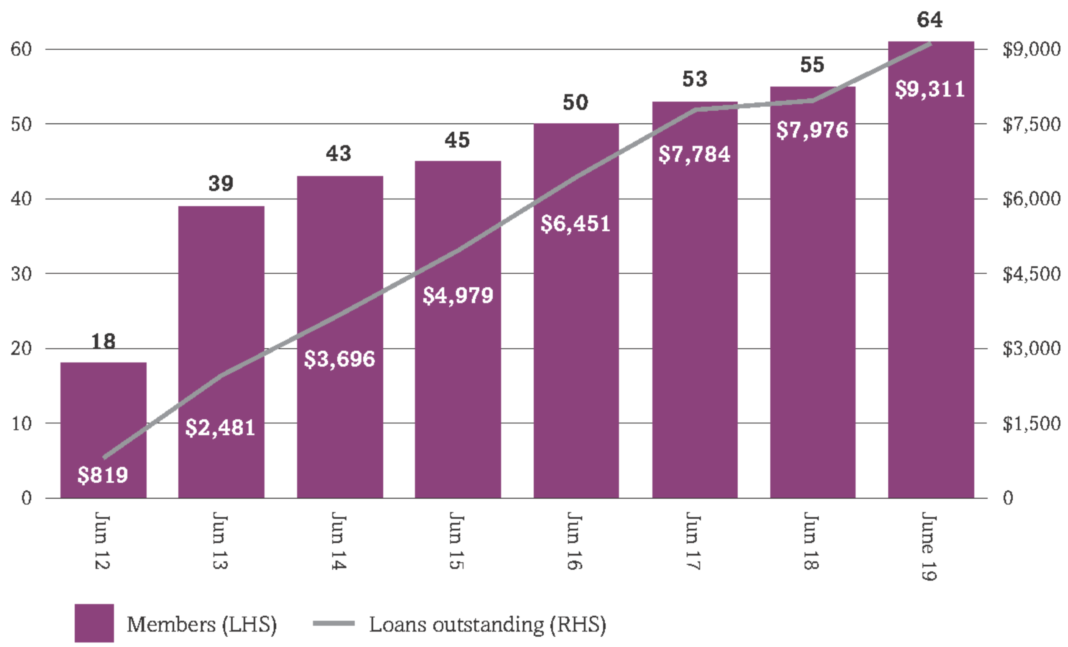
The impact from the current low interest rate environment is that LGFA has a lower cost of funds. While council borrowers benefit from lower borrowing costs, the dividend payment calculated on the above guidance is lower than it would otherwise be in an environment of higher interest rates.

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

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

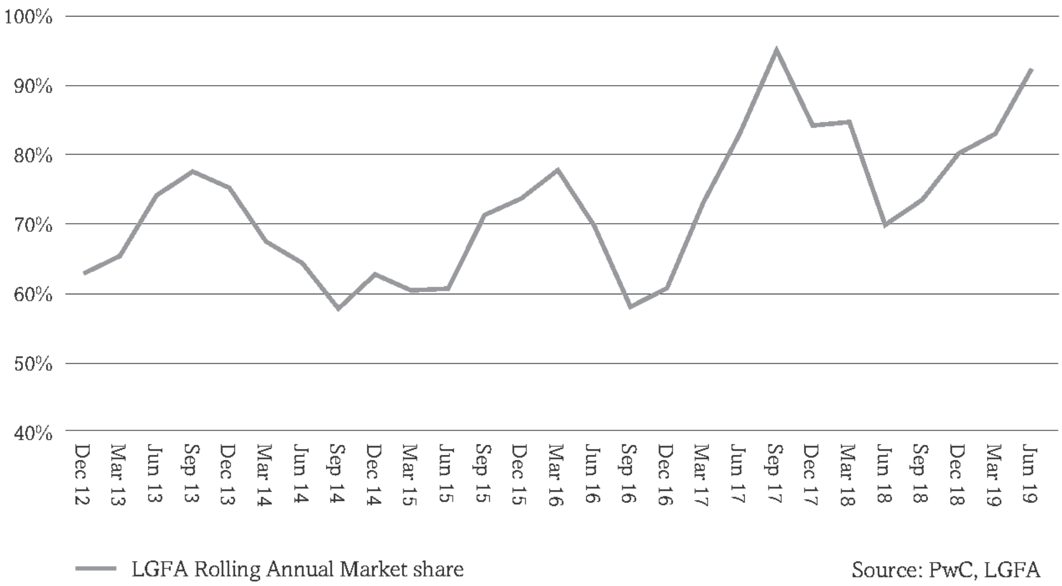
Councils have strongly supported LGFA by joining as members and borrowing from LGFA. As at 30 June 2019, 63 participating councils have so far borrowed from LGFA.

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



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

LGFA council members and LGFA loans outstanding



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

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

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

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

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

Item 11

Attachment 2

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Performance targets

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

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

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

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

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

Financial statements
Taukī pūtea

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

- Comply with New Zealand generally accepted accounting practice (GAAP), New Zealand equivalents to International Financial Reporting Standards (NZIFRS) as appropriate for profit-oriented entities and give a true and fair view of the financial position of the Company as at 30 June 2019, and
- Have been prepared using appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.
- The directors believe that proper accounting records have been kept which enables, with reasonable accuracy, the determination of the financial position of the Company and facilitates the compliance of the financial statements with the Financial Markets Conduct Act 2013 and the Financial Reporting Act 2013.

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

For and on behalf of the Board of Directors

Craig Stobo
Chair, LGFA Board
30 August 2019

Linda Robertson
Chair, Audit and Risk Committee
30 August 2019

Attachment 2

Item 11

Statement of comprehensive income

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

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

Statement of changes in equity

For the year ended 30 June 2019 in $000s

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

Attachment 2

Item 11

Statement of financial position

As at 30 June 2019 in $000s

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

Statement of cash flows

For the year ended 30 June 2019 in $000s

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

1 Statement of accounting policies

a. Reporting entity

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

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

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

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

The financial statements are as at and for the year ended 30 June 2019.

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

b. Statement of compliance

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

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

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

c. Basis of preparation

Measurement base

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

The financial statements are prepared on an accrual basis.

Functional and presentation currency

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

Foreign currency conversions

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

Changes in accounting policies

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

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

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

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

Hedge accounting

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

Impairment

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

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

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

Methodology to determine expected credit losses

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

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

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

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

Early adoption standards and interpretations

LGFA has not early adopted any standards.

New standards adopted

NZ IFRS 15. Revenue from Contracts with Customers.

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

Standards not yet adopted

LGFA does not consider any standards or interpretations in issue but not yet effective to have a significant impact on its financial statements.

NZ IFRS 16 Leases

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

Change in presentation. Statement of financial position

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

d. Financial instruments

Financial assets

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

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

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

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

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

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

Financial liabilities

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

Derivatives

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

Fair value hedge

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

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

e. Other assets

Property, plant and equipment (PPE)

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

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

Intangible Assets

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

f. Other liabilities

Employee entitlements

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

g. Revenue and expenses

Revenue

Interest income

Interest income is accrued using the effective interest rate method.

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

Expenses

Expenses are recognised in the period to which they relate.

Interest expense

Interest expense is accrued using the effective interest rate method.

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

Income tax

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

Goods and services tax

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

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

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

Commitments and contingencies are disclosed exclusive of GST.

h. Lease payments

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

i. Segment reporting

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

j. Judgements and estimations

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

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

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 11

Attachment 2

2 Analysis of financial assets and financial liabilities

a. Categories of financial instruments

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

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

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

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

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

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

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

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

Marketable securities and bonds

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

Deposits

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

Loans to local government

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

Borrower notes

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

Fair value of financial assets and financial liabilities

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

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

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

b. Financial risk management

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

Market risk

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

Interest rate risk

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

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

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

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

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

Interest rate sensitivity

Changes in interest rates impact the fair value of fixed rate assets and liabilities, cash flows on floating rate assets and liabilities, and the fair value and cash flows of interest rate swaps. A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) profit or loss and equity by the amounts shown in the following table. This analysis assumes that all other variables remain constant.

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

Credit risk

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

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

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

Attachment 2

Item 11

Exposure to credit risk

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

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

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

Collateral and credit enhancements

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

Credit quality of financial assets

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

Liquidity risk

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

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

Contractual cash flows of financial instruments.

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

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

Item 11

Attachment 2

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

c. Hedge accounting

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

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

For the year ended ended 30 June in $000s	2019 Gain/(loss)	2018 Gain/(loss)
Hedging instruments – interest rate swaps	312,996	58,487
Hedged items attributable to the hedged risk – fixed rate bonds	(312,996)	(58,487)
Ineffectiveness recognised in profit or loss from fair value hedges	-	-

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

d. Offsetting

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

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

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

3 Issuance and on-lending expenses

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

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

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

4 Operating expenses

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

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

Item 11

Attachment 2

5 Loans to local government

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

Attachment 2

Item 11

5 Loans to local government (cont)

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

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

6 Bills on issue

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

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

7 Bonds on issue

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

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

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

8 Borrower notes

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

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

9 Treasury stock and bond repurchase transactions

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

LGFA makes these treasury stock bonds available to banks authorised as its tender counterparties to borrow under short-term repurchase transactions.

The objective of the bond lending facility is to assist with improving secondary market liquidity in LGFA bonds. Bonds lent to counterparties are disclosed as a separate stock lending liability on the face of the statement of financial position.

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

As at 30 June 2019, bond repurchase transactions comprised:

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

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

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

11 2018/19 Bond issuance and loans advanced

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

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

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

12 Share Capital

As at 30 June 2019, LGFA had 45 million ordinary shares on issue, 20 million of which remain uncalled.

All ordinary shares rank equally with one vote attached to each ordinary share. Ordinary shares have a face value of $1 per share.

Shareholder information

Registered holders of equity securities as at 30 June	2019		2018	
New Zealand Government	5,000,000	11.1%	5,000,000	11.1%
Auckland Council	3,731,960	8.3%	3,731,960	8.3%
Christchurch City Council	3,731,960	8.3%	3,731,960	8.3%
Hamilton City Council	3,731,960	8.3%	3,731,960	8.3%
Bay of Plenty Regional Council	3,731,958	8.3%	3,731,958	8.3%
Greater Wellington Regional Council	3,731,958	8.3%	3,731,958	8.3%
Tasman District Council	3,731,958	8.3%	3,731,958	8.3%
Tauranga City Council	3,731,958	8.3%	3,731,958	8.3%
Wellington City Council	3,731,958	8.3%	3,731,958	8.3%
Western Bay of Plenty District Council	3,731,958	8.3%	3,731,958	8.3%
Whangarei District Council	1,492,784	3.3%	1,492,784	3.3%
Hastings District Council	746,392	1.7%	746,392	1.7%
Marlborough District Council	400,000	0.9%	400,000	0.9%
Selwyn District Council	373,196	0.8%	373,196	0.8%
Gisborne District Council	200,000	0.4%	200,000	0.4%
Hauraki District Council	200,000	0.4%	200,000	0.4%
Horowhenua District Council	200,000	0.4%	200,000	0.4%
Hutt City Council	200,000	0.4%	200,000	0.4%
Kapiti Coast District Council	200,000	0.4%	200,000	0.4%
Manawatu District Council	200,000	0.4%	200,000	0.4%
Masterton District Council	200,000	0.4%	200,000	0.4%
New Plymouth District Council	200,000	0.4%	200,000	0.4%
Otorohanga District Council	200,000	0.4%	200,000	0.4%
Palmerston North District Council	200,000	0.4%	200,000	0.4%
South Taranaki District Council	200,000	0.4%	200,000	0.4%
Taupo District Council	200,000	0.4%	200,000	0.4%
Thames - Coromandel District Council	200,000	0.4%	200,000	0.4%
Waimakariri District Council	200,000	0.4%	200,000	0.4%
Waipa District Council	200,000	0.4%	200,000	0.4%
Whakatane District Council	200,000	0.4%	200,000	0.4%
Whanganui District Council	200,000	0.4%	200,000	0.4%
	45,000,000	100%	45,000,000	100%

Capital management

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

Dividend

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

13 Operating Leases

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

14 Other assets

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

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

15 Capital commitments

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

16 Contingencies

There are no contingent liabilities at balance date.

17 Related parties

Identity of related parties

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

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

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

Related party transactions

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

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

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

Transactions with key management personnel:

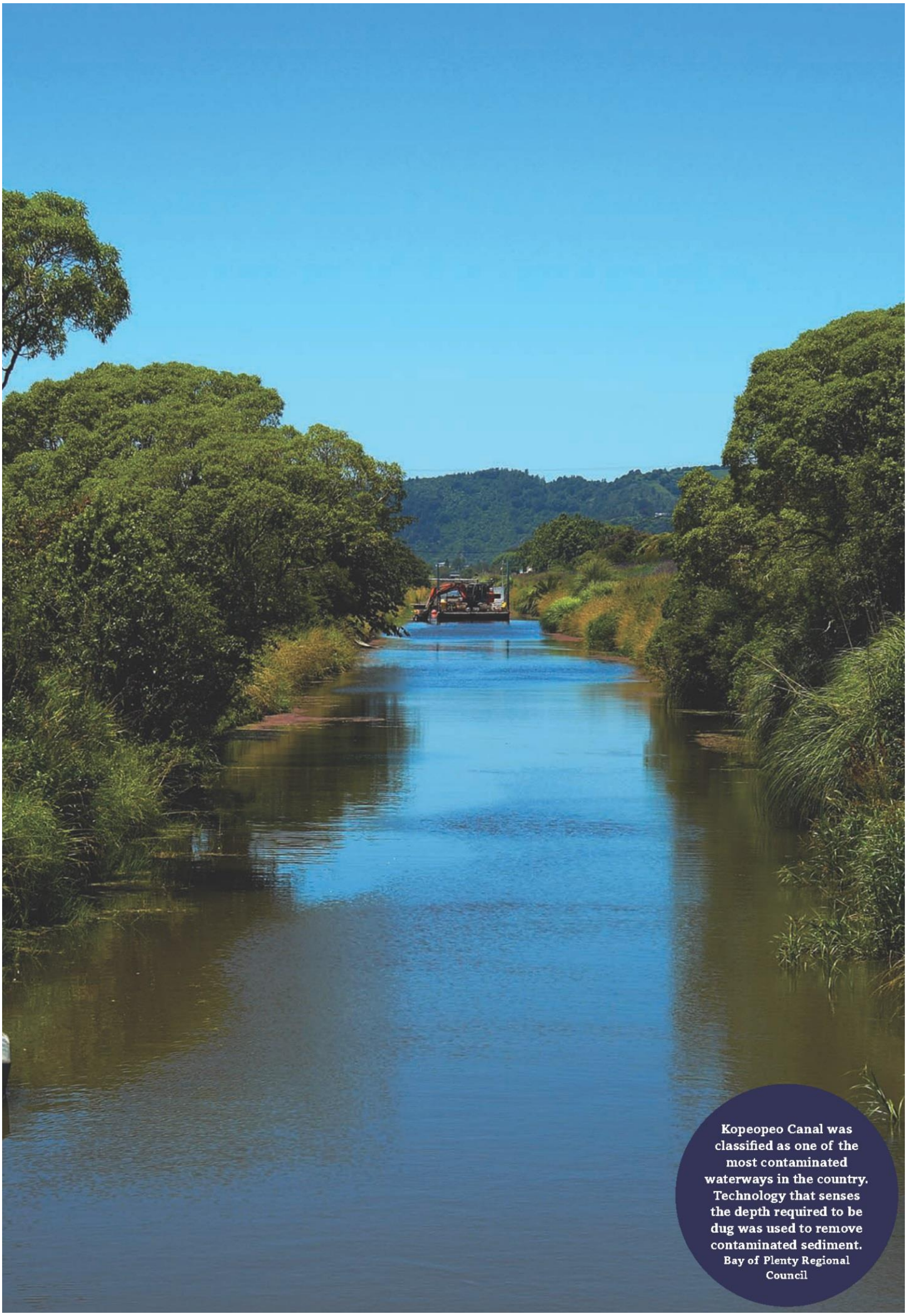
Salaries $904,300 (2018: $849,969)

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

18 Subsequent events

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

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


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

INDEPENDENT AUDITOR'S REPORT

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

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

Opinion

We have audited:

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

In our opinion:

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

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

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

Basis for our opinion

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

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

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

Materiality

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

Key Audit Matters

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

The key audit matter	How the matter was addressed in our audit
Existence and impairment of loans	
Refer to Note 5 to the Financial Statements. The loans LGFA has provided to local government make up over 90% of total assets. The loans are recognised at amortised cost and the nature of the counterparties is such that we do not consider these loans to be at high risk of significant misstatement. However, based on their materiality, and the judgement involved in assessing the credit worthiness of counterparties they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.	Our audit procedures included: - understanding the processes in place to assess borrowers and to record loan transactions. This included evaluating the control environment in place at LGFA. - agreeing the 30 June 2019 loan balances to eternal confirmations received from NZ Clear. - assessing the borrowers' compliance with financial covenants. We did not identify any material differences in relation to the existence or impairment of loans.
Application of hedge accounting	
Refer to Note 2 of the Financial Statements. LGFA enters into derivatives (interest rate swaps) to manage interest rate risk related to issuing fixed rate bonds. Fair value hedge accounting is applied where specific requirements are met around documentation of the hedge relationship and the relationship is demonstrated as being an effective hedge. Hedge accounting is complex, particularly in the area of whether the requirements (both initial and ongoing) for its application are met. Should the requirements for hedge accounting not be met, LGFA could experience significant volatility in the Statement of Comprehensive Income from changes in the fair value of the derivatives. Due to the size of the derivative positions and the complexity of hedge accounting we consider this to be a key audit matter.	Our audit procedures included: - agreeing the terms of the derivatives to the confirmation provided by the derivative counterparty. - using our treasury valuation specialists we independently recalculated the fair value of all of the derivatives recorded by LGFA. - ensuring the hedge documentation supporting the application of hedge accounting was in accordance with relevant accounting standards. - determining that management's hedge effectiveness calculations were correctly performed using appropriate source information. We did not identify any material differences in relation to the application of hedge accounting.

KPMG

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our responsibilities arise from the Public Audit Act 2001.

Other Information

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

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

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

Independence

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

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

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

Item 11

Attachment 2

Greater Wellington Regional Council's vehicle purchasing policy prioritises electric vehicles. EVs keep staff connected around the region while lowering the Council's carbon emissions.

Other disclosures
Whākitanga

Waivers from NZX Limited (NZX)

LGFA's fixed rate bonds are quoted on the NZX Debt Market (LGFA Bonds). NZX has granted LGFA a number of waivers from the NZX Listing Rules dated 1 October 2017.

Waiver from Rule 5.2.3

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

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

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.

Effective from 1 July 2019, LGFA ceased to rely on this waiver as a result of its transition to the revised NZX Listing Rules dated 1 January 2019 (Revised Rules). The equivalent rules in the Revised Rules are not applicable to LGFA as an issuer of debt securities.

Waiver from Rule 6.3.2

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

Effective from 1 July 2019, LGFA ceased to rely on this waiver as a result of its transition to the Revised Rules. The equivalent rule in the Revised Rules is not applicable to LGFA as an issuer of debt securities.

Donations

No donations were made by LGFA during the year ended 30 June 2019.

Net Tangible Assets

Net tangible assets per $1,000 of listed bonds as at 30 June 2019 is $7.95 (2018: $7.92).

Earnings per security

Earnings per security as at 30 June 2019 is $1.20 (2018: $1.45).

Amount per security of final dividends

Not applicable

Spread of Quoted Security holders

Holding range	Holder count	Holder Count %	Holding Quantity	Holding Quantity %
10,000 to 49,999	380	45.89	9,819,000	0.11
50,000 to 99,999	152	18.36	10,781,000	0.12
100,000 to 499,999	184	22.22	37,648,000	0.4
500,000 to 999,999	38	4.59	26,090,000	0.28
1,000,000 to 9,999,999,999,999	74	8.94	9,250,662,000	99.1
Total	**828**	**100**	**9,335,000,000**	**100.01**

LGFA Staff, from left: Andrew Michl, Ariadne Clarke, Mark Butcher, Jane Phelan, Sumitha Kaluarachi, Koshick Ranchhod, Neil Bain

LGFA Board of Directors, from left: Mike Timmer, Anthony Quirk, Linda Robertson, Craig Stobo, Philip Cory-Wright, John Avery

Appendix: Sustainability
Tāpiritanga

GRI Index

As part of LGFA's commitment on improving non-financial disclosures in relation to social responsibility and sustainability, LGFA has chosen to incorporate Global Reporting Initiative (GRI) standards when preparing this annual report.

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

The GRI index below shows where in this report information can be found about the indicators that are relevant to LGFA's business operations.

Disclosure title	Reference/Disclosure
102-1. Name of the organisation	Page 4
102-2. Activities, brands, products and services	Pages 4-9
102-3. Location of headquarters	Page 81
102-4. Location of operations	Page 81
102-5. Ownership and legal form	Pages 4,53
102-6. Markets served	Pages 4-6, 11-12, 36-47 New Zealand
102-7. Scale of the organisation	Pages 4-9, 14-15, 22,51
102-8. Information on employees and other workers	Pg 24,79
102-9. Supply chain	Pages 4-9
102-10. Significant changes to the organisation and its supply chain	None.
102-11. Precautionary Principle or approach	N/A
102-12. External initiatives	Pg 16
102-13. Membership of Associations	Financial Service Providers Register
102-14. Statement from senior decision-maker	Pages 11-12, 28
102-16. Values, principles, standards, and norms of behavior	Pages 16-17, 25
102-40. List of stakeholder groups	Not reported, to be disclosed in 2020 Annual Report
102-41. Collective bargaining agreements	None
102-42. Identifying and selecting stakeholders	Not reported, to be disclosed in 2020 Annual Report
102-43. Approach to stakeholder engagement	Not reported, to be disclosed in 2020 Annual Report
102-44. Key topics and concerns raised	Not reported, to be disclosed in 2020 Annual Report
102-45. Entities included in the consolidated financial statements	Page 49
102-46. Defining report content and topic Boundaries	Not reported, to be disclosed in 2020 Annual Report
102-47. List of material topics	Not reported, to be disclosed in 2020 Annual Report

102-48.	Restatements of information	None.
102-49.	Changes in reporting	N/A (first year of reporting).
102-50.	Reporting period	1 July 2018 to 30 June 2019.
102-51.	Date of most recent report	2019 Annual Report.
102-52.	Reporting cycle	Annual.
102-53.	Contact point for questions regarding the report	lgfa@lgfa.co.nz
102-54.	Claims of reporting in accordance with the GRI Standards	Not currently compliant.
102-55.	GRI content index	Page 80
102-56.	External assurance	None.
Topic disclosures		**Reference/Disclosure**
Diversity and equal opportunity		
103.	Disclosure on management approach	Page 22
405-1.	Diversity of governance bodies and employees	Page 22
Occupational health and safety		
103.	Disclosure on management approach	Page 25

Directory
Rārangi tauwaea

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
Registered Office

Level 8
City Chambers
142 Featherston Street
Wellington 6011

AUCKLAND

Level 5
Walker Wayland Centre
53 Fort Street
Auckland 1010

Item 11

Attachment 2

LGFA

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

www.lgfa.co.nz

Item 12

Council Report

Committee: Finance Committee **Date:** 10 September 2019

Author: Christopher Barton **Authoriser:** Chris Allen

Position: Project Development Manager **Position:** General Manager Development

Report Name: Capital Portfolio Monitoring Report

Report Status	*Open*

Purpose

1. To inform the Finance Committee on progress of capital portfolio delivery.

Staff Recommendation

That the Finance Committee:

a) receives the report; and

b) approves an increase to the Approved Contract Sum of Contract 17460 for the replacement and upgrade of the Seddon Park Lights from $4,000,000 to $4,200,000.

Executive Summary

2. This report is to be read in conjunction with the Annual Monitoring Report and Financial Strategy Monitoring Report.

3. This report summarises capital delivery for the 2018/19 financial year to 30 June 2019, and also presents a portfolio overview of the 2019/20 financial year including results to 31 July 2019.

4. The year end result for the 2018/19 financial year was a spend of $153.4M, representing an increase in delivery of 50% on the 2017/18 financial year ($102.2M).

5. In conjunction with realised capital savings of $8M in the 2018/19 financial year, additional deferrals of $12.6M of capital expenditure and associated $5.6M of capital revenue are proposed from 2018/19 to the 2019/20 and 2020/21 financial years.

6. As approved through the 2019/20 Annual Plan, the 2019/20 current capital expenditure budget is $323.6M (excluding deferrals).

7. With existing multi-year contractual commitments in place to deliver a large proportion of the works programme and a comprehensive pipeline of additional works planned to move to construction phase over the next 6 months, we are in a strong position to deliver on the outcomes of the various works programmes.

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

Programme Summary

Item 12

9. The following definitions are relevant:

- Portfolio: refers to the HCC total capital budget of $329.6M (incorporating the $323.6M budget in the 2019/20 Annual Plan and proposed deferrals of $6.0M from 2018-19).
- 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.

10. For a summary of planned and upcoming activities in each programme - refer to the 'Looking Forward' document **Attachment 1**.

11. The capital portfolio summary report is shown on **Attachment 2**.

12. Key highlights across the portfolio include:

Renewals and Compliance

13. The Council, through its 2018-28 10-Year Plan, made decisions to invest more in looking after its existing assets.

14. 28% of the total 3-year renewals and compliance budget has been spent in the first year (2018/19). The overall works programme is on-track for successful delivery as detailed designs have now been completed for some significant projects and contracts for construction phase are now in place.

15. In delivery of these asset renewal and compliance works programmes there is at times a need for agility and reprioritisation of the initial programme to manage risks, respond to unplanned failures and accommodate cost variations. To facilitate programme agility delegation has been provided to reprioritise works within the overall 3 year Renewals and Compliance programme, with associated reporting to Council.

Transport Improvement

16. The Transport Improvement programme is delivering the Access Hamilton outcomes of enabling growth, improving transport network safety and improving transport choice.

Growth:

17. Construction of the final link of the Hamilton Ring Road major arterial network, the extension of Wairere Drive to connect to Cobham Drive (SH1) is continuing. This project is also a key enabler to development of the Peacocke growth area.

