



Hastings District Council

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OPEN A G E N D A

FINANCE AND MONITORING COMMITTEE MEETING

Meeting Date: **Tuesday, 20 March 2018**

Time: **1.00pm**

Venue: **Council Chamber
Ground Floor
Civic Administration Building
Lyndon Road East
Hastings**

Committee Members	Chair: Councillor Kerr Mayor Hazlehurst Councillors Barber, Dixon, Harvey, Heaps, Lyons, Nixon, O'Keefe, Poulain, Redstone, Schollum, Travers (Deputy Chair) and Watkins (<i>Quorum</i> = 8)
Officer Responsible	Chief Financial Officer – Bruce Allan
Committee Secretary	Carolyn Hunt (Ext 5634)

Finance and Monitoring Committee

Fields of Activity

Oversight of all the Council's financial management policy and operations (including assets, cash, investment and debt management) including (but not limited to):

- Monitoring compliance with the Long Term Plan/Annual Plan and budget implementation.
- Finance and Ownership
- Audit and other accountability requirements;
- Business units/CCO/CCTO ownership overview;
- Rating matters including rating sale proceedings;
- Taxation.
- Establishing the strategic direction of Council's business units (if any), Council Controlled Organisations (CCOs) and Council Controlled Trading Organisations
- Other matters including:
 - Performance Management
 - Other matters not otherwise within the scope of other Committees

Monitoring compliance with the Long Term Plan/Annual Plan and budget implementation.

Membership

Chairman appointed by Council

Deputy Chairman appointed by Council

The Mayor

All Councillors

Quorum – 8 members

Delegated Powers

General Delegations

1. Authority to exercise all of Council powers, functions and authorities (except where prohibited by law or otherwise delegated to another committee in relation to all matters detailed in the Fields of Activity).
2. Authority to re-allocate funding already approved by the Council as part of the Long Term Plan/Annual Plan process, for matters within the Fields of Activity provided that the re-allocation of funds does not increase the overall amount of money committed to the Fields of Activity in the Long Term Plan/Annual Plan.
3. Responsibility to develop policies, and provide financial oversight, for matters within the Fields of Activity to provide assurance that funds are managed efficiently, effectively and with due regard to risk.

Fees and Charges

4. Except where otherwise provided by law, or where delegated to another Committee, the authority to fix fees and charges in respect of Council activities or services.

HASTINGS DISTRICT COUNCIL
FINANCE AND MONITORING COMMITTEE MEETING
TUESDAY, 20 MARCH 2018

VENUE: Council Chamber
Ground Floor
Civic Administration Building
Lyndon Road East
Hastings

TIME: 1.00pm

A G E N D A

1. Apologies

At the close of the agenda no apologies had been received.

At the close of the agenda no requests for leave of absence had been received.

2. Conflict of Interest

Members need to be vigilant to stand aside from decision-making when a conflict arises between their role as a Member of the Council and any private or other external interest they might have. This note is provided as a reminder to Members to scan the agenda and assess their own private interests and identify where they may have a pecuniary or other conflict of interest, or where there may be perceptions of conflict of interest.

If a Member feels they do have a conflict of interest, they should publicly declare that at the start of the relevant item of business and withdraw from participating in the meeting. If a Member thinks they may have a conflict of interest, they can seek advice from the Chief Executive or Executive Advisor/Manager: Office of the Chief Executive (preferably before the meeting).

It is noted that while Members can seek advice and discuss these matters, the final decision as to whether a conflict exists rests with the member.

3. Confirmation of Minutes

Minutes of the Finance and Monitoring Committee Meeting held Tuesday 28 November 2017, including minutes while the public were excluded.

(Previously circulated)

4.	Horse of the Year (Hawke's Bay) Limited Half Year Report	5
5.	Update from the Chair of the Risk and Audit Subcommittee	13
6.	Summary of Recommendations from Risk and Audit Subcommittee Meeting held on 12 February 2018	15
7.	Hawke's Bay Museums Trust Half Year Report and Draft 2018/19 Statement of Intent	17
8.	Hawkes Bay Local Authority Shared Services - Proposed Change in Structure	39
9.	Local Government Funding Agency - Half Year Report to 31 December 2017 and Draft 2018/19 Statement of Intent	47
10.	Financial Quarterly Report for the six months ended 31 December 2017	103
11.	Growth Development Investments - Risk Assessment	113
12.	Additional Business Items	
13.	Extraordinary Business Items	

REPORT TO: FINANCE AND MONITORING COMMITTEE

MEETING DATE: TUESDAY 20 MARCH 2018

FROM: MANAGER STRATEGIC FINANCE
BRENT CHAMBERLAIN

SUBJECT: HORSE OF THE YEAR (HAWKE'S BAY) LIMITED HALF YEAR REPORT

1.0 SUMMARY

- 1.1 The purpose of this report is to inform the Committee of the performance of Horse of the Year (Hawke's Bay) Limited (HOYHB) for the six months to 30 November 2017.
- 1.2 This arises from a requirement under the Shareholders Agreement that requires HOYHB to submit a half year report to their shareholders.
- 1.3 The Council is required to give effect to the purpose of local government as prescribed by Section 10 of the Local Government Act 2002. That purpose is to meet the current and future needs of communities for good quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses. Good quality means infrastructure, services and performance that are efficient and effective and appropriate to present and anticipated future circumstances.
- 1.4 The objective of this decision relevant to the purpose of Local Government is to support a major Hastings event that contributes to the provision of good local services by increasing economic activity, contributing to a resilient job rich district while also contributing to an appealing visitor destination.
- 1.5 This report concludes by recommending that the HOYHB half year report to 30 November 2017 be received.

2.0 BACKGROUND

- 2.1 The shareholding of HOYHB is made up of Hastings District Council, Equestrian Sport New Zealand (ESNZ) and Show Jumping Hawke's Bay (SJHB) with each entity holding one third of the allotted shares. Each shareholder has advanced \$30,000 as shareholder loans. The current directors as at November 2017 are as follows:

- Cynthia Bowers – Independent Director (Chairperson)
- Vicki Glynn – Equestrian Sports New Zealand appointment
- Don Robertson – Equestrian Sports New Zealand appointment
- Dirk Waldin – Showjumping Hawke's Bay Inc appointment
- Will Moffett – Showjumping Hawke's Bay Inc appointment
- Tim Aitken – Hastings District Council Appointment

- 2.2 The executed Shareholders Agreement provides as follows in regard to the half yearly reporting requirements:

(b) Half Yearly Report

- Within 60 days after the end of the first half of each financial year the Company will deliver an un-audited half yearly report to shareholders consisting of:
 - (i) A review of their operations with specific attention to the performance of the organisation against the key performance indicators established in their Statement of Intent.
 - (ii) Key Performance Indicator results shall be reported consistent with the provisions of the Statement of Intent.
 - (iii) Statement of Financial Position
 - (iv) Statement of Financial Performance

- 2.3 The HOYHB half year report was received by Officers within the 60 day timeframe specified in the Shareholders agreement and this is the first Finance and Monitoring Committee meeting since receipt of this report.

- 2.4 In January 2018, as budgeted in the Council's 2017/18 Annual Plan, the Council's host city sponsorship of \$150,000 per annum was paid to HOYHB.

3.0 CURRENT SITUATION

- 3.1 HOYHB is presenting to Council their half year report (**Attachment 1**) for the six months to 30 November. Given the nature of this organisation and the event that it runs, the first half of the year financials provide limited insight into the potential full year result. The Chair of HOYHB will be able to provide to the Committee some insight into the 2018 event.

- 3.2 The Chair has noted in the Chairman's report some concerns regarding increasing rent charges from the A&P society following capital improvement works that were completed last year, largely funded by HDC.

4.0 SIGNIFICANCE AND CONSULTATION

- 4.1 The issues for discussion are not significant in terms of Council's policy on significance and no consultation is required.

5.0 RECOMMENDATIONS AND REASONS

That the report of the Manager Strategic Finance titled "Horse of the Year (Hawke's Bay) Limited Half Year Report" dated 20/03/2018 be received.

Attachments:

- 1 Horse of the Year - Six Monthly Report to Shareholders November 2017 EXT-10-20-18-82



Six Monthly Report to Shareholders
November 2017

Horse of the Year (Hawke's Bay) Limited

Chairman's Report

It is my pleasure to present this six-monthly report to Shareholders.

The period since 1 June 2017 has seen much activity by the Board and our event manager, SMC Events Limited.

As usual the first six months of the financial year involves a strong focus on planning for the 2018 Horse of the Show. 2018 marks the twentieth anniversary of HOY being back in Hastings and we are delighted to celebrate this milestone.

At the time of writing this report (late January 2018) the Board is happy with plans for HOY 2018 and we congratulate Dave Mee and his team from SMC Events for the huge effort that they are making to ensure the Show's success.

Highlights for the six-month period are:

- Competitor entries are tracking in line with the same time last year
- Almost all trade sites have been sold
- We are on track to achieve our budgeted sponsorship target
- We are about to announce a three-year agreement with Landrover as our principal sponsor
- For the first time in several years there will be a Trans-Tasman show jumping test
- Elizabeth Inman, event director for Burghley Horse Trials in the UK will be attending HOY

Areas of concern are charitable trust funding where our budget is unlikely to be achieved and continuing challenges in dealing with the Hawke's Bay A & P Society. The Society has seen Hastings District Council's investment in upgrading the Showgrounds as a reason for increasing our annual rent. The Board has always understood that the Council investment was intended to support HOY however this view does not appear to be shared by the A & P Society. For future years it is important that there is a transparent and logical formula adopted to calculate rent increases.

The financial report for the six months to 30 November 2017 (appendix 1) shows that the Company had less working capital at the end of November 2017 compared to the previous year. This is a largely a result of timing in terms of invoicing sponsors.

As noted in previous years, most of the financial activity takes place in the second half of the financial year. Expenses are being monitored closely to ensure that there are no cost over-runs.

The Board anticipates that the 2018 Show will at least break-even however as we discovered last year the weather will have an impact of the final financial result.

There have been several director changes since the beginning of the financial year. The Board now comprises:

Cynthia Bowers - Chairman (Independent Director)
Vicki Glynn (appointed by Equestrian Sports New Zealand)
Don Robertson (appointed by Equestrian Sports New Zealand)
Dirk Waldin (appointed by Showjumping Hawke's Bay)
Will Moffett (appointed by Showjumping Hawke's Bay)
Tim Aitken (appointed by Hastings District Council)

Over the past few months former Member of Parliament Craig Foss has been attending Board meetings in an advisory capacity. We have a good mix of skills around the Board table however I have signalled my intention to retire as a director on 31 May 2018.

We look forward to seeing you all at the 2018 Show.



Cynthia Bowers

Chairman

Profit & Loss
Horse of the Year (Hawkes Bay) Limited
For the 6 months ended 30 November 2017

	Actual	2017 Budget	Variance	Nov-16 Actual
Income				
Show Income				
Event Income	-	-	-	975
Charitable Trusts	-	100,000	-100,000	60,000
Sponsorship and Trade	467,678	637,000	-169,322	520,099
Total Show Income	467,678	737,000	-269,322	581,074
Less Expenses				
Event Expenses	284,269	263,730	20,539	222,235
Show Profit	183,409	473,270	-289,861	358,839
Other Expenses	9,488	9,500	12	3,480
	173,921	463,770	-289,849	
Other Income				
HDC One-off Grant	-	-	-	170,000
Net surplus for six month period	173,921	463,770	-289,849	525,359

Balance Sheet
Horse of the Year (Hawkes Bay) Limited
As at 30 November 2017

	Nov-17	Nov-16
Assets		
Current Assets		
ANZ Bank	70,545	170,070
Accounts Receivable	185,560	209,296
Total Current Assets	<u>256,105</u>	<u>379,366</u>
Fixed Assets	25,870	29,645
Total Assets	<u>281,975</u>	<u>409,012</u>
Liabilities		
Current Liabilities		
Accounts Payable	106,042	64,067
GST	-18,035	-1,238
Total Current Liabilities	<u>88,007</u>	<u>62,829</u>
Total Liabilities	<u>88,007</u>	<u>62,829</u>
Net Assets	<u>193,968</u>	<u>346,183</u>
Equity		
Current Year Earnings	173,922	525,359
Retained Earnings	20,047	-179,176
Total Equity	<u>193,969</u>	<u>346,183</u>

REPORT TO: FINANCE AND MONITORING COMMITTEE

MEETING DATE: TUESDAY 20 MARCH 2018

FROM: CHIEF FINANCIAL OFFICER
BRUCE ALLAN

SUBJECT: UPDATE FROM THE CHAIR OF THE RISK AND AUDIT
SUBCOMMITTEE

1.0 SUMMARY

- 1.1 The purpose of this report is to update Council about the activities of the Risk and Audit Subcommittee.
- 1.2 The Council is required to give effect to the purpose of local government as prescribed by Section 10 of the Local Government Act 2002. That purpose is to meet the current and future needs of communities for good quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses. Good quality means infrastructure, services and performance that are efficient and effective and appropriate to present and anticipated future circumstances.
- 1.3 This report concludes by recommending that the update from the Chair of the Risk and Audit Subcommittee be received.

2.0 BACKGROUND

- 2.1 The Risk and Audit Subcommittee's terms of Reference state that the subcommittee is responsible for assisting Council in its general overview of financial management, risk management and internal control systems that provide:
 - Effective management of potential risks, opportunities and adverse effects; and
 - Reasonable assurance as to the integrity and reliability of the financial reporting of Council; and
 - Monitoring of the Council's requirements under the Treasury Policy.
- 2.2 The Chair of the Risk and Audit Subcommittee, Mr Jon Nichols, provided the first verbal update to Council at the September 2017 Council meeting on the Subcommittees activities.
- 2.3 Given that just 4 Councillors are represented on the Subcommittee it is considered good practice for the Chair of the Risk & Audit Subcommittee to provide regular updates to Council. It is also envisaged that the Chair will report more formally to Council on an annual basis.

3.0 SIGNIFICANCE AND ENGAGEMENT

- 3.1 This matter is not significant in relation to Council's Significance and Engagement Policy.

4.0 RECOMMENDATIONS AND REASONS

- A) That the report of the Chief Financial Officer titled "Update from the Chair of the Risk and Audit Subcommittee" dated 20/03/2018 be received.

Attachments:

There are no attachments for this report.

REPORT TO: FINANCE AND MONITORING COMMITTEE

MEETING DATE: TUESDAY 20 MARCH 2018

FROM: CHIEF FINANCIAL OFFICER
BRUCE ALLAN

SUBJECT: SUMMARY OF RECOMMENDATIONS FROM RISK AND
AUDIT SUBCOMMITTEE MEETING HELD ON 12
FEBRUARY 2018

1.0 SUMMARY

- 1.1 The purpose of this report is to advise that recommendations from the Risk and Audit Subcommittee meeting held on 12 February 2018 require ratification by the Finance and Monitoring Committee.
- 1.2 The relevant Risk and Audit Subcommittee recommendations to be ratified are set out below:

2.0 RECOMMENDATIONS

- A) That the report of the Chief Financial Officer titled "Summary of Recommendations from Risk and Audit Subcommittee Meeting held on 12 February 2018" dated 20/03/2018 be received.
- B) That the following recommendations from the Risk and Audit Subcommittee meeting held on 12 February 2018 be adopted:

"6" Enterprise Risk Management Update"

- A) *That the report of the Risk and Corporate Services Manager titled "Enterprise Risk Management Update" dated 12/02/2018 be received.*
- B) *That it be recommended to Council that the strategic risk number 9 be changed from Investment Failure to Inadequate Available Funds, which is defined as a "loss of access to sufficient funds to meet Council commitments".*
- C) *That it be recommended to Council that the HDC Risk Management Policy and Framework be amended to include the methodology for the Whirinaki Water Safety Plan risk matrix as an approved variation for use only within Council Water Safety Plans.*

With the reasons for this decision being that the objective of the decision will contribute to meeting the current and future needs of communities for good quality local infrastructure, local public

services and performance of regulatory functions in a way that is most cost-effective for households and business by:

i) Validating risks in core business processes are effectively managed

Attachments:

There are no attachments for this report.

REPORT TO: FINANCE AND MONITORING COMMITTEE

MEETING DATE: TUESDAY 20 MARCH 2018

**FROM: MANAGER STRATEGIC FINANCE
BRENT CHAMBERLAIN**

**SUBJECT: HAWKE'S BAY MUSEUMS TRUST HALF YEAR REPORT
AND DRAFT 2018/19 STATEMENT OF INTENT**

1.0 SUMMARY

- 1.1 The purpose of this report is to give the Finance and Monitoring Committee the opportunity to comment on the draft 2018/19 Statement of Intent and to receive the half year report to 31 December 2017.
- 1.2 The Trust's Chair, Dr Richard Grant, is unable to attend this meeting.
- 1.3 This issue arises from a requirement under the Local Government Act 2002 that requires Council Controlled Organisations (CCO) to submit a Statement of intent to their shareholder for consideration.
- 1.4 The Council is required to give effect to the purpose of local government as prescribed by Section 10 of the Local Government Act 2002. That purpose is to meet the current and future needs of communities for good quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses. Good quality means infrastructure, services and performance that are efficient and effective and appropriate to present and anticipated future circumstances.
- 1.5 The objective of this decision relevant to the purpose of Local Government is to enable the Trust to manage the Regional Collection on behalf of the Hawke's Bay Community and in so doing, provides a good quality local public service that is cost efficient, effective and appropriate for the Region.
- 1.6 This report concludes by recommending that the Hawke's Bay Museums Trust half year report to 31 December 2017 and draft 2018/19 Statement of Intent be received with any feedback passed onto the Trustees of the Hawke's Bay Museums Trust.

2.0 BACKGROUND

- 2.1 The Trust is a Council Controlled Organisation with the bulk of its funding provided by the Napier City and Hastings District Councils.
- 2.2 The Hastings District Council appointment to the Trust is Cr George Lyons who was appointed to the Trust by Council in November 2013.
- 2.3 The current trustees of the Hawke's Bay Museum's Trust are:
Dr Richard Grant (Chairman)
Councillor Faye White (NCC)
Councillor George Lyons (HDC)
Johanna Mouat
Mike Paku
- 2.4 Dr Grant was appointed as the Independent Chairman by the joint appointments committee (Mayors Yule and Dalton) in late 2014.

- 2.5 As required under the Local Government Act 2002 the Trust is to provide a draft Statement of Intent for comment by 1 March each year and a half year report within 60 days of the end of the first six months.
- 2.6 The objectives of the Trust amongst other things are to hold, protect and manage the regional collection for the people of Hawke's Bay including overseeing the collection development through acquisition and disposal of collection items. The Trust Board governs on a high level strategic direction basis to ensure the objectives of the Trust are being met and have a Management Agreement with Napier City Council for the care and management of the regional collection.

3.0 CURRENT SITUATION

Half Year Report

- 3.1 The Trust has provided their Half Year Report for the six months ended 31 December 2017 (**Attachment 1**). As the staff are employed by the Napier City Council and the Trust is charged a management fee the accounts are relatively straight forward. The accounts show a net operating surplus of \$25,438 compared to an operating surplus of \$12,679 last year. The half year result is in line with the Trusts full year budget which is to achieve an operating breakeven result.
- 3.2 The variance between the two Councils' grants as noted in note 2 of the accounts relates to an education grant paid direct to the HB Museum and Art Gallery from the Napier City Council as opposed to the Hastings education grant paid through the Hawke's Bay Museum Trust.
- 3.3 The overall financial result is satisfactory and within budget and the Statement of Financial Position represents a sound financial position for the Trust.

Statement of Intent

- 3.4 The Hawke's Bay Museums Trust has provided their 2018/2019 draft Statement of Intent for comment in accordance with the requirements of schedule 8 of the Local Government Act 2002. A copy of the draft Statement of Intent is included in **Attachment 2**. The Statement of Intent complies with the requirements of the Local Government Act 2002 and the objectives and nature and scope of the activities to be undertaken by the Trust for the regional collection are compatible with the direction of the 2015-25 LTP.
- 3.5 The draft 2018/19 Statement of Intent contains the following performance indicators and targets for the key result areas:
 - **Protection** –collections are fully insured, and are stored in an acceptable environment with regard to pest control, storage, shelving, and air quality: No collection deterioration due to the environment.
 - **Quality** –the collection will be conserved to best industry standard. Any accession or de-accession is managed in accordance with collection framework and strategy policies.

- **Access** – the collections are available to the Hastings City Art Gallery, MTG Hawke's Bay, and other appropriate institutions for exhibitions, research, and archives: minimum of 1,500 enquiries and 5 exhibitions
- **Development** – including fundraising, reserve management, and stakeholder relations: - Bequests and funds are used for their intended purpose, and an annual meeting with Te Ropu Kaiawhina Taonga is held.
- **Financial** – achieve a balanced Statement of Financial Position

3.6 Included in the Statement of Intent is a significant step change in the management fee to be charged by Napier City Council to manage the collection.

3.7 In order to achieve a balanced budget, the Statement of Intent also signals an expected increase in grant funding required from Hastings District Council to meet this increased cost. This is in the order of \$132,000 additional funding from HDC in year one, increasing to \$187,000 by year three.

3.8 No formal request has been received from the Hawke's Bay Museum Trust to the Hastings District Council in this regard, and this increase is currently not included in the Council's draft 2018-2028 LTP. The expectation is that the Trust will make a submission to Council's 2018-28 LTP.

4.0 OPTIONS

4.1 Council can receive the Hawke's Bay Museums Trust half year report to 31 December 2017.

4.2 Council can receive the Hawke's Bay Museums Trust draft 2018/19 Statement of Intent and can provide feedback to the Trust.

5.0 SIGNIFICANCE AND ENGAGEMENT

5.1 The issues for discussion are not significant in terms of the Council's Significance Policy and Engagement and no consultation is required.

6.0 ASSESSMENT OF OPTIONS (INCLUDING FINANCIAL IMPLICATIONS)

6.1 The draft Statement of Intent complies with the requirements of Schedule 8 of the Local Government Act and the draft should be received with any other suggested changes passed on to the Trust.

7.0 PREFERRED OPTION/S AND REASONS

7.1 The preferred options are for the Hawke's Bay Museums Trust half year report to 31 December 2017 and the draft 2018/19 Statement of Intent to be received.

8.0 RECOMMENDATIONS AND REASONS

- A) That the report of the Manager Strategic Finance titled “Hawke's Bay Museums Trust Half Year Report and Draft 2018/19 Statement of Intent” dated 20/03/2018 be received.**
- B) That the Hawke’s Bay Museums Trust Half Year Report for the six months ended 31 December 2017 be received**

Attachments:

- | | | |
|---|--|--------------------|
| 1 | HBMT 31.12.2017 Financial Report | EXT-10-11-7-18-209 |
| 2 | HBMT Statement of Intent 2018-2020 Hawkes Bay Mueseums Trust | EXT-10-11-7-18-210 |

HAWKE'S BAY MUSEUMS TRUST
FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

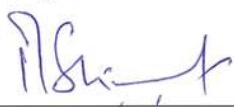
**HAWKE'S BAY MUSEUMS TRUST
INDEX TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2017**


Statement of Financial Position	1
Statement of Financial Performance	2
Statement of Movements in Equity	3
Statement of Cashflows	4
Notes to the Financial Statements	5 - 11

**HAWKE'S BAY MUSEUMS TRUST
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017**

	Note	6 Months Ended 31-Dec-17 \$	6 Months Ended 31-Dec-16 \$	Year Ended 30-Jun-17 \$
Current Assets				
Bank Accounts and Cash	5	41,680	27,211	31,117
Investments	5	605,260	540,260	540,260
Prepayments and Accrued Revenue	8	4,383	6,199	6,585
Total Current Assets		651,323	573,670	577,962
Non-Current Assets				
Artworks and Collection	9	39,328,591	45,037,854	39,324,935
Total Non Current Assets		39,328,591	45,037,854	39,324,935
Total Assets		39,979,914	45,611,524	39,902,897
Current Liabilities				
Accounts Payable and Accruals	10	17,600	2,600	5,200
GST Payable	10	1,551	2,300	1,385
Total Current Liabilities		19,151	4,900	6,585
Non-Current Liabilities				
Trust Funds Held on Behalf	11	75,260	40,260	40,260
		75,260	40,260	40,260
Accumulated Funds				
Retained Earnings	6	710,297	496,999	690,907
Asset Revaluation Reserve	6	38,673,798	44,570,120	38,673,798
Special Funds	6&7	501,408	499,245	491,347
		39,885,503	45,566,364	39,856,052
Total Funds Employed		39,979,914	45,611,524	39,902,897

The Trust Board of Hawke's Bay Museums Trust authorised these financial statements
for issue on 2018
and are signed on behalf of the Board by:


 _____ Chairman


 _____ Trustee

**HAWKE'S BAY MUSEUMS TRUST
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE SIX MONTHS ENDED 31 DECEMBER 2017**

	Note	6 Months Ended 31-Dec-17 \$	6 Months Ended 31-Dec-16 \$	Year Ended 30-Jun-17 \$
Operating Income				
Interest Received		9,704	9,186	18,675
Hastings District Council	2	233,080	228,962	457,925
Napier City Council	2	225,580	221,463	442,925
Donations Received	3	7,249	-	-
Donations - MTG Collection	3	-	-	171,301
Marian Holt Grant Received		4,712	-	-
Public Stitch Fees Received		1,000	-	-
Total Operating Income		481,325	459,611	1,090,826
Less: Operating Expenses				
Audit Fees		2,600	2,723	5,323
Accounting Charge		8,550	8,550	17,100
Conservation Expenses		-	2,700	7,200
General Expenses		44	44	44
Insurance		2,575	2,575	2,575
Management Fees	12	437,405	429,555	859,110
Marian Holt - Public Stitch Expenses		4,712	-	-
QEII Grant Expenditure		-	784	785
Total Operating Expenses		455,887	446,931	892,137
Net Surplus/(Deficit) for the Period		25,438	12,679	198,689

**HAWKE'S BAY MUSEUMS TRUST
STATEMENT OF MOVEMENTS IN EQUITY
FOR THE SIX MONTHS ENDED 31 DECEMBER 2017**

	Note	6 Months Ended 31-Dec-17 \$	6 Months Ended 31-Dec-16 \$	Year Ended 30-Jun-17 \$
Net Surplus/(Deficit) for Period				
Allocated To:				
Net Surplus / (Deficit)		15,734	3,494	180,014
Special Funds		9,704	9,186	18,675
Net Surplus/(Deficit) for year		<u>25,438</u>	<u>12,679</u>	<u>198,689</u>
Opening Balance at 1 July		39,856,052	45,553,685	45,553,685
Movement in Asset Revaluation Reserve		-	-	(5,896,322)
Transfer of Capital Expenditure from Acquisitions Reserve		-	-	-
Transfer of De-accession Proceeds to Acquisitions Reserve		4,013	-	-
Accumulated Funds	6	<u><u>39,885,503</u></u>	<u><u>45,566,364</u></u>	<u><u>39,856,052</u></u>

**HAWKE'S BAY MUSEUMS TRUST
STATEMENT OF CASHFLOWS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2017**

	Note	6 Months Ended 31-Dec-17 \$	6 Months Ended 31-Dec-16 \$	Year Ended 30-Jun-17 \$
Cashflows from Operating Activities				
Cash was Provided From:				
Grants Council		458,661	450,425	900,850
Interest Received		12,907	6,121	15,223
Donations Received		7,249	-	-
Grants Received		15,000	-	-
Goods and Services Tax (net inflow)		166	2,274	1,359
		<u>493,982</u>	<u>458,820</u>	<u>917,432</u>
Cash was Disbursed To:				
Audit Fee		(5,200)	(5,313)	(5,313)
Other Expenses		(448,575)	(444,209)	(886,813)
Goods and Services Tax (net outflow)		-	-	-
		<u>(453,775)</u>	<u>(449,522)</u>	<u>(892,126)</u>
Net Cashflows from Operating	4	<u>40,207</u>	<u>9,298</u>	<u>25,306</u>
Cashflows from Investing Activities				
Cash was Provided From:				
Sale of Collection Assets		4,012	-	-
Cash was Disbursed To:				
Purchase of Collection Assets		(3,656)	(6,700)	(18,802)
Net Cashflows from Investing		<u>356</u>	<u>(6,700)</u>	<u>(18,802)</u>
Cashflows from Financing Activities				
Cash was Provided From:				
Reduction in Term Deposit		-	10,000	-
Maturity of Rabobank Bonds		35,000	-	-
Cash was Disbursed To:				
Increase in Term Deposit		-	-	-
Net Cashflows from Financing		<u>35,000</u>	<u>10,000</u>	<u>-</u>
Net Cashflows (Deficit)		75,563	12,598	6,504
Add Opening Cash Balance		571,377	14,613	564,873
Closing Cash Balance 31 December 2016		<u>646,940</u>	<u>27,211</u>	<u>571,377</u>

**HAWKE'S BAY MUSEUMS TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2017**

1. Statement of Accounting Policies

Reporting Entity

The Hawke's Bay Museums Trust (Incorporated) is registered under the Charitable Trusts Act 1957 and is registered as a charitable entity under the Charities Act 2005.