18. Hamilton City is continuing to support the current construction of the Hamilton section of the Waikato Expressway, currently being constructed around the eastern boundary of the city by the NZ Transport Agency. Once complete the Expressway will provide significant benefits to inter-regional transport, continuing to reinforce Hamilton as an attractive option to both residents and businesses.

19. Strategic transportation projects within the growth cells of Rototuna, Ruakura, Peacocke and Rotokauri are being delivered within those programmes. Transportation networks in these areas are a critical enabler to land development.

Safety:

20. A significant upgrade of the Thomas/Gordonton intersection has been completed, with further safety interventions along the Gordonton Road corridor planned over the next 24 months.

21. Design and works planning is progressing to continue to deliver a programme of improvements at high risk intersections and locations across the city.

Transport Choice:

22. Development of the new Rotokauri Transport Hub is progressing, to support the proposed new Hamilton to Auckland Start-up Passenger Rail Service and provide enhanced bus network operations in the Rotokauri/Te Rapa area.

23. The Eastern Pathways (School Link and University Link) cycleway and public transport projects have been progressing through the business case process. These projects aim to deliver substantive public transport and cycle network benefits on the eastern side of the city, connecting key nodes through.

24. Implementation of the Claudelands Bridge Cycle Way is currently underway to improve particularly pedestrian and cycling safety and connectivity across this corridor between the eastern side of the city and the CBD.

25. Construction of the final Hamilton section of the Te Awa River Ride which extends south from the Hamilton Gardens through the Hammond Park / Riverlea area to the city boundary is on track to get underway this summer. The Te Awa River Ride when completed will run through the heart of Hamilton along our river path network.

City Wide Community

26. The City Wide Community programme is improving the vibrancy of our city's social and creative spaces:

    a) Construction of new walking tracks and platforms at the Waiwhakareke Natural Heritage Park is almost complete;
    b) A programme of playground development is progressing, including the recently opened Hillcrest playground and current redevelopment of the Innes Common playground which is expected to be completed in September 2019;
    c) Continued development of the Hamilton Gardens is continuing to deliver on the gardens master plan vision, including planned opening of the new Picturesque Garden in November 2019;
    d) Concept development of the Hamilton Zoo/Waiwhakareke shared entry precinct is progressing, with an update anticipated to be provided to the Council on this project in early 2020; and
    e) Construction of the Central City Jetty is planned to commence soon to provide a safe location for boats to dock close to the central business district.

City Wide Waters

27. This is a significant infrastructure programme that is required to support growth, meet required levels of service and provide network resilience.

28. Growth demands which are impacting on waters networks is a combination of residential and industrial development both in greenfield and infill development areas.

29. Key projects underway include capacity upgrades of our water and wastewater treatment plants, strategic upgrades of our wastewater network such as the current western interceptor upgrade and upcoming upgrade of the Hillsborough wastewater pump station, and water network strategic upgrades particularly focussed on our water reservoirs and capacity upgrades of our reticulation pipework.

Peacocke

30. The Peacocke programme is one of Hamilton's most significant infrastructure programmes, planned to enable development of a new residential community in the Peacocke area with support of central government through the Housing Infrastructure Fund.

31. As per the Peacocke programme update report to the Growth and Infrastructure Committee on 27 August 2019, engagements are in place to deliver expert engineering, planning and property acquisition to work with staff on activities critical to enable development.

32. Design work is underway to allow construction to have commenced construction on more than half of the Peacocke capital programme by the end of 2020.

Rototuna

33. The Rototuna growth area continues to be the primary greenfield residential growth area in the city.

34. Rototuna has been developed north of Flagstaff over the last 10-15 years, with many Hamilton residents now calling the Rototuna area home.

35. The key outcomes of the Rototuna programme are to support the liveability and vibrancy of the area for existing residents through provision of great community assets, and to continue to provide strategic infrastructure servicing to enable and support remaining land development.

<u>*Community assets:*</u>

36. Concept design of the new Rototuna Village including a planned town square, library and community hub is now well advanced and on track to now progress to detailed design.

37. Development of the Rototuna Sports Park is almost complete, with the finishing touches now being applied to the 5 new soccer fields and 2 grass cricket pitch blocks. Works are also programmed to begin on developing the Hare Puke sports park this year.

38. New playgrounds have been recently developed to provide great outdoor social and recreational facilities in the area including the Managiti reserve playground, the Te Huia reserve neighbourhood playground and the Hare Puke destination playground which was awarded NZ playground of the year earlier this year.

<u>*Strategic infrastructure to enable land development:*</u>

39. Projects to deliver transportation network connections including the extension of Resolution Drive to connect with the Waikato Expressway, extension of the Borman Road minor arterial in the west to Kay Road and the urban upgrade of North Ridge Drive are currently underway, supporting land development and improving network connectivity.

40. The key missing strategic transportation network link in the area is the final section of Borman Road between Kimbrae Drive and Horsham Downs Road. Investigation and design work for this connection are currently underway including seeking NZ Transport Agency funding assistance, however construction funding in the 2018-28 10-Year Plan for this is budgeted between 2025 and 2027.

Ruakura

41. The Ruakura growth area on the eastern side of the city is zoned to deliver more than 100 hectares of residential development in the north and more than 400 hectares of employment land including land for the Inland Port, regional freight and logistics hub and industrial park.

42. Development of the Ruakura employment land is strategically significant to the city. Growing and developing a prosperous city requires a balanced approach to residential and employment related land development. With current and anticipated population growth within Hamilton and the greater Waikato area, employment opportunities within the city also need to be enabled and supported.

43. Existing industrial land supply within the city is limited, with development of the current Te Rapa and Rotokauri industrial areas at capacity and no other new substantive industrial/employment zoned land currently in the pipeline.

44. Within the existing city, currently the eastern side of the city is primarily residential, with all major employment situated on the west (CBD, Frankton and Te Rapa). Providing a major employment precinct on the east will provide balance to the city.

45. To support development of the Ruakura employment areas there is pressure to advance delivery of the strategic transportation network including construction of the Ruakura Spine Road and upgrade of existing Ruakura Road.

46. Existing projects are underway and on track to provide strategic water and wastewater servicing to the Ruakura area, through delivery of a new water reservoir, bulk water mains and the far eastern interceptor wastewater pipe.

Rotokauri

47. In order to enable future substantive development of the Rotokauri greenfield growth area, work is currently underway to plan and protect for strategic stormwater management through designation of the Rotokauri Swale and strategic transport networks through designation of arterial roads.

48. Opportunities to advance development in the Rotokauri area are currently being investigated through partnership with developers and innovative funding options with central government.

Capital Expenditure and Revenue

49. 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;

50. ***Re-phasing 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 re-phased.

51. ***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.

52. ***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.

53. ***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.

54. The capital portfolio expenditure profile over the first 3 year period of the 2018-28 10-Year Plan is summarised below:

Capital Expenditure	2018/19	2019/20	2020/21
Baseline Budget (2019/20 Annual Plan)	$174.3M*	$323.6M*	$281.0M
2018/19 Capital Savings	($8.0)M	tbc	tbc
Proposed Deferral Movements	($12.6)M	$6.0M	$6.6M
Total Forecast Capital Expenditure	**$153.7M**	**$329.6M**	**$287.6M**

* Includes movements from 2018-28 10YP as approved through the 2019/20 Annual Plan

55. Proposed deferral movements from 2018/19 have been categorised as below, and proposed deferrals are detailed further in **Attachment 3**:

- 36% are classified as Delay deferrals
- 64% are classified as Re-phasing deferrals

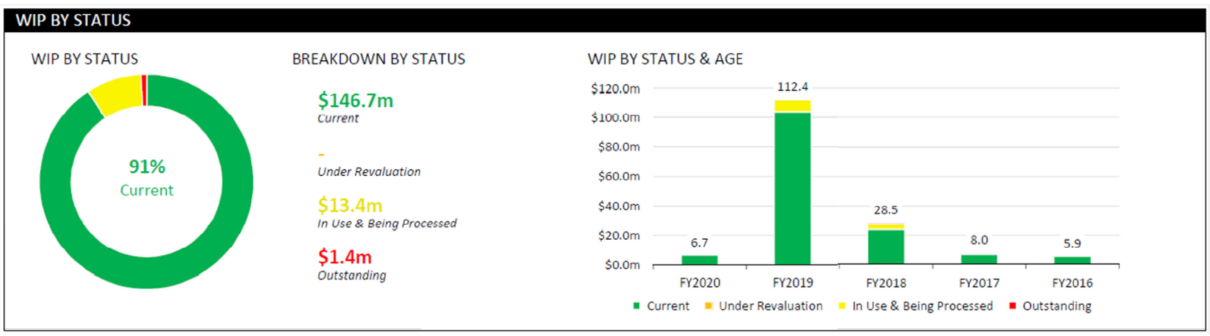
56. These deferrals will enable us to deliver the right outcomes for the community while remaining agile to the issues and constraints associated with delivery of our works programmes.

57. The table below shows the capital revenue profile over the first 3 year period of the 2018-28 10-Year Plan:

Capital Revenue	2018/19	2019/20	2020/21
Baseline Revenue Budget	$33.5M	$69.7M	$59.4M
Additional Unbudgeted Revenue	$7.6M	tbc	tbc
Proposed Deferral Movements	($5.6)M	$2.7M	$2.9M
Total Forecast Capital Revenue	**$35.5M**	**$72.4M**	**$62.3M**

58. The revenue deferral movements are directly related to the movements in capital deferrals across the 3 years.

Work in Progress (WIP)



59. The balance of Work in Progress at 31 July 2019 is $161.5m.

60. As previously reported to the Finance committee, the Work in Progress balance has been categorised into three categories of 'Current', 'In use and being processed' and 'Outstanding'.

61. Current WIP is legitimate and reflects that assets cannot be capitalised until they are in use.

62. The balances of ‘Outstanding’ WIP have continued to significantly reduce over the past 12 months (balances of $24.3m ‘In Use’ and $14.3m ‘Outstanding’ in December 2018), reflecting the improved focus across the organisation on timely asset capitalisation upon works completion and substantively addressing the issue raised in successive Audit NZ reports.

Council Decisions Required

Seddon Park Lights

63. At the 04 December 2018 Finance Committee, a business case for the replacement of the Seddon Park Sports Lighting was considered. Committee decided to proceed with the full replacement of the lights with LED’s including new towers and new foundations at an estimated cost of $4.73M and delegated approval to the Chief Executive to award contracts.

64. The option chosen was for the full replacement of foundations, towers and lights and the offer from Musco had the best whole of life cost particularly as the tender offer included a 15-year warranty of no costs for maintenance.

65. A contract was subsequently awarded to Musco (Contract 17460) for the sum of $4.0 M comprising of a tender value of $3.5 M and a contingency of 15%. The remaining project budget was allocated to professional costs and site enabling works.

Musco Contract 17460

66. A provisional sum had been allowed for the four foundations required to support the lighting towers based on other installations. No specific foundation decision had been carried out at the time of awarding the contract to Musco.

67. The specific design of the foundations was undertaken by Beca following award and this has resulted in a more substantive foundation design that anticipated that, together with some unforeseen ground conditions has resulted in increased costs of $540k.

68. The Approved Contract Sum of $4.0M for Musco needs to be increased to $4.2M. This allows a remaining contingency of $160k. It is necessary to seek approval from Committee for this increase as this is outside the Chief Executives delegation.

Other Costs

69. In reporting to Committee in December 2018, professional services costs for detailed design and supervision of work totalling $310k were excluded from the $4.73M project estimate. These costs should have been presented to give an accurate estimate of all of the project costs.

70. While undertaking the Seddon Park lighting works, it was decided to take the opportunity to also renew the power distribution boards and provide ducting (power, data etc) around the site which were not part of the original scope of the project. The cost of these additional scope items is $130k.

Funding

71. At its 23 May 2019 meeting Council resolved to extend the Delegated Authority to the Chief Executive to manage the renewals and compliance programme within the 3-year financial envelope which included timing of projects across the years 1-3 and management of the expenditure budgets at an entire programme level.

72. The additional cost items, including the additional Musco contract costs, require no additional funding and will be managed within the funded 2018-21 renewals and compliance budgets.

Asset Management Issues

73. The existing foundations, poles and lights were required to be replaced due to early failure of the materials used, technology, and historic design and construction methods.

74. The new foundations, poles and lights are being designed and constructed to meet today's standards, but staff intend to implement a comprehensive assessment programme to ensure maximum life is obtained from the new assets.

75. The first assessment will take place no later than 24 months after the poles are erected. Subsequent and regular assessments will be undertaken which may require poles to be taken down to undertake a more detailed inspection and possible strengthening works to align with the expiry of Musco's 20-year warranty on the poles and 15-year maintenance period on the lights.

Emerging Risks

Arthur Porter Drive

76. Council have previously been informed about issues with the road pavement at Arthur Porter Drive.

77. In particular, it has been previously advised that unplanned renewal funding of up to $8.035M would be required over the 3-year period 2018-21 period which could be off set against the additional revenue received from the NZ Transport Agency for footpath renewals.

78. In 2018/19 a section of Artur Porter Drive was renewed at a cost of $1.000M. It is expected that $2.700M will be required in 2019/20 for a further 2 sections. Some of this work is for drainage installation work in a section of the road that would mitigate against the need for early pavement intervention, and hence the required for the full $8.035M.

79. Given the delegation to the Chief Executive at the 23 May 2019 meeting to manage the renewals and compliance programmes within the 3-year 2018-21 period funding, a decision will be made early in 2020 when there is a better understanding of the renewal programme forecast outturn for 2019/20. Additional funding from an offset of the footpath renewal revenue may be requested at this time.

Legal and Policy Considerations

80. Staff confirm that matters and recommendations within this report comply with the Council's legal and policy requirements.

Wellbeing Considerations

81. The purpose of Local Government changed on the 14 May 2019 to include promotion of the social, economic, environmental and cultural wellbeing of communities in the present and for the future ('the 4 wellbeings').

82. The subject matter of this report has been evaluated in terms of the 4 wellbeings during the process of developing this report as outlined below.

83. The recommendations set out in this report are consistent with that purpose.

Social

84. Work is currently underway to understand social procurement opportunities across our portfolio, which involves enhanced recognition and valuing of social benefits through particularly our selection of contractors.

Item 12

Economic

85. Delivery of our capital works portfolio is required for the city to continue to grow and generate employment and wealth.

Environmental

86. Across the capital portfolio environmental consideration is integrated throughout the project life cycle, including through design, procurement and construction.

87. In the procurement phase all physical works contracts include a component to incorporate environmental and sustainability considerations into tender evaluation, where contractor initiatives such as materials reuse, energy requirements, electric vehicle utilisation, carbon offsets etc can be valued.

88. Across the portfolio a number of our works projects and programmes are specifically focussed on enhancing our natural environment or ensuring effects of city development are not at the detriment of our natural environment.

Cultural

89. Across the portfolio engagement and partnership with iwi are continuing at a project level, and work is underway to further align and partner at programme and portfolio levels to identify opportunities for enhanced partnership and shared outcomes – particularly in regard to alignment with objectives of the Waikato Tainui Environmental Plan – Tai Tumu Tai Pari Tai Ao.

Significance & Engagement Policy

Significance

90. Staff have considered the key considerations under the Significance and Engagement Policy and have assessed the matters and recommendations in this report have a low level of significance.

Engagement

91. Community views and preferences are already known to the Council through the 2018-28 10-Year Plan and 2019-20 Annual Plan.

92. Given the low level of significance determined, the engagement level is low, and no further engagement is required.

Attachments

Attachment 1 - Capital Portfolio 2019/20 - Looking Forward Summary

Attachment 2 - Capital Portfolio Summary Report as at 31 July 2019

Attachment 3 - 2018/19 Deferred Capital Expenditure and Revenue

Item 12

Attachment 1

ROTOTUNA, ROTOKAURI AND RUAKURA

PROGRAMME OUTCOME

Ka toituu, ka ataahua te whakawhanake whenua ki Rototuna, Rotokauri me Ruakura.

Enabling the development of attractive and sustainable communities in the Rototuna, Rotokauri and Ruakura growth areas.

WHAT'S IT ALL ABOUT ?

We are all about improving the wellbeing of Hamiltonians and making our city a great place to live, work, play and visit.

In the north of the city, the Rototuna growth area has been developing over the last 10-15 years, and is now nearing completion. The Ruakura growth area, on the eastern side of the city, is zoned to deliver more than 100 hectares of residential development and more than 400 hectares of employment land including land for the Inland Port, regional freight and logistics hub and industrial park. Out west the Rotokauri growth cell is a work in progress in terms of potential development waiting to happen with significant planning work done over the last eight years laying the foundations for development to happen in the area.

This is a look forward to some key projects programmed to happen in these growth areas in the next 12 months (June 2019 – July 2020).

WHERE ARE WE AT ?

ROTOTUNA PROJECTS

ROTOTUNA VILLAGE

First stage almost complete. Detailed design will progress this year to allow major development of the roads, library and community facilities.

SPORTS PARKS

- **Rototuna Sports Park construction completed,** due to be opened later this year.
- We are working on design of **Hare Puke Sports Park** this year and physical works are scheduled for year three.

PARK LANE

Being constructed in conjunction with the sports park. Park Lane (formal name still to be decided) will be **completed in September.**

NORTH RIDGE DR

In **detailed design stage.** The urbanising of this road has been fast-tracked to align with development. Construction is expected to start summer 2019/20.

BORMAN RD STORMWATER WETLAND

Nearing the **end of detailed design phase.** Construction is expected to start summer 2019/20.

BORMAN RD (EAST) HORSHAM DOWNS RD UPGRADE

Concept development and **business case engagement** with the NZ Transport Agency to seek project financial assistance **is underway.** Construction funding is currently budgeted in the 10-Year-Plan for between 2025 and 2027.

ROTOKAURI PROJECTS

BAVERSTOCK RD

Detailed design nearly completed, **construction expected to start summer 2019/20.**

ROTOKAURI ARTERIAL DESIGNATION

Currently in the investigation phase.

ROTOKAURI SWALE DESIGNATION

Consultation recently completed. A recommendation on where the swale should go is expected by the end of the year.

RUAKURA PROJECTS

RUAKURA WATER RESERVOIR

Currently **under construction** and due for completion mid-2020. This will support future growth in the Ruakura area.

TRANSPORT

- The **urbanisation of Ruakura Rd is being investigated** for funding through NZ Transport Agency.
- The **Ruakura Spine Rd is currently under construction** and due for completion 2020. The spine road connects the Waikato Expressway to the Fifth Ave roundabout. The construction of this road will support the future industrial area in Ruakura.

FAR EASTERN INTERCEPTOR (WASTEWATER PIPE)

This major wastewater pipe is **currently in construction** with the first stage expected to be completed later this year (2019). The next stage extending south is dependent with developer timing.

PEACOCKE

PROGRAMME OUTCOME

Ko te aaheinga o te hanga he waahi ataahua, he waahi toiora ki Peacocke.

Enabling the development of an attractive and sustainable community in the Peacocke growth area.

WHAT'S IT ALL ABOUT ?

Unlocking new areas for housing to support Hamilton's growth is a key challenge for the Council. Our investment in Peacocke is supported by the Government's Housing Infrastructure Fund, comprising a 10-year interest-free loan and NZ Transport Agency funding. In the coming decades, when complete, Peacocke will be home for around 20,000 new Hamiltonians.

This is a look forward to some key projects programmed to happen in the next 12 months (June 2019 – July 2020).

WHERE ARE WE AT ?

OHAUPO RD (SH3) ROUNDABOUT

Service relocations and **most** of the main **roundabout works will be completed.** We're working to minimise disruption and reduce costs.

PEACOCKE BRIDGE

Designs for the **bridge** and **some main roads** surrounding it will be **finished this financial year.** We'll also start looking at who will build the bridge for us so we can get started before the end of 2020.

WASTEWATER PUMP STATION AND TRANSFER PIPELINE

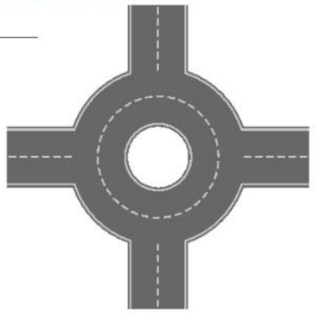
We will **complete the design** of the main pump station, pipelines and connections within Peacocke. We'll also start **building the transfer pipeline** which will link up to Crosby Rd.

PEACOCKE RD URBAN UPGRADE

Initial designs and a timeline for when they will be built based on development **will be completed.**

EAST AND WEST ROADING NETWORK – STAGE 2

Designs for the roads and **work on a timeline** for when these will be built and be completed.



ECOLOGICAL MONITORING AND MANAGEMENT PLAN

We will prepare to implement the plan, deliver a site restoration plan and start building artificial bat roosts in the area.

MANGAKOTUKUTUKU INTEGRATED CATCHMENT MANAGEMENT PLAN

Work on a strategy for managing watercourses, stormwater, wastewater and water supplies in Peacocke and surrounding suburbs. This should be finished in August 2020.

For more information visit **hamilton.govt.nz/peacocke**

Item 12

Attachment 1

CITY WIDE COMMUNITY

PROGRAMME OUTCOME

Whakapai atu te mauri o ngaa waahi taangata me ngaa waahi wairua auaha.

Improving the vibrancy of our social and creative spaces.

WHAT'S IT ALL ABOUT ?

We are committed to improving the vibrancy of our social and creative spaces. We want to provide the community with places where they can come together and enjoy. We are working with the community and our partners to develop parks, natural areas, sports and pool facilities, libraries and our visitor destinations.

This is a look forward to some key projects programmed to happen in the next 12 months (June 2019 – July 2020).

WHERE ARE WE AT ?

HAMILTON GARDENS DEVELOPMENT

- We are laying the foundations for the **Ancient Egyptian Garden** and work is concentrating on the **Pasifika Garden** wall foundations.
- **Planning is underway** on the **Hamilton Club Summerhouse** and the next stage of the **Ancient Egyptian Garden.**
- **Planning** for the **Visitor Centre** and **forecourts** will **continue once** the outcome of the **Hamilton Gardens Management Plan review is confirmed.**

RIVER PLAN

- Central City Jetty – construction is **anticipated to commence within the next few months,** subject to negotiations with the contractor.

WAIWHAKAREKE NATURAL HERITAGE PARK DEVELOPMENT

- **Development largely completed.** Planning underway for the official opening.

HAMILTON ZOO/ WAIWHAKAREKE SHARED ENTRY PRECINCT

- **Concept plan options** have been **assessed** and **further design work is planned this year.**

PLAYGROUND DEVELOPMENT

- **A refresh** of the lower children's playground at **Hamilton Lake Domain is underway** as well as the Melville Park playground.

CITY WIDE TRANSPORT IMPROVEMENT

PROGRAMME OUTCOME

Ka whai hua te hootaka whakawhanake I ngaa kaupapa waka ki Kirikiriroa;

- ***whakamana tupuranga***
- ***whakapai ake haumaru***
- ***whakawhaanui ake ngaa koowhiringa waka***

The Transport Improvement programme is delivering the Access Hamilton outcomes of;

- **enabling growth**
- **improving safety**
- **improving transport choice**

WHAT'S IT ALL ABOUT

We are all about improving the wellbeing of Hamiltonians and making our city a great place to live, work, play and visit. As we develop our roads, we need to clearly understand and plan for the things that make the most difference to our city.

This is a look forward to some key projects programmed to happen in the next 12 months (June 2019 – July 2020).

WHERE ARE WE AT

RING RD

On and off ramps are under construction. Further earthworks and construction for the new bridge to Peacocke will also start.

TE AWA CYCLE PATH

Design is almost complete subject to NZ Transport Agency funding approval. We are **planning to get underway** with construction **later this year.**

TRANSPORT CHOICE

We have identified key sites across the city to improve pedestrian and cyclist safety. These improvements will create a safe and sustainable transport network.

BIKING CONNECTIVITY

Construction on the **Claudelands Rd cycleway** is underway and will **be completed by October.**
Other key cycling routes have been identified including along the Gordonton Rd corridor with construction work planned to start on this project this financial year.

EASTERN PATHWAYS

Previously known as School Link and University Link, this project is **in business case phase** to confirm the concept design and associated funding.

BRYCE ST/ANGLESEA ST INTERSECTION UPGRADE

Design is underway with planned construction in early 2020.

BADER ST IMPROVEMENTS

Construction work has started. These works will improve the safety of pedestrians and cyclists along this corridor.

CITY WIDE WATERS

PROGRAMME OUTCOME

Kia tika te ratonga wai moo naaianei me anamata.

Ensuring the provision of essential water services that allow for future growth and compliance.

WHAT'S IT ALL ABOUT ?

We are all about improving the wellbeing of Hamiltonians and making our city a great place to live, work, play and visit. We are making sure we can provide essential water, wastewater and stormwater services for Hamiltonians now and in the future.

This is a look forward to some key projects programmed to happen in the next 12 months (June 2019 – July 2020).

WHERE ARE WE AT ?

PUKETE WASTEWATER TREATMENT PLANT UPGRADE

Construction is underway for a significant capacity upgrade of the Pukete Wastewater Treatment Plant.

WAIORA WATER TREATMENT PLANT UPGRADE

Construction is underway for upgrading the chemical facility at the Plant. **Design is underway** for **new clarifiers, sand filters, balancing tank** and **pump station** to increase our **plants treatment capacity.**

WATER NETWORK UPGRADES

Planning/implementation for **a city-wide water network** upgrade is **underway.** Works at the Fairfield reservoir are underway, and design is progressing for works at the Newcastle and Dinsdale reservoirs.

WASTEWATER UPGRADES

Planning/implementation for a **citywide wastewater network upgrade is underway.**

WESTERN WASTEWATER INTERCEPTOR

Construction underway for this major wastewater pipe. We have started drilling work to install two deep manholes.

HILLSBOROUGH PUMP STATION

Design complete. Construction due to start late 2019.

STORMWATER NETWORK IMPROVEMENTS

Concept designs for **stream/watercourse erosion control are underway** across the city.

INTEGRATED CATCHMENT MANAGEMENT PLANS (ICMP)

ICMPs to plan and manage stormwater across the city's catchments **are underway.** This includes Kirikiriroa, Te Awa O Katapaki, Mangakotukutuku and Te Rapa.