General Accounting Policies

The general accounting policies recognised as appropriate for the measurement and reporting of results, and financial position, under the historical cost method as modified by the revaluation of certain assets, have been followed in the preparation of these financial statements.

The Board has elected to apply PBE-SFR-A (PS) Public Benefit Entity Simple Format Reporting - Accrual (Public Sector) on the basis that the Trust does not have public accountability (as defined) and has total annual expenses of less than \$2 million.

The financial statements are prepared on the assumption that the Trust will continue to operate in the foreseeable future.

All transactions in the financial statements are reported using the accrual basis of accounting

Significant accounting policies

Bank Accounts and Cash

Bank Accounts and Cash comprise cheque or savings accounts and deposits held at call with banks.

Investments

Investments comprise bank term deposits.

Accounts Receivable

Accounts receivable are stated at their estimated net realisable value.

Grants

Grants received are recognised in the Statement of Financial Performance when the requirements under the grant agreement have been met. Any grants for which the requirements under the grant agreement have not been completed will be carried as liabilities until the conditions have been fulfilled.

Donated Assets

Revenue from donated assets is recognised upon receipt of the asset if the asset has a useful life of more than 12 months and the value of the asset is readily obtainable and significant.

Artworks and Collection

The Trust has elected to apply International Public Sector Accounting Standard (IPSAS) 17 - Property, Plant and Equipment. Items contained in collection assets tend to have an indefinite life and are generally not of a depreciable nature. Depreciation is therefore not applicable and collection assets are carried at fair value. Carrying values are reviewed at least every five years to ensure those values are not materially different to fair value.

Creditors and Accrued Expenses

Creditors and accrued expenses are measured on the amount owing.

GST

The Trust is registered for GST. The Statement of Financial Performance has been prepared so that all components are stated net of GST. All items in the Statement of Financial Position are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

Interest Revenue

Interest revenue is recorded as it is earned during the year.

Income Tax

Hawkes Bay Museums Trust is exempt from paying income tax.

Changes in Accounting Policies

There have been no changes in accounting policies for the 2017/18 financial year.

HAWKE'S BAY MUSEUMS TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

	6 Months Ended 31-Dec-17 \$	6 Months Ended 31-Dec-16 \$	Year Ended 30-Jun-17 \$
2. Grants - Councils			
The Hawke's Bay Museums Trust is jointly funded by Napier City Council and Hastings District Council.			
Hastings District Council	233,080	228,962	457,925
Napier City Council	225,580	221,463	442,925
	<u>458,660</u>	<u>450,425</u>	<u>900,850</u>
3. Grants and Donations - Other			
Donated Assets	-	-	171,301
Other Donations (incl Cemetery Walks and general donations)	7,249	-	-
	<u>7,249</u>	<u>-</u>	<u>171,301</u>
4. Reconciliation of Net Surplus to Net Cash Flow from Operating Activities			
Operating Surplus	25,438	12,679	198,689
Less donated / vested assets	-	-	(171,301)
Cash surplus/(deficit) from operations	<u>25,438</u>	<u>12,679</u>	<u>27,388</u>
Add/(less) movements in working capital items:			
Accounts receivable			
Prepayments & accrued revenue (net, including interest)	2,202	(3,065)	(3,451)
Accounts payable accrued (net)	12,400	(2,590)	10
Net GST movement	166	2,274	1,359
Revenue treated as 'Investing Activity'	-	-	-
Net cash inflow/(outflow) from operating activities	<u>40,207</u>	<u>9,298</u>	<u>25,306</u>
5. Bank Accounts, Cash and Investments			
Bank Accounts			
Westpac Bank - Current Account	41,680	27,211	31,117
Total Bank Accounts and Cash	<u>41,680</u>	<u>27,211</u>	<u>31,117</u>
Investments			
Westpac Term Deposits	530,000	500,000	500,000
Westpac Term Deposits - Trusts Held on Behalf			
M S Spence Trust	33,387	19,387	19,387
L D Bestall Trust	20,834	10,834	10,834
Estate L D Bestall	21,039	10,039	10,039
	<u>605,260</u>	<u>540,260</u>	<u>540,260</u>
	<u>646,940</u>	<u>567,471</u>	<u>571,377</u>

HAWKE'S BAY MUSEUMS TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

6. Movements in equity	6 Months Ended 31-Dec-17 \$	6 Months Ended 31-Dec-16 \$	Year Ended 30-Jun-17 \$
Special Reserves			
Restricted Reserves			
Opening Balance 1 July 2017	13,634	13,963	13,963
Interest income	238	223	456
Transfer to Other Reserves	-	-	-
	-	-	(785)
Closing Balance Special Reserves	13,872	14,186	13,634
Unrestricted Reserves			
Opening Balance 1 July 2017	86,738	83,921	83,921
Interest Income	1,516	1,340	2,817
Grants and Donations	-	-	-
Transfer to Other Reserves	-	-	-
Transfer to Napier City Council	-	-	-
Closing Balance Unrestricted Reserves	88,254	85,261	86,738
Acquisitions Reserve			
Opening Balance 1 July 2017	356,337	363,260	363,260
Interest Income	6,229	5,797	11,879
Acquisitions Donations Received	-	-	-
Proceeds from De-accession	4,013	-	-
Acquisitions for Year	(3,656)	(6,700)	(18,802)
Closing Balance Acquisitions Reserve	362,923	362,357	356,337
Conservation Reserve Fund			
Opening Balance 1 July 2017	30,491	36,583	36,583
Interest Income	534	585	1,108
Conservation Donations Received	-	-	-
Conservation for Year	-	(2,700)	(7,200)
Closing Balance Conservation Reserve	31,025	34,468	30,491
Trusts Held on Behalf			
Opening Balance 1 July 2017	4,147	1,732	1,732
Interest Income	1,187	1,241	2,415
Acquisitions for Year	-	-	-
Closing Balance Trusts Held on Behalf	5,334	2,973	4,147
Total Special Reserves	501,408	499,245	491,347
Asset Revaluation Reserve			
Opening Balance 1 July 2017	38,673,798	44,570,120	44,570,120
Movement in Asset Revaluation Reserve	-	-	(5,896,322)
Closing Balance Revaluation Reserve	38,673,798	44,570,120	38,673,798
Retained earnings			
Opening Balance 1 July 2017	690,907	484,106	484,106
Transfer of donations to restricted reserve	-	-	-
Transfer of capital expenditure from restricted reserve	-	-	785
Transfer of donations to acquisitions reserve	-	-	-
Transfer of proceeds of deaccession to acquisitions reserve	-	-	-
Transfer of capital expenditure from acquisitions reserve	3,656	6,700	18,802
Transfer of donations to conservation reserve	-	-	-
Transfer of capital expenditure from conservation reserve	-	2,700	7,200
Transfer of capital expenditure to conservation reserve	-	-	-
Transfer of donations to restricted reserve	-	-	-
Transfer of capital expenditure from unrestricted reserve	-	-	-
Net surplus/(deficit) for year	15,734	3,493	180,014
Closing Balance Retained Earnings	710,297	496,999	690,907
	39,885,503	45,566,365	39,856,052

Restricted Reserves - consist of reserves which have conditions of use attached to the funds held within the reserve

Unrestricted Reserves - funds held in equity which have no restrictions on conditions of use

Acquisitions Reserve - funds which the Trustees have identified and set aside for the specific purpose of acquisition of items for the museum collection

Conservation Reserve Fund - funds which the Trustees have identified and set aside for applying to the cost of conservation of collection items

HAWKE'S BAY MUSEUMS TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

7. Special Funds	Opening Balance as at 1 Jul 2017	Transfer	Grants Donations & Bequests Received	Acquisitions & Conservation for 6 Months to 31 Dec 2017	De-accessions for 6 Months to 31 Dec 2017	Allocation of Proportion Interest Income	Closing Balance as at 31 Dec 2017
Restricted Reserves							
JR McKenzie Trust	-	-	-	-	-	-	-
QEII Award Fund	13,634	-	-	-	-	238	13,872
	13,634	-	-	-	-	238	13,872
Unrestricted Reserves							
HB Museum Building Fund	-	-	-	-	-	-	-
Lilliput Building Fund	86,738	-	-	-	-	1,516	88,254
	86,738	-	-	-	-	1,516	88,254
Acquisitions Reserve Fund							
Millin Estate	264,129	-	-	-	4,013	4,616	269,102
LJ Sanderson	77,490	-	-	(3,656)	-	1,355	78,845
M L Holt	12,713	-	-	-	-	222	12,935
James Walker	1,442	-	-	-	-	26	1,468
Webb Trust	563	-	-	-	-	10	573
	356,337	-	-	(3,656)	4,013	6,229	362,923
Conservation Reserve Fund							
Dobson Trust	8,577	-	-	-	-	150	8,727
B Horne	9,008	-	-	-	-	158	9,166
M L Holt	12,602	-	-	-	-	221	12,823
Other - FHBAG Care Fund	304	-	-	-	-	5	309
	30,491	-	-	-	-	534	31,025
Total HBMT Special Funds	487,200	-	-	(3,656)	4,013	8,517	496,074
Trusts Held on Behalf							
M S Spence Trust	1,837	-	-	-	-	531	2,368
L D Bestall Trust	1,135	-	-	-	-	314	1,449
Estate L D Bestall	1,175	-	-	-	-	342	1,517
Total Trusts Held on Behalf	4,147	-	-	-	-	1,187	5,334
Total Special Funds	491,347	-	-	(3,656)	4,013	9,704	501,408

Page 8

**HAWKE'S BAY MUSEUMS TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2017**

	6 Months Ended 31-Dec-17 \$	6 Months Ended 31-Dec-16 \$	Year Ended 30-Jun-17 \$
8. Accounts Receivable, Accrued Revenue & Prepayments			
Accrued Interest	3,383	6,199	6,585
Public Stitch Fees Receivable	1,000	-	-
	<u>4,383</u>	<u>6,199</u>	<u>6,585</u>

HAWKE'S BAY MUSEUMS TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

9. Collection Assets

Museum Art & Collection Assets were valued by independent registered valuer Hamish Coney MPINZ of Art + Object as at 30 June 2017 using fair value. The Faraday Centre Collection was valued by independent registered valuer Craig S Scoullar MPINZ of Asset Valuations Ltd as at 30 June 2017 using fair value. Both valuations have been brought to account in the 2016/17 financial statements. The basis for both valuations is 'Estimated Market Value.'

	Library Archives	Textiles & Associated Items	Taonga Maori	Fine Arts	Social History	Pottery Porcelain Glass Silver	Ethnology	Subtotal	Faraday Centre	Total
Carrying amount at 1 July 2016	1,974,772	885,131	29,095,125	9,539,576	1,096,500	423,250	1,437,300	44,451,654	579,500	45,031,154
Acquisitions	976	-	-	17,826	-	-	-	18,802	-	18,802
Donations	36,127	265	43,478	80,170	4,261	7,000	-	171,301	-	171,301
Deaccessions	-	-	-	-	-	-	-	-	-	-
Revaluation movement due to removal of GST	(257,579)	(115,452)	(3,795,016)	(1,244,293)	(143,022)	(55,207)	(187,474)	(5,798,043)	(75,587)	(5,873,630)
Revaluation	121	-	-	874	-	-	-	995	(23,687)	(22,692)
Carrying amount at 30 June 2017	1,754,417	769,944	25,343,587	8,394,153	957,739	375,043	1,249,826	38,844,709	480,226	39,324,935
Carrying amount at 1 July 2017	1,754,417	769,944	25,343,587	8,394,153	957,739	375,043	1,249,826	38,844,709	480,226	39,324,935
Acquisitions	3,221	-	-	-	-	435	-	3,656	-	3,656
Donations	-	-	-	-	-	-	-	-	-	-
Deaccessions	-	-	-	-	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-	-	-	-	-
Carrying amount at 31 December 2017	1,757,638	769,944	25,343,587	8,394,153	957,739	375,478	1,249,826	38,848,365	480,226	39,328,591

Page 10

**HAWKE'S BAY MUSEUMS TRUST
NOTES TO THE FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 31 DECEMBER 2017**

	6 Months Ended 31-Dec-17 \$	6 Months Ended 31-Dec-16 \$	Year Ended 30-Jun-17 \$
10. Accounts Payable & Accruals			
Accounts Payable & Accruals	7,312	2,600	5,200
Unexpended Grants	10,288	-	-
GST Payable	1,551	2,300	1,385
	<u>19,151</u>	<u>4,900</u>	<u>6,585</u>
11. Non-Current Liabilities			
M S Spence Trust Proceeds	33,387	19,387	19,387
L D Bestall Trust Proceeds	20,834	10,834	10,834
Estate L D Bestall Proceeds	21,039	10,039	10,039
	<u>75,260</u>	<u>40,260</u>	<u>40,260</u>

12. Related Parties

Hastings District Council and Napier City Council are related parties, to the extent that they contribute funds and are represented on the Board.

The Hawke's Bay Museums Trust has contracted Napier City Council to provide administrative and accounting services for the Trust's operations. Payment for these services during the financial period under review was \$8,550 (to 31 December 2016: \$8,550 and to 30 June 2017: \$17,100).

The Hawkes Bay Museums Trust has also contracted Napier City Council to provide administrative and management services for the management of the collection. Payment for services during the financial period under review were: \$437,405 (to 31 December 2016: \$429,555 and to 30 June 2017: \$859,110).

	6 Months Ended 31-Dec-17 \$	6 Months Ended 31-Dec-16 \$	Year Ended 30-Jun-17 \$
13. Commitments			
Capital Commitments			
Known capital commitments	-	-	-
	6 Months Ended 31-Dec-17 \$	6 Months Ended 31-Dec-16 \$	Year Ended 30-Jun-17 \$
14. Contingencies			
Known contingent events	-	-	-



Hawke's Bay Museums Trust
Ruawharo Ta-u-rangi

STATEMENT OF INTENT 2018 – 2020

The Hawke's Bay Museums Trust is a Council Controlled Organisation as two of the five members of the Board are Council nominees.

As a Council Controlled Organisation the Trust acknowledges the 2012 amendment of the Local Government Act 2002.

The Objectives of the Trust are:

- To hold and protect the collection for the people of Hawke's Bay
- To encourage the development of quality cultural facilities capable of accessing or drawing upon the collection within Hawke's Bay
- To advance and promote cultural heritage and the arts through the use of the collection
- To oversee collection management through the development of collection policy, conservation and risk management strategies via a contract for services with the Napier City Council
- To oversee collection development through the regulation of the acquisition and disposal of collection items
- To manage the bequests vested in the Trust in a way in which best industry practices benefit the collection.

Governance of the Trust is:

The Board is constituted to have five members appointed as follows:

- One appointed by the Napier City Council
- One appointed by the Hastings District Council
- One appointed by the Hawke's Bay Museums Foundation Charitable Trust
- One by Ngati Kahungunu Iwi (Incorporated)
- One Chairperson who is jointly appointed by the Napier City Council and the Hastings District Council.

The Trust Board will govern on a high level strategic direction basis. It will ensure regional balance and Iwi representation. It will undertake a management agreement with Napier City Council for the care and management of the regional collection.

The strategic intentions of the Trust for 2018-2020 are:

The Trust will:

- work closely with the Napier City Council and the Hastings District Council and other local authorities in the Hawke's Bay region to promote public appreciation of the collection
- consult regularly with the Director of MTG to advance the standing of the MTG in the community and further afield
- review annually the performance of the Napier City Council in the execution of its contract for care and management of the collection
- ensure that the Trust's investment policy is managed in a manner that satisfies the guiding principles set by Hastings District Council and Napier City Council for their own investment policies.

The Nature and Scope of Activities to be undertaken by Napier City Council are outlined below. These activities will be achieved in accordance with agreed best industry practice and consistent with HBMT policies and procedures.

1) Protection

- Storage including pest control, storage media, shelving and air quality
 - Pest control
 - Storage media
 - Shelving
 - Air quality
- Security including alarm and access systems and monitoring, and insurance
 - Alarm systems (burglary, fire)
 - Alarm monitoring
 - Access systems
 - Insurance (loan items, owed items)
- Records Management including Vernon database and other records
 - Vernon database
 - Other records

2) Quality including conservation, accessioning and de-accessioning.

- Conservation - appropriate conservation to accepted best industry practice and consistent with HBMT collection policies.
- Accessioning - appropriate accessioning to accepted best industry practice consistent with HBMT collection policies.
- De-accessioning - appropriate de-accessioning to accepted best industry practice consistent with HBMT collection policies.

3) Access including exhibitions, research and archives.

- Exhibitions - Collection available to Hastings City Art Gallery and MTG Hawke's Bay and other institutions as appropriate within accepted best industry practice.
- Research - Collection made available through MTG Hawke's Bay as appropriate within accepted best industry practice.
- Archives - Archives made available through MTG Hawke's Bay as appropriate within accepted best industry practice.

4) Development including fundraising, reserves management and relationship development.

- Fundraising - To work with the MTG Hawke's Bay Foundation to provide funding.
- Reserves - To appropriately manage accession reserves.
- Relationships - To appropriately manage relationships to allow the collection to develop appropriately.
 - Funding Councils
 - Te Rōpū Kaiawhina Taonga
 - MTG Friends

Accounting Policies adopted by the Hawke's Bay Museums Trust will be:**Reporting entity**

The Hawke's Bay Museums Trust is registered under the Charitable Trusts Act 1957 and is registered as a charitable entity under the Charities Act 2005.

Statutory base

The financial statements will be prepared in accordance with Section 15 of the Public Audit Act 2001.

General accounting policies

The general accounting policies recognised as appropriate for the measurement and reporting of results, and financial position, under the historical cost method as modified by any revaluation of any assets will be followed in the preparation of the financial statements.

The Trust qualifies as a Not-for-Profit (NFP) public benefit entity (PBE) for financial reporting purposes and is classified as a Tier 3 PBE reporting entity. It is therefore eligible to elect to report in accordance with PBE Simple Format Reporting - Accrual (Not-for-Profit) (PBE SFR-A (NFP)) on the basis that it does not have public accountability (as defined in XRB A1 (FP Entities + PS PBEs + NFPs -FP T3 + T4 Update)) and it has total expenses less than or equal to \$2 million.

Specific accounting policies

This Statement of Intent has been prepared on the basis that the Hawke's Bay Museums Trust is a going concern.

Accounts receivable

Any accounts receivable will be stated at their estimated net realisable value.

Inventory

Any inventory will be stated at the lower of cost and net realisable value on a FIFO basis after due allowance for damaged and obsolete stock.

Investments

Investments will be stated at lower of cost or net realisable value.

Grants

Any grants received will be recognised in the Statement of Financial Performance when the requirements under the grant agreement have been met. Any grants for which the requirements under the grant agreement have not been completed will be carried as liabilities until the conditions have been fulfilled.

Artworks and Collection assets

The Board considers it is a custodian of the Collection and as the collections tend to have an indefinite life, and are generally not of a depreciable nature, depreciation will therefore not be applicable and collection assets will be carried at fair value.

An independent qualified valuer provides a three-yearly full revaluation of the collection. Carrying values will be reassessed annually in the intervening years.

Purchases of collections will be recorded at cost, and donated collection assets will be recorded without attached values at the time of acquisition. These values will be captured during annual update revision of the valuation as noted above.

Goods and Services Tax (GST)

The Statement of Financial Performance will be prepared so that components will be stated exclusive of GST. All items in the Statement of Financial Position will be stated net of GST, with the exception of receivables and payables, which will include GST invoiced.

Income tax

Hawke's Bay Museums Trust is exempt from paying income tax.

Changes in accounting policies

Any changes in accounting policies will be clearly signified and quantified.

Performance Targets

Key Result Area	Performance Indicator	Target/Reporting Method	
		2018/20 target	2018/20 actual
Protection	Full insurance cover is provided for the collection.	Yes	
	Collections are stored in an acceptable environment.	No items reported to have suffered deterioration due to environment	
Quality	Every item accessioned into the collection has undergone a detailed selection process within the framework of the Collection Strategy	Yes	
	De-accessions are managed in accordance with the Collection Strategy and reported to the Board	Yes	
Access	HBMT collections are used for academic and personal research	1,500 enquiries	
	Collections are made available to the public through quality exhibitions	Minimum of 5 collection based exhibitions	
Development	Bequest funds income is used in the manner determined by the donor.	Yes	
	Conservation funds income is used solely for collection care.	Yes	
	Joint HBMT/Te Rōpū Kaiawhina Taonga meeting held.	1 per annum	

Hawke's Bay Museums Trust Financial Targets

Financial Performance	2018/19	2019/20	2020/21
Revenue			
Council Funding (NCC & HDC)*	1,181,397	1,234,148	1,291,040
Interest Income **	19,800	19,800	19,800
Donations	7,200	7,200	7,200
Total Revenue	1,208,397	1,261,148	1,318,040
Expenses			
Management Fee	964,977	1,013,700	1,066,072
Off-Site Storage	176,000	179,520	183,469
Education Grant (HDC)	15,000	15,000	15,000
Trust Admin & Management	16,000	16,320	16,679
Audit, Insurance, Legal etc ***	9,420	9,608	9,820
Conservation	13,500	13,500	13,500
Accessions	13,500	13,500	13,500
Total Expenses	1,208,397	1,261,148	1,318,040
Surplus/(Deficit)	0	0	0

* Where appropriate, budgets have been inflation-adjusted using the BERL assumptions used by both Councils' Ten Year Plans, but the future year adjustments for 2019/20 and 2020/21 may differ from the above targets.

**Interest income is based on maintaining capital funds at present levels – early spending of these funds will accordingly reduce the interest income.

***Trust Admin for 2017/18 includes Audit \$5,200, Insurance \$2,575, Legal \$1,600 and Charities \$45.

No dividend is recommended.

No additional Council funding is requested.

Capital Expenditure

There is no planned expenditure on buildings or plant and machinery for the 2018-2020 periods. Accessions and conservation will be funded from grants, donations, de-accessions, and bequest and investment interest income.

Faraday Centre

Trustees are reviewing the future direction of the Faraday Centre. This includes potentially separating this activity from the Hawke's Bay Museums Trust when a sustainable model is identified.

Financial Reports

These will be inserted as the 2018/19 final audited accounts.

Compensation from Local Authority

The costs of maintaining the collection will be equally funded by Napier City Council and Hastings District Council. Additional funding may be sought from other sources as appropriate.

The Board estimates the commercial value of the Hawke's Bay Museums Trust collection at approximately \$39 million (including the Faraday Collection).

Reporting against intended performance

An Annual Report will be prepared which will include a comparison of performance with the relevant Statement of Intent.

REPORT TO: FINANCE AND MONITORING COMMITTEE

MEETING DATE: TUESDAY 20 MARCH 2018

FROM: MANAGER STRATEGIC FINANCE
BRENT CHAMBERLAIN

SUBJECT: HAWKES BAY LOCAL AUTHORITY SHARED SERVICES -
PROPOSED CHANGE IN STRUCTURE

1.0 SUMMARY

- 1.1 The purpose of this report is to obtain a decision from the Council on a proposal to make the Hawke's Bay Local Authority Shared Services Limited (HBLASS) dormant in order to focus attention and resources on further collaboration and reduce compliance costs for all the councils.
- 1.2 This proposal arises from a review of HBLASS undertaken in 2017.
- 1.3 The Council is required to give effect to the purpose of local government as prescribed by Section 10 of the Local Government Act 2002. That purpose is to meet the current and future needs of communities for good quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses. Good quality means infrastructure, services and performance that are efficient and effective and appropriate to present and anticipated future circumstances.
- 1.4 The objective of this decision relevant to the purpose of Local Government is encourage further collaboration between Councils, but in a more cost effective manner than the current HBLASS company structure.
- 1.5 This report concludes by recommending HBLASS as a legal entity becomes dormant in the short term, and that Hawkes Bay Councils continue the process of Collaboration to deliver service and value but through a less formal structure.

2.0 BACKGROUND

- 2.1 Since 2012, when HBLASS was incorporated as a legal entity, there has been significant effort to identify functions and analyse opportunities for shared services and joint procurement across the Hawke's Bay Councils.
- 2.2 The effort and the results, through HBLASS have been focused largely on procurement and the development of shared IT services. HBLASS funded a Chairperson for IT shared services, minutes, and governance as well as selective consulting studies and plans. Because structural change and cost reduction are implicit in Shared Services, an "all in" model was met with resistance when timing and opportunities didn't align with councils direction at a particular point in time.

3.0 CURRENT SITUATION

- 3.1 In early 2017, there was a review leading to a recommitment to HBLASS efforts with Collaboration as an approach to improving Hawke's Bay wide Service and Value. As part of the review, a new wider role of HBLASS Collaborator was introduced on a 6 month contract.
- 3.2 The principles of Collaboration are:
- Discover who is doing what
 - Connect with others that share the same objective
 - Collaborate to delivery more for less.
- 3.3 The following summarizes the Collaboration and outcomes in 2017:

Shift from Shared Services to Collaboration

- Decision to shift from Shared Services to Collaboration in October 2016.
- Recruit and contract Collaboration Lead March 2017.
- SOIs signed and OK to contact staff May 2017.
- First group meeting June 2017.
- A 6 month pilot.

Robust and Relevant Results Through People

1

Collaboration - Achievements

- **Trust:** open to work together, sharing activities and issues, creating common goals.
- **Relationships:** identifying opportunities, problem solving, support.
- **Shared Expertise:** knowledge, know-how.
- **Shared Infrastructure:** policy, procedures, technology.
- **Start of a Region-wide and Long View of Services;** roadmaps that align and include all councils.
- **Customer Focus:** starting with customer needs.
- **Modeling of Collaborative Behaviour:** open, listening, learning
- **Creative Solutions:** aspirational rather than compliance

Robust and Relevant Results Through People

5

Collaboration - Achievements

- **Simplification** of business cases – do it once for the region.
 - ✓ Simplify decision making: Does it meet business needs? Can we afford it?
 - ✓ Better decisions - perspective of each council. Deeper and broader due diligence; better vendor/product selection.
- **Effective procurement process** – shared roadmap.
- Flexible procurement contracts - staged for all councils to jump on board.
- **Support of local economic development** – reduced cost for respondents to tender.
- **Savings:** \$500K+

Robust and Relevant Results Through People

6

- 3.4 The focus on collaboration versus Shared Services is consistent with the direction that a number of the Councils are taking in other regions. Bay of Plenty for example has a collaboration portal that has resulted in improved knowledge sharing and efficiencies been delivered within projects and service delivery. This portal is now widely used by local Councils.
- 3.5 Staff involved have delivered improved Service and Value across Hawke's Bay in the following areas:
- IT: Shared Infrastructure Services including Wide Area Network, Desktop and Web Services.
 - GIS: Shared Aerial Photography.
 - Open Spaces: Opportunities for One View of Information and Shared approaches to operations.
 - Animal Control: Opportunities for Shared Education and License Data.
 - Training and Development: Common Requirements and Shared Onsite Training.
 - Shared Internal Audit Services. Improved quality, value and efficiency.
 - Records Management: Common approaches.

4.0 PROPOSED STRUCTURE

- 4.1 The Chief Executive (CE) Forum, will replace the HBLASS board structure with the same five Council CEs and independent chair – the function of HBLASS will continue but without the legislative requirements of operating a Company. The CE Forum group is fully committed to working together focusing on improving Service and Value for the Hawke's Bay region through collaboration. The primary difference in the structure change is less time and resource spent on the requirements for an active Council-owned, legal entity and more focus on setting direction and enabling staff to achieve Service and Value. At the same time, the CE Forum provides an umbrella and common way of operating for the many collaborative initiatives across Hawke's Bay, beyond HBLASS.
- 4.2 The administrative function is also significantly reduced. A lead council would be identified to maintain a ledger with invoicing to each council to recover agreed and shared costs for the Collaboration Program and any project expenses.
- 4.3 To deactivate a councils-owned company requires the following steps to be undertaken:
- a) Obtain a special resolution of shareholders (in writing and signed) stating the shareholders agree to shelve the company.
 - b) Pay final GST return to Inland Revenue (HBLASS is not registered for FBT but this would apply if it were).
 - c) Make final payouts as determined by above resolution (if applicable) to clear the bank accounts.
 - d) Close bank accounts with Westpac.

- e) Deregister for GST with Inland Revenue.
 - f) File the final income tax return (IR4) for the tax year (includes company accounts up to the point when business ceased, but note this cannot be filed early and is due after the end of the financial year in which HBLASS closed).
 - g) File the IR433 Non-Active Company Declaration form with Inland Revenue.
- 4.4 The HBLASS Limited legal entity can be reactivated in the future if business models, organizational, contract or procurement changes require a separate legal entity.

5.0 OPTIONS

5.1 The options available to Council are as follows:

- a) Approve the recommendation to make dormant HB Local Authority Shared Services Limited.
- b) Not approve the recommendation with HBLASS Limited to continue in its current form.
- c) Recommend that all shared service/collaboration activities cease immediately.

6.0 ISSUES

6.1 There are no foreseen issues or risks at this time. This structural change will cost less and focus attention on the purpose of the LASS.