MASTERPLANS

The next versions of our **Three Waters Master Plans** (wastewater, water and stormwater) are **underway.** The Plans will **ensure we are managing** the **three waters** in a **sustainable, planned and timely way** for residents now and in the future.

For more information visit
hamilton.govt.nz/majorprojects

RENEWALS AND COMPLIANCE

PROGRAMME OUTCOME

Ko te tiaki aa taatou rawa me te whakapakari ake moo aapoopoo.

Looking after the assets that we have and making sure they are fit for purpose.

WHAT'S IT ALL ABOUT?

While there is a still lots of life remaining in much of what we have, we need to keep maintaining and replacing it, so it continues to function. The Renewals and Compliance programme is made up of projects from across all of the Council.

This is a look forward to some key projects programmed to happen in the next 12 months (June 2019 – July 2020).

WHERE ARE WE AT?

PARKS AND OPEN SPACES

- **In the process of renewing** and upgrading **Melville skate bowl** and **playground area** to create a multi-use recreation space.
- **Continuing the renewals and upgrades** of our **sports park drainage** and **irrigation systems** including Gower, Galloway and Mahoe parks.
- **Planning under way to renew and replace paths, rubbish bins, signage, retaining walls and fencing at numerous parks,** including Hillcrest Stadium, Matakanohi Reserve, and Hamilton Lake Domain/Innes Common.
- **Planning underway** to renew playgrounds at Hamilton Lake Domain, Jansen Park and Discovery Park.
- **We will resurface** our **netball courts at Minogue Park** and upgrade the toilets and changing rooms.
- We will **fix** the **retaining wall** at **Ferrybank.**

CEMETERIES

- **Planning underway** to **renew assets across cemeteries,** including signage and fencing.
- **In procurement phase** for renewal of the **cemetery records management system.**

LIBRARIES

- We will **implement new technology** to streamline library collection processing and management.
- The creation of the Makerspace and the **renovation** of the **entrance** at **Central Library** will be **completed** this financial year.
- **Planning** for the **refurbishment** of the **Glenview Library underway.**

WAIKATO MUSEUM

- **Physical works** will start for relocating i-SITE to the ArtsPost building.
- We will **refurbish** the **lifts.**
- We will **replace part of the roof** on the **Museum** building.

HAMILTON ZOO

- **We will continue to renew service roads, paths** and **boardwalks.**
- **Planning is underway** for **safety enhancements** including **animal enclosure gates** and a new **chimp fence.**

RENEWALS AND COMPLIANCE

WHERE ARE WE AT ?

HAMILTON GARDENS

- **Planning is underway** to **renew** and **maintain infrastructure** throughout the Gardens.

AQUATICS

- We are **renewing the splash** pad **at Waterworld,** adding new features and creating a dedicated children's area.
- **Replacement** of the **springboards** on the **diving tower.**

SEDDON PARK

- Replacement of **Seddon Park lights** will be **completed later this year.**

FMG STADIUM

- We will be **replacing the playing turf.**
- We are **undergoing a refurb** of the **lift** in the Brian Perry Stand.

CLAUDELANDS

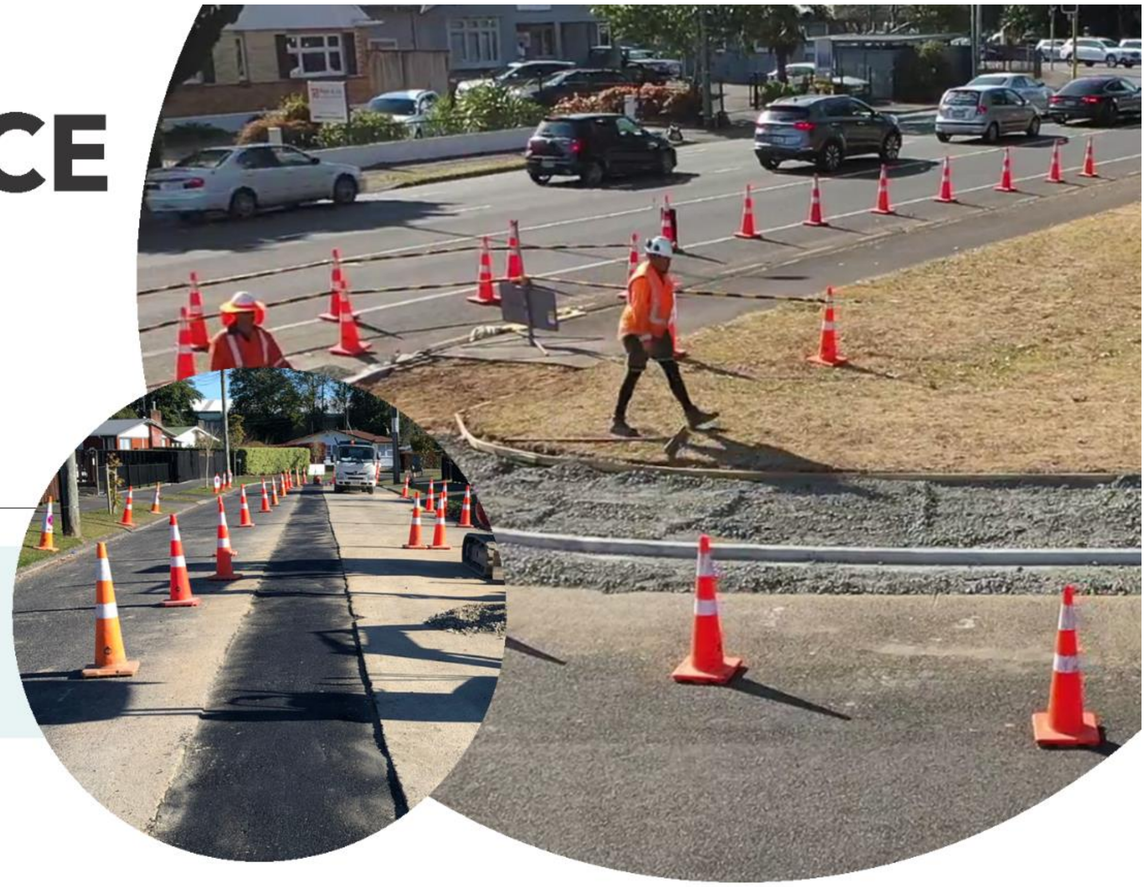
- The **carpet** will be **replaced** in high-use public areas.

WATER

- We are **replacing valves, meters and hydrants** throughout the city.
- **Replacement of approx. 6km** of **water pipes** throughout the city.
- We are **continuing the creation of water network zones** so we can better manage water distribution and water losses.

WASTEWATER

- We are **replacing approx. 6km** of **wastewater pipes** throughout the city.
- We will be **renewing key pump station assets** and providing **additional capacity** at pump stations **across the city.**
- **Ongoing investment** to continue to **comply with resource consents** at the Pukete Wastewater Treatment Plant.



STORMWATER

- We are **replacing stormwater assets** across the city.
- Various **works to control erosion** in our gullies and streams are **underway.**

SOLID WASTE

- **Renewals underway** for **management** and monitoring of **Hamilton's closed landfills.**

TRANSPORT

- We will **replace** approximately **30km** of **footpaths** throughout the city.
- We are **resealing** approximately **4km** of **roads.**

For more information visit **hamilton.govt.nz/majorprojects**

Hamilton City Council Capital Portfolio Report

As at 31 July 2019

Item 12

Attachment 2

Portfolio Commentary/Highlights

Across the capital portfolio in the 2018/19 Financial Year there was a focus on tendering and awarding physical works and design engagements. A large proportion of the current forward works programme through 2019/20 is now contractually committed.

Key multi-year contracts which have already been procured and are underway include:

- Various bundled renewals and minor works contracts - many for 3 year works programme delivery
- Wairere Drive Extension to Cobham Drive
- Pukete Wastewater Treatment Plant Capacity Upgrade
- Ruakura Reservoir Construction
- Western Wastewater Interceptor
- Rototuna Sports Park & Roading
- Hamilton Gardens and Zoo Upgrades
- Waiwhakareke Walking Tracks
- WLASS Professional Service Panel Re-tendering

Key further contracts planned to be advanced to physical works stage this 2019/20 Financial Year include:

- Rotokauri Transport Hub
- Te Awa Cycle Path
- Baverstock Road Urban Upgrade
- North Ridge Drive Upgrade and Stormwater Pond
- Hillsborough Wastewater Pump Station
- Newcastle Water Reservoir Upgrade
- Water Treatment Plant Capacity Upgrade
- Continued Hamilton Gardens Development
- River Jetty and Ferrybank Works
- Peacocke Strategic Wastewater and Transport packages

We are in a good position to best utilise the upcoming summer construction season to continue delivering.

Key Risks

Health and Safety

Lack of appropriate Health and Safety practice associated with project delivery, resulting in injury, serious harm or death.

- *Treatment Plan*
- *Engaging suitably qualified and experienced contractors.*
- *Ensure appropriate project/contract management resourcing with appropriate awareness of H&S risks.*
- *Systems and processes to support audits, observations and reporting.*
- *Project life-cycle*

NZTA Funding Assistance

NZTA financial position (Over subscription of NLTP) resulting in projects not achieving funding assistance as anticipated in 10 YP and financial strategy. As a result of not achieving assumed NZTA funding assistance, some projects may be delayed, some may not be delivered or alternatively if progressed without subsidy will require additional HCC funding or scope reduction.

- *Treatment Plan*
- *Financial modelling for scenario forecasts.*
- *Prioritise Business Case and design efforts to 'likely' subsided works.*
- *Ensure quality and timeliness of Business Case submissions.*
- *Communication and partnering with NZTA regarding Access Hamilton priority projects.*

Investment Priority – Building the Wrong Things

Lack of alignment of investment with benefits, resulting in benefits or wellbeing outcomes not being realised/maximised - ie/development not being appropriately enabled and/or sub optimal investment.

- *Treatment Plan*
- *Agile in delivery programme.*
- *Clear definition of programme/project benefits.*
- *Promotion of Private Development Agreements in accordance with just-in-time delivery philosophy.*

Cost Certainty

Lack of cost certainty at the time of 10-Year Plan budget allocation, resulting in variance against budget.

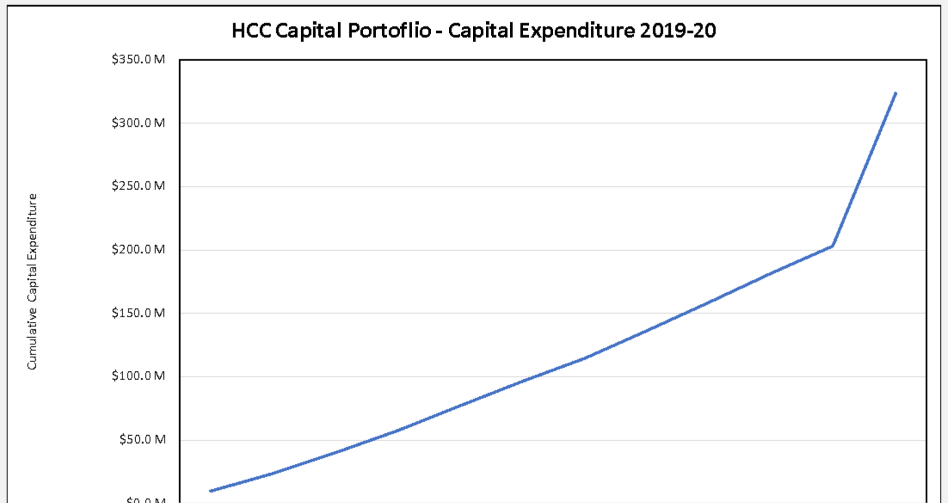
- *Treatment Plan*
- *Robust estimation and budget estimates in 10YP (including escalation).*
- *Agile in delivery programme. Adhere to project management and governance structures. Portfolio management to apply robust change management process.*

Supply Chain Resources

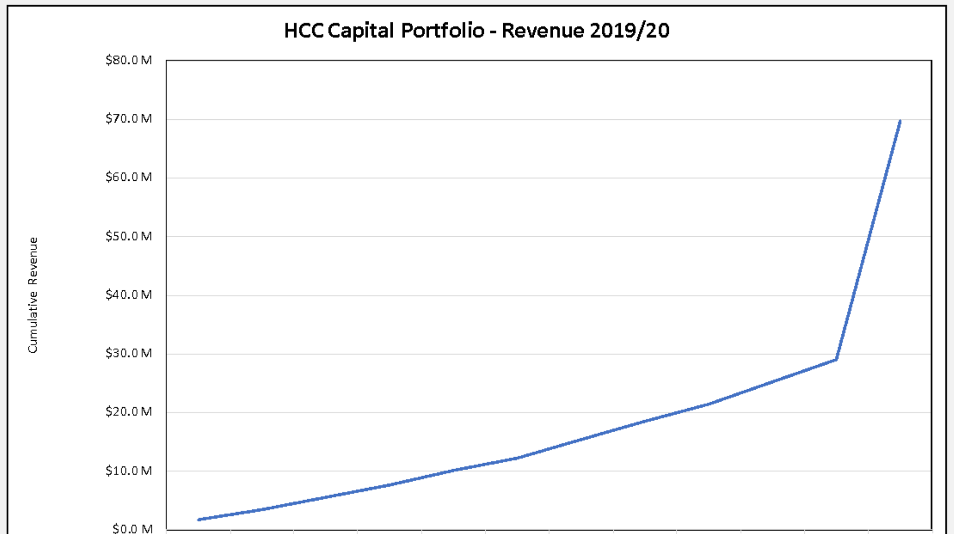
High demand for contractor and professional service resources, resulting in lack of price tension and associated cost escalation.

- *Treatment Plan*
- *Pipeline visibility and market briefings.*
- *Regular discussions with CCNZ and ACENZ .*
- *Recent tendering of the Professional Services Panel to secure professional service resource priority.*

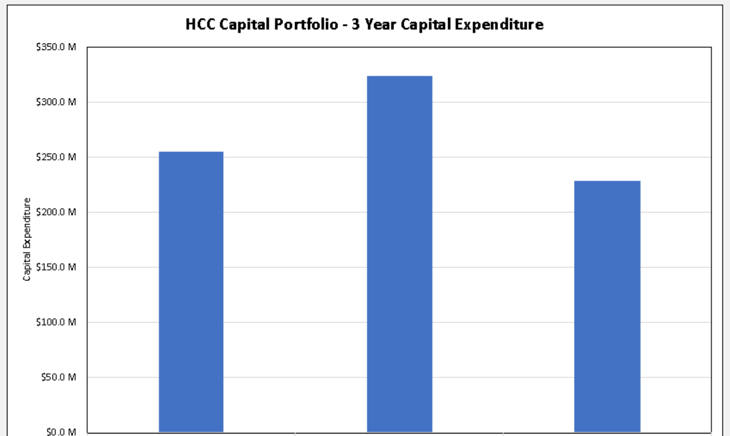
Financial Performance



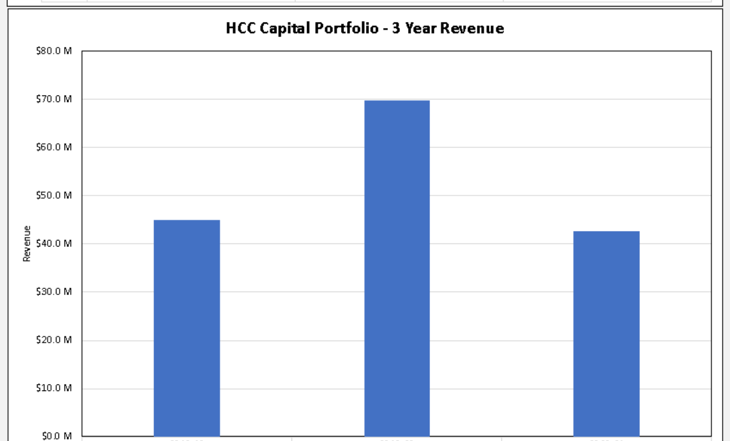
	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
Total Baseline Budget	$9.7 M	$23.5 M	$40.0 M	$57.1 M	$76.9 M	$95.8 M	$114.5 M	$136.0 M	$158.4 M	$181.2 M	$202.9 M	$323.6 M
Cumulative Actuals	$6.5 M											



	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20
Cumulative Budget	$1.7 M	$3.4 M	$5.4 M	$7.6 M	$10.0 M	$12.2 M	$15.3 M	$18.5 M	$21.4 M	$25.2 M	$29.0 M	$69.7 M
Cumulative Actuals	$1.8 M											



	2018/19	2019/20	2020/21
budget	$254.9 M	$323.6 M	$228.9 M

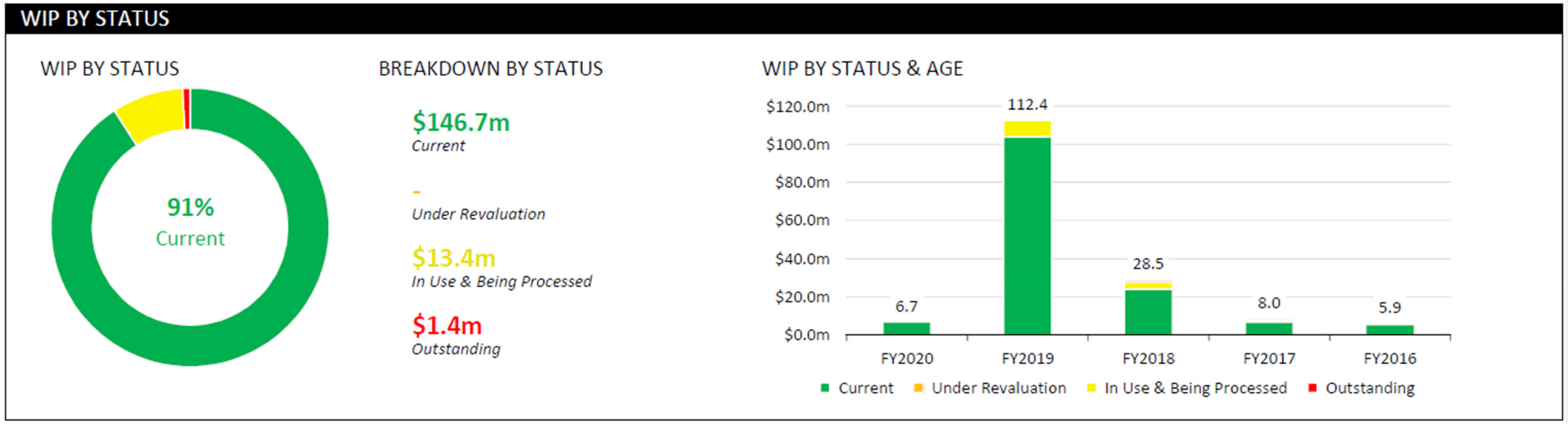


	2018-19	2019-20	2020-21
Budget	$44.8 M	$69.7 M	$42.6 M

Total Capital Expenditure and Revenue at 31 July 2019

Programme	Status	Capex YTD Actual	Capex Annual Budget	Capex 3 Year Budget	Revenue YTD Actual	Revenue Annual Budget	Revenue 3 Year Budget
Renewals & Compliance	G	$2.4 M	$79.6 M	$209.2 M	($0.5)M	($10.8)M	($25.8)M
Rototuna	G	$0.2 M	$24.2 M	$70.7 M	($0.0)M	($3.4)M	($8.5)M
Rotokauri	A	$0.0 M	$6.2 M	$22.7 M	$0.0 M	($0.5)M	($1.3)M
Peacocke	G	$0.7 M	$73.4 M	$178.0 M	($0.4)M	($20.6)M	($44.2)M
Ruakura	G	$1.3 M	$14.2 M	$35.6 M	$0.0 M	($0.4)M	($3.1)M
City Wide - Waters	A	$1.8 M	$58.3 M	$100.7 M	($0.3)M	($0.5)M	($3.7)M
City Wide - Community	A	$0.7 M	$7.1 M	$27.1 M	$0.0 M	($2.1)M	($6.8)M
Transport Improvement	A	($0.7)M	$60.7 M	$126.3 M	($0.6)M	($31.4)M	($74.9)M
Total Portfolio		**$6.5 M**	**$323.6 M**	**$770.2 M**	**($1.7)M**	**($69.7)M**	**($168.4)M**

WIP Balance



<u>Deferrals from 2018/19 to future years - as at 30 June 2019</u>

Programme	Capital Expenditure	Capital Revenue	Commentary
Renewals and Compliance Programme	($7,731)	($96)	This programme which encompasses buildings, information services, transport, waters, venues and community assets is being managed as a whole and over a 3-year period. There are many large projects which are underway and contractually committed and require deferral in accordance with delivery timing. Key deferrals relate to renewals to the crematorium building, museum roof, Seddon Park lights, Hamilton Park cemetery toilet block, water and wastewater treatment plant assets, IS network hardware and applications, zoo safety improvements including the chimpanzee fence and some park assets
Citywide Community Programme	($93)	$356	Deferral of expenditure primarily relates to timing of contractually committed works to complete development of the Waikwhakareke Natural Heritage Park track network.
Citywide Waters Programme	$1,658	$0	Expenditure to the end of 2018/19 Financial Year exceeded forecast - once incorporating previously forecast deferrals included in the 2019/20 Annual Plan.
Peacocke Progamme	($1,074)	$380	Deferral of expenditure primarily relates to timing of land procurement in accordance with third party negotiations, and come cashflow variance of contractually committed works to complete design of the strategic infrastructure. Revenue deferral relates to project subsidy in accordance with expenditure.
Rotokauri Programme	($1,748)	$327	Deferral of expenditure relates to alignment of works with associated development timing in the stage 1 residential area in accordance with contractual commitments via private development agreements, and come cashflow variance of contractually committed works to designate stormwater and transportation strategic infrastructure. Revenue deferral relates to project subsidy in accordance with expenditure.
Rototuna Programme	($3,580)	($123)	Deferral of expenditure primarily relates to alignment of works with associated development timing, including the upgrade of North City Road, extension of Borman Road to the west to connect to Kay Road and installation or watermains to service development.
Ruakura Programme	($1,088)	($165)	Deferral of expenditure relates to cashflow of contractually committed works to complete the Ruakura Reservoir and strategic wastewater interceptor.
Transport Improvement Programme	$1,050	$4,961	Expenditure to the end of 2018/19 Financial Year exceeded forecast - once incorporating previously forecast deferrals included in the 2019/20 Annual Plan.
Total	**($12,606)**	**$5,639**	

Note - this summary excludes previous deferrals identified to end of March 2019 as already approved in 2019/20 as part of Annual Plan

Item 13

Council Report

Committee:	Finance Committee	**Date:**	10 September 2019
Author:	Tracey Musty	**Authoriser:**	David Bryant
Position:	Financial Controller	**Position:**	General Manager Corporate
Report Name:	Annual Monitoring Report to 31 July 2019		

Report Status	*Open*

Purpose

1. To inform the Finance Committee on the Council's financial performance against the 2019/20 Annual Plan for the month ended 31 July 2019.

Staff Recommendation

That the Finance Committee receives the report.

Executive Summary

2. This report is to be read in conjunction with the:

   a) July 2019 (10 September 2019 meeting) Capital Portfolio Monitoring report; and
   b) July 2019 (10 September 2019 meeting) Financial Strategy Monitoring report

3. July 2019 financial results shows positive variances on both the accounting result and 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 results

5. The Statement of Comprehensive Revenue and Expense discloses the accounting result in accordance with accounting standards.

6. The accounting result for the month ended 31 July 2019 is a surplus of $2.5M. This is $4.7M favourable against a forecast deficit of ($2.2M.)

Accounting Result For the month ended 31 July 2019		
Actual	**YTD Forecast**	**Variance**
$2.5M	**($2.2M)**	**$4.7M**

The Annual Forecast has been adjusted to reflect the forecasting adjustments that are explained in the understanding the variances section of this report.

Annual Accounting Result		
Annual Forecast	**Annual Budget**	**Variance**
$110.5M	**$110.4M**	**$0.1M**

Balancing the books result

7. The balancing the books result for the month ended 31 July 2019 is $(5.6M.) This is $2.9M favourable against the July forecast of $(8.5M).

Balancing the Books For the month ended 31 July 2019		
Actual	**YTD Forecast**	**Variance**
($5.6M)	**($8.5M)**	**$2.9M**

Understanding the variances

8. The Statement of Comprehensive Revenue and Expense, Statement of Financial Position, and accompanying notes are contained in Attachment 1.
9. Individual Everyday Revenue and Expense statements for each of the Council's 12 activities, overheads and general are contained in Attachment 2.
10. A reconciliation of the accounting result to the balancing the books result is provided after the Statement of Comprehensive Revenue and Expense.
11. Variances between actual and annual budgets that are greater than $0.1M are explained in each of the activity statements.

Operating revenue

12. Total Operating revenue is on track against YTD Forecast and includes the following offsetting variances;
13. Fees and user charges are $0.1M favourable.
14. Subsidies and Grants are $0.6M favourable to forecast, which arise from the Transport activity.
15. Other revenue is $0.7M unfavourable. The non-cash benefit associated with the Housing Infrastructure Fund (HIF) draw down has yet to occur as borrowings have yet to commence.

    Please refer to the activity statements for variance explanations.

Expenses

16. Total Expenses are $1.9M favourable against YTD forecast and include the following variances which are largely due to timing;

    a) Personnel costs are $0.3M favourable.
    b) Finance costs are $0.3M favourable.
    c) Operating and Maintenance costs are $0.4M favourable.
    d) Professional costs are $0.3M favourable.
    e) Administration costs $0.4M favourable.

Item 13

Please refer to the activity statements for variance explanations.

Assets/Loss on sale

17. Loss on sale of assets consists of asset residual values that have been written off as these assets have been replaced.

18. Losses on sale also includes the July 2019 adjustment on non-cash revaluation of Council's Financial borrowing instruments.

Development contributions revenue

19. July 2019 Development Contributions is $3.4M which is $1.3M ahead of YTD budget of $2.1M.

Vested assets revenue

20. July 2019 vested asset revenue is $5.9M which is $3.3M ahead of YTD budget of $2.6M. This budget is broken down by class of asset on page 99 of the 10-Year Plan.