7.0 SIGNIFICANCE AND ENGAGEMENT

- 7.1 The Board is comprised of the five Chief Executives of the Hawke's Bay Councils. All Chief Executives agree with the recommendation to make HBLASS Ltd company dormant and have approved a motion at their meeting on December 8, 2017.
- 7.2 Each Council is now being consulted with a recommendation to make the HBLASS company dormant. The Chief Executives intend to still refer to their activities and undertaking as a group as HBLASS, but not as a separate legal entity. The Councils are requested to provide a response to this proposal by the end of March 2018.

8.0 ASSESSMENT OF OPTIONS (INCLUDING FINANCIAL IMPLICATIONS)

8.1 Financial

There will be residual funding from the current year's subscription, and it is proposed to transfer this to Napier City Council, where it will provide an accountability report. The residual fund will be to pay for the continued services of the Chairman and Collaborator roles.

8.2 Social & Policy

Through the Collaboration pilot in 2017, there has been a significant interest shown by staff in the opportunities for improved Service and Value across

Hawke's Bay that will contribute to the outcome of health and prosperity of the region.

8.3 Risk

The requirements of being a CCO will still need to be met if the Councils wish to continue with the company in its current format, including the preparation of a Statement of Intent. This work has currently been put on hold.

Councils may decide not to continue to fund the Chairperson and Collaborator role and further opportunities on effective and efficient services may be missed.

9.0 PREFERRED OPTION AND REASONS

9.1 The preferred option is option A.

9.2 Making the HBLASS legal entity dormant as this will result in a lower financial and administration burden to the councils while improving the focus to meet Service and Value outcomes.

9.3 As noted above during the review of HBLASS in 2017, LASS organizations around New Zealand were approached to share their experience. Success was linked directly with a collaborative approach. Other LASS organizations that have taken the traditional structural/cost reduction approach with services being operated and contracts run through the LASS, are currently assessing the change to a collaborative approach for more robust and relevant solutions.

9.4 HBLASS has taken the initiative to test collaboration in the Hawke's Bay environment during 2017. There has been considerable success over the six months of this pilot to test collaboration. In order for further improvement, there must be greater engagement, client focus, leadership accountability and strengthening of a collaborative culture.

RECOMMENDATIONS AND REASONS

A) That the report of the Manager Strategic Finance titled "Hawkes Bay Local Authority Shared Services - Proposed Change in Structure" dated 20/03/2018 be received.

B) That Council resolve:

- (i) That HBLASS Ltd, as a legal entity will be dormant in the short term; with the ability for the legal entity able to be reactivated in the future.**
- (ii) That HBLASS Ltd be exempted from being a Council Controlled Organisation under section 7(3) of the Local Government Act 2002.**
- (iii) Note that the dormant status of HBLASS is effective on receipt of agreement by all members of the Board.**
- (iv) Note that the decision on the dormant status of HBLASS will be determined by the majority of councils.**

- (v) Note that each Council will continue its participation in a Collaborative approach and note that each Council will actively support shared and common goal setting, decision-making, resourcing including financial contribution, staff and communication where appropriate.

With the reasons for this decision being that the objective of the decision will contribute to meeting the current and future needs of communities for local public services in a way that is most cost-effective for households and business by focusing attention and resources on further collaboration and reducing compliance costs for all the councils.

Attachments:

There are no attachments for this report.

REPORT TO: FINANCE AND MONITORING COMMITTEE

MEETING DATE: TUESDAY 20 MARCH 2018

FROM: MANAGER STRATEGIC FINANCE
BRENT CHAMBERLAIN

SUBJECT: LOCAL GOVERNMENT FUNDING AGENCY - HALF YEAR
REPORT TO 31 DECEMBER 2017 AND DRAFT 2018/19
STATEMENT OF INTENT

1.0 SUMMARY

- 1.1 The purpose of this report is to present to the Council the Half Year Report for the period ending 31 December 2017 and the opportunity to comment on the Draft 2018/19 Statement of Intent (SOI) of the Local Government Funding Agency (LGFA).
- 1.2 This issue arises as a consequence of Council's shareholding in the LGFA in late 2012 and the receipt of the half year report for the period ending 31 December 2017 and the Draft 2018/19 SOI from the LGFA.
- 1.3 The Council is required to give effect to the purpose of local government as prescribed by Section 10 of the Local Government Act 2002. That purpose is to meet the current and future needs of communities for good quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses. Good quality means infrastructure, services and performance that are efficient and effective and appropriate to present and anticipated future circumstances.
- 1.4 The objective of this decision relevant to the purpose of Local Government is to allow Council to have access to the LGFA and therefore enables Council to have access to the most cost effective debt available.
- 1.5 This report concludes by recommending that the Local Government Funding Authority's half year report for the period ending 31 December 2017 be received and the Draft 2018/19 SOI be received with any feedback passed onto the Directors of the Local Government Funding Agency.

2.0 BACKGROUND

- 2.1 The LGFA was established on 1 December 2011 with 18 local government shareholders and the Crown. Hastings District Council became a shareholder with a shareholding investment of \$400,000 (1.77%). The LGFA is a Council Controlled Organisation. Following the addition of 12 new participants in the LGFA on 30 November 2012 the existing LGFA shareholders were required to sell down their paid up and unpaid shares on a pro rata basis. This reduced HDC's shareholding to \$373,196 (1.77%).
- 2.2 The LGFA has forwarded for information their Half Year Report for the period ended 31 December 2017 and the Draft 2018/19 SOI, seeking comment from Council. Council have until 30 April 2018 to provide comment on the Draft 2018/19 SOI.

- 2.3 The Local Government Act requires all Council Controlled Organisations to prepare a Statement of Intent. A draft is required to be provided by 1 March each year for comment with the final Statement of Intent to be completed by 30 June each year. Clause 3 of Schedule 8 of the Local Government Act 2002 outlines the Board's responsibilities upon receiving comments from the shareholders:

3) Completion of statements of intent

The board must –

- a) *Consider any comments on the draft statement of intent that are made to it within 2 months of 1 March by the shareholders or by any of them; and*
- b) *Deliver the completed statement of intent to the shareholders on or before 30 June each year.*

- 2.4 Clause 9 of Schedule 8 of the Local Government Act outlines the contents of a Council Controlled Organisation's Statement of Intent for which LGFA must comply.

3.0 CURRENT SITUATION

- 3.1 Representatives of the LGFA are due to visit Council in May 2018 and will attend the Risk and Audit Subcommittee meeting to provide an update on the LGFA activities and the marketplace.

3.2 HALF YEAR REPORT

- 3.3 **Attachment 1** is the Half Year Report for the period ending 31 December 2017. The report is very comprehensive and reports against stated objectives and performance targets and satisfies the reporting requirements as outlined in the Statement of Intent.
- 3.4 By 31 December 2017 the LGFA had lent \$7.5 billion to 52 councils and continues to deliver more cost effective funding to those participating Councils. The LGFA estimate savings of 10 to 22 basis points for AA rated Councils over NZD domestic bonds being issued by Councils in their own right.
- 3.5 At 31 December 2017 Hastings District Council had \$65m borrowed through the LGFA. A savings of 10 to 22 basis points equates to an annual interest savings of \$65,000 and \$143,000 on this debt.
- 3.6 The LGFA offers a range of borrowing options. The average term of borrowing by Councils from LGFA was 7.2 years for the six-month period to 31 December 2017. This is shorter than the 8.1 years' average term for the 2016-17 year.
- 3.7 Short-dated lending (less than 365 day terms) to councils, introduced in November 2015, has been very successful with outstandings now at \$332 million lent to seventeen councils.
- 3.8 The following table shows the \$7,199m of LGFA bond outstandings by maturity as at 31 December 2017 (note this excludes short term lending):

Unaudited as at 31 December 2017 in \$000's		Face Value
15 March 2019	5% coupon	1,240,000
15 April 2020	3% coupon	935,000
15 May 2021	6% coupon	1,420,000
15 April 2023	5.5% coupon	1,429,000
15 April 2025	2.75% coupon	804,000
15 April 2027	4.5% coupon	996,000
14 April 2033	3.5% coupon	285,000

3.9 As at 31 December 2017, LGFA's has the following credit ratings:

Standard and Poors AA+/A-1+

Fitch AA+/F1+

LGFA's rating is the same as the New Zealand Government.

3.10 LGFA admitted Rangitikei District Council as a new member in December 2017, bringing total membership to 54 councils. Horizons Regional Council also moved from being a non-guarantor to a guarantor in July 2017.

3.11 LGFA total interest income for the six-month period of \$178 million was a 14.4% increase over the 2016-17 comparable period of \$156 million while Net Operating Profit of \$6.0 million was a 13.6% increase on the 2016-17 comparable period of \$5.3 million.

3.12 Officers are of the opinion that the LGFA's performance continues to be successful; creating interest savings and an efficient and diversified funding market for Councils to participate in while operating ahead of the financial projections included in the 2017/18 Statement of Intent.

3.13 **DRAFT 2018/19 STATEMENT OF INTENT**

3.14 The LGFA objectives are consistent with the requirements of the Local Government Act and provide a sound basis for the business to continue its activities.

3.15 **Attachment 2** is the Draft 2018/19 SOI. The SOI sets out the nature and scope of the activities of the LGFA as well as the objectives of the organisation.

3.16 Shareholders have the benefit of relying on the LGFA Shareholders Council which, on behalf of the shareholders, reviews all major documents like the SOI. The Shareholders Council acts in the best interest of the councils involved and has already reviewed the SOI and provided feedback to the LGFA which has been incorporated in the document.

3.17 The SOI forecasts:

	\$m		
	2018/19	2019/20	2020/21
Net Profit	\$10.81m	\$10.44m	\$14.08m
Loans to Councils	\$8,020m	\$8,261m	\$8,297m

There is some forecast uncertainty around the timing of Net Interest Revenue, Net Profit, Total Assets, LG Loans, Bonds and Borrower Notes depending upon council decisions regarding the amount and timing of refinancing of their March 2019, April 2020 and May 2021 loans. LGFA will work with council borrowers to reduce this uncertainty.

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

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

- 3.19 The SOI complies with the requirement of the Local Government Act 2002 and complies with the proposals submitted to Council at the time it approved its investment in the LGFA. The draft SOI is also reviewed by the LGFA Shareholders Council on behalf of the shareholders. The performance targets are very detailed and robust and relevant to a funding agency of this nature.

4.0 OPTIONS

- 4.1 The preferred option is that Council provide feedback to the LGFA on the draft 2018/19 SOI.
- 4.2 Officers are of the view that the Draft 2018/19 SOI not only complies with the requirements of the Local Government Act 2002 but also provides well developed and meaningful performance indicators.

5.0 SIGNIFICANCE AND ENGAGEMENT

- 5.1 The matters raised in this report are not of significance to trigger Council's policy of significance and no further consultation is required.

6.0 RECOMMENDATIONS AND REASONS

- A) That the report of the Manager Strategic Finance titled "Local Government Funding Agency - Half Year Report to 31 December 2017 and Draft 2018/19 Statement of Intent" dated 20/03/2018 be received.

- B) That the New Zealand Local Government Funding Agency Limited Half Year Report to 31 December 2017 be received.**
- C) That the New Zealand Local Government Funding Agency Limited Draft 2017/18 Statement of Intent be received and that Council provide any feedback to the New Zealand Local Government Agency Board.**

Attachments:

- | | | |
|---|--|-----------------|
| 1 | LGFA Half Year Report 2017 | FIN-15-5-18-671 |
| 2 | LGFA Letter to shareholders to accompany 2018-19 Draft SOI | FIN-15-5-18-668 |
| 3 | 2018-19 LGFA Draft Statement of Intent | FIN-15-5-18-667 |



31
DECEMBER
2017

Item 9

Attachment 1



Contents

Chair's report	04
Statement of service performance	07
Primary objectives	09
Additional objectives	13
Financial statements	17
Directors' declaration	19
Statement of comprehensive income	20
Statement of changes in equity	21
Statement of financial position	22
Statement of cash flows	23
Notes to financial statements (unaudited)	24
Other disclosures	36
Directory	37

Item 9

Attachment 1

Cover: Winding road leading to Mount Cook Village, Canterbury, South Island, New Zealand. Getty Images.

Left: Opening of the Memorial Avenue Gateway Bridge, November 2017. Christchurch City Council.

CHAIR'S REPORT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

"LGFA has consolidated its position both as the leading provider of cost-effective funding to New Zealand councils and one of the largest issuers of New Zealand dollar fixed income securities that offer investors a highly rated, higher yielding alternative to New Zealand Government Bonds and Kauri issues."

Craig Stobo, Chair LGFA Board



Directors would like to highlight the following developments at LGFA for the six-month period to December 2017:

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

LGFA total interest income for the six-month period of \$178.145 million was a 14.4% increase over the 2016-17 comparable period of \$155.711 million while Net Operating Profit of \$6.036 million was a 13.6% increase on the 2016-17 comparable period of \$5.312 million.

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

2. Borrowing activity

Over the past six months, LGFA has issued \$619 million of long-dated bonds. While this is in line with SOI forecast, it is one of the lowest issuance amounts over a six-month period, reflecting reduced borrowing demand from our council members. Average term of issuance of 5.7 years was the shortest average borrowing term since LGFA commenced borrowing in early 2012.

LGFA has \$7.5 billion of bonds (including Treasury stock used for bond lending purposes) on issue across seven maturities from 2019 to 2033. LGFA is one of the largest issuer of New Zealand dollar (NZD) securities after the NZ Government and our bonds are amongst the largest and most liquid NZD debt instruments available for investors. The amount of LGFA bonds outstanding has declined from \$7.9 billion as at 30 June 2017 due to the maturity of the December 2017 LGFA bonds. The council loans matching these bonds were successfully refinanced by council borrowers ahead of the maturity that resulted in an orderly repayment to investors.

3. Lending to the sector

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

- We admitted Rangitikei District Council as a new member in December 2017, bringing total membership to 54 councils. Horizons Regional Council also moved from being a non-guarantor to a guarantor in July 2017.

Chair's report

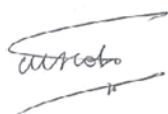
Item 9

Attachment 1

- Long-dated lending of \$518 million for the six-month period was slightly below our SOI forecast and reflected a preference for offshore borrowing by our largest borrower, Auckland Council and reduced borrowing demand from the rest of the sector. We also experienced a shortening in average tenor of council borrowing of 7.2 years compared to 8.1 years in the 2016-17 financial year.
- Bespoke lending continues to be popular for councils in that it provides flexibility for maturity dates of borrowing and the date of drawdown. LGFA lent \$452 million on a bespoke basis to councils during the six-month period. This was approximately 87% of our total lending over that period. Bespoke loans outstanding are now \$1.6 billion or approximately 22% of our total loan book.
- Short-dated lending (less than 365-day terms) to councils has been very successful with loans to 25 councils of \$332 million as at December 2017. This compares to \$240 million lent to 17 councils as at December 2016.
- The underlying credit quality of the sector continues to improve with all member councils remaining compliant with the LGFA lending covenants and three councils in the 2017 calendar year either receiving an upgrade to their credit ratings or a positive outlook change to their rating.

At the November 2017 AGM, Abby Foote retired from the LGFA Board. Abby was a founding director and I would like to acknowledge the valued contribution made by Abby to the success of this organisation since 2011 as both a director and Chair of the Audit and Risk committee. Anthony Quirk was elected a director at the AGM to fill the vacancy.

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



Craig Stobo
Chair, LGFA Board



Opening of the splash pad at Aotea Lagoon,
December 2017. Porirua City Council.

Statement of service performance

The statement of service performance details LGFA's performance against the objectives and targets set out in the LGFA Statement of Intent 2017-18.

1 2017-18 PERFORMANCE OBJECTIVES

The Statement of Intent 2017-18 (SOI) set out two primary performance objectives and eight complementary performance objectives for LGFA for the year ended 30 June 2018:

Primary objectives	Additional objectives
<p>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:</p> <ul style="list-style-type: none"> 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. <p>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:</p> <ul style="list-style-type: none"> i. LGFA will review each Participating Local Authority's financial position, its financial headroom under LGFA policies and visit each Participating Local Authority on an annual basis; ii. LGFA will analyse finances at the Council group level where appropriate; iii. LGFA will work closely with the Department of Internal Affairs (DIA), Office of the Auditor General (OAG) and Local Government New Zealand (LGNZ) on sector and individual council issues; and iv. LGFA will take a proactive role to enhance the financial strength and depth of the local government debt market 	<ul style="list-style-type: none"> 1. Operate with a view to making a profit sufficient to pay a dividend in accordance with its stated Dividend Policy set out in section 6; 2. Provide at least 50% of aggregate long-term debt funding to the Local Government sector; 3. Ensure its products and services are delivered at a cost that does not exceed the forecast for issuance and operating expenses set out in section 4; 4. Take appropriate steps to ensure compliance with the Health and Safety at Work Act 2015; 5. Maintain LGFA's credit rating equal to the New Zealand Government sovereign rating where both entities are rated by the same Rating Agency; 6. Achieve the Financial Forecasts (excluding the impact of AIL) set out in section 4; 7. Meet or exceed the Performance Targets outlined in section 5; and 8. Comply with its Treasury Policy, as approved by the Board.

Statement of service performance

Item 9

Attachment 1

1 PERFORMANCE AGAINST PRIMARY OBJECTIVES

This section sets out LGFA's performance for the six-months ended 31 December 2017 against the two primary objectives set out in the 2017-18 Statement of Intent.

1.1 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 many 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. Given that LGFA tends to match fund its on-lending to councils, i.e. tends to issue bonds in similar tenors and volumes 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).

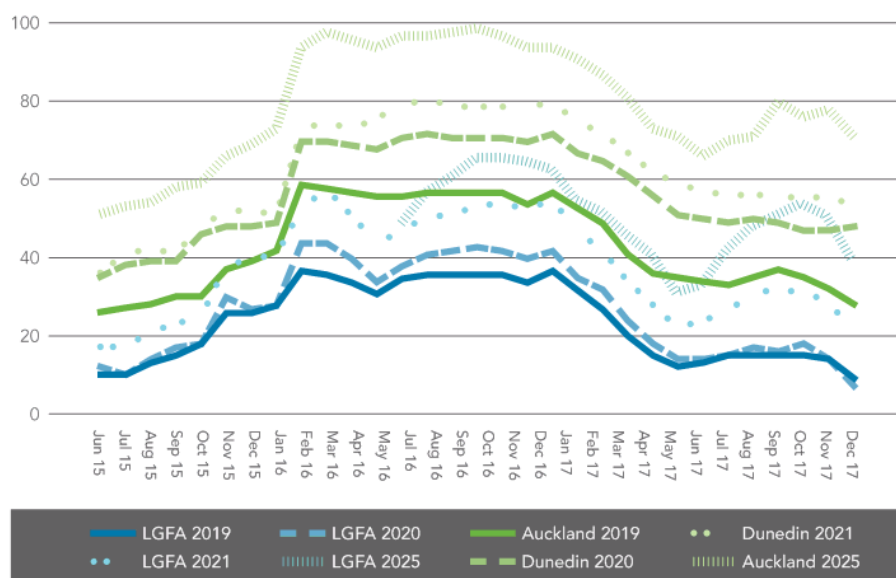
Our estimated annual savings to councils based upon the secondary market levels at 31 December 2017 of LGFA bonds compared to NZD domestic bonds issued by Auckland and Dunedin councils is between 10 basis points (bps) and 22 bps depending upon the term of borrowing. While borrowing spreads for all borrowers have narrowed over the past six months, LGFA spreads have not narrowed as much as those of Auckland and Dunedin councils. This underperformance by LGFA has been due to the relative supply of borrowing by each entity – over the past six months LGFA has borrowed \$619 million in the domestic market while Dunedin has borrowed \$80 million and Auckland Council has not borrowed in the domestic market.

Savings comparison	Savings to AA-rated councils (bps)				
	Auckland 2019	Dunedin 2020	Dunedin 2021	Auckland 2022	Auckland 2025
AA rated councils margin to swap	27	41	47	47	68
Less LGFA margin to swap	(8)	(9)	(19)	(22)	(43)
LGFA Gross Funding Advantage	19	32	28	25	25
Less LGFA Base Margin	(9)	(10)	(10)	(10.5)	(11)
Total Saving	10	22	18	14.5	14

Note that from 30 June 2017 we have removed the implied 'LGFA effect' of 10 bps of savings in borrowing costs from the analysis. The LGFA effect was the assessment of immediate savings to councils when LGFA first commenced lending to councils in February 2012 and this has become increasingly irrelevant given the passage of time.

Statement of service performance

The following chart shows the spread to swap (in basis points) in the secondary market of LGFA, Auckland Council and Dunedin City Treasury bonds.

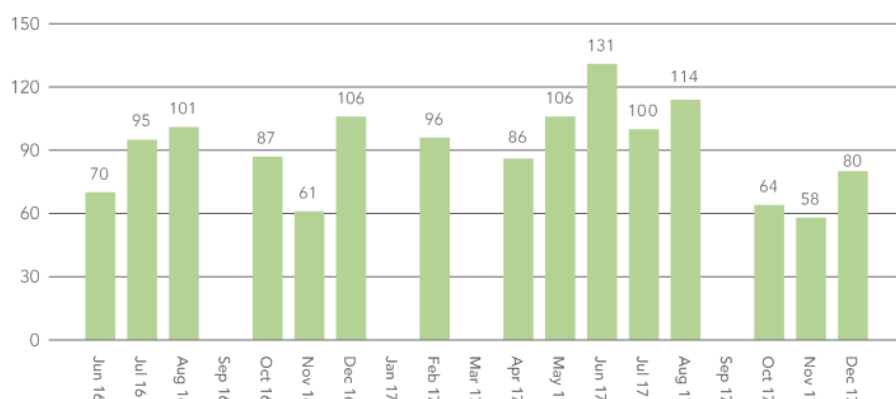


ii. Making longer-term borrowings available to Participating Local Authorities

The average borrowing term (excluding short-dated borrowing) for the six-month period to December 2017 by council members was 7.2 years and this was significantly shorter than the average borrowing term of 8.1 years for the 2016-17 year. The shortening in term was due to councils reacting to the recent widening of borrowing margins in the longer-dated maturities. Also, many councils had taken advantage of the tighter margins in early 2017, using the opportunity to extend longer when the 2033 maturities were first made available in April 2017.

Average total months to maturity – On-lending to councils at each tender

Last 15 tenders to 31 December 2017



While LGFA can provide councils with the ability to borrow from LGFA for terms from one month to 15 years, it is up to the councils to determine their preferred term of borrowing.

Statement of service performance

Item 9

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

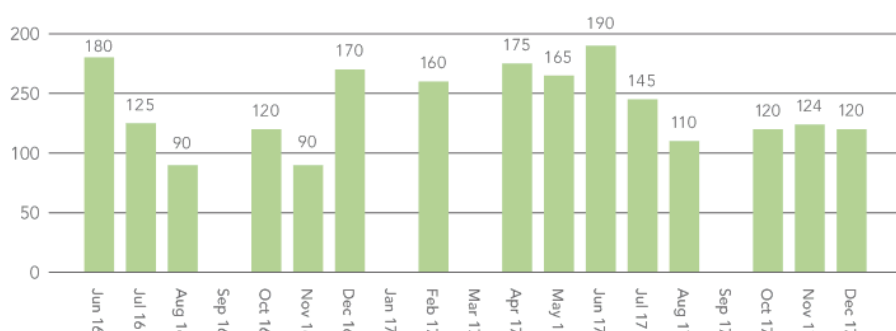
LGFA began issuing 3-month and 6-month LGFA Bills and commenced short-dated (less than one year) lending to councils in late 2015. LGFA has short-term loans to 25 councils of \$332 million outstanding as at 31 December 2017.

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

The five LGFA bond tenders during the six-month period were supported by the market with the coverage ratios across the five tenders ranging between 1.61 times and 3.94 times with a weighted average of 2.54 times. We continue to offer three or four LGFA maturities at each tender and try to maintain the volume offered within the \$120 million to \$170 million range to ensure ongoing price tension.

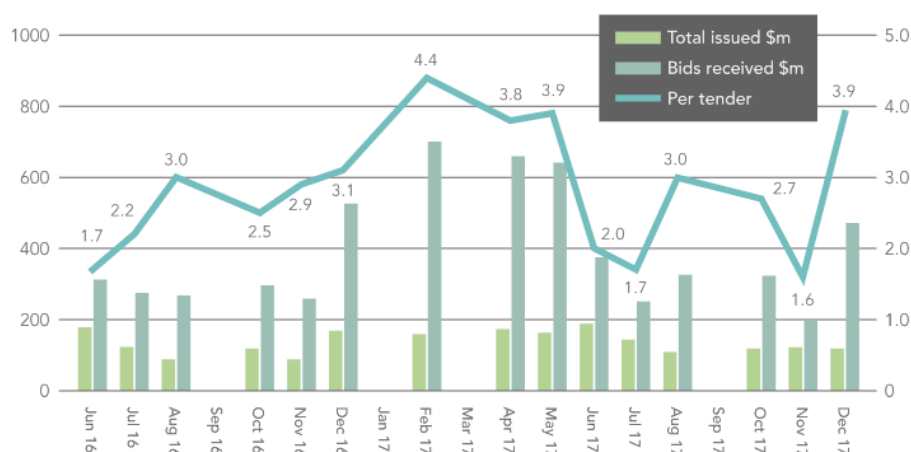
LGFA bond issuance by tender (\$ million)

Last 15 tenders to 31 December 2017. Excludes issuance of treasury stock



Tender bid/offer summary

Last 15 tenders to 31 December 2017



Attachment 1

Statement of service performance

Councils can borrow on a bespoke basis from LGFA and are therefore not restricted to borrowing at the time of each LGFA bond tender. This has become increasingly popular for councils who can now borrow when the timing suits them.

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

Bespoke lending continues to be a popular borrowing option for council members. Since we introduced the ability for councils to choose their preferred maturity and date of drawdown in February 2015, we have lent \$1.645 billion in bespoke transactions. During the six-month period to 31 December 2017, we lent \$452 million on a bespoke basis across 47 transactions to 21 councils. This comprised 87% of total term lending by LGFA to its members during the six-month period.

Short-term borrowing by councils continues to be well supported by councils with loan terms to date of between three months and 12 months on \$332 million of loans outstanding as at 31 December 2017.

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

i. **LGFA will review each Participating Local Authority's financial position, its financial head-room under LGFA policies and visit each Participating Local Authority on an annual basis**

The review of each council's financial position is undertaken for all councils on an annual basis and all councils were compliant with the LGFA financial covenants as at 30 June 2017. A copy of each council's borrowing position and compliance with LGFA covenants was provided to LGFA shareholders and non-shareholder guarantors with the December 2017 quarterly report. LGFA management met with 27 councils over the six-month period.

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

While all councils must be compliant with LGFA covenants at the parent level, we also analyse each participating member council's financial position at the Group level. This is undertaken as part of the annual review process.

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

LGFA management met representatives from Crown Irrigation Investments Limited, Ministry of Business, Innovation and Employment, DIA, Treasury and OAG to discuss the local government sector in general and issues relating to specific councils. We provided input into the proposed Housing Infrastructure Fund and Crown Infrastructure Partners initiatives. The LGFA Board met with the Local Government Commission. We presented at both LGNZ quarterly media presentations on the financial position of the sector and LGFA.

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

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

We have been involved in discussions between Central Government agencies and the Housing Infrastructure Fund (HIF) councils regarding the structuring of the HIF loans to ensure the interests of councils, ratepayers and LGFA are protected.

LGFA presented at various capital market conferences and met with banks and investors on a regular basis.

Statement of service performance

Item 9

Attachment 1

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 six-months ended 31 December 2017 against the additional objectives set out in the 2017-18 Statement of Intent.

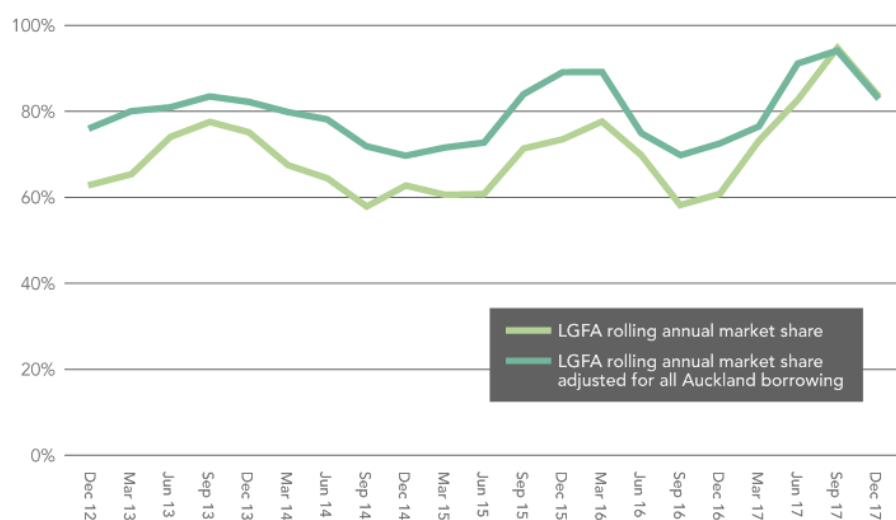
2.1 Operate with a view to making a profit sufficient to pay a dividend in accordance with its stated Dividend Policy set out in section 6 of the SOI

LGFA's Net Operating Gain of \$6.036 million for the six months to 31 December 2017 was slightly above the management forecast of \$5.892 million. The average cost of funds for the six months was 3.10% which is lower than the 3.56% for the 2016-17 financial year due to lower interest rates and much shorter term of LGFA bond issuance than the previous financial year. The LGFA Board has the sole discretion to set the annual dividend which is considered following the full year financial outcome.