Vested Assets For the month ended July 2019		
Actual	**Annual budget**	**Variance**
$5.9M	**$2.6M**	**$3.3M**

Asset class	YTD Actual $000	Annual Budget $000	Life Range (Years)	Estimated Annual Depreciation $000
Wastewater	194	3,160	15-100	2
Stormwater	537	5,297	30-100	7
Water Supply	199	1,846	50-80	2
Roading	2,895	8,320	12-140	58
Parks and Recreation#		-	-	-
Land		12,607		
Land – Under Roads	1,079	-		-
Land – Local Purpose Reserves*	963	-		-
Land – Recreation Reserves		-		-
Land – Restricted+		-		-
Land - Infrastructure		-		-
Total	**5,867**	**31,230**		**69**

* 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.

21. 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.

Emerging Issues

22. 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.

Item 13

Debt and Treasury Management

Treasury Management

23. Council has breached the counterparty credit risk policy and is not fully compliant will all treasury policy measures as at 31 July 2019.

24. Refer to the Treasury Report in Attachment 3 for further detail.

Debt and Cash Investments

External debt, cash investments, and net debt as at 31 July 2019 is shown in the table below.

Debt and Cash Investments As at 31 July 2019			
	YTD Actual	Annual Budget	Variance
External Debt	$432M	$642M	$210M
Cash Investments	($80M)	($55M)	$25M
Net Debt	$352M	$587M	$235M

25. Net debt as at 31 July 2019 is $235M lower than the target as at June 2020 of $587M, largely due to the timing of spend in the capital programme.

26. Cash investments are higher than budgeted due to $30M LGFA borrowing in July 2019 to fund forecasted capital expenditure. Surplus immediate funds are placed on term deposit.

Interest Rate Risk Management

27. 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.

28. As at 31 July 2019 our net unrealised loss on revaluation of interest rate swaps was $19.2M and our liability balance was $49.2M. The liability balance is increasing due to the impact of the market swap rate dropping against our fixed swap rate.

Legal and Policy Considerations

29. Staff confirm that the matters in this report complies with the Council's legal and policy requirements.

Risks

30. There are no known risks associated with this matter.

Wellbeing Considerations

31. The purpose of Local Government changed on the 14 May 2019 to include promotion of the social, economic, environmental and cultural wellbeing of communities in the present and for the future ('the 4 wellbeings').

Item 13

32. The subject matter of this report has been evaluated in terms of the 4 wellbeings during the process of developing this report as outlined below. The recommendations set out in this report are consistent with that purpose.

33. There are no known social, economic, environmental or cultural considerations associated with this matter.

Significance and Engagement Policy

Significance

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

Engagement

35. Given the low level of significance determined, the engagement level is low. No engagement is required.

Attachments

Attachment 1 - Appendix 1 Financial Statements July 2019

Attachment 2 - Appendix 2 Everyday Revenue + Expense by Activity July 2019

Attachment 3 - Appendix 3 - Treasury Report July 2019

STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE
FOR THE MONTH ENDED 31 JULY 2019

YTD 2018/19		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						
10,594	Rates	8,542	8,482	60	191,659	191,659	-
5,292	Fees and user charges	3,721	3,618	103	38,077	39,048	971
603	Subsidies and grants	1,142	541	601	6,907	6,907	-
300	Interest revenue	97	138	(41)	1,650	1,650	-
702	Other revenue	945	1,646	(701)	20,126	20,126	-
17,491	Total Operating revenue	14,447	14,425	22	258,419	259,390	971
	Capital revenue						
2,223	Development contributions	3,439	2,116	1,323	25,387	25,387	-
1,179	Capital revenue	1,793	1,507	286	69,690	69,690	-
1,895	Vested assets	5,866	2,603	3,263	31,230	31,230	-
5,297	Total Capital revenue	11,098	6,226	4,872	126,307	126,307	-
22,788	**Total revenue**	**25,545**	**20,651**	**4,894**	**384,726**	**385,697**	**971**
	Expenses						
6,323	Personnel costs	7,237	7,536	299	86,426	85,916	510
5,384	Depreciation and amortisation expense	6,432	6,432	-	76,564	76,564	-
1,617	Finance costs	1,649	1,990	341	24,862	24,862	-
2,665	Operating and maintenance costs	3,001	3,445	444	46,400	46,400	-
232	Professional costs	706	1,052	346	12,837	14,321	(1,484)
2,166	Administration costs	858	1,290	432	13,700	13,700	-
954	Property costs	1,103	1,161	58	14,093	13,975	118
19,341	**Total expenses**	**20,986**	**22,906**	**1,920**	**274,882**	**275,738**	**(856)**
3,447	**Operating surplus/(deficit)**	**4,559**	**(2,255)**	**6,814**	**109,844**	**109,959**	**115**
	Gains and losses						
755	Net gain/(loss) on revaluation of interest rate swaps	(1,772)	-	(1,772)	-	-	-
-	Gain on fair value of investment properties	-	48	(48)	579	579	-
(2)	Property, plant and equipment net gain/(loss)	(314)	-	(314)	-	-	-
753	**Total gains and losses**	**(2,086)**	**48**	**(2,134)**	**579**	**579**	
4,200	**Total surplus/(deficit)**	**2,473**	**(2,207)**	**4,680**	**110,423**	**110,538**	**115**

Refer to Activity Statements for variances against budget.

Attachment 1

Item 13

BALANCING THE BOOKS RESULT

FOR THE MONTH ENDED 31 JULY 2019

Attachment 1

YTD 2018/19		Actual	YTD Forecast	YTD Variance Fav/(Unfav)	Annual Approved Budget	Annual Forecast	Annual Variance Fav/(Unfav)
$000		$000	$000	$000	$000	$000	$000
4,200	Surplus/(deficit)	2,473	(2,207)	4,680	110,423	110,538	115
	Remove capital revenue						
(1,895)	Vested assets	(5,866)	(2,603)	(3,263)	(31,230)	(31,230)	-
(1,604)	Part of development and financial contributions	(2,715)	(1,392)	(1,323)	(16,694)	(16,694)	-
(259)	Capital subsidy (excluding subsidy on transport renewals)	(590)	(1,116)	526	(49,309)	(49,309)	-
(676)	Other capital contributions	(660)	(103)	(557)	(11,146)	(11,146)	-
-	Other items not considered everyday operating revenue	(295)	(1,118)	823	(13,412)	(13,412)	-
	Remove (gains)/losses						-
(753)	All (gains)/losses	2,086	(48)	2,134	(579)	(579)	-
	Remove other expenses						-
-	Other items not considered everyday operating expenses	9	97	(88)	1,160	1,160	-
(987)	Everyday surplus/(deficit)	(5,558)	(8,490)	2,932	(10,787)	(10,672)	115

FOR THE MONTH ENDED 31 JULY 2019

YTD 2018/19		Actual	YTD Forecast	YTD Variance Fav/(Unfav)	Annual Approved Budget	Annual Forecast	Annual Variance Fav/(Unfav)
$000		$000	$000	$000	$000	$000	$000
4,200	Surplus/(deficit)	2,473	(2,207)	4,680	110,423	110,538	115
	Adjustments for the Local Government Regulations measure						
-	Gains excluding gains on investment properties	-	(48)	48	(579)	(579)	-
57	Losses	(2,534)	-	(2,534)	-	-	-
(2,223)	Development and financial contributions	(3,439)	(2,116)	(1,323)	(25,387)	(25,387)	-
(1,895)	Vested assets	(5,866)	(2,603)	(3,263)	(31,230)	(31,230)	-
(4,061)	Total adjustments	(11,839)	(4,767)	(7,072)	(57,196)	(57,196)	-
139	LG Regulations balancing the books surplus/(deficit)	(9,366)	(6,974)	(2,392)	53,227	53,342	115

STATEMENT OF FINANCIAL POSITION
FOR THE MONTH ENDED 31 JULY 2019

Attachment 1

YTD 2018/19		Note	Actual	Annual Budget
$000			$000	$000
	Assets			
	Current assets			
37,218	Cash and cash equivalents		72,539	46,440
56,069	Receivables	1	55,403	18,360
1,377	Prepayments		1,784	1,712
126	Inventory		168	160
53,404	Other financial assets	2	2,105	-
148,194	**Total current assets**		**131,999**	**66,672**
	Non-current assets			
4,116,098	Property, plant and equipment		4,288,164	4,632,252
20,030	Intangible assets		19,158	21,082
25,255	Investment property		31,989	23,754
-	Other financial assets		-	
9,823	- Investment in CCOs and other similar entities		9,823	9,516
5,840	- Other investments		6,160	8,867
15,663	Total other financial assets		15,983	18,383
7,430	Investment in associates		7,430	7,430
719	Derivative financial instruments	4	1,077	
4,185,195	**Total non-current assets**		**4,363,801**	**4,702,901**
4,333,389	**Total assets**		**4,495,800**	**4,769,573**
	Liabilities			
	Current liabilities			
59,243	Payables and deferred revenue		60,069	32,125
7,435	Employee entitlements		8,504	6,520
1,683	Provisions		1,910	771
83,000	Borrowings	3	42,500	42,800
132	Derivative financial instruments	4	477	4,119
151,493	**Total current liabilities**		**113,460**	**86,335**
	Non-current liabilities			
1,029	Employee entitlements		935	1,100
15,100	Provisions		14,516	23,209
331,346	Borrowings	3	390,057	538,103
32,453	Derivative financial instruments	4	49,204	14,906
379,928	**Total non-current liabilities**		**454,712**	**577,318**
531,421	**Total liabilities**		**568,172**	**663,653**
3,801,968	**Net assets**		**3,927,628**	**4,105,920**
	Equity			
1,803,636	Accumulated funds		1,867,776	1,912,370
1,998,332	Other reserves		2,059,852	2,154,325
	Restricted reserves	15		38,790
	Council created reserves	15		436
3,801,968	**Total equity attributable to Hamilton City Council**		**3,927,628**	**4,105,920**
3,801,968	**Total equity**		**3,927,628**	**4,105,920**

NOTES TO THE STATEMENT OF FINANCIAL POSITION
FOR THE MONTH ENDED 31 JULY 2019

Note 1: Rates and debtors receivables

	Actual			Actual July-2018		
	$000	$000	$000	$000	$000	$000
Rates	**Rates**	**Arrears**	**Total**	**Rates**	**Arrears**	**Total**
Balance as at 1 July	(2,491)	3,363	872	(2,355)	3,319	964
Instalments to date	55,049	-	55,049	48,431	-	48,431
Penalties, adjustments & postponed	213	-	213	197	-	197
Government rebate	(87)	-	(87)	(2)	-	(2)
Council hardship	(9)	-	(9)	(0)	-	(0)
Other remissions	(9,356)	-	(9,356)	(5,960)	-	(5,960)
Rates receipts	(4,489)	(638)	(5,127)	(4,065)	692	(3,373)
Balance as at 31 July	**38,829**	**2,725**	**41,555**	**36,246**	**4,011**	**40,258**
Water by meter			**1,171**			**1,280**
Sundry debtors						
Debtors			6,911			1,342
Rentals			69			435
Rates rebates Internal Affairs			88			1
NZTA			-			-
H3 debtors			966			1,290
GST refund			-			-
			8,034			**8,130**
Interest			422			781
Debtor accruals			3,665			5,738
Parking			3,019			3,405
Provision for doubtful debts			(2,462)			(2,742)
Total Rates and debtors receivables			**55,403**			**56,069**

Sundry debtors ageing

	Actual		Actual Jul-2018
	$000		$000
	as at 1 July 2019		as at 1 July 2018
Current	7,147	Current	1,401
0-30 days	499	0-30 days	(1,674)
30-60 days	134	30-60 days	272
60-90 days	111	60-90 days	19
>90 days	143	>90 days	436
	8,034		**455**

Note 2: Other financial assets - current

	Actual	Actual Jul-2018
	$000	$000
Term deposits	-	31,000
Loan investments	2,105	22,404
Total other financial assets - current	**2,105**	**53,404**

Note 3: Borrowings

	Actual	Annual budget	Actual Jul-2018
	$000	$000	$000
Borrowings - current	42,500	42,800	83,000
Borrowings - non-current	390,057	538,103	331,346
Total external debt	**432,557**	**580,903**	**414,346**

Note 4: Derivative financial instruments

	Actual	Annual budget	Actual Jul-2018
	$000	$000	$000
Interest rate Swaps (current asset)	-	-	-
Interest rate Swaps (non-current asset)	(1,077)	-	719
Interest rate Swaps (current liability)	477	4,119	132
Interest rate Swaps (non-current liability)	49,204	14,906	32,453
Total net derivative financial instrument liabilities	**48,604**	**19,025**	**33,304**

COUNCIL

for the month ended 31 July 2019

YTD 2018/19		Actual	YTD Forecast	YTD Variance Fav/(Unfav)	Approved Budget	Variance Fav/(Unfav)	Annual Approved Budget	Annual Forecast	Annual Variance Fav/(Unfav)
$000		$000	$000	$000	$000		$000	$000	$000
	Everyday revenue								
10,594	Rates	8,542	8,482	60	8,574	(32)	191,659	191,659	0
5,292	Fees and user charges	3,721	3,618	103	3,554	167	38,077	39,048	971
603	Subsidies and grants	1,142	541	601	541	601	6,907	6,907	0
300	Interest revenue	97	138	(41)	138	(41)	1,650	1,650	0
702	Other revenue	945	1,646	(701)	1,646	(701)	20,126	20,126	0
244	Plus NZTA capital subsidy on renewals	544	289	255	289	255	9,235	9,235	0
619	Plus DC interest	724	724	0	724	0	8,693	8,693	0
0	Less HIF fair value benefit	(295)	(1,118)	823	(1,118)	823	(13,412)	(13,412)	0
18,354	**Total everyday revenue**	**15,420**	**14,320**	**1,100**	**14,348**	**1,072**	**262,935**	**263,906**	**971**
	Everyday expenses								
6,323	Personnel costs	7,237	7,536	299	7,578	341	86,426	85,916	510
5,384	Depreciation and amortisation	6,432	6,432	0	6,432	0	76,564	76,564	0
1,617	Finance costs	1,649	1,990	341	1,990	341	24,862	24,862	0
2,659	Operating and maintenance costs	3,097	3,479	382	3,479	382	46,400	46,400	0
232	Professional costs	706	1,052	346	928	222	12,837	14,321	(1,484)
954	Property costs	1,103	1,161	58	1,242	139	14,093	13,975	118
2,503	Other costs	1,548	1,844	296	1,818	270	21,602	21,602	0
(331)	Internal capital recoveries	(786)	(588)	198	(588)	198	(7,901)	(7,901)	0
0	Less HIF discounting	(9)	(97)	(88)	(97)	(88)	(1,160)	(1,160)	0
19,341	**Total everyday expenses**	**20,977**	**22,809**	**1,832**	**22,782**	**1,805**	**273,723**	**274,579**	**(856)**
(987)	**Everyday surplus/(deficit)**	**(5,557)**	**(8,489)**	**2,932**	**(8,434)**	**(2,877)**	**(10,788)**	**(10,673)**	**115**
	Capital revenue								
676	Capital contributions	660	103	557	103	557	11,146	11,146	0
504	NZTA capital subsidy	1,134	1,405	(271)	1,405	(271)	58,544	58,544	0
(244)	Less NZTA capital subsidy on renewals	(544)	(289)	(255)	(289)	(255)	(9,235)	(9,235)	0
2,223	Development contributions	3,439	2,116	1,323	2,116	1,323	25,387	25,387	0
(619)	Less DC interest	(724)	(724)	0	(724)	0	(8,693)	(8,693)	0
1,895	Vested assets	5,866	2,603	3,263	2,603	3,263	31,230	31,230	0
4,435	**Total capital revenue**	**9,831**	**5,214**	**4,617**	**5,214**	**4,617**	**108,379**	**108,379**	**0**
0	**HIF fair value and discounting adjustment**	**286**	**1,021**	**(911)**	**1,021**	**(911)**	**12,252**	**12,252**	**0**
3,448	**OPERATING SURPLUS/(DEFICIT)**	**4,560**	**(2,254)**	**6,814**	**(2,199)**	**6,759**	**109,843**	**109,958**	**115**
	GAINS AND LOSSES								
811	Gains	(4,621)	48	(4,669)	48	(4,669)	579	579	0
(57)	Losses	2,534	0	2,534	0	2,534	0	0	0
754	**Total gains and losses**	**(2,087)**	**48**	**(2,135)**	**48**	**(2,135)**	**579**	**579**	**0**
4,202	**SURPLUS/(DEFICIT)**	**2,473**	**(2,206)**	**4,679**	**(2,151)**	**4,624**	**110,422**	**110,537**	**115**

Attachment 2

DEMOCRACY SERVICES

Governance and Public Affairs | Partnership with Maaori

for the month ended 31 July 2019

YTD 2018/19		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
3	Fees and user charges	2	1	1	12	12	0
0	Subsidies and grants	0	0	0	0	0	0
0	Interest revenue	0	0	0	0	0	0
0	Other revenue	1	0	1	0	0	0
3	**Total everyday revenue**	**3**	**1**	**2**	**12**	**12**	**0**
	Everyday expenses						
18	Personnel costs	36	63	27	711	711	0
0	Depreciation and amortisation	0	0	0	0	0	0
0	Finance costs	0	0	0	0	0	0
0	Operating and maintenance costs	1	7	6	62	62	0
16	Professional costs	188	97	(91)	992	992	0
0	Property costs	0	0	0	0	0	0
111	Other costs	131	134	3	1,593	1,593	0
145	**Total everyday expenses**	**356**	**301**	**(55)**	**3,358**	**3,358**	**0**
(142)	**Everyday surplus/(deficit)***	**(353)**	**(300)**	**(53)**	**(3,346)**	**(3,346)**	**0**
(142)	**OPERATING SURPLUS/(DEFICIT)**	**(353)**	**(300)**	**(53)**	**(3,346)**	**(3,346)**	**0**

* 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 annual budget 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.

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 month ended 31 July 2019

YTD 2018/19		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	0	17	(17)	118	118	0
734	Fees and user charges	370	345	25	5,189	5,189	0
0	Subsidies and grants	0	0	0	0	0	0
29	Interest revenue	9	10	(1)	124	124	0
69	Other revenue	65	60	5	800	800	0
835	**Total everyday revenue**	**444**	**432**	**12**	**6,231**	**6,231**	**0**
	Everyday expenses						
461	Personnel costs	509	526	17	6,049	6,049	0
469	Depreciation and amortisation	545	458	(87)	5,498	5,498	0
159	Finance costs	160	137	(23)	1,643	1,643	0
343	Operating and maintenance costs	169	176	7	3,854	3,854	0
34	Professional costs	17	37	20	319	319	0
128	Property costs	113	121	8	1,477	1,477	0
349	Other costs	168	410	242	1,891	1,891	0
1,943	**Total everyday expenses**	**1,681**	**1,865**	**184**	**20,731**	**20,731**	**0**
(1,108)	**Everyday surplus/(deficit)***	**(1,237)**	**(1,433)**	**196**	**(14,500)**	**(14,500)**	**0**
	Capital revenue						
0	Capital contributions	0	8	(8)	100	100	0
0	**Total capital revenue**	**0**	**8**	**(8)**	**100**	**100**	**0**
(1,108)	**OPERATING SURPLUS/(DEFICIT)**	**(1,237)**	**(1,425)**	**188**	**(14,400)**	**(14,400)**	**0**

* 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 annual budget where they exceed $100k.

Other costs is $242k favourable. This variance is due to the timing of the Hamilton and Waikato Tourism agreed funding commitment payment.

The comments below explain the variance between annual approved budget and annual forecast where they exceed $100k.

There are no significant variances to explain.

Attachment 2

Item 13

Attachment 2

VISITOR ATTRACTIONS

Hamilton Gardens | Waikato Museum | Hamilton Zoo

for the month ended 31 July 2019

YTD 2018/19		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						
54	Rates	61	56	5	678	678	0
230	Fees and user charges	250	230	20	3,194	3,194	0
5	Subsidies and grants	5	8	(3)	85	85	0
3	Interest revenue	1	1	0	11	11	0
10	Other revenue	14	11	3	238	238	0
302	Total everyday revenue	331	306	25	4,206	4,206	0
	Everyday expenses						
612	Personnel costs	659	692	33	7,998	7,998	0
168	Depreciation and amortisation	220	226	6	2,617	2,617	0
14	Finance costs	14	13	(1)	150	150	0
91	Operating and maintenance costs	115	180	65	2,366	2,366	0
18	Professional costs	24	21	(3)	274	274	0
54	Property costs	87	84	(3)	1,033	1,033	0
27	Other costs	14	34	20	599	599	0
984	Total everyday expenses	1,133	1,250	117	15,037	15,037	0
(682)	Everyday surplus/(deficit)*	(802)	(944)	142	(10,831)	(10,831)	0
	Capital revenue						
0	Capital contributions	0	0	0	1,862	1,862	0
0	Total capital revenue	0	0	0	1,862	1,862	0
(682)	OPERATING SURPLUS/(DEFICIT)	(802)	(944)	142	(8,969)	(8,969)	0

* 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 annual budget 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.
There are no significant variances to explain.

ARTS AND COMMUNITY

Libraries | Community Development | Arts Promotion | Theatres

for the month ended 31 July 2019

YTD 2018/19		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						
(2)	Rates	(2)	(4)	2	(26)	(26)	0
48	Fees and user charges	24	24	0	294	494	200
0	Subsidies and grants	1	0	1	2	2	0
0	Interest revenue	0	2	(2)	28	28	0
6	Other revenue	3	6	(3)	66	66	0
52	**Total everyday revenue**	**26**	**28**	**(2)**	**364**	**564**	**200**
	Everyday expenses						
452	Personnel costs	482	487	5	5,522	5,522	0
214	Depreciation and amortisation	277	226	(51)	2,578	2,578	0
0	Finance costs	0	34	34	406	406	0
35	Operating and maintenance costs	62	52	(10)	732	732	0
8	Professional costs	10	56	46	468	586	(118)
39	Property costs	63	59	(4)	838	720	118
944	Other costs	92	224	132	8,207	8,207	0
1,692	**Total everyday expenses**	**986**	**1,138**	**152**	**18,751**	**18,751**	**0**
(1,640)	**Everyday surplus/(deficit)***	**(960)**	**(1,110)**	**150**	**(18,387)**	**(18,187)**	**200**
(1,640)	**OPERATING SURPLUS/(DEFICIT)**	**(960)**	**(1,110)**	**150**	**(18,387)**	**(18,187)**	**200**

* 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 annual budget where they exceed $100k.

Other costs is $132k favourable. Library annual support and licence agreement payment to the Department of Internal Affairs was budgeted in July 2019 but will be paid in August 2019.

The comments below explain the variance between annual approved budget and annual forecast where they exceed $100k.

Fees and User charges are expected to be $200k favourable. Income to be received from Waikato District Council for ratepayer use of Hamilton Libraries.

Professional and Other costs. Budgets misalignment of $118k due to error in the budget upload process. This has been corrected in the forecast.

PARKS AND RECREATION

Community Parks | Natural Areas | Streetscapes | Sports Parks | Playgrounds | Cemeteries and Crematorium | Pools | Indoor Recreation

for the month ended 31 July 2019

YTD 2018/19		Actual	YTD Forecast	YTD Variance Fav/(Unfit)	Annual Approved Budget	Annual Forecast	Annual Variance Fav/(Unfit)
$000		$000	$000	$000	$000	$000	$000
	Everyday revenue						
(4)	Rates	(11)	(17)	6	(201)	(201)	0
512	Fees and user charges	607	515	92	7,140	7,140	0
0	Subsidies and grants	0	0	0	7	7	0
34	Interest revenue	11	15	(4)	171	171	0
32	Other revenue	16	11	5	130	130	0
574	**Total everyday revenue**	**623**	**524**	**99**	**7,247**	**7,247**	**0**
	Everyday expenses						
905	Personnel costs	971	1,015	44	11,948	11,948	0
447	Depreciation and amortisation	609	646	37	7,360	7,360	0
187	Finance costs	189	202	13	2,305	2,305	0
237	Operating and maintenance costs	365	430	65	6,857	6,857	0
19	Professional costs	21	57	36	683	683	0
88	Property costs	176	157	(19)	1,933	1,933	0
144	Other costs	150	164	14	809	809	0
0	Internal capital recoveries	(3)	0	3	0	0	0
2,027	**Total everyday expenses**	**2,478**	**2,671**	**193**	**31,895**	**31,895**	**0**
(1,453)	**Everyday surplus/(deficit)***	**(1,855)**	**(2,147)**	**292**	**(24,648)**	**(24,648)**	**0**
	Capital revenue						
1	Capital contributions	1	0	1	271	271	0
1	**Total capital revenue**	**0**	**0**	**0**	**271**	**271**	**0**
(1,452)	**OPERATING SURPLUS/(DEFICIT)**	**(1,855)**	**(2,147)**	**292**	**(24,377)**	**(24,377)**	**0**

* 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 annual budget 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.
There are no significant variances to explain.

SAFETY

Animal Education and Control | Environmental Health | Alcohol Licensing | Public Safety | Civil Defence

for the month ended 31 July 2019

YTD 2018/19		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
928	Fees and user charges	951	912	39	2,096	2,096	0
0	Subsidies and grants	0	0	0	0	0	0
0	Interest revenue	0	0	0	0	0	0
1	Other revenue	3	3	0	31	31	0
929	**Total everyday revenue**	**954**	**915**	**39**	**2,127**	**2,127**	**0**
	Everyday expenses						
297	Personnel costs	358	327	(31)	3,785	3,745	40
6	Depreciation and amortisation	5	8	3	94	94	0
0	Finance costs	0	0	0	0	0	0
42	Operating and maintenance costs	141	175	34	1,176	1,176	0
5	Professional costs	16	9	(7)	173	106	67
2	Property costs	3	4	1	62	62	0
12	Other costs	14	11	(3)	239	239	0
364	**Total everyday expenses**	**537**	**534**	**(3)**	**5,529**	**5,422**	**107**
565	**Everyday surplus/(deficit)***	**417**	**381**	**36**	**(3,402)**	**(3,295)**	**107**
565	**OPERATING SURPLUS/(DEFICIT)**	**417**	**381**	**36**	**(3,402)**	**(3,295)**	**107**

* 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 annual budget 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.

There are no significant variances to explain.

Attachment 2 Item 13

Attachment 2

PLANNING AND DEVELOPMENT

City Planning | Planning Guidance | Building Control

for the month ended 31 July 2019

YTD 2018/19		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
985	Fees and user charges	928	923	5	10,588	11,359	771
0	Subsidies and grants	0	0	0	0	0	0
11	Interest revenue	4	4	0	46	46	0
1	Other revenue	2	0	2	0	0	0
997	**Total everyday revenue**	934	927	7	10,634	11,405	771
	Everyday expenses						
676	Personnel costs	732	799	67	9,140	9,041	99
0	Depreciation and amortisation	0	0	0	2	2	0
60	Finance costs	60	51	(9)	610	610	0
(1)	Operating and maintenance costs	8	30	22	366	366	0
96	Professional costs	133	220	87	1,962	2,566	(604)
3	Property costs	0	3	3	32	32	0
91	Other costs	166	206	40	2,467	2,467	0
(3)	Internal capital recoveries	(1)	0	1	0	0	0
922	**Total everyday expenses**	1,098	1,309	211	14,579	15,084	(505)
75	**Everyday surplus/(deficit)***	(164)	(382)	218	(3,945)	(3,679)	266
75	**OPERATING SURPLUS/(DEFICIT)**	(164)	(382)	218	(3,945)	(3,679)	266

* 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 annual budget 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.

Fees and user charges are $771k favourable. This variance relates to external recovery income which was not originally budgeted for in the City Planning Unit. This is offset by the increase in professional costs. Consultant spend incurred on plan changes will be fully recovered.

Professional costs are $604k unfavourable. This variance relates to consultancy spend which was not originally budgeted for in the City Planning unit. This is offset by the increase in external recoveries. Consultant spend incurred on plan changes will be fully recovered.

WATER SUPPLY

Water Treatment | Water Storage | Water Distribution

for the month ended 31 July 2019

YTD 2018/19		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						
893	Rates	662	835	(173)	8,285	8,285	0
21	Fees and user charges	(16)	(16)	0	(167)	(167)	0
0	Subsidies and grants	0	0	0	0	0	0
59	Interest revenue	19	25	(6)	298	298	0
0	Other revenue	0	0	0	0	0	0
973	**Total everyday revenue**	**665**	**844**	**(179)**	**8,416**	**8,416**	**0**
	Everyday expenses						
310	Personnel costs	368	379	11	4,327	4,327	0
593	Depreciation and amortisation	772	806	34	9,668	9,668	0
324	Finance costs	327	336	9	4,036	4,036	0
83	Operating and maintenance costs	191	220	29	3,355	3,355	0
(34)	Professional costs	6	49	43	888	888	0
172	Property costs	147	176	29	2,142	2,142	0
7	Other costs	4	9	5	85	85	0
(89)	Internal capital recoveries	(182)	(130)	52	(1,828)	(1,828)	0
1,366	**Total everyday expenses**	**1,633**	**1,845**	**212**	**22,673**	**22,673**	**0**
(393)	**Everyday surplus/(deficit)***	**(968)**	**(1,001)**	**33**	**(14,257)**	**(14,257)**	**0**
	Capital revenue						
111	Capital contributions	78	8	70	52	52	0
111	**Total capital revenue**	**78**	**8**	**70**	**52**	**52**	**0**
(282)	**OPERATING SURPLUS/(DEFICIT)**	**(890)**	**(993)**	**103**	**(14,205)**	**(14,205)**	**0**

* 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 annual budget where they exceed $100k.

Water reticulation rates are $173k unfavourable. The unfavourable variance is due to forecast budget phasings based on last year actuals. Phasing will be readjusted for future reporting.

The comments below explain the variance between annual approved budget and annual forecast where they exceed $100k.

There are no significant variances to explain.

Attachment 2

WASTEWATER

Wastewater Collection | Wastewater Treatment | Wastewater Disposal

for the month ended 31 July 2019

YTD 2018/19		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	(3)	(10)	7	(43)	(43)	0
1,316	Fees and user charges	219	197	22	4,992	4,992	0
0	Subsidies and grants	0	0	0	0	0	0
67	Interest revenue	22	34	(12)	402	402	0
0	Other revenue	0	0	0	0	0	0
1,383	**Total everyday revenue**	238	221	17	5,351	5,351	0
	Everyday expenses						
364	Personnel costs	403	461	58	5,184	5,184	0
775	Depreciation and amortisation	1,081	1,103	22	13,235	13,235	0
365	Finance costs	368	461	93	5,526	5,526	0
313	Operating and maintenance costs	534	462	(72)	6,519	6,519	0
16	Professional costs	22	25	3	794	794	0
138	Property costs	160	182	22	2,406	2,406	0
11	Other costs	0	10	10	151	151	0
(74)	Internal capital recoveries	(161)	(120)	41	(1,644)	(1,644)	0
1,908	**Total everyday expenses**	2,407	2,584	177	32,171	32,171	0
(525)	**Everyday surplus/(deficit)***	(2,169)	(2,363)	194	(26,820)	(26,820)	0
	Capital revenue						
131	Capital contributions	171	7	164	52	52	0
131	**Total capital revenue**	171	7	164	52	52	0
(394)	**OPERATING SURPLUS/(DEFICIT)**	(1,998)	(2,356)	358	(26,768)	(26,768)	0

* 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 annual budget where they exceed $100k.

Capital Contributions are $164k favourable. The favourable variance is due to Connection charges for new connections to the wastewater infrastructure that is offsetting the capital expenditure.

The comments below explain the variance between annual approved budget and annual forecast where they exceed $100k.

There are no significant variances to explain.

STORMWATER

Stormwater Network

for the month ended 31 July 2019

YTD 2018/19		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
8	Fees and user charges	8	47	(39)	241	241	0
0	Subsidies and grants	0	0	0	0	0	0
18	Interest revenue	6	11	(5)	130	130	0
0	Other revenue	0	0	0	0	0	0
26	**Total everyday revenue**	**14**	**58**	**(44)**	**370**	**370**	**0**
	Everyday expenses						
229	Personnel costs	256	279	23	3,186	3,186	0
679	Depreciation and amortisation	851	857	6	10,285	10,285	0
100	Finance costs	101	151	50	1,815	1,815	0
45	Operating and maintenance costs	60	102	42	995	995	0
(18)	Professional costs	3	25	22	351	351	0
30	Property costs	18	21	3	458	458	0
5	Other costs	2	5	3	49	49	0
(59)	Internal capital recoveries	(113)	(79)	34	(1,149)	(1,149)	0
1,011	**Total everyday expenses**	**1,178**	**1,361**	**183**	**15,990**	**15,990**	**0**
(985)	**Everyday surplus/(deficit)***	**(1,164)**	**(1,303)**	**139**	**(15,620)**	**(15,620)**	**0**
	Capital revenue						
47	Capital contributions	31	51	(20)	1,279	1,279	0
47	**Total capital revenue**	**31**	**51**	**(20)**	**1,279**	**1,279**	**0**
(938)	**OPERATING SURPLUS/(DEFICIT)**	**(1,133)**	**(1,252)**	**119**	**(14,341)**	**(14,341)**	**0**

* 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 annual budget 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.
There are no significant variances to explain.

Attachment 2

TRANSPORT

Transport Network | Transport Centre | Parking Management

for the month ended 31 July 2019

YTD 2018/19		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						
(15)	Rates	(18)	(32)	14	(30)	(30)	0
434	Fees and user charges	318	344	(26)	3,346	3,346	0
441	Subsidies and grants	920	390	530	6,238	6,238	0
77	Interest revenue	25	36	(11)	434	434	0
244	Other revenue	223	199	24	2,473	2,473	0
244	Plus NZTA capital subsidy on renewals	544	289	255	289	255	(34)
1,425	**Total everyday revenue**	**2,012**	**1,226**	**786**	**12,750**	**12,716**	**(34)**
	Everyday expenses						
412	Personnel costs	563	608	45	6,891	6,891	0
1,465	Depreciation and amortisation	1,496	1,508	12	18,095	18,095	0
423	Finance costs	427	495	68	5,941	5,941	0
1,010	Operating and maintenance costs	1,244	885	(359)	11,573	11,573	0
24	Professional costs	17	22	5	1,682	1,682	0
212	Property costs	216	232	16	2,417	2,417	0
133	Other costs	264	55	(209)	787	787	0
(99)	Internal capital recoveries	(275)	(223)	52	(2,836)	(2,836)	0
3,580	**Total everyday expenses**	**3,952**	**3,582**	**(370)**	**44,550**	**44,550**	**0**
(2,155)	**Everyday surplus/(deficit)***	**(1,940)**	**(2,356)**	**416**	**(31,800)**	**(31,834)**	**(34)**
	Capital revenue						
385	Capital contributions	378	28	350	7,530	7,530	0
504	NZTA capital subsidy	1,134	1,405	(271)	58,544	58,544	0
(244)	Less NZTA capital subsidy on renewals	(544)	(289)	(255)	(289)	(255)	34
645	**Total capital revenue**	**968**	**1,144**	**(176)**	**65,785**	**65,819**	**34**
(1,510)	**OPERATING SURPLUS/(DEFICIT)**	**(972)**	**(1,212)**	**240**	**33,985**	**33,985**	**0**

* 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 annual budget where they exceed $100k.

Subsidies and grants is $530k favourable. The favourable variance is mainly due to major bridge maintenance work progressing in July.

NZTA capital subsidy on renewals is $255k favourable. Renewal programmes has progressed faster than anticipated and attracted subsidies higher than budgeted for July.

Operating and maintenance costs are $359k unfavourable. The unfavourable variance is due to major bridge maintenance work progressing in July and is partly funded by NZTA subsidies as mentioned above.

Other costs is $209k unfavourable. The unfavourable variance is partly due to Ministry of Justice Court fees due to parking tickets not being paid and needing to be followed up by the Courts. These fees are recovered through the Court collection process. The unfavourable variance also includes costs that will be on-charged to the Infrastructure Alliance.

Subsidies and grants is $530k favourable. The favourable variance is mainly due to major bridge maintenance work progressing in July.

The comments below explain the variance between annual approved budget and annual forecast where they exceed $100k.

There are no significant variances to explain.

RUBBISH AND RECYCLING

Refuse Collection | Waste Minimisation | Landfill Site Management

for the month ended 31 July 2019

YTD 2018/19		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
4	Fees and user charges	(10)	(5)	(5)	(66)	(66)	0
156	Subsidies and grants	178	144	34	575	575	0
1	Interest revenue	0	1	(1)	6	6	0
92	Other revenue	94	37	57	444	444	0
253	Total everyday revenue	262	177	85	959	959	0
	Everyday expenses						
127	Personnel costs	138	142	4	1,621	1,621	0
45	Depreciation and amortisation	48	55	7	657	657	0
8	Finance costs	8	7	(1)	1,200	1,200	0
415	Operating and maintenance costs	41	519	478	6,340	6,340	0
9	Professional costs	31	21	(10)	253	253	0
14	Property costs	4	8	4	80	80	0
1	Other costs	0	2	2	(1,866)	(1,866)	0
0	Internal capital recoveries	0	(9)	(9)	(102)	(102)	0
619	Total everyday expenses	270	745	475	8,183	8,183	0
(366)	Everyday surplus/(deficit)*	(8)	(568)	560	(7,224)	(7,224)	0
(366)	OPERATING SURPLUS/(DEFICIT)	(8)	(568)	560	(7,224)	(7,224)	0

* 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 annual budget where they exceed $100k.
Operating and maintenance costs is $478k favourable. The favourable variance is due to the refuse and recycling collection contract accrual that was not processed in July 2019.

The comments below explain the variance between annual approved budget and annual forecast where they exceed $100k.
There are no significant variances to explain.

OVERHEADS

CE's Office | Corporate | Strategy and Communications | Strategic Property

for the month ended 31 July 2019

YTD 2018/19		Actual	YTD Forecast	Variance Fav/(Unfav)	Annual Approved Budget	Annual Forecast	Annual Variance Fav/(Unfav)
$000		$000	$000	$000	$000	$000	$000
	Everyday revenue						
(57)	Rates	(55)	(70)	15	(296)	(296)	0
69	Fees and user charges	70	102	(32)	1,218	1,218	0
0	Subsidies and grants	38	0	38	0	0	0
0	Interest revenue	0	0	0	0	0	0
247	Other revenue	230	202	28	2,430	2,430	0
259	**Total everyday revenue**	**283**	**234**	**49**	**3,352**	**3,352**	**0**
	Everyday expenses						
1,459	Personnel costs	1,762	1,757	(5)	20,064	19,693	371
522	Depreciation and amortisation	529	540	11	6,475	6,475	0
5	Finance costs	4	6	2	70	70	0
52	Operating and maintenance costs	71	206	135	2,204	2,204	0
39	Professional costs	219	414	195	3,997	4,826	(829)
74	Property costs	116	113	(3)	1,215	1,215	0
667	Other costs	543	800	257	9,217	9,217	0
(7)	Internal capital recoveries	(51)	(28)	23	(341)	(341)	0
2,811	**Total everyday expenses**	**3,193**	**3,808**	**615**	**42,901**	**43,359**	**(458)**
(2,552)	**Everyday surplus/(deficit)***	**(2,910)**	**(3,574)**	**664**	**(39,549)**	**(40,007)**	**(458)**
(2,552)	**OPERATING SURPLUS/(DEFICIT)**	**(2,910)**	**(3,574)**	**664**	**(39,549)**	**(40,007)**	**(458)**

* 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 annual budget where they exceed $100k.

Operating and maintenance costs is $135k favourable. This is due to the phasing of the consequential OPEX budget, and associated capital spend in IS.

Professional costs is $195k favourable. This is largely due to timing of consulting invoices in the facilities unit. It is anticipated that this variance will even out over the course of the next few months.

Other costs is $257k unfavourable. This is due to timing of support and licence agreement payments in IS. It is anticipated that this variance will even out over the course of the next few months.

The comments below explain the variance between annual approved budget and annual forecast where they exceed $100k.

Personnel costs are $371k favourable. This is due to internal movements of budget between CE office, City Growth and Strategy and Communications. Additionally there has been a redistribution of the Infrastructure and Financing (IFF) budget between personnel and consultants.

Professional costs are $829k unfavourable. This is due to internal movements of budget between CE office, City Growth and Strategy and Communications. Additionally there has been a redistribution of the Infrastructure and Financing (IFF) budget between personnel and consultants.

GENERAL
for the month ended 31 July 2019

YTD 2018/19		Actual	YTD Forecast	Variance Fav/(Unfav)	Annual Approved Budget	Annual Forecast	Annual Variance Fav/(Unfav)
$000		$000	$000	$000	$000	$000	$000
	Everyday revenue						
9,721	Rates	7,907	7,707	200	183,174	183,174	0
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
0	Other revenue	295	1,118	(823)	13,516	13,516	0
0	Plus NZTA capital subsidy on renewals	0	0	0	0	0	0
619	Less DC interest	724	724	0	8,693	8,693	0
0	Less HIF fair value benefit	(295)	(1,118)	823	(13,412)	(13,412)	0
10,340	**Total everyday revenue**	**8,631**	**8,431**	**200**	**191,971**	**191,971**	**0**
	Everyday expenses						
0	Personnel costs	0	0	0	0	0	0
0	Depreciation and amortisation	0	0	0	0	0	0
(28)	Finance costs	(10)	97	107	1,160	1,160	0
(6)	Operating and maintenance costs	96	34	(62)	0	0	0
0	Professional costs	0	0	0	0	0	0
0	Property costs	0	0	0	0	0	0
0	Other costs	0	(219)	(219)	(2,626)	(2,626)	0
0	Less HIF discounting	(9)	(97)	(88)	(1,160)	(1,160)	0
(34)	**Total everyday expenses**	**77**	**(185)**	**(262)**	**(2,626)**	**(2,626)**	**0**
10,374	**Everyday surplus/(deficit)***	**8,554**	**8,616**	**(62)**	**194,597**	**194,597**	**0**
	Capital revenue						
2,223	Development contributions	3,439	2,116	1,323	25,387	25,387	0
(619)	Less DC interest (everyday revenue section)	(724)	(724)	0	(8,693)	(8,693)	0
1,895	Vested assets	5,867	2,603	3,264	31,230	31,230	0
3,499	**Total capital revenue**	**8,582**	**3,995**	**4,587**	**47,924**	**47,924**	**0**
0	**HIF fair value and discounting adjustment**	**0**	**0**	**0**	**12,252**	**12,252**	**0**
13,873	**OPERATING SURPLUS/(DEFICIT)**	**17,136**	**12,611**	**4,525**	**254,773**	**254,773**	**0**
	GAINS AND LOSSES						
811	Gains	(4,621)	0	(4,621)	0	0	0
(55)	Losses	2,848	0	2,848	0	0	0
755	**Total gains and losses**	**(1,773)**	**0**	**(1,773)**	**0**	**0**	**0**
The comments below explain the variance between year-to-date actual results and year-to-date budgets where they exceed $100k.							
The comments b	**SURPLUS/(DEFICIT)**	**15,363**	**12,611**	**2,752**	**254,773**	**254,773**	**0**

* Everyday surplus/(deficit) excludes overhead allocation. Refer to Overheads activity statement for overhead results and variance explanations

GENERAL

for the month ended 31 July 2019

The comments below explain the variance between year-to-date actual results and annual budget where they exceed $100k.
Other Revenue is $823k unfavourable. Discounting adjustment associated with the elimination of non cash benefit associated with the Housing Infrastructure Fund (HIF) draw down.
HIF fair value in $823k favourable. Elimination of non cash benefit associated with the Housing Infrastructure Fund (HIF) drawn down as spend to date is lower than budgeted.
Finance Costs are $107k favourable. Overall finance costs include interest revenue as surplus monies have been reinvested.
Other Costs are $219k unfavourable. This represents efficiency savings that have yet to be identified. Savings will be included in the relative activity statements as forecast adjustments as they are identified.
Development contributions (net of DC interest) is $1,323k favourable. Council is experiencing high growth activity.
Vested Assets are $2,603k favourable. More vested assets received than budgeted. Refer to paragraph 25 in the main report.
Gains and losses are $1,773k unfavourable. Consists of $.3M asset write downs associated with assets that have been renewed. $1.8M is due to the monthly non-cash revaluation of financial instruments.

The comments below explain the variance between annual approved budget and annual forecast where they exceed $100k.
There are no significant variances to explain.

Item 13

Attachment 3

TREASURY REPORT
for the one month ended 31st July 2019

Internal Treasury Factors

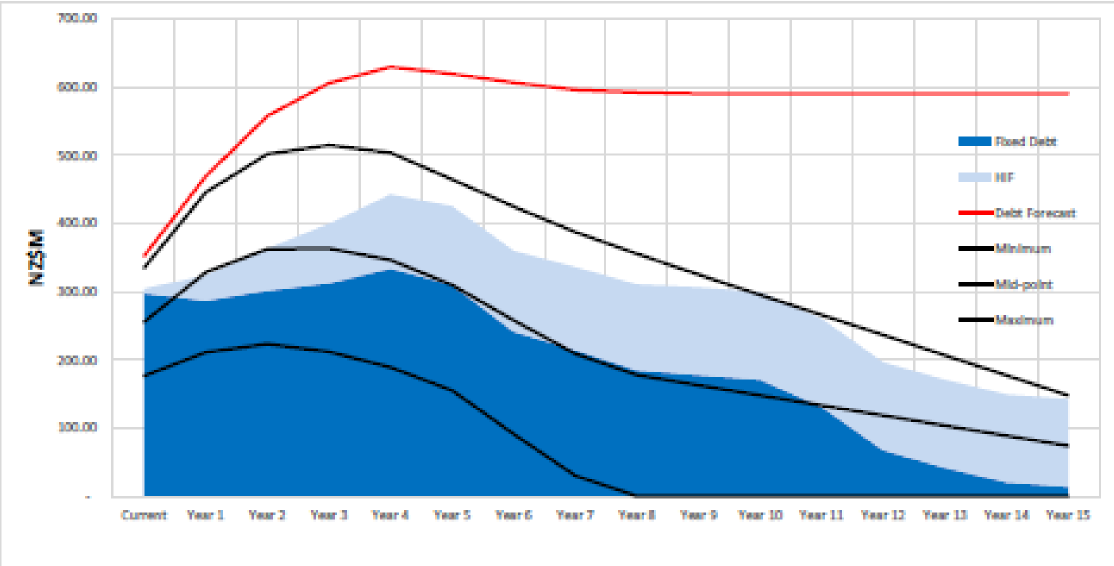
Policy Compliance

		Policy	Result @ 31-Jul-19	Policy Compliance
Fixed rate debt maturity	all years	within annual parameters	achieved for all years	✓
Funding maturity	0 - 3 years	15% - 60%	41%	✓
	3 - 5 years	15% - 60%	21%	✓
	5 years plus	10% - 60%	38%	✓
Liquidity ratio	minimum	110%	129%	✓
Counterparty credit risk	maximum	$75m per bank	not achieved	✗

Comments on policy breaches

The counterparty non-compliance is due to the total transactions with the BNZ totalling $76.06M which exceeded the $75M policy limit as at 31st July 2019.
The call account balance was $54.25M and swaps interest $21.81M.
Funds of $15M were transferred from the BNZ call account to deposits with other banks on the 2nd August 2019.

Fixed rate debt policy tracking



The above graph shows HCC's fixed rate debt compared to fixed rate policy across 15 years. HIF is inclusive as it is fixed at 0%.
Our fixed debt is currently 82% and compliant with policy.

Debt and Cash Investments ($000's)

		Result @ 31-Jul-19	Budget @ 30-Jun-20	Variance Fav. / (Unfav.)
External debt		432,621	642,535	209,914
less Cash investments		(80,423)	(55,000)	25,423
Net debt		352,198	587,535	235,337
Gross cost of funds (12 month rolling average)		4.66%	4.16%	-0.50%
Debt to Revenue		117%	165%	47.79%

Interest ($000's)

		Result @ 31-Jul-19	Budget @ 31-Jul-19	Variance Fav. / (Unfav.)
Interest expense		1,655	1,887	232
Interest revenue		97	138	(41)

Interest Commentary:

Interest expense - We are favourable against budget as the interest rate has come down and debt levels have remained consistent.

Interest revenue - We have an unfavourable variance due to falling interest rates for funds on deposit.

Cash Investments ($000's)

	Result @ 31-Jul-19	Budget @ 31-Jul-19	Variance Fav. / (Unfav.)
On Call Cash	54,255	not apportioned	not apportioned
Term Cash	20,000	not apportioned	not apportioned
Cash at Bank	488	not apportioned	not apportioned
LGFA Borrower Notes	5,680	not apportioned	not apportioned
Total cash investments	80,423	55,000	25,423

Comment:

Our cash balance reflects recent LGFA borrowing of $30M for expected capital and operating cashflows. Surplus immediate funds have been placed on term deposits maturing on payment run dates.

Treasury Emerging Issues

Swaps & Interest

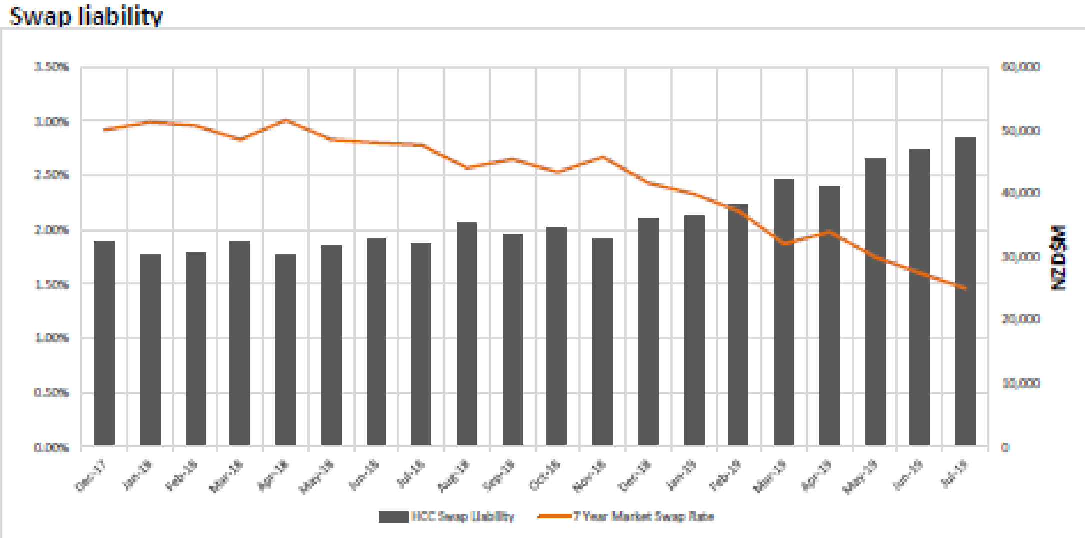
Our current fixed rate policy is at 82%, which has decreased from last month's 85% . External debt has increased due to new LGFA borrowing of $30M. The total value of swaps has remained at the same level, there are $25M of swaps ending in August 2019 with interest rates of between 4.7% and 5.7%. We will let swaps drop off and compare fixed term loans with swaps as required with changing debt levels and swap interest rates .

Swaps & Interest

The risk of lowering our fixed rate policy is that the market rates will suddenly increase and when we do need to take out swaps they will be at a higher % than at the moment. The market is currently at record lows but may rise in the future, we have done some swap extensions of older higher cost swaps to achieve a lower interest rate but this has extended the term of the swaps. We will regularly review our position based on the market and advice from our consultants.

External Treasury Factors

Swap liability



The above graph shows how the movements in '7 year market swap interest rates' impact HCC's swap liability the balance sheet.
If swap interest rates increase, the swap liability decreases.

We use the 7 year market swap rate to compare against as our average swap maturity is 5.75 years at an average cost of 4.61%.

Definitions:

Fixed rate debt maturity - This is a 15 year forward looking policy that guides our fixed and floating rate mix and shows how we are tracking.

Funding maturity - This is a policy that guides our debt maturity and the purpose is to spread our debt maturities. There are three policy tranches.
Liquidity ratio - This is a measure to show that in an event that we will need short term cash we will be sufficiently covered.