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

LGFA estimates market share from the PwC Local Government Quarterly Debt Report and the most recent report is for the December 2017 quarter. LGFA market share of total sector borrowing for the six-month period to December 2017 was 76% and for the year to December 2017 was 84%. Our market share remains high compared to our global peers but will be influenced by the amount of borrowing undertaken by Auckland Council and Dunedin City Council in their own name.

LGFA Market Share – rolling one-year average



Source PwC

Rangitikei District Council joined LGFA as a non-guarantor in December 2017, bringing the total number of participating local authorities to 54. We expect a small number of councils to join LGFA in the coming year.

Statement of service performance

Item 9

Attachment 1

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

Expenses for the six-month period to 31 December 2017 were \$3.58 million which is \$130k below budget. This variance is the consequence of:

- Issuance and on-lending costs (excluding Approved Issuer Levy) at \$1.088 million were \$82k below budget. There were lower fees than budgeted relating to the NZDMO facility offset by higher registry costs and legal costs than forecast. The larger amount of short-term lending and establishment of an Australian MTM programme also increased legal costs.
- Operating costs at \$1.475 million were \$40k below budget and reflected lower overheads and personnel costs than forecast.
- Approved Issuer Levy payments of \$1.02 million were in line with our forecast of \$1.03 million.

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

LGFA has a Health and Safety staff committee and reporting on Health and Safety issues are made to the LGFA Board on a regular basis by the Risk and Compliance Manager. There were no Health and Safety incidents during the six-month period.

Following the November 2016 Kaikoura earthquake, LGFA staff were unable to access the LGFA Wellington CBD office. Following repairs and refurbishment we relocated back into the building in December 2017.

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

LGFA has credit ratings from Standard and Poor's (S&P) and Fitch Ratings (Fitch) and meets with both agencies in September and October each year.

Meetings have been held in 2017 with both rating agencies and S&P affirmed the long-term rating of LGFA at AA+ (stable outlook) on 25 September 2017 and Fitch affirmed the rating at AA+ (stable outlook) on 10 November 2017.

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

LGFA's financial results for key items set out in Section 4 of the SOI for the 12-month period to 30 June 2018 are

In \$ million	31 December 2017 actual	31 December 2017 half year forecast	30 June 2018 full year SOI forecast
Net interest revenue	\$9.62	\$9.60	\$18.22
Issuance and operating expenses excluding Approved Issuer Levy (AIL)	\$2.56	\$2.69	\$5.45
Approved Issuer Levy (AIL)	\$1.02	\$1.02	\$1.89
Net Profit	\$6.04	\$5.89	\$10.88

Statement of service performance

Item 9

Attachment 1

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

LGFA achieved two out of its four performance targets in the six-month period to 31 December 2017

Current performance targets	Target	Result for six-month period to 31 December 2017	Outcome
Average margin above LGFA's cost of funds charged to the highest rated Participating Local Authorities for the period	<= 0.10%	0.097%	Met
Annualised annual issuance and operating expenses (excluding AIL)	<= \$5.45 million	\$2.563 million	Met on annualised basis and on track to meet for full year
Lending to Participating Local Authorities	<= \$8.128 billion	\$7.418 billion	Not met but remains close to being met on a full year basis (depending upon the level and timing of pre-funding of the March 2019 council loans)
Savings on borrowing costs for council borrowers relative to other sources of financing and compared to previous years	Improvement since prior year end relative to borrowing by councils directly	As at 30 June 2017 2019s 12 bps, 2021s 20 bps and 2025s 17 bps As at 31 December 2017 2019s 10bps, 2021s 18 bps and 2025s 14 bps	Not met. The lack of single name issuance by councils has reduced supply and hence tightened spreads

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

LGFA was compliant at all times with the Treasury Policy during the six-month period ended 31 December 2017.



Shared path and safety improvements to Raumati Road on the Kapiti Coast aim to improve pedestrian and cycling connections to and from the Mackays to Peka Peka expressway, cycleway, walkway and bridleway. Kapiti Coast District Council

Contents

Directors' declaration	19
Financial statements	20
Statement of comprehensive income	20
Statement of changes in equity	21
Statement of financial position	22
Statement of cash flows	23
Notes to the financial statements (unaudited)	24
1 Statement of accounting policies	24
a) reporting entity	24
b) statement of compliance	24
c) basis of preparation	24
d) financial instruments	25
e) other assets	25
f) other liabilities	25
g) revenue and expenses	26
h) lease payments	26
i) segment reporting	26
j) judgements and estimations	26
2 Hedge accounting	27
3 Issuance and on-lending expenses	27
4 Operating expenses	28
5 Loans to local government	29
6 Bills on issue	30
7 Bonds on issue	31
8 Borrower notes	31
9 Treasury stock and bond repurchase transactions	32
10 Other assets	33
11 Reconciliation of net profit to net cash flow from operating activities	33
12 LGFA December 2017 bond maturity	33
13 Share capital	33
14 Related parties	35
15 Subsequent events	35

Directors' declaration

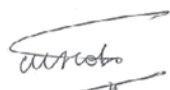
Item 9

In the opinion of the directors of the New Zealand Local Government Funding Agency Limited, the financial statements and notes on pages 20 to 35:

- Comply with New Zealand generally accepted accounting practice and give a true and fair view of the financial position of the Company as at 31 December 2017, and
- Have been prepared using appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.
- The directors believe that proper accounting records have been kept which enables, with reasonable accuracy, the determination of the financial position of the Company and facilitates the compliance of the financial statements with the Financial Reporting Act 1993.

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

For and on behalf of the Board of Directors



C. Stobo, Director
28 February 2018



L. Robertson, Director
28 February 2018

Attachment 1

Statement of comprehensive income

For the six months ended 31 December 2017 in \$000s

	Note	Unaudited six months ended 31 December 2017	Unaudited six months ended 31 December 2016
Interest income from			
Cash and cash equivalents		291	272
Loans to local government		118,416	109,752
Marketable securities		1,434	1,304
Deposits		2,424	1,548
Derivatives		55,580	42,835
Fair value hedge ineffectiveness	2	-	-
Total interest income		178,145	155,711
Interest expense on			
Bills		3,671	2,582
Bonds		163,057	142,988
Borrower notes		1,699	1,584
Bond repurchases		100	46
Total interest expense		168,527	147,200
Net interest income		9,618	8,511
Operating Expenses			
Issuance and on-lending expenses	3	2,107	1,764
Operating expenses	4	1,475	1,435
Total expenses		3,582	3,199
Net operating profit		6,036	5,312
Total comprehensive income		6,036	5,312

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

Statement of changes in equity

Item 9

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

	Note	Share capital	Retained Earnings	Total equity
Equity as at 30 June 2017		25,000	28,878	53,878
Net operating profit			6,036	6,036
Total comprehensive income for the year			6,036	6,036
Transactions with owners			-	-
Dividend paid on 20 September 2017			(1,390)	(1,390)
Equity as at 31 December 2017	13	25,000	33,524	58,524

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

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

Attachment 1

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

Statement of financial position

As at 31 December 2017 in \$000s

	Note	Unaudited as at 31 December 2017	Audited as at 30 June 2017
Assets			
Financial assets			
Cash and bank balances		29,478	49,919
Receivable unsettled bond repurchases		-	13,723
Loans to local government	5	7,535,611	7,783,932
Marketable securities		36,313	127,641
Deposits		118,960	149,949
Derivatives in gain		386,030	364,953
Non-financial assets			
Prepayments		887	544
Other assets	10	685	760
Total assets		8,107,964	8,491,421
Equity			
Share capital		25,000	25,000
Retained earnings		27,488	28,878
Total comprehensive income / (deficit) for the period		6,036	
Total equity		58,524	53,878
Liabilities			
Financial Liabilities			
Trade and other payables		246	453
Accrued expenses		412	554
Bills	6	368,601	348,179
Bonds	7	7,495,647	7,865,401
Borrower notes	8	124,922	131,614
Bond repurchases	9	-	25,682
Derivatives in loss		59,612	65,660
Total liabilities		8,049,440	8,437,543
Total equity and liabilities		8,049,440	8,491,421

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

Statement of cash flows

Item 9

Attachment 1

For the six months ended 31 December 2017 in \$000s

	Note	Unaudited six months ended 31 December 2017	Unaudited six months ended 31 December 2016
Cash flow from operating activities			
Cash applied to loans to local government	12	247,203	(662,866)
Interest paid on bonds issued		(188,895)	(166,281)
Interest paid on bills issued		(3,671)	2,582
Interest paid on borrower notes		(2,621)	-
Interest paid on bond repurchases		(102)	(44)
Interest received from cash & cash equivalents		291	271
Interest received from loans to local government		119,534	108,984
Interest received from marketable securities		1,567	1,142
Interest received from deposits		3,413	1,630
Net interest on derivatives		80,406	63,224
Payments to suppliers and employees		(4,274)	(3,488)
Net cash flow from operating activities	11	252,851	(654,846)
Cash flow from investing activities			
Purchase of marketable securities		91,195	52,787
Purchase of deposits		30,000	(14,000)
Purchase of plant and equipment		76	69
Net cash flow from investing activities		121,271	38,856
Cash flow from financing activities			
Dividends paid		(1,390)	(1,392)
Cash proceeds from borrower notes	12	(5,770)	9,288
Cash proceeds from bonds issued	12	(382,465)	603,386
Cash proceeds from bills issued		20,422	(5,040)
Cash applied to bond repurchases		(11,957)	3,712
Cash applied to derivatives		(13,403)	(8,862)
Net cash flow from financing activities		(394,563)	601,092
Net (decrease) / increase in cash		(20,441)	(14,898)
Cash, cash equivalents and bank overdraft at 1 July		49,919	37,084
Cash, cash equivalents and bank overdraft at 31 December		29,478	22,186

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

Notes to the financial statements (unaudited)

1 Statement of accounting policies

A. REPORTING ENTITY

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

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

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

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

These interim financial statements were authorised for issue by the Directors on 28 February 2018.

B. STATEMENT OF COMPLIANCE

These interim financial statements are for the six-months ended 31 December 2017 and are to be read in conjunction with the annual report for the year ended 30 June 2017. They have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and they comply with NZ IAS 34 Interim Financial Reporting. The financial results for the six-month period ended 31 December 2017 are unaudited.

C. BASIS OF PREPARATION

Accounting judgments, estimates and assumptions

The judgements, estimates and assumptions used to prepare these interim financial statements are consistent with those used at 30 June 2017.

Measurement base

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

The financial statements are prepared on an accrual basis.

Functional and presentation currency

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

Foreign currency conversions

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

Changes in accounting policies

There have been no changes in accounting policies.

Early adoption standards and interpretations

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

Standards not yet adopted

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

Notes to the financial statements (unaudited)

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

D. FINANCIAL INSTRUMENTS

Financial assets

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

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

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

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

Financial liabilities

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

Derivatives

Derivative financial instruments are recognised both initially and subsequently at fair value.

They are reported as either assets or liabilities depending on whether the derivative is in a net gain or net loss position respectively.

Fair value hedge

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

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

E. OTHER ASSETS

Property, plant and equipment (PPE)

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

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

Intangible Assets

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

F. OTHER LIABILITIES

Employee entitlements

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

Notes to the financial statements (unaudited)

G. REVENUE AND EXPENSES

Revenue

Interest income

Interest income is accrued using the effective interest rate method.

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

Expenses

Expenses are recognised in the period to which they relate.

Interest expense

Interest expense is accrued using the effective interest rate method.

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

Income tax

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

Goods and services tax

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

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

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

H. LEASE PAYMENTS

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

I. SEGMENT REPORTING

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

J. JUDGEMENTS AND ESTIMATIONS

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

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

Notes to the financial statements (unaudited)

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

2 Hedge accounting

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

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

in \$000s	Gain/(loss) Unaudited six months ended 31 December 2017	Gain/(loss) Unaudited six months ended 31 December 2016
Hedging instruments – interest rate swaps	202,007	134,733
Hedged items attributable to the hedged risk – fixed rate bonds	(202,007)	(134,733)
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 and 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.

3 Issuance and on-lending expenses

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

in \$000s	Unaudited six months ended 31 December 2017	Unaudited six months ended 31 December 2016
NZDMO facility fee	375	200
NZX	164	237
Rating agency fees	282	267
Legal fees for issuance	93	62
Regulatory, registry, other fees	45	18
Trustee fees	50	50
Approved issuer levy	1,019	865
Information services	79	65
	2,107	1,764

Notes to the financial statements (unaudited)

4 Operating expenses

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

in \$000s	Unaudited six months ended 31 December 2017	Unaudited six months ended 31 December 2016
Consultants	68	78
Directors' fees	189	174
Insurance	30	30
Legal fees	53	23
Other expenses	364	362
Auditor's remuneration		
Statutory audit	44	46
Advisory	-	4
Personnel	727	718
	1,475	1,435

Notes to the financial statements (unaudited)