Counterparty credit risk - This measure acts to spread all our treasury transactions across banks to reduce risk of having all our eggs in one basket.
External debt - This is all debt held externally with LGFA, banks, MBIE and lease liabilities.
Gross cost of funds - This shows our actual interest expense over average debt.
On Call Cash - This is cash that is held in our treasury account which has slightly higher interest rate than our general day to day account.
Term Cash - This is money that has been put out on term deposit for a certain period with a bank.
Cash at Bank - This is money that is in our general day to day account.

LGFA Borrower Notes - When we take out a loan with LGFA they hold onto 1.6% of the loan and it is invested and matures on maturity of the loan.
Debt replacement - This a term we use when we take out a loan to replace the maturity of another loan.
Pre-funding - This is a term we use when we take out a loan before it needs to be taken and put it on term deposit.

Swaps - These 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 - This 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.

OCR - The official cash rate (OCR) is the term used in Australia and New Zealand for the bank rate and is the rate of interest which the homogeneous central bank charges on overnight loans to commercial banks. This system indirectly influences the term structure of interest rates in the whole economy.

Council Report

Item 14

Committee: Finance Committee **Date:** 10 September 2019

Author: Christie Harger **Authoriser:** Tracey Musty

Position: Corporate Business Manager **Position:** Financial Controller

Report Name: 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 31 July 2019.

Staff Recommendation *(Recommendation to Council)*

2. That the Finance Committee receives the report.

3. That the Finance Committee recommends the Council:

   a) approves the capital savings of $8M in 2018/19 financial year, re-phasing and delay deferrals of an additional $12.6M capital projects from 2018/19 to future years as identified in the 10 September 2019 Capital Portfolio Monitoring Report;

   b) approves an increase to the Approved Contract Sum of Contract 17460 for the replacement and upgrade of the Seddon Park Lights from $4M to $4.2M as identified in the 10 September 2019 Capital Portfolio Monitoring Report;

   c) approves the significant forecast adjustments as set out in paragraphs 22 to 25 of this report; and

   d) approves the revised forecast Financial Strategy graphs for Debt to Revenue, Net Debt and Balancing the Books as set out in paragraphs 26 to 34 of this report.

Executive Summary

4. This report is to be read in conjunction with the:

   a) July 2019 (10 September 2019 meeting) Annual Monitoring Report; and
   b) July 2019 (10 September 2019 meeting) Capital Portfolio Monitoring Report.

5. This report provides a forecast update of the key 10-Year Plan Financial Strategy metrics.

6. 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.

7. Not borrowing to fund everyday expenses maintains Council's borrowing capacity to fund investment in community and infrastructure initiatives.

8. For the first 4 years of the Plan there is very little margin for over-budget spending, be that operating or capital.

Item 14

9. 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.

10. The staff recommendation reflects matters raised in the July 2019 (10 September 2019 meeting) Capital and Annual Monitoring Reports. These reports include provisional results to 30 June 2019 and are yet to be finalised. 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.

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

Background

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 four years (2023/24). This was updated in the 2019/20 Annual Plan.
    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 approved 10-Year Plan Financial Strategy provided for $3M unused debt capacity for the next three years. In the peak year (2021/22), debt capacity headroom is now forecast at $45M. 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.

Significant Forecasting assumptions

16. Any changes in significant forecasting assumptions (pages 72-81, 2018-28 10-Year Plan) will result in changes to the Financial Strategy outcomes.

17. 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

Item 14

- Inflation
    ii. 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.

18. These assumptions will be considered and if necessary adjusted in each Annual Plan.

Financial Strategy Significant Forecast Adjustments

19. This report forecasts the debt to revenue measure and balancing the books measure compared with the 10-Year Plan budget.
20. 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.
21. All significant changes made since the 10-Year Plan and up to 30 June 2019 are listed in Attachment 1.
22. Significant forecasting adjustments since the 21 May 2019 Council meeting are:
    a. Capital savings and re-phasing and delay deferrals from 2018/19 to future years
    b. Adjustment in libraries revenue
    c. Forecast changes from Annual Monitoring Report
23. **Capital savings and re-phasing and delay deferrals from 2018/19 to future years**

Discussion

The 2019/20 10-Year Plan capital expenditure budget was $288.58M. The 21 May 2019 Council Meeting 2019/20 Annual Plan Deliberations report (Item 9, paragraph 30) advised that Capital expenditure in 2019/20 increased by $35.046M to $323.604M. This was confirmed in the final 2019/20 Annual Plan.

In conjunction with realised capital savings of $8M in the 2018/19 financial year, deferrals of $12.6M of capital expenditure and associated $5.6M of capital revenue are proposed from 2018/19 and 2019/20 and 2020/21 financial years.

Financial Strategy Impact

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Balancing the Books $(000)	-	(123)	(420)	(578)	(766)	(804)	(825)	(864)	(906)	(950)
Debt to revenue %	-	(5.88)	(1.73)	(5.82)	(6.88)	(5.06)	(5.17)	(5.06)	(5.04)	(5.13)
Net Debt $(000)	-	(2,612)	(8,297)	(12,302)	(16,299)	(17,103)	(17,928)	(18,792)	(19,699)	(20,648)

Numbers in brackets represent an adverse outcome.

24. **Adjustment in Libraries Revenue**

Discussion
Reinstatement of rental agreement for Waikato District Council ratepayers to use HCC Libraries. Waikato District Council have agreed to a 3-year contract starting 1 July 2019. Forecasts have been adjusted for 2019/20 to 2027/28 based upon the assumption that the terms of future agreements will be aligned. There will be another negotiation in 2021/22 financial year.

Financial Strategy Impact

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Balancing the Books $(000)	-	214	(99)	(106)	(114)	(122)	(131)	(140)	(150)	(161)
Debt to revenue %	-	0.2	(0.04)	(0.07)	(0.10)	(0.14)	(0.17)	(0.20)	(0.23)	(0.26)
Net Debt $(000)	-	214	115	9	(105)	(227)	(358)	(498)	(648)	(809)

Numbers in brackets represent an adverse outcome.

25. **Annual Monitoring Report adjustments**

Discussion
Minor operational forecasting adjustments have been made and included in the 10 September 2019 Annual Monitoring Report for 2019/20 forecast.

Financial Strategy Impact

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Balancing the Books $(000)	-	134	7	7	7	8	8	8	9	9
Debt to revenue %	-	0.63	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Net Debt $(000)	-	134	141	148	155	163	171	179	187	197

Numbers in brackets represent an adverse outcome.

Financial Strategy Graphs

26. 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 paragraph 24 above (in green).

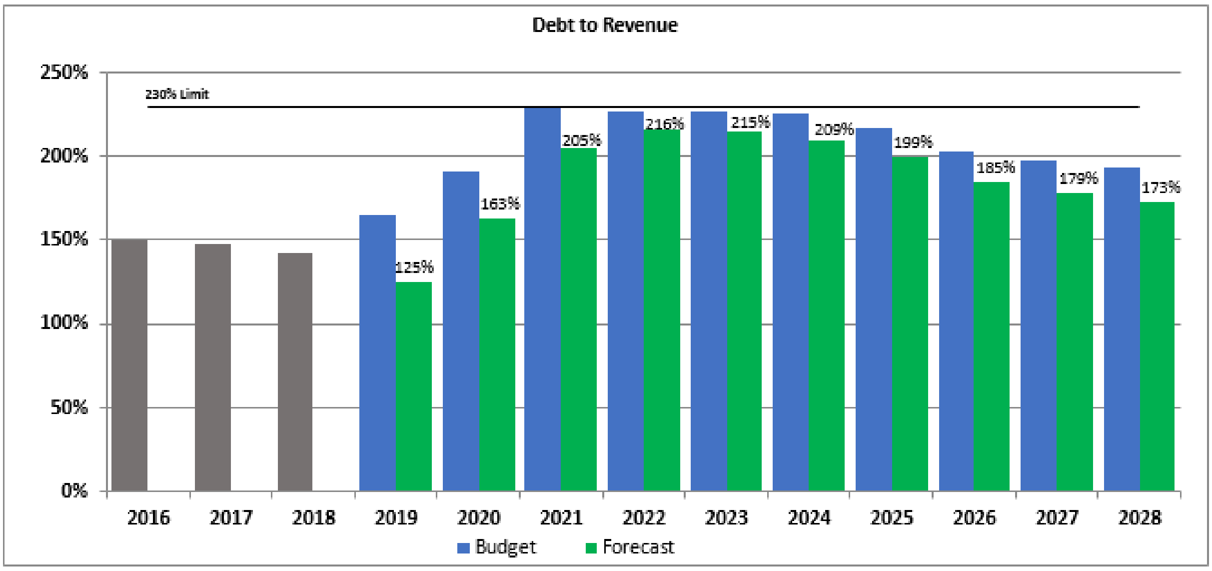
27. Forecast changes include matters contained in this agenda and subject to decision by the:

    a) Finance Committee; or

    b) Council.

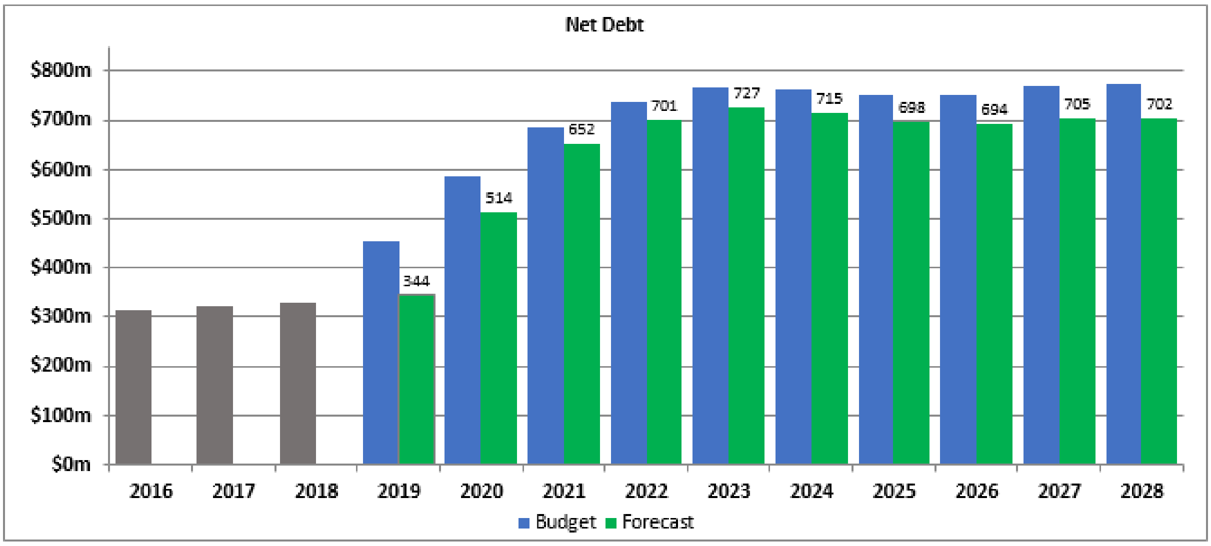
28. The potential impact of the Financial Strategy risks is not adjusted for in these graphs.

29. **Debt to Revenue**



30. The Debt to Revenue graph includes all adjustments identified in this report and shows that the forecast debt to revenue is favourable against the 10-Year Plan budget. The 2019/20 Annual Plan forecasted 2018/19 debt to revenue ratio of 131%. 2018/19 has now been updated using the provisional results, resulting in a lower debt to revenue ratio of 125%. In 2021/22, the forecast is to reach 216% debt to revenue ratio. The financial strategy limit is currently 230%.

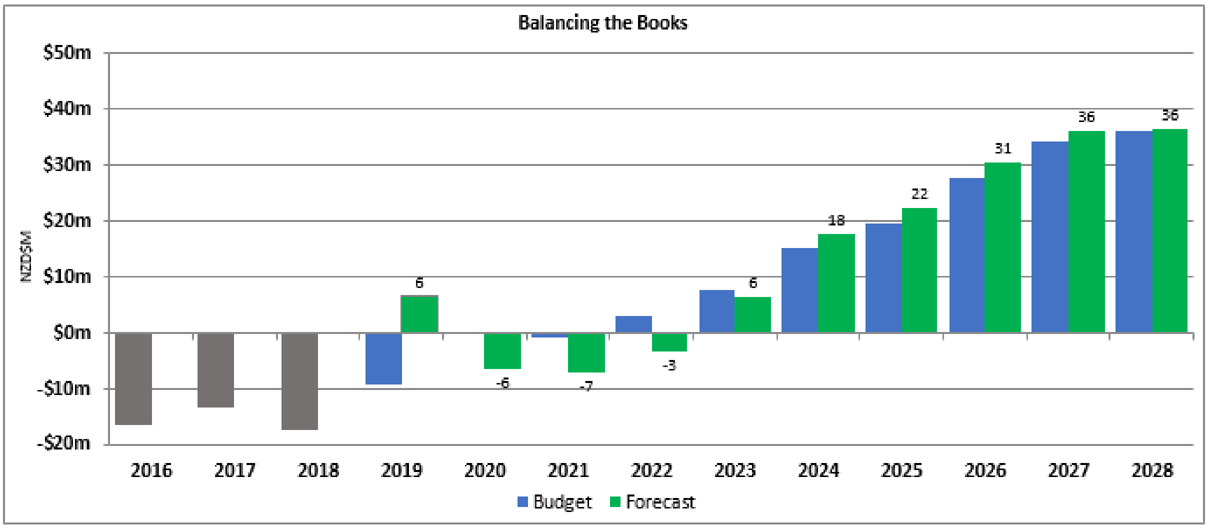
31. **Net Debt**



32. The Net Debt graph shows a decrease in net debt against the 10-Year Plan. The 2019/20 Annual Plan forecasted the 2018/19 net debt to be $361M. The provisional accounting result for 2018/19 has now been updated to a $65.5M surplus against a forecast of $76.3M. These results ($10.8M unfavourable surplus) have led to a lower provisional net debt of $344M.

Item 14

33. **Balancing the Books**



34. The 2019/20 Annual Plan forecasted the 2018/19 balancing the books to be $0.7M. Provisional results for 2018/19 show a balancing of books of $6.5M favourable. Forecast remains on track to balance the books again in 2022/23.

Risks to the Financial Strategy

35. The forecast adjustments above lead to improved Financial Strategy metrics. However emerging issues reported in the July 2019 (10 September 2019 meeting) Annual and Capital Portfolio Monitoring Reports indicate unfavourable movements could put these improvements at risk.

36. The debt to revenue margin on debt capacity of $45M in two years' time (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 2022/23.

Emerging Issues

37. The July 2019 (10 September 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.

38. The July 2019 (10 September 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 remainder of the 10-Year Plan.

39. There are no new emerging issues additional to and not included in the above reports.

Legal and Policy Considerations

40. Staff confirm that the staff recommendations in this report comply with the Council's legal and policy requirements.

Risks

43. This report is based on decisions that have been made in the context of assumptions that may change.

Item 14

Wellbeing Considerations

44. The purpose of Local Government changed on the 14 May 2019 to include promotion of the social, economic, environmental and cultural wellbeing of communities in the present and for the future ('the 4 wellbeings').

45. The subject matter of this report has been evaluated in terms of the 4 wellbeings during the process of developing this report as outlined below. The recommendations set out in this report are consistent with that purpose.

46. There are no known social, economic, environmental or cultural considerations associated with this matter.

Significance & Engagement Policy

Significance

47. 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

48. Given the low level of significance determined, the engagement level is low. No engagement is required.

Attachments

Attachment 1 - Register of Significant Forecast Changes September 2019

Register of Significant Forecast Changes

$000's

The follow signficant forecasting changes have previously been approved.

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)

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	-	-	-	-	-	-	-	-	-	-
		ND	(36)	-	-	-	-	-	-	-	-	-
	Reduction in libraries revenue due to Waikato DC contract 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 Finance Committee on 21 February 2019	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 November 2018 plus another 20% unbudgeted	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 (Maangai Maaori)	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 transferred from 2018/19 to 2019/20	BB	850	(826)	-	-	-	-	-	-	-	-
		ND	850	25	26	27	28	30	31	33	34	36
	Operating costs to maintain Founders Theatre until demolition	BB	-	(48)	-	-	-	-	-	-	-	-
		ND	-	(48)	(51)	(53)	(56)	(59)	(61)	(64)	(67)	(71)
	Reduced WRC revenue at Transport Centre (G&I Committee resolution 6 December 2018)	BB	-	(59)	-	-	-	-	-	-	-	-
		ND	-	(59)	(62)	(65)	(68)	(72)	(75)	(79)	(82)	(86)
	Chief Executive budget items - net zero impact, resolving within existing budgets	BB	-	-	-	-	-	-	-	-	-	-
		ND	-	-	-	-	-	-	-	-	-	-
	GM budget items - net 'zero' impact, resolving within existing budgets	BB	-	(24)	-	-	-	-	-	-	-	-
		ND	-	(252)	(264)	(277)	(291)	(305)	(320)	(335)	(351)	(368)

Date	Change		2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
9-Apr-19	Electricity savings 2020/21 and 2021/22	BB	-	-	344	662	50	52	53	56	59	62
		ND	-	-	344	1,006	1,056	1,108	1,161	1,217	1,276	1,338
	Elected Members Remuneration Increase	BB	-	(161)	(172)	(184)	(197)	(211)	(225)	(240)	(256)	(273)
		ND	-	(161)	(333)	(518)	(715)	(926)	(1,151)	(1,391)	(1,647)	(1,920)
	Insurance 20% increase from Y3-10	BB	-	-	(566)	(721)	(915)	(1,154)	(1,445)	(1,810)	(2,260)	(2,818)
		ND	-	-	(566)	(1,287)	(2,202)	(3,356)	(4,801)	(6,610)	(8,870)	(11,688)
	Capital Deferrals and NZTA capital subsidy deferred	BB	927	1,955	(57)	(59)	26	27	28	29	31	32
		ND	19,117	41,586	(1,205)	(1,264)	551	578	606	635	665	698
	Capital savings	BB	33	34	36	37	39	41	42	44	47	49
		ND	690	724	760	797	837	878	920	965	1,011	1,060
	Depreciation Y1 Update	BB	(2,206)	-	-	-	-	-	-	-	-	-
		ND	-	-	-	-	-	-	-	-	-	-
	Founders Theatre Demolition	BB	-	868	(844)	-	-	-	-	-	-	-
		ND	-	868	24	25	26	27	29	30	32	33
	Municipal Pools Demolition deferral from 2018/19 to 2019/20	BB	788	(765)	-	-	-	-	-	-	-	-
		ND	788	23	24	25	26	28	29	30	32	33
	Chief Executive budget items	BB	4,689	231	243	255	267	280	288	302	316	331
		ND	4,689	4,921	5,163	5,418	5,685	5,966	6,253	6,555	6,871	7,202

Date	Change		2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	
23-May-19	Chief Executive budget items - Annual Plan net zero impact, resolving within existing budgets	BB	-	-	-	-	-	-	-	-	-	-	
		ND	-	-	-	-	-	-	-	-	-	-	
	GM budget items - Annual Plan net 'zero' impact, resolving within existing budgets	BB	19	(397)	-	-	-	-	-	-	-	-	
		ND	395	-	-	-	-	-	-	-	-	-	
	Chief Executive budget items - forecast changes from Annual Monitoring report 23/5/19	BB	858	60	62	66	69	72	74	78	81	85	
		ND	1,208	1,267	1,330	1,395	1,464	1,536	1,610	1,688	1,769	1,855	
	Capital Deferrals	BB	937	(148)	8	8	9	9	10	10	10	11	
		ND	19,314	(3,153)	171	179	188	197	207	217	227	238	
	Capital NZTA capital subsidy deferred	BB	1,265	1,063	279	292	307	322	330	346	363	380	
		ND	26,079	22,618	5,928	6,220	6,527	6,849	7,179	7,526	7,888	8,269	
	Capital savings	BB	(668)	(615)	186	195	204	214	220	231	242	253	
		ND	(13,783)	(13,092)	3,947	4,142	4,346	4,561	4,781	5,011	5,253	5,506	
	Capital Consequential Opex adjustment	BB	1,027	51	53	56	59	61	63	66	69	73	
		ND	1,027	1,077	1,131	1,186	1,245	1,306	1,369	1,435	1,504	1,577	
	Cemeteries Software System (new capex project, switched from existing opex 10YP budget)	BB	250	-	-	-	-	-	-	-	-	-	
		ND	-	-	-	-	-	-	-	-	-	-	
	Depreciation Y2-10	BB	-	(4,260)	(6,051)	(8,744)	(3,692)	(621)	363	807	(518)	(2,393)	
		ND	-	-	-	-	-	-	-	-	-	-	
	Alternate Infrastructure Financing Project (SPV) Support Costs	BB	-	(820)	(40)	(42)	(45)	(47)	(48)	(50)	(53)	(55)	
		ND	-	(820)	(861)	(903)	(948)	(995)	(1,043)	(1,093)	(1,146)	(1,201)	
	Corporate Resources: LGOIMA and Risk Security	BB	-	(273)	(13)	(14)	(15)	(16)	(16)	(17)	(18)	(18)	
		ND	-	(273)	(287)	(301)	(316)	(332)	(348)	(364)	(382)	(400)	
	Corporate Governance elections cost increase	BB	-	(107)	(5)	(6)	(6)	(6)	(6)	(7)	(7)	(7)	
		ND	-	(107)	(113)	(118)	(124)	(130)	(136)	(143)	(150)	(157)	
	Seismic strengthening work	BB	-	(51)	(54)	(57)	(59)	(62)	(64)	(67)	(70)	(74)	*
		ND	-	(1,092)	(1,146)	(1,203)	(1,262)	(1,324)	(1,388)	(1,455)	(1,525)	(1,599)	
	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)	
	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)	
	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)	
	DC Revenue projection - Both Additional CAPEX & CBD Remission for 2020 Annual Plan	BB	-	1,165	1,637	1,655	1,762	1,809	2,086	2,292	2,274	2,943	*
		ND	-	3,062	7,118	10,896	14,652	18,229	22,286	26,565	30,459	35,809	
	Central City Plan proposal	BB	-	(214)	(11)	(11)	(12)	(12)	(13)	(13)	(14)	(14)	*
		ND	-	(214)	(225)	(236)	(248)	(260)	(273)	(286)	(299)	(314)	
	Cat desexing	BB	-	(107)	(115)	(123)	(132)	(141)	(150)	(160)	(171)	(182)	*
		ND	-	(107)	(222)	(345)	(477)	(617)	(767)	(927)	(1,098)	(1,280)	
	Community Grant funds increase	BB	-	(107)	(115)	(123)	(132)	(141)	(150)	(160)	(171)	(182)	*
		ND	-	(107)	(222)	(345)	(477)	(617)	(767)	(927)	(1,098)	(1,280)	

Date	Change		2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
1-Aug-19	Libraries revenue - reinstatement of rental agreement for Waikato DC ratepayers to use HCC Libraries	BB	-	214	(99)	(106)	(114)	(122)	(131)	(140)	(150)	(161)
		ND	-	214	115	9	(105)	(227)	(358)	(498)	(648)	(809)
	Central City Jetty additional funding	BB	-	(26)	(27)	(28)	(30)	(31)	(32)	(33)	(35)	(37)
		ND	-	(546)	(573)	(601)	(631)	(662)	(694)	(728)	(763)	(799)
	Capital Deferrals and NZTA capital subsidy deferred	BB	-	(26)	(27)	(28)	(30)	(31)	(32)	(33)	(35)	(37)
		ND	-	(546)	(573)	(601)	(631)	(662)	(694)	(728)	(763)	(799)

* (Annual Plan budget proposals approved 21st May at Council Meeting)

Item 15

Council Report

Committee:	Finance Committee	**Date:**	10 September 2019
Author:	Sean Hickey	**Authoriser:**	Sean Hickey
Position:	General Manager Strategy and Communications	**Position:**	General Manager Strategy and Communications
Report Name:	Cost Savings Report		

Report Status	*Open*

Purpose

1. To inform the Finance Committee on progress towards achieving the Council's cost-savings target of $94.5m over ten years.

Staff Recommendation

That the Finance Committee receives the report.

Executive Summary

2. As part of the 2018-28 10-Year Plan, the Council budgeted to save $94.498m in operating savings over ten years and $4.0m in Year 1 (2018/19).

3. The Council has achieved its savings target for 2018/19.

4. In 2018/19, the Council's total operating costs were $2.96m below budget after accounting for the $4.0m savings already factored into the budget (ie $6.96m under gross budget).

5. In relation to targeted savings, these have come primarily from:

   a) Optimised capital programme - $0.917m
   b) Vacancy management - $3.203m

6. A Head of Transformation role is currently being recruited to shape the transformation programme and coordinate future savings efforts.

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

Background

8. In the 2018-28 10-Year Plan, the Council budgeted for $94.5m in operating savings to be achieved over ten years. The budgeted annual and cumulative savings are shown below:

2018/2028 10 Year Plan Council Savings Target ($000)	**Year 1 18/19**	**Year 2 19/20**	**Year 3 20/21**	**Year 4 21/22**	**Year 5 22/23**	**Year 6 23/24**	**Year 7 24/25**	**Year 8 25/26**	**Year 9 26/27**	**Year 10 27/28**	**10 Year Total**
Annual savings in operating expenses (un-inflated)	$4,000	$2,000	$1,000	$1,000	$1,000	$1,000	$0	$0	$0	$0	
Annual savings in operating expenses **(inflated)**	$4,000	$2,044	$1,044	$1,067	$1,092	$1,117	$0	$0	$0	0	
Cumulative Savings (un-inflated)	$4,000	$6,000	$7,000	$8,000	$9,000	$10,000	$10,000	$10,000	$10,000	$10,000	$84,000
Cumulative Savings **(inflated)**	$4,000	$6,132	$7,312	$8,536	$9,828	$11,170	$11,440	$11,730	$12,020	$12,330	$94,498

9. The Chief Executive presented a report to Council on 26 June 2018 outlining the high-level opportunities available to Council to achieve these savings. This report is here (Item 11).

10. On 21 February 2019 he presented the first six-monthly progress report to the Finance Committee, noting that the Council was on track to deliver its savings target of $4.0m in Year 1. This report is here (Item 12).

11. In April 2019, the Transformation Director, whose responsibilities included coordinating the Council's savings efforts, left the Council. The General Manager, Strategy and Communication has since assumed this responsibility and has prepared this report.