Item 9

5 Loans to local government

in \$000s	Unaudited as at 31 December 2017		Audited as at 30 June 2017	
	Short-term loans	Loans	Short-term loans	Loans
Ashburton District Council	10,028	25,673	10,018	25,707
Auckland Council	-	2,102,637	-	2,429,887
Buller District Council	-	20,004	-	20,001
Canterbury Regional Council	-	30,103	-	25,083
Central Hawkes Bay District Council	-	2,026	-	-
Christchurch City Council	85,272	1,522,509	96,280	1,485,304
Far North District Council	-	30,122	-	30,121
Gisborne District Council	4,983	32,233	-	27,085
Gore District Council	6,024	11,063	6,023	11,034
Greater Wellington Regional Council	-	280,853	-	280,702
Grey District Council	-	20,502	-	20,551
Hamilton City Council	-	286,188	-	351,028
Hastings District Council	4,972	60,213	-	60,211
Hauraki District Council	-	38,152	-	41,139
Horizons Regional Council	-	15,028	-	10,013
Horowhenua District Council	12,016	66,889	12,013	63,923
Hurunui District Council	-	23,096	-	23,085
Hutt City Council	4,995	127,800	-	97,727
Kaipara District Council	-	40,169	8,925	43,172
Kapiti Coast District Council	-	195,641	-	210,623
Manawatu District Council	-	61,112	-	58,094
Marlborough District Council	18,850	63,223	19,851	63,207
Masterton District Council	-	52,228	2,006	52,209
Matamata-Piako District Council	-	24,586	-	29,581
Nelson City Council	-	55,203	-	55,201
New Plymouth District Council	-	70,301	-	61,167
Northland Regional Council	-	2,852	-	-
Opotiki District Council	-	5,166	-	5,180
Otorohanga District Council	-	6,138	-	9,178
Palmerston North City Council	10,026	77,282	10,025	77,255
Porirua City Council	-	43,692	-	28,608
Queenstown Lakes District Council	10,099	76,067	7,070	86,177
Rotorua District Council	20,046	104,881	1,001	114,976
Selwyn District Council	-	15,022	-	35,050
South Taranaki District Council	-	62,272	-	62,267
South Wairarapa District Council	1,533	16,118	4,034	13,586
Tararua District Council	3,006	11,050	1,004	10,033
Tasman District Council	5,004	90,398	-	90,273
Taupo District Council	-	125,419	-	125,417
Tauranga City Council	29,911	317,076	-	347,207
Thames-Coromandel District Council	12,012	23,047	-	35,061
Timaru District Council	7,519	62,338	10,047	67,347
Upper Hutt City Council	4,989	31,635	2,997	31,628
Waikato District Council	4,993	70,319	-	80,265
Waimakariri District Council	10,011	105,839	10,010	85,797
Waipa District Council	35,286	13,016	-	13,015
Waitomo District Council	10,066	25,084	5,022	25,027
Wellington City Council	-	349,320	-	294,047
Western Bay Of Plenty District Council	-	85,366	-	105,386
Whakatane District Council	9,043	39,170	6,021	34,129
Whanganui District Council	5,005	61,326	-	66,327
Whangarei District Council	9,973	122,499	9,972	142,522
	335,663	7,199,948	222,318	7,561,614

Attachment 1

Notes to the financial statements (unaudited)

6 Bills on issue

Unaudited as at 31 December 2017 in \$000's	Face Value	Unamortised premium	Accrued interest	Total
17 January 2018	50,000	(43)	-	49,957
26 January 2018	25,000	(38)	-	24,962
5 February 2018	25,000	(47)	-	24,953
14 February 2018	50,000	(118)	-	49,882
22 February 2018	25,000	(69)	-	24,931
14 March 2018	50,000	(192)	-	49,808
22 March 2018	25,000	(111)	-	24,889
29 March 2018	25,000	(113)	-	24,887
11 April 2018	25,000	(138)	-	24,862
1 May 2018	20,000	(133)	-	19,867
16 May 2018	25,000	(182)	-	24,818
13 June 2018	25,000	(215)	-	24,785
	370,000	(1,399)	-	368,601

Audited as at 30 June 2017 in \$000's	Face Value	Unamortised premium	Accrued interest	Total
12 July 2017	50,000	(30)	-	49,970
4 August 2017	25,000	(46)	-	24,954
16 August 2017	50,000	(129)	-	49,871
13 September 2017	50,000	(204)	-	49,796
26 September 2017	25,000	(126)	-	24,874
11 October 2017	25,000	(143)	-	24,857
26 October 2017	25,000	(172)	-	24,828
15 November 2017	25,000	(194)	-	24,806
27 November 2017	25,000	(223)	-	24,777
13 December 2017	25,000	(232)	-	24,768
26 January 2018	25,000	(322)	-	24,678
	350,000	(1,821)	-	348,179

Notes to the financial statements (unaudited)

Item 9

Attachment 1

7 Bonds on issue

Bonds on issue do not include LGFA bonds subscribed by LGFA and held as treasury stock. However, LGFA bonds listed on the NZX include LGFA bonds subscribed by LGFA and held as treasury stock. Refer note 9: Treasury stock and bond repurchase transactions.

Unaudited as at 31 December 2017 in \$000's		Face Value	Unamortised Premium	Accrued Interest	Fair Value Hedge Adjustment	Total
15 March 2019	5% coupon	1,240,000	15,164	18,499		1,273,663
15 April 2020	3% coupon	935,000	(8,181)	6,011		932,830
15 May 2021	6% coupon	1,420,000	67,354	11,062		1,498,416
15 April 2023	5.5% coupon	1,429,000	73,485	16,842		1,519,327
15 April 2025	2.75% coupon	804,000	(39,593)	4,738		769,145
15 April 2027	4.5% coupon	996,000	34,052	9,604		1,039,656
14 April 2033	3.5% coupon	285,000	(26,562)	2,165		260,603
Fair value hedge adjustment					202,007	202,007
Total		7,109,000	115,719	68,921	202,007	7,495,647

Audited as at 30 June 2017 in \$000's		Face Value	Unamortised Premium	Accrued Interest	Fair Value Hedge Adjustment	Total
15 December 2017	6% coupon	1,015,000	7,762	2,662		1,025,424
15 March 2019	5% coupon	1,200,000	19,488	17,609		1,237,097
15 April 2020	3% coupon	755,000	(12,471)	4,765		747,294
15 May 2021	6% coupon	1,350,000	68,236	10,345		1,428,581
15 April 2023	5.5% coupon	1,350,000	69,813	15,621		1,435,434
15 April 2025	2.75% coupon	660,000	(34,201)	3,818		629,617
15 April 2027	4.5% coupon	960,000	33,450	9,089		1,002,538
14 April 2033	3.5% coupon	215,000	(20,650)	1,604		195,954
Fair value hedge adjustment					163,460	163,460
Total		7,505,000	131,428	65,513	163,460	7,865,401

8 Borrower notes

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

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

Notes to the financial statements (unaudited)

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. As at 31 December 2017, treasury stock had been issued in the following maturities (in \$000s):

in \$000s		Unaudited as at 31 December 2017	Audited as at 30 June 2017
15 March 2019	5% coupon	50,000	50,000
15 April 2020	3% coupon	50,000	50,000
15 May 2021	6% coupon	50,000	50,000
15 April 2023	5.5% coupon	50,000	50,000
15 April 2025	2.75% coupon	50,000	50,000
15 April 2027	4.5% coupon	50,000	50,000
14 April 2033	3.5% coupon	50,000	50,000
Total		350,000	350,000

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 31 December 2017, there were no bond repurchase transactions outstanding.

Bond repurchase transactions outstanding in \$000s		Unaudited as at 31 December 2017	Audited as at 30 June 2017
15 March 2019	5% coupon	-	-
15 April 2020	3% coupon	-	-
15 May 2021	6% coupon	-	-
15 April 2023	5.5% coupon	-	-
15 April 2025	2.75% coupon	-	9,981
15 April 2027	4.5% coupon	-	15,701
14 April 2033	3.5% coupon	-	-
		-	25,682

Notes to the financial statements (unaudited)

Item 9

10 Other assets

Property, plant and equipment \$000s	Unaudited as at 31 December 2017	Audited as at 30 June 2017
Intangible assets	685	760
Total other assets	685	760

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

in \$000s	Note	Unaudited six months ended 31 December 2017	Unaudited six months ended 31 December 2016
Net profit/(loss) for the period		6,036	5,312
Cash applied to loans to local government	12	247,203	(662,866)
Non-cash adjustments			
Amortisation and depreciation		304	2,999
Working capital movements			
Net change in trade debtors and receivables		(207)	59
Net change in prepayments		(343)	(292)
Net change in accruals		(142)	(58)
Net Cash From Operating Activities		252,851	(654,846)

Attachment 1

12 LGFA December 2017 bond maturity

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

13 Share capital

As at 31 December 2017 LGFA had 45 million ordinary shares on issue, 20 million of which remain uncalled. All ordinary shares rank equally with one vote attached to each ordinary share.

As at 31 December 2017, the shareholding of the New Zealand Government had been fully paid up. For all other shareholders, 50% of the shareholding had been called.

Notes to the financial statements (unaudited)

in \$000s	31 December 2017		30 June 2017	
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%

**Notes to the financial
statements (unaudited)****Item 9****Attachment 1****14 Related parties****Identity of related parties**

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

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

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

Related party transactions

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

15 Subsequent events

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

Subsequent to balance date, LGFA has issued \$120 million in bonds through a tender on 14 February 2018.

Other disclosures

Credit Rating

As at 31 December 2017, LGFA has the following credit ratings:

Rating Agency	Local currency		Foreign currency	
	Long-term	Short-term	Long-term	Short-term
Standard & Poors	AA+	A-1+	AA	A-1+
Fitch	AA+	F1+	AA	F1+

Waivers from NZX Limited (NZX)

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

Waiver from Rule 5.2.3

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

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

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

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

Waiver from Rule 6.3.2

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

Net Tangible Assets

Net tangible asset per \$1,000 of listed bonds as at 31 December 2017 is \$7.85 (30 June 2017: \$6.86).

Right: The Pocket Park joins the popular Hatea Loop with Port Road in Whangarei. The park provides a place with shade, seating and a playground for residents and visitors to stop and enjoy the view of the Hatea River. Whangarei District Council.

Back cover: Oneroa Beachfront Cycle and Walkway. Gisborne District Council.

Directory

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LGFA 
NEW ZEALAND
LOCAL GOVERNMENT
FUNDING AGENCY



22 February 2018

Dear Shareholder

Draft Statement of Intent 2018/19

Please find attached a copy of the Draft Statement of Intent ("SOI") for the 2018/19 year¹.

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

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

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

For our shareholders we are focused on:

- Delivering a strong financial performance
- Monitoring asset quality and
- Enhancing our approach to treasury and risk management and

The following points regarding the Draft 2018/19 SOI are worth noting:

- Profitability is forecast to remain strong with projections for Net Operating Gain of \$10.81 million, \$10.44 million and \$14.08 million for the next three years as controllable expenses remain close to previous year budgets but net interest income grows. However, we remain cautious in placing too much emphasis on the Year Three (2020/21) forecast given that over the next three years, \$3.79 billion of our LGFA bonds and \$3.336 billion of council loans mature. Assumptions regarding timing of refinancing and interest rates have a meaningful impact on financial projections.
- Net interest income is expected to increase over the next three years as we hold additional liquid assets to manage the LGFA bond maturities. We would also expect councils to refinance their loans prior to maturity and depending upon the timing, this is slightly positive for LGFA.
- We have reduced our forecast for Local Government loans outstanding as at June 2019 to \$8.020 billion and to \$8.261 billion as at June 2020 (from \$8.188 billion and \$8.391 billion in the previous SOI). This reflects uncertainty regarding the impact on LGFA lending if councils

¹ If you wish to also receive a version with tracked changes that highlight changes from the previous 2017/18 SOI then please let me know.

NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY LIMITED
 AUCKLAND Level 12, West Plaza Tower, Corner Albert and Customs Street
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substitute LGFA borrowing for funding from the Housing Infrastructure Fund facility and other Central Government initiatives. Councils have also yet to release their Draft Long Term Plans and provide indications of future borrowing intentions.

- We have made no changes to the on-lending margins given the base lending margin now averages 10 bps (0.10%). Any further reductions in the base margin is unlikely as we need to ensure we have sufficient capital to match the growth in the balance sheet. LGFA on-lending margins are the narrowest when compared with our international peers.
- Compared to the previous SOI, issuance and on-lending costs excluding Approved Issuer Levy ("AIL") are forecast to be similar to the forecast in each of the 2018/19 and 2019/20 financial years.
- The SOI performance targets are the same as the targets in the previous SOI as we believe these reflect the optimal means to assess our performance against our key objectives.
- As noted above, there is some timing uncertainty within the SOI forecast relating to Local Government loans and LGFA bonds outstanding as we need to project both the repayment amount and repayment timing of the Local Government loans that are due to mature in March 2019, April 2020 and May 2021. Decisions made by our council members regarding early refinancing will have a phasing impact across all three years in the SOI forecast.

If you have any questions or wish to provide comments by 30 April 2018 then please feel free to contact myself or any member of the Shareholders Council. The LGFA Board will consider any feedback received and provide a final version of the SOI to shareholders by 30 June 2018.

Yours sincerely



Mark Butcher
Chief Executive

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Draft Statement of Intent 2018/19

1. Introduction

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

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

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

2. Nature and scope of activities

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

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

In lending to Participating Local Authorities, LGFA will:

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

3. Objectives

Principal Objectives

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

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

Primary Objectives

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

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

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

- LGFA will review each Participating Local Authority's financial position, its financial headroom under LGFA policies and endeavour to visit each Participating Local Authority on an annual basis;
- LGFA will analyse finances at the Council group level where appropriate;
- 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 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
- LGFA will take a proactive role to enhance the financial strength and depth of the local government debt market.

LGFA Draft Statement of Intent 2018/19. Page 2

Additional objectives

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

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

4. Financial forecasts

LGFA's financial forecasts for the three years to 30 June 2021 are:

FINANCIAL YEAR (\$M)

Comprehensive income	Jun-19	Jun-20	Jun-21
Interest income	239.11	241.42	254.38
Interest expense	220.64	223.71	232.86
Net Interest income	18.46	17.71	21.53
Issuance and on-lending costs	2.44	2.47	2.50
Approved Issuer Levy	2.07	1.56	1.61
Operating expenses	3.14	3.24	3.33
Issuance and operating expenses	7.65	7.27	7.44
P&L	10.81	10.44	14.08
Financial position (\$m)	Jun-19	Jun-20	Jun-21
Capital	25.00	25.00	25.00
Retained earnings	48.30	57.42	70.10
Total equity	73.30	82.42	95.10
Shareholder funds + borrower notes / Total assets	2.40%	2.49%	2.64%
Dividend provision	1.33	1.40	1.45
Total assets (nominal)	8,170.25	8,414.20	8,447.97
Total LG loans - short term (nominal)	325.00	325.00	325.00
Total LG loans (nominal)	7,695.00	7,936.50	7,972.50
Total bills (nominal)	370.00	370.00	370.00
Total bonds (nominal) ex tsy stock	7,699.00	7,839.00	7,829.00
Total borrower notes (nominal)	123.12	126.98	127.56

Note that there is some forecast uncertainty around the timing of Net Interest Revenue, Net Profit, Total Assets, LG Loans, Bonds and Borrower Notes depending upon council decisions regarding the amount and timing of refinancing of their March 2019, April 2020 and May 2021 loans. LGFA will work with council borrowers to reduce this uncertainty.

5. Performance targets

LGFA has the following performance targets:

- The average margin above LGFA's cost of funds charged to the highest rated Participating Local Authorities for the period to:
 - 30 June 2019 will be no more than 0.10%.
 - 30 June 2020 will be no more than 0.10%.
 - 30 June 2021 will be no more than 0.10%.

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

- LGFA's annual issuance and operating expenses (excluding AIL) for the period to:
 - 30 June 2019 will be less than \$5.58 million.
 - 30 June 2020 will be less than \$ 