12. This report covers the savings achieved in the 2018/19 financial year.

Discussion

Savings achieved

13. In 2018/19, the Council's total operating costs were $2.96m below budget after accounting for the $4.0m savings already factored into the budget (ie $6.96m under gross budget).

14. For the purposes of this report, staff have not explained the total $6.96m variance, noting that this has already been reported to the Finance Committee on 1 August 2019 as part of the Annual Monitoring Report to 30 June 2019.

15. The 'targeted savings' described in this report are from optimising the capital programme and from vacancy management. Together, these account for $4.1m of savings in 2018/19.

16. Other efficiency savings have also been achieved – eg electricity and gas savings through the Council's energy management programme - but these have been difficult to specifically account for, as savings in one area are often offset by increases in another.

17. Staff expect that, once a Head of Transformation role is in place, we will be better able to report on the broader suite of savings initiatives.

18. Optimised capital programme:

19. In the report to the 26 June 2018 Council meeting, it was noted that the newly established Capital Delivery Group had been established with an expectation that it would lead an optimised capital programme – i.e. deliver the programme for less money, without compromising community outcomes.

20. The forecast for 2018/19 was to deliver $8.778m of capital savings and $0.390m of operating savings through reduced interest and depreciation costs.

Capital Programme Savings Forecast:

Inflated $(000)	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10	Total
Reduced Net Capex Spend	8,778	16,811	14,156	16,202	15,026	12,007	12,115	14,382	17,172	16,489	143,147
	0	0	0	0	0	0	0	0	0	0	0
Operating Savings:	0	0	0	0	0	0	0	0	0	0	0
Interest savings	213	783	1,464	2,132	2,821	3,400	3,828	4,410	5,143	5,963	30,157
Depreciation savings	177	525	800	1,142	1,463	1,712	1,949	2,234	2,567	2,876	15,444
Total Operating Savings	**390**	**1,308**	**2,264**	**3,274**	**4,284**	**5,112**	**5,777**	**6,644**	**7,710**	**8,839**	**45,601**

21. Optimising the capital programme has involved a number of linked tactics including:

    a) Cost management – Through good project management, staff have been able to deliver individual projects under budget.

    b) Innovative contracts - Staff have been able to leverage strong relationships and scale to negotiate better deals for the Council.

    c) Integration with developers - through collaboration with developers, infrastructure has been delivered at a reduced cost to the Council.

    d) Portfolio management – an agile approach to the timing of projects within the capital programme, overseen by regular reporting to the Finance Committee, has enabled the Council to defer spending on some projects without compromising community outcomes.

22. The first three of these categories are 'direct savings' – ie have resulted in capital projects being delivered for less money than budgeted.

23. In 2018/19, the capital programme has achieved 'direct' capital savings of $8.030m (against a forecast of $8.778m) which has resulted in $0.253m of operating savings.

24. The fourth category - Portfolio management savings - is a conservative assessment of additional interest savings achieved from projects where deferred spending has been deliberate and is not expected to impact the outcome delivered. No projects in the Renewals and compliance programme are included in this assessment.

    The total operating savings from optimising the capital programme in 2018/19 is $0.917m.

Capital Programme Savings 2018/19

Savings Category	Capital Savings $(000)	Operating Savings $(000)		
		Depreciation	Interest	Total
Direct savings:				
Cost management	4,570	36	105	141
Innovative Contracts	1,660	10	38	48
Integration with Developers	1,800	23	41	64
Direct Savings Total	8,030	69	184	253
	0	0	0	0
Portfolio management savings	28,939	0	664	664
Total Savings	**36,969**	**69**	**848**	**917**

25. Depreciation has been calculated per project based on their expected useful life. This has contributed $0.069m operating savings in 2018/19.

26. Interest has been calculated at 4.65% per year for an average of six months of the year on relevant projects. This has contributed $0.848m operating savings in 2018/19.

27. Savings in personnel costs as a result of the optimised capital programme have been incorporated into 'vacancy management' savings.

28. It was also noted in the June 2018 savings report to Council that we would monitor and report any cost drivers to the capital programme that are outside our control and which may erode the capital programme efficiencies. Examples of such drivers were given as legislation change, standards change (such as seismic and impacts of Havelock North), cost of Finance, accelerated land costs etc. Work is underway in year 2 to report on these drivers.

Item 15

29. <u>Vacancy management:</u>

30. Savings from vacancy management is the difference between budgeted and actual personnel costs.

31. Although it is often thought of as simply deferring recruitment of personnel, vacancy management is also a means by which efficiency improvements generated throughout the business are realised as savings.

32. Often these savings are not tagged to a specific initiative as they are enabled by numerous small initiatives or improvements over time. However, this saving category does also capture specific initiatives. For example,

    a) the City Planning and Property Team have been combined and changes to how the work is structured has created efficiencies.

    b) the Animal Control team reassessed their required staffing needs and have removed a budgeted (vacant) role.

    c) civic event management responsibilities in the Governance team have been incorporated into the Strategy and Communication Group.

    d) the Building Control team have reduced their reliance on contractors for inspections and now utilise a pool of casual staff, reducing total spend by an estimated $0.050m per year.

33. Over time, as more efficiencies are created, the Council should expect to see further, enduring savings in vacancy management.

34. Vacancy management has contributed $3.2m operating savings in 2018/19.

Savings category	2018/19 Actuals $(000)	2018/19 Budget $(000)	2018/19 Operating Savings $(000)
Personnel	79,965	83,168	(3,203)

Future programme

35. A Head of Transformation role is currently being recruited. This role will be responsible for leading the Council's broader 'reimagining local government strategy', a component of which is achieving the budgeted cost savings.

36. The revised programme will be reported to the Finance Committee as part of the next six-monthly report.

37. The Council is budgeted to achieve $6.1m of savings in 2019/20.

Financial Considerations

38. The budget for delivering this programme is $500,000 in Year 1 and 2 of the 10-Year Plan.

Item 15

Legal and Policy Considerations

39. Staff confirm that the staff recommendation complies with the Council's legal and policy requirements.

Wellbeing Considerations

42. The purpose of Local Government changed on the 14 May 2019 to include promotion of the social, economic, environmental and cultural wellbeing of communities in the present and for the future ('the 4 wellbeings').

43. The subject matter of this report has been evaluated in terms of the 4 wellbeings during the process of developing this report as outlined below. The recommendations set out in this report are consistent with that purpose.

44. There are no known social, economic, environmental or cultural considerations associated with this matter.

Risks

45. There are no known risks associated with the decisions required for this matter.

Significance & Engagement Policy

Significance

46. 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

47. Given the low level of significance determined, the engagement level is low. No engagement is required.

Attachments

There are no attachments for this report.

Council Report

Item 16

Committee:	Finance Committee	**Date:**	10 September 2019
Author:	Hannah Helleur	**Authoriser:**	Lance Vervoort
Position:	Playground Project Leader	**Position:**	General Manager Community
Report Name:	Contract 17281 - Playgrounds Renewal and Development Programme - Approved Contract Sum		

Report Status	*Open*

Purpose

1. To seek to increase the Approved Contract Sum of existing Contract 17281 – Playgrounds Renewal and Development with Fluhler Contracting Limited for delivery of the planned and budgeted playground renewal and upgrade programme.

2. No additional funding is required as the playground programme is budgeted for in the 2018-28 10-Year Plan.

Staff Recommendation

That the Finance Committee approves the increase of the Approved Contract Sum of Contract 17281 for delivery of the Playground Renewal and Development Programme.

Executive Summary

3. Contract 17281 is an existing contract to deliver components of the planned playground programme.
4. The contract was awarded to Fluhler Contracting Limited in January 2019 following a public tender process with an approved contract sum of $3,000,000.
5. The contract term was set at 3 years to deliver programmed renewal, new and upgraded playgrounds in the 2018/19, 2019/20 and 2020/21 years.
6. The 2018/19 playground programme has successfully been delivered. An increase to the existing Approved Contract Sum is now required in order for the contract to continue to 30 June 2021 and deliver the playground programme as planned.
7. No additional funding is required as the playground programme is budgeted for in the 2018-28 10-Year Plan.
8. Staff consider the decision in this report has low significance and that the recommendations comply with the Council's legal requirements.

Background

9. Contract 17281 is for the delivery of the three-year playground programme. This consists of both playground developments (new and upgraded playgrounds) and playground renewals.

10. The contract is a measure and value contract and was awarded to Fluhler Contracting Limited in January 2019 following a public tender process.

Item 16

11. Capital expenditure and external revenue for playground developments (new and upgraded playgrounds) was approved in the 2018-28 10-Year Plan. Playground renewals are funded from the asset renewals capital programme, also approved in the 2018-28 10-Year Plan.

12. The playground development programme for new and upgraded playgrounds was approved at the 19 February 2019 meeting of Community, Environment and Services Committee as part of the Playground Plan.

13. The 2018/19 playground programme has successfully been delivered, this includes new playgrounds at Mangaiti Park and Hillcrest Stadium along with renewed playgrounds at Derek Heather Park and Hillcrest Park. Fluhler Contracting Limited are performing exceptionally under the Contract, delivering a high standard of work, meeting timeframes and budgets.

Discussion

14. This delivery approach maximises efficiencies and avoids the need to tender each individual playground project over a three-year timeframe.

15. The total budget to complete the playground programme over the three years is $6,100,000. This is made up of renewal funding for existing playgrounds and capital funding for new playground developments. Some reactive maintenance work is also carried out under the contract along with other minor park asset renewals when they align with playground projects.

16. At the time of awarding the contract the Playground Plan was under review. The Playground Plan which includes the playground programme was approved at the February 2019 meeting of Community, Environment and Services Committee.

17. At the time of contract award, the Contract Sum was set to cover Year 1 of the 10 Year Plan with some allowance for work to begin on the Year 2 renewal projects as budgeted in the 10 Year Plan.

18. An increase in the Contract Sum is now required to complete the remainder of Year 2 and Year 3 works.

19. An increase in the Approved Contract Sum from $3,000,000 to $6,100,000 will enable the Contract to continue through to 30 June 2021 without disruption to the delivery of the playground programme.

20. If the Approved Contract Sum is not increased a new contract would be required and the procurement process would adversely impact on the ability to deliver the playground programme.

21. The contract period is three years with an expected completion on 30 June 2021. After which, public tenders will be called for a new three year contract in line with the next 10 Year Plan budget decisions.

22. The delivery of the playground programme aligns with Council's Play Strategy and Playground Plan.

Financial Considerations

23. The total costs to complete this programme is $6,100,000, which is funded through the 10-Year Plan. Existing budgets are sufficient to cover the proposed increased Contract Sum.

24. The programme is funded through playground renewal and playground development budgets.

25. Some projects have an element of park asset renewal budget. When other assets in the park are due for renewal there are efficiencies in the renewal being carried out the same time as the playground work, for example bollard; sign and path replacements.

Type of Costs	2018/19	2019/20	2020/21
Capital Expenditure	$821,800	$522,200	$700,000
Renewal Expenditure	$460,000	$1,716,200	$1,552,000
Estimated Maintenance Expenditure	$57,800	$135,000	$135,000
Total	**$1,339,600**	**$2,373,400**	**$2,387,000**

Item 16

Legal and Policy Considerations

26. Staff confirm that the recommendation of this report complies with Council's Delegations Policy.

Wellbeing Considerations

27. The purpose of Local Government changed on the 14 May 2019 to include promotion of the social, economic, environmental and cultural wellbeing of communities in the present and for the future ('the 4 well-beings').

28. The subject matter of this report has been evaluated in terms of the 4 wellbeings during the process of developing this report. Contract 17281 and the playground projects delivered under the contract contribute to all four wellbeings.

Social

29. The projects delivered under Contract 17281 contribute to the social wellbeing of Hamiltonians through the provision of high quality, accessible play spaces.

Economic

30. Local impact was evaluated during the tender process for this contract. Fluhler Contracting Limited are a local company, employing a team of local people. The business and their activities contribute towards the economic wellbeing of Hamilton.

Environmental

31. Environmental sustainability was evaluated during the tender process for this contract. Fluhler Contracting Limited have a sound Environmental Policy that is applied to each project and site.

Cultural

32. The projects delivered under Contract 17281 contribute to the cultural wellbeing of Hamiltonians. Through community led design, new playground developments offer local culture, history and identity of the local area.

Risks

33. If the Approved Contract Sum is not increased a new contract would be required and the procurement process would adversely impact on the ability to deliver the playground programme.

Item 16

Significance & Engagement Policy

Significance

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

Engagement

35. Community views and preferences are taken into consideration on individual playground projects through community engagement.

36. Given the low level of significance determined, the engagement level is low. No engagement is required.

Attachments

There are no attachments for this report.

Council Report

Item 17

Committee:	Finance Committee	**Date:**	10 September 2019
Author:	Maire Porter	**Authoriser:**	Eeva-Liisa Wright
Position:	City Waters Manager	**Position:**	General Manager Infrastructure Operations

Report Name: Contract 13299A - Chemical Procurement for Water Treatment - Increase to Approved Contract Sum

Report Status	*Open*

Purpose

1. To seek approval for an increase to the Approved Contract Sum for Contract 13299A Chemical Procurement for Water Treatment.

2. The proposed increase in approved contract sum is expected to cover the supply of water and wastewater treatment chemicals required until the final three-year contract right of renewal in August 2021 and is a funded operational expense in the 2018-28 10 Year Plan.

Staff Recommendation

That the Finance Committee approves an increase to the Approved Contract Sum for Contract 13299A Chemical Procurement for Water Treatment with Ixom Operations Pty Ltd, by a total value of $3,256,783 to a revised value of $6,551,783, funded through the 2018-28 10 Year Plan.

Executive Summary

3. Hamilton City Council has a contract in place with Ixom Operations Pty Ltd (Ixom) for the supply of a range of chemicals for the treatment of Hamilton's drinking water at the Waiora Water Treatment Plant and the treatment of wastewater at the Pukete Wastewater Treatment Plant.

4. The chemical supply contract has been in place since October 2014 and there has been no increase in approved contract sum since that time.

5. Staff seek approval from the Finance committee to increase the approved contract sum for Contract 13299A Chemical Procurement for Water Treatment with Ixom by $3,256,783 to a revised value of $6,551,783.

6. The proposed increase in approved contract sum is expected to cover the supply of water and wastewater treatment chemicals required until the final three-year contract right of renewal in August 2021 and is a funded operational expense in the 2018-28 10 Year Plan.

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

Background

8. The water and wastewater treatment plants use a variety of bulk treatment chemicals to achieve required levels of service and regulatory compliance with the Drinking Water Standards of New Zealand (DWSNZ) and to meet Resource Consent conditions.

9. The primary benefit of procuring chemicals under a long-term supply contract is to ensure security of supply for bulk chemicals and preferential customer status from the respective chemical suppliers, which is essential in maintaining continued treatment operations during and following emergency events or scenarios.

10. On 2 October 2014, the Finance Committee resolved to award a three-year contract with two, three-year rights of renewal, to Ixom for the supply of:

    a) Aluminium Sulphate
    b) Liquefied Chlorine Gas
    c) Hydrofluorosilicic Acid

11. In December 2017, a variation to the contract was approved to include the supply of Acetic Acid under the scope of Contract 13299A with Ixom.

12. In July 2018, the first three-year right of renewal for Contract 13299A was taken up however no change to the approved contract sum was proposed at that time.

13. The final three-year right of renewal for the contract is scheduled to be considered by 1 August 2021.

Discussion

14. The approved contract sum at the time of contract award was set at a value of $ 3,295,000 and no changes have been required to this value during the term of the contract.

15. The total cost of all chemicals supplied under this contract since October 2014 is $2,740,843. Based on the average chemical consumption for the water and wastewater treatment processes, it is expected that the existing approved contract sum will be exceeded in the next 3-4 months.

16. Staff are seeking approval from the Finance Committee to increase the approved contract sum to a revised value of $6,551,783 and which is budgeted for in the nded in the 2018-28 10 Year Plan.

17. The increase of $3,256,783 in the approved contract sum has been calculated to reflect the total expected cost of treatment chemicals required for the continued operation of the water and wastewater treatment plants until the final contract three year right of renewal consideration in August 2021.

18. It should be noted that new chemicals or changed chemical quantities could be required within the remaining life of the contract and if this occurs the Approved Contract Sum may need to be reviewed prior to the next contract right of renewal.

19. Changes in use of chemicals could occur as a result of environmental factors such as weather, raw water quality, water demand, process upgrades and optimisation as well as variations in contaminant loading.

20. If the recommendation is not approved, chemicals will still need to be procured outside of an approved contract to enable the water and wastewater treatment processes to maintain compliance with the DWSNZ and to meet Resource Consent Conditions. The risk associated with operating outside of an approved contract is outlined in section 30 of this report.

Options

21. No options are available for Council to consider.

Financial Considerations

22. This is a regular operating activity funded through the 2018-28 10 Year Plan under the Water and Wastewater Treatment Plants Operating and Maintenance budgets.

23. The existing budget provision is sufficient to cover the proposed increased Contract Sum.

Legal and Policy Considerations

24. Staff confirm that staff recommendation complies with the Council's legal and policy requirements.

Wellbeing Considerations

25. The purpose of Local Government changed on the 14 May 2019 to include promotion of the social, economic, environmental and cultural wellbeing of communities in the present and for the future ('the 4 wellbeings').

26. The subject matter of this report has been evaluated in terms of the 4 wellbeings during the process of developing this report as outlined below.

27. The recommendations set out in this report are consistent with that purpose.

Social

28. The continued supply of chemicals under Contract 13299A ensures that Hamilton City Council can continue to provide water to the community that is hygienic to use, safe to drink and meets the requirements of the Drinking Water Standards New Zealand (DWSNZ).

Economic

29. The continued supply of chemicals under contract provides best value for the community by ensuring certainty of pricing of chemicals required for treating water and wastewater.

Environmental

30. The continued supply of chemicals under Contract 13299A ensures that Hamilton City Council can continue to treat wastewater that complies with resource consent conditions and minimises the impact of wastewater on the environment.

Cultural

31. Waikato Tainui's Environmental Plan, Tai Tumu Tai Pari Tai Ao, references that the treatment and reticulation of water and wastewater are an important aspect of ensuring the economic, social, cultural, spiritual and environmental health and wellbeing of the community.

Risks

32. The continued procurement of bulk chemicals under a long-term contract ensures security of supply, cost surety and operational resilience.

Item 17

Significance & Engagement Policy

Significance

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

Engagement

34. Given the low level of significance determined, the engagement level is low. No engagement is required.

Attachments

There are no attachments for this report.

Council Report

Item 18

Committee: Finance Committee **Date:** 10 September 2019

Author: Sean Hickey **Authoriser:** Sean Hickey

Position: General Manager Strategy and Communications **Position:** General Manager Strategy and Communications

Report Name: Draft Submission to the Productivity Commission Report on Local Government Funding and Financing

Report Status	*Open*

Purpose

1. To seek approval of Hamilton City Council's **Draft 2** submission to the New Zealand Productivity Commission's Draft Report on Local Government Funding and Financing.

Staff Recommendation

That the Finance Committee:

a) receives the report.

b) approves Hamilton City Council's **Draft 2** submission to the New Zealand Productivity Commission's Draft Report on Local Government Funding and Financing.

c) notes that the approved submission will be sent to the New Zealand Productivity Commission following the Committee's approval.

Executive Summary

2. On 15 March 2019 Hamilton City Council made a submission to the New Zealand Productivity Commission's November 2018 Local Government Funding and Financing Issues Paper. Our submission outlined a number of recommendations that focused on eight theme areas.

3. The Commission has now analysed all submissions and subsequently released its draft July 2019 report on Local Government Funding and Financing for further submissions.

4. Hamilton City Council's 10 September 2019 **Draft 2** submission (refer **Attachment 1**) focuses on the eight theme areas in its March submission and identifies issues, initiatives and recommendations that we feel the Commission has not included in its July 2019 draft report.

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

Background

6. The Government asked the New Zealand Productivity Commission to undertake an Inquiry into local government funding and financing and, where shortcomings in the current system are identified, to examine options and approaches for improving the system.

Item 18

7. The Commission subsequently released an Issues Paper on Local Government Funding and Financing in November 2018.

8. On 15 March 2019, Hamilton City Council made a submission to the Commission's November 2018 Issues Paper.

9. The submission discussed and outlined a number of recommendations for each of the following eight theme areas:

    i. Support Interest-Free Government Loan Arrangements for Core Infrastructure.

    ii. Supportive of New Off-Balance Sheet Financing Tools.

    iii. Efficiency Gains – Support Alignment of Local Government and Government Spending/Programmes.

    iv. Open-Minded on Aggregation for Delivery of 3 Waters and Other Core Services.

    v. Development of National Guidelines that Support Implementation of a Community Facilities Funding Framework.

    vi. Support Standardisation and Increased Efficiencies of Systems in Local Government Facilities and Services.

    vii. Supportive of Regional Fuel Tax; Variable Road Pricing/Tolling; Increase in the Funding Assistance Rate (FAR) for Public Transport; New Targeted Enhanced Funding Assistance Rate (TEFAR).

    viii. Supportive of Economic Benefit Revenue Linked to Growth and Development in a Council's Administrative Area.

10. The Commission has now analysed all submissions to its November 2018 Issues Paper and subsequently released its draft July 2019 report on Local Government Funding and Financing for further submissions.

Discussion

11. Hamilton City Council's 10 September 2019 **Draft 2** submission (refer **Attachment 1**) focuses on the eight theme areas outlined above and identifies issues, initiatives and recommendations that we feel the Commission has not included in its July 2019 draft report.

12. Our submission advocates that these issues, initiatives and recommendations should be incorporated in the Commission's final report to Government in November 2019.

13. Although the official submission closing date is 29 August, the Commission has provided Hamilton City Council an extension so that **Draft 2** can be considered and approved at the 10 September 2019 Finance Committee meeting.

14. Staff circulated the Council's Draft 1 submission to Elected Members on 23 August 2019. As a result of feedback received, staff had added additional points to the Draft 2 submission, with changes highlighted in yellow. The changes are:

    i. Supporting the commission's recommendation to develop a 'value capture' tool to allow councils to levy targeted rates on properties that enjoy windfall gains as a result of publicly funded infrastructure.
    ii. Re-emphasising Hamilton City Council's request for a clear and consistent methodology for assessing rates affordability.

Financial Considerations

15. The total staff cost to develop the report was approximately $3,000 and was met through existing budget.

Legal and Policy Considerations

16. Staff confirm that the recommendations in this report comply with the Council's legal and policy requirements.

Wellbeing Considerations

18. The purpose of Local Government changed on the 14 May 2019 to include promotion of the social, economic, environmental and cultural wellbeing of communities in the present and for the future ('the 4 wellbeings').

19. The actions that might come from the Productivity Commission's recommendations are unknown and the potential effects are complex. Staff have not undertaken a detailed analysis of how such outcomes might impact each of the four wellbeings, but note the following:

    a) The draft report on Local Government Funding and Financing has a clear economic focus as it looks at various tools/mechanisms that have the potential to improve the efficiency and effectiveness of councils throughout the country. This would be expected to have a beneficial impact on the economic wellbeing of Hamilton

    b) The Commission's draft report knowledges that councils are required to spend a high proportion of their funds meeting various environmental compliance standards and guidelines. If the Commission's recommendations on climate change funding were adopted, we could reasonably expect this to have a beneficial impact on the environmental wellbeing of Hamilton.

Risks

20. There are no known risks associated with the decisions required for this matter.

Significance & Engagement Policy

21. 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.

22. Given the low level of significance determined, the engagement level is low. No engagement is required.

Attachments

Attachment 1 - Draft 2 Submission to the NZ Productivity Commissions Draft Report on Local Government Funding and Financing (10 September 2019) .

DRAFT 2

Hamilton City Council
Te kaunihera o Kirikiriroa

Private Bag 3010
Hamilton 3240
New Zealand

TEL 07 838 6699
FAX 07 838 6599
EMAIL info@hcc.govt.nz
hamilton.govt.nz

Submission by

Hamilton City Council

NEW ZEALAND PRODUCTIVITY COMMISSION'S DRAFT REPORT ON LOCAL GOVERNMENT FUNDING AND FINANCING

10 September 2019

1.0 INTRODUCTION

1.1 This submission to the New Zealand Productivity Commission's July 2019 draft report on Local Government Funding and Financing focuses on the eight theme areas outlined in our 15 March 2019 submission to the Commission's November 2018 Local Government Funding and Financing Issues Paper (refer here).

1.2 The eight theme areas outlined in our March 2019 submission were:

1. **Support Interest-Free Government Loan Arrangements for Core Infrastructure.**
2. **Supportive of New Off-Balance Sheet Financing Tools.**
3. **Efficiency Gains – Support Alignment of Local Government and Government Spending/Programmes.**
4. **Open-Minded on Aggregation for Delivery of 3 Waters and Other Core Services.**
5. **Development of National Guidelines that Support Implementation of a Community Facilities Funding Framework.**
6. **Support Standardisation and Increased Efficiencies of Systems in Local Government Facilities and Services.**
7. **Supportive of Regional Fuel Tax; Variable Road Pricing/Tolling; Increase in the Funding Assistance Rate (FAR) for Public Transport; New Targeted Enhanced Funding Assistance Rate (TEFAR).**
8. **Supportive of Economic Benefit Revenue Linked to Growth and Development in a Council's Administrative Area.**

1.3 In addition, this submission to the Commission's draft July 2019 report also comments and provides recommendations on:

- Rates Affordability.
- The Cost-Benefit Analysis of new Government Policies and Standards.
- Asset Management Plans.
- Development Contributions.
- Climate Change.

1.4 Theme Area 1: Support Interest-Free Government Loan Arrangements for Core Infrastructure

1.5 **HCC's Recommendation:** We support further rounds of interest-free Government loan arrangements for core infrastructure for high growth councils, as well as councils facing significant infrastructure challenges.

1.6 **Commentary**

1.7 HCC is disappointed that there is no mention in the Commission's draft report about the government's recent $1 billion Housing Infrastructure Fund that provided 10-year interest-free loans to high-growth councils.

1.8 While the Ministry of Housing and Urban Development's website notes that this was a "one-off contestable fund", HCC advocate that the government should consider providing further rounds of such funding.

1.9 We noted in our March 2019 submission to the Commission that clearly, interest-free Government loan arrangements offer substantial benefits for councils, and that each application for further funding rounds would still be subject to provision of a clear, comprehensive and compelling business case.

1.10 We note the Commission's support of Special Purpose Vehicles for both greenfield and brownfield development. HCC supports this position.

1.11 Applications should only be available for:

- Transport.
- 3 Waters.
- Land for Parks and Reserves.

1.12 Theme Area 2: Supportive of New Off-Balance Sheet Financing Tools

1.13 **HCC's Recommendations:**

a) We are supportive of new financing tools (such as Special Purpose Vehicles) being explored and ultimately available for use by local government.

b) Such tools are being specifically designed to finance infrastructure off a council's balance sheet.

c) We are also supportive of the commission's recommendation to develop 'value capture' funding tools.

1.14 **Commentary**

1.15 As noted in our March 2019 submission, new financing tools, such as Special Purpose Vehicles (SPVs) that are being explored as part of the Government's Infrastructure Funding and Financing workstream (to strengthen the infrastructure strategy, planning, investment and delivery) will add to the 'toolbox' available to councils.

1.16 HCC supports recommendation R6.5 in the Commission's draft report i.e.: *"The Government should direct officials to continue work on how to expand the use of Special Purpose Vehicles to finance investment in growth infrastructure in fast-growth local authorities that face debt limits. If needed, the Government should promote legislation in Parliament to enable the placement of debt-servicing obligations on existing residents who will benefit from the infrastructure".*

1.17 As part of this work, we would also encourage the Commission to consider investigating opportunities for central government investment agencies, such as the NZ Super Fund or ACC, to invest in local infrastructure.

1.18 HCC is a strong advocate for the principle that growth should 'pay for itself' and, as a general rule, would like to have more tools and options available to us to help realise this.

1.19 We therefore support the Commission's recommendation for developing a 'value capture' tool that would allow councils to levy targeted rates on properties that enjoy 'windfall gains' as a result of nearby publicly funded infrastructure. We do note though, that application of such a tool is likely to be contentious for affected property owners and discretion would be needed in how it is used.

1.20 Theme Area 3: Efficiency Gains – Support Alignment of Local Government and Government Spending/Programmes

1.21 HCC's Recommendations:

a) We advocate that greater alignment of spending and programmes between local and central government is beneficial and indeed critical for investment and operational alignment opportunities.

b) Greater alignment with Government programmes will ensure councils have a more stable and meaningful planning horizon and enable them to leverage greater investment opportunities.

c) Alignment of spending and programmes between neighbouring councils is also critical.

1.22 HCC, in its March 2019 submission to the Commission, advocated that greater alignment of spending and programmes between local and central government is beneficial and indeed critical.

1.23 For example, the Hamilton-Auckland Corridor Plan offers significant investment and operational alignment opportunities. HCC is working with Government, iwi and local authorities on the Auckland to Hamilton Corridor Plan and Hamilton-Waikato Metro Spatial Plan to progress the Government's Urban Growth Agenda spatial planning actions/objectives i.e. to achieve competitive urban land-markets, where supply meets demand and prices cover the cost of growth.

1.24 Scale is important to achieving efficiencies – particularly, for example, regarding Hamilton's position in the metropolitan area and attaining further scale and a commensurate rating base to reflect services it provides to a wider area.

1.25 Alignment with Government programmes will ensure councils have a more stable and meaningful planning horizon and at the same time enable them to leverage greater investment opportunities.

1.26 The Commission's draft report does not appear to have picked this issue up in a wider sense. While Section 6.8 of the draft report covers aspects of central government funding for local government infrastructure and services, it doesn't seem to cover alignment of local government and central government spending and programmes.

1.27 Greater alignment of spending and programmes between local and central government is critical and indeed essential for achieving greater financial and resourcing efficiencies in the local government arena.

1.28 A further example of the potential of such alignment is the use of parks and open spaces provided by a council and the use of similar open spaces provided by public schools funded by the Ministry of Education.

1.29 HCC is of the view that greater collaboration should occur around identifying both the current and future needs of the community on the use of such open spaces. This would involve discussions covering the likes of funding and ongoing operating costs.

1.30 Agreement between a council and school on the community's use of parts of the open spaces provided by school, particularly where they adjoin a council park, could result in greater community usage and well-being.

1.31 In addition, we would also like to add that greater alignment of spending and programmes between neighbouring councils can also result in more financial and resourcing efficiencies. As noted in HCC's 11 July submission to the Kaainga Ora - Homes and Communities Bill (refer here):

- *HCC anticipate that opportunities identified through the Hamilton-Waikato Metro Spatial Plan will often involve an area of land area administered by more than one council. This could potentially involve city and district councils as well as the regional council, the latter primarily in regard to Regional Policy Statements.*
- *We welcome HUDAs role as having the necessary purpose and tools to facilitate/navigate key legislation (e.g. the Resource Management Act and the Local Government Act) and funding*

arrangements/challenges more efficiently that will enable councils to consider and progress opportunities in cross-boundary proposals identified by the Hamilton-Waikato Metro Spatial Plan.

1.32 These initiatives need to be acknowledged in the Commission's final report to Government in November 2019.

1.33 Theme Area 4 - Open-Minded on Aggregation for Delivery of 3 Waters and Other Core Services

1.34 HCC's Recommendations:

a) Government should provide financial support towards investigative work that councils may need to undertake when looking at more cost-effective and efficient 3 waters models.

b) Government should investigate introducing a 3 Waters subsidy to fund provision of core infrastructure - similar in nature to the NZ Transport Agency's funding/subsidy model for transport.

c) Government intervention may also be an appropriate mechanism to use when looking at/reviewing models, structure and management of other council core services.

1.35 **Commentary**

1.36 The Commission's draft report (page 247) notes that:

- *Hamilton City Council's submission to the three waters review supported the idea of an independent regulator for water and pointed to the need for the government to provide incentives for aggregation.*
- *HCC supports a new independent regulator for drinking water.... An independent regulator will provide consistency, dedicated/focused technical competency and expertise to drive the required level of compliance to ensure water is safe to drink.... Any new regulator will need to be funded and resourced appropriately...*
- *To provide an incentive for aggregation, Government assistance for addressing any funding gaps in resilience, asset management and service delivery deficiencies (which nationally are estimated to be significant for water and wastewater), including meeting environmental and waters standards, should only be available to councils who are part of an aggregated service delivery model i.e. a CCO.... It would be unacceptable for taxpayers to subsidise small, inefficient three water schemes. (Hamilton City Council, 2018b).*

1.37 HCC concurs with the Commission's commentary outlined in F9.4 (page 248) of the draft report – in particular:

- *The performance of the three waters sector would substantially improve by using an approach that (1) rigorously enforces minimum performance standards; and (2) is permissive about how councils meet these minimum performance levels.*
- *The new regulatory regime should be administered by an existing, credible and independent regulator such as the Commerce Commission, which already regulates similar activities, has a credible "industry watchdog" reputation and has significant experience applying light-handed regulation to some suppliers and stronger forms of control to other suppliers.*

1.38 However, the Commission does not appear to have noted HCC's initiative outlined in its March 2019 submission where we recommended that Government should provide financial support towards investigative work that councils may need to undertake when looking at more cost-effective and efficient 3 waters models.

1.39 We also recommended that:

- Government should investigate introducing a 3 Waters subsidy to fund provision of core infrastructure - similar in nature to the NZ Transport Agency's funding/subsidy model for transport.
- Government intervention may also be an appropriate mechanism to use when looking

at/reviewing models, structure and management of other council core services.

1.40 As neither of these initiatives appear to have been taken on board in the draft report, we strongly urge the Commission to include them in its final report to Government in November 2019.

1.41 Theme Area 5: Development of National Guidelines that Support Implementation of a Community Facilities Funding Framework

1.42 HCC's Recommendation:

a) National Guidelines that support development and implementation of a Community Facilities Funding Framework should be available to assist in a council's decision-making on financing new facilities that provide clear benefit beyond a council's administrative area.

1.43 **Commentary**

1.44 HCC is disappointed that there is no mention in the Commission's draft report on the development of National Guidelines that support the implementation of a Community Facilities Funding Framework.

1.45 Our March 2019 submission noted that *"New community facilities delivering regional benefit are potentially being 'duplicated' (and therefore can result in over-capitalisation and poor utilisation of such assets relative to the operating costs) throughout the country by councils e.g. stadiums, theatres, libraries. Greater collaboration between councils is essential to develop and fund such facilities. As a metropolitan city providing significant community facilities that benefit a wider sub-region, it is crucial for Hamilton that there is agreement between surrounding councils on how we fund sub-regional facilities"*.

1.46 We believe that this is a critical issue facing many councils. Development of National Guidelines has the potential to effectively rationalise the cost and 'spread' of such facilities throughout the country and as such this initiative needs to be included in the Commission's final report to Government in November 2019.

1.47 Theme Area 6: Support Standardisation and Increased Efficiencies of Systems in Local Government Facilities and Services

1.48 HCC's Recommendations:

a) Greater standardisation of the current multitude of local government systems (e.g. payroll, procurement and information services) is required for the various facilities and services provided by New Zealand's 78 councils to ensure increased efficiencies and cost-savings.

b) Scale of service delivery will also bring efficiencies – development of an effective Shared Services model is a key means of achieving this.

c) Government regulation may be required for such standardisation and consolidation to occur.

1.49 **Commentary**

1.50 HCC acknowledges the Commission's analysis and general support of shared services arrangements on pages 100-101 of its draft report.

1.51 However, we are of the view that this aspect need to be given much more emphasis in the commission's final report to Government in November 2019. It has the potential generate immense efficiencies and cost-savings to councils throughout the country.

1.52 As noted in our March 2019 submission, *"HCC supports standardisation and increased efficiencies in the multitude of corporate systems used throughout local government's various facilities and services. Currently, a number of differing systems are used throughout the country's 78 councils e.g. payroll, procurement, information services"*.

1.53 There are significant opportunities for all councils throughout the country to be using a standardised system/platform for 'services' such as payroll, procurement and information services – we should not have 78 different systems in use.

1.54 Government regulation may be required for such standardisation and consolidation to occur.

1.55 Theme Area 7: Supportive of Regional Fuel Tax; Variable Road Pricing/Tolling; Increase in the Funding Assistance Rate (FAR) for Public Transport; New Targeted Enhanced Funding Assistance Rate (TEFAR)

1.56 HCC's Recommendations:

a) Support and acknowledge regions (or part of a region) to apply for a Regional Fuel Tax from 1 January 2021 via the Land Transport Management (Regional Fuel Tax) Amendment Act.

b) Support variable road pricing and tolls for road users.

c) Support an increase to the Funding Assistance Rate (FAR) for Public Transport.

d) Support an extension of the current 3-year timeframe of the NZ Transport Agency's new Targeted Enhanced Funding Assistance Rate (TEFAR) to 10-years.

1.57 **Commentary**

1.58 HCC made a submission on 20 April 2018 to the Land Transport Management (Regional Fuel Tax) Amendment Bill (refer here). Our submission and hearing appearance was supportive of the Bill.

1.59 Subsequently, the Land Transport Management (Regional Fuel Tax) Amendment Act received Royal Assent on 26 June 2018 and will enable regions, or part of a region, to apply for a fuel tax to fund transport infrastructure programmes from 1 January 2021.

1.60 HCC is supportive of variable road pricing and tolls for road users - funding and financing tools that are used extensively and operate successfully overseas. However, these tools do not appear to be addressed in the Commission's draft report.

1.61 HCC also noted the following key points in its March 2019 submission:

- *HCC advocates that the Funding Assistance Rate (FAR) for Public Transport should be increased, which will mean fares can be reduced, resulting in increased patronage. This will mean decreased congestion, less spending on new transport infrastructure, decreased crashes, and increased personal health - a 'win-win' result for the NZ Transport Agency and councils. The FAR for public transport should be calculated on the full cost rather than the balance after fare revenue.*
- *The NZ Transport Agency's new targeted enhanced funding assistance rate (TEFAR) to assist councils in bringing forward new high and very high priority locally-led improvement activities for the 2018–21 National Land Transport Programme (NLTP) needs to be extended for a much longer timeframe.*
- *HCC has a number of high priority public transport projects that would benefit significantly from TEFAR, but these will be ongoing and require greater funding certainty over a longer timeframe than the current three-year timeframe. A 10-year timeframe should be considered.*

1.62 Again, as none of these suggestions appear to have been taken on board in the draft report, we strongly urge the Commission to include them in its final report to Government in November 2019.

1.63 Theme Area 8 - Supportive of Economic Benefit Revenue Linked to Growth and Development in a Council's Administrative Area

1.64 HCC's Recommendations:

a) HCC is supportive of the concept proposed by the Commission of a new funding stream from central government to local authorities, based on new building work put in place within an authority's boundary.

1.65 **Commentary**

1.66 We agree that there is a strong national interest in an adequate supply of development ready land and that such a payment would help align the costs of providing such land with the national benefits that would accrue.

1.67 However, we would also like the Commission to consider the impacts and incentives for city councils relative to surrounding local authorities.

1.68 As Hamilton, and other metro cities, often act as hubs for surrounding regions, we would not want neighbouring authorities to be overly-incentivized to grow on our boundaries when some of the additional infrastructure and operating cost to support that growth would be borne by Hamilton City.

2.0 OTHER KEY ISSUES

2.1 Rates Affordability

2.2 HCC's Recommendations:

a) The Rates Rebate Scheme, in HCC's case, works extremely well – it should not be phased out and should not be replaced with a nationwide postponement scheme.

b) The idea of having a nationwide consistent template does have merit as a way for all councils to be uniform and to simplify the approach to rates postponement when required over and above the rebate.

c) HCC agrees with the Commission that, in choosing amongst funding tools, Councils should emphasise the 'benefit principle' and efficiency in the first instance and 'ability to pay' as a second step. However, we would like to re-emphasise the point made in our March submission that a clear and consistent methodology is required to assess rates affordability.

d) An effective and meaningful rates affordability tool needs to be developed as a key mechanism to assist councils in reviewing various rating policies and in determining the annual rates strike.

e) We do not support the removal of the Uniform Annual General Charge from the rating toolkit. The option of the UAGC has allowed HCC a greater level of consideration when it comes to the overall incidence of rates, and assessing impacts to ratepayers, particularly when moving from land to capital value rating.

2.3 **Commentary**

2.4 We noted in our March 2019 submission that, in regard to the affordability of rates and the ability of the community to pay, HCC is not aware of any guidance on how to measure and assess this matter and recommended the Commission advocate development of a method that measures rates affordability: *"In regard to the affordability of rates and the ability of the community to pay, HCC is not aware of any guidance on how to measure and assess this matter. We therefore encourage the Commission to strongly recommend in its November 2019 report to Government that the current rating mechanisms used in New Zealand (as prescribed under the Local Government Rating Act) need a radical review. We also recommend that the Commission advocate development of a method that measures rates affordability"*

2.5 The Commission does not appear to have noted this in its draft report.

2.6 **Rates Rebates and Rates Postponement**

2.7 The Commission's draft report covers the issue of rates affordability in Section 7 'Equity and Affordability', with recommendations around the development and implementation of a national rates postponement scheme and then subsequent phasing out of the Rates Rebate Scheme. HCC does not support these recommendations.

2.8 In 2018/19, HCC processed 2,266 rates rebates. Note: this number excludes situations where multiple applications were completed for residents of retirement villages, where the village is a single rating unit.

2.9 Rebates get applied as a credit to the applicant's rates account, and HCC is then reimbursed by the Department of Internal Affairs.

2.10 HCC also offers an additional rebate under its Rates Remission Policy (refer here), which is Council funded. This is somewhat unique when compared with other councils i.e. although some councils offer a similar scheme, this is not common. HCC's rates rebate is similar to the government rebate but has further qualifying criteria. In 2018/19, 486 HCC rebates were applied, to the value of $250,275.

2.11 HCC agrees with SOLGM's recommendation that the rates rebate scheme **not be phased out** and replaced with a nationwide postponement scheme. This would in reality move the cost (financial and administrative) back to councils and effectively would defer payment of rates until such time as the property transfers ownership. This would place an encumbrance on the ratepayer.

2.12 Under the Rating Act, a local authority may on charge financial and administrative costs to the ratepayer ('postponement fee') in addition to registering a land charge against the rating unit. This would be additional costs to the ratepayer.

2.13 Postponement typically has little uptake across councils as the rebate is at a significant level to assist ratepayers, without the need to defer payment. In saying that, HCC does have a Rates Postponement Policy (as part of the Rates Remissions and Postponements Policy) and we do see merit in the idea of having a nationwide consistent template as a way for all councils to be uniform and to simplify the approach to rates postponement when required over and above the rebate.

2.14 **Uniform Annual General Charge**

2.15 As part of its 2018-28 10 Year Plan, HCC introduced a Uniform Annual General Charge (UAGC). Prior to this, the majority of HCC rates were set based on a property value. The option of the UAGC has allowed Council a greater level of consideration when it comes to the overall incidence of rates, and assessing impacts to ratepayers, particularly when moving from land to capital value rating.

2.16 HCC therefore does not support to the removal of the Uniform Annual General charge from the rating toolkit.

2.17 Cost-Benefit Analysis of New Government Policies and Standards

2.18 **HCC's Recommendation:**

2.19 The issue around local government having to resource/fund Government imposed policies and standards is still of pre-eminent importance and needs to be top of mind in discussions between the two entities.

2.20 **Commentary**

2.21 HCC support the Commission's recommendation R6.10 to achieve a more constructive relationship between central and local government.

2.22 Our March 2019 submission outlined HCC's concern around the imposition of new policies on local authorities by central government with the aim of creating national benefit, with the requirement for all councils to develop, implement and monitor a Local Alcohol Policy (LAP) being a case in point e.g.in the case of Christchurch City Council, development of its LAP cost the council over $1 million.

2.23 HCC's view is that Government needs to give much greater consideration to the 'cost-benefit' analysis when introducing new policies or standards, particularly where the implementation of such policies/standards falls directly on local authorities, with no commensurate funding from Government.

2.24 HCC supports the Commission's recommendation R6.10 i.e.: *"Central and local government should strive to achieve a more constructive relationship and effective interface through:*

- *Central and local government providing input (formally or informally) into each other's relevant policymaking processes, under an agreed set of principles or a protocol.*
- *Central government engaging in a meaningful dialogue with local government early in the process of developing relevant new regulations.*
- *Cooperative approaches to tackling problems with implementing relevant new legislation, regulations or environmental standards.*
- *The creation of formal and informal feedback loops to identify problems with delegated regulations when they first appear.*
- *The spread of information through the system and the sharing of expertise and knowledge".*

2.25 However, we would like to stress that the issue around local government having to resource/fund Government imposed policies and standards is still of pre-eminent importance and needs to be top of mind in discussions between the two entities.

2.26 Development Contributions

2.27 HCC's Recommendations:

a) That recommendation R6.1 be removed.

b) If recommendation R6.1 is retained, that it should not be mandatory for councils to use the standardised templates.

c) That instead of standardized mandatory templates, that the DIA in collaboration with the sector should develop guidance, which could include DC policy example templates, and encourage standardization through advocating best practice outlined in the guidance.

2.28 **Commentary**

2.29 HCC does not support recommendation R6.1, that "The Government, Local Government New Zealand and the New Zealand Society of Local Government Managers should work together to develop standardised templates both for the development contribution (DC) policies of councils and council assessments of DC charges for individual property developments. Councils should be required to use the standardised templates."

2.30 Instead, HCC supports the development of sector guidance in collaboration with the DIA and led by the sector (including councils, SOLGM, LGNZ, the Development Contributions Working Group (DCWG) and the development community), with a view to delivering the broader benefits intended through recommendation 6.1. Such benefits may include lowering compliance and administrative costs faced by councils, greater consistency in the presentation and structure of development contribution policies, ease of use for developers, transparency of policy application and substance, and a common resource for officers to refer to.

2.31 Unintended outcomes are likely if standardised templates are implemented as recommended, regardless of the best efforts of those drafting the templates. In addition, HCC is unconvinced that the standardised templates could be updateable without major process or legal impediments. To meet the needs of the sector the standardised templates would need to be perpetually updated.

2.32 The mandatory nature of the standardised templates introduces rigidity which cannot mould to the variation between councils. The two primary differences between councils are that each council has its own district plan, and the volume and rate of growth varies substantially across the sector and so does the level of required investment in growth infrastructure. The power to require DCs is linked to resource consents through s198 LGA 2002. This in turn links each DC policy to each council's respective district plan. DC policies and district plans do not completely align. The proposed standardised template guarantees further and probably significant misalignment with district plans.

2.33 A non-exhaustive list of other variations between councils which may be factored into the formulation of DC policies include historic capital and funding decisions, financial constraints, regional developer and business community views and preferences. These variations are reflected in the formulation and application of DC policies.

2.34 Standardised templates have the potential to limit the breadth and freedom of Elected Member decision making in relation to DCs. DCs make up part of councils funding which if restrained could have a material effect on infrastructure funding and delivery. Through DC policy consultation and subsequent deliberations Elected Members deliver on community preferences, this may be somewhat constrained if the standardised templates restrict decision making in areas such as remissions, definitions, the timing of when DCs are invoiced, etc.

2.35 HCC welcomes the Commissions finding that the Hamilton DC Policy "generally reflect the DC principles to the greatest extent practicable, and thus provide a transparent and reliable platform for setting DC charges".

2.36 HCC agrees with finding F6.2, that "The complexity of development contributions (DCs) causes them to have higher administration and compliance costs."

2.37 Transitioning to a standardised template would cause significant additional administrative and compliance cost. HCC has developed a bespoke growth modelling environment to generate charges and project DC revenue. Also, HCC has developed an assessment application which is used to assess all consents for DCs. The development of these tools was resource intensive. The implementation of a standardised template would require HCC to adapt these tools to be fit for purpose.

2.38 Instead, HCC suggest that the DIA, in collaboration with the sector, develop DC guidance. This guidance could include DC policy example templates and should encourage standardization through advocating best practice outlined in the guidance. It is HCCs understanding that draft guidance had historically been drafted by the DIA but has not finalised.

2.39 Asset Management Plans

2.40 HCC's Recommendation:

2.41 Given that Section 14 (1) (g) of the Local Government Act 2002 already requires councils to undertake planning for their assets, HCC does not believe that there is a need for a legal requirement to produce Asset Management Plans.

2.42 **Commentary**

2.43 The Commission recommend that local authorities be legally required to prepare asset management plans, with the content of an asset management plans being specified in regulations rather than legislation.

2.44 HCC is of the view that it is critical to undertake good planning for the future management of public assets. This is a fundamental building block for improving the wellbeing of communities both now and in the future. If assets are not well understood and planned for then they will not be able to deliver the appropriate services to communities.

2.45 Section 14 (1) (g) of the Local Government Act 2002 already requires councils to undertake planning for their assets. Robust asset management planning needs to be part of a wider planning system in the organisation and having an integrated system of people, processes and information that links together to understand and forecast asset needs should be the focus for local authorities.

2.46 There is a risk that by specifying in legislation the need for, and content of, an Asset Management Plan document - that focus is placed disproportionately on production of a document to comply rather than on a wider management system that supports quality asset planning. HCC has AMPs for its activities and continues to focus on improving the entire asset management planning system.

2.47 Climate Change

2.48 HCC's Recommendations:

2.49 HCC supports the Commission's proposal and recommendations to extend the NZ Transport Agency's co-funding model to support resilience of roading infrastructure to climate impacts and creating a similar agency (and fund) for three-waters infrastructure

2.50 Such funding also needs to be available to build resilience into at-risk roads and bridges. It also must be 'new' funding and not divert funding away from the NZ Transport Agency's funding of existing and planned projects.

2.51 **Commentary**

2.52 On 8 August 2019 HCC resolved to develop a Climate Change Action Plan for the city that includes an assessment of Hamilton's carbon footprint.

2.53 In its submission to the Climate Change (Zero Carbon) Amendment Bill, HCC noted that it is committed to adapting to and mitigating the effects of climate change and supports the intention and direction of the Bill.

2.54 The Commission's draft report notes that *"The Commission proposes extending the New Zealand Transport Agency (NZTA) co-funding model to support resilience of roading infrastructure to climate impacts and creating a similar agency (and fund) for three-waters infrastructure. The success of such a model will depend on the NZTA recovering its former status in the eyes of local authorities, and reversing the decline in performance that councils have observed over recent years…..Without central government leadership and support for climate adaptation, there is a real risk that adaptation will happen in an ad hoc and inequitable way, or focus only on the short term"*.

2.55 The Commission makes the following recommendations in its draft report:

2.56 R8.5 The Government should extend the New Zealand Transport Agency's role in co-funding local land-transport infrastructure to include assistance to councils facing significant threats to the viability of local roads from sea-level rise and more intense storms and flooding due to climate change. The amount of assistance should reflect the size of the threat facing each council and its rating capacity.

2.57 R8.5 Assistance should be conditional on a strong business case and meeting engineering and environmental quality standards. It should only be available to defend existing infrastructure when business cases indicate that this option is superior to other options by a significant margin.

2.58 R8.6 The Government should create a new agency and a Local Government Resilience Fund. The new agency should work with at-risk councils and co-fund the redesign and possible relocation and rebuilding of wastewater and stormwater infrastructure when it becomes no longer viable because of sea-level rise and more intense flooding due to climate change.

2.59 HCC agrees with the Commission's recommendations noted above, with the proviso that such funding also needs to be available to build resilience into at-risk roads and bridges, and that it must be 'new' funding i.e. it must not divert funding away from the NZ Transport Agency's funding of existing and planned projects.

3.0 FURTHER INFORMATION AND OPPORTUNITY TO MEET

3.1 Should the New Zealand Productivity Commission require clarification of the above points, or additional information, please contact David Bryant (General Manager Corporate) on 07 959 9019, email david.bryant@hcc.govt.nz or Blair Bowcott (Executive Director – Special Projects) on 07 838 6742, email blair.bowcott@hcc.govt.nz in the first instance.

3.2 Hamilton City Council representatives would be happy to meet with staff from the New Zealand Productivity Commission to discuss in more detail how the points outlined in this submission could be applied in a Hamilton and national context.

Yours faithfully

Richard Briggs
CHIEF EXECUTIVE

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 - 1 August 2019 C2. Report on overdue debtors as at 31 July 2019 & Debt write-offs 2019/20	) 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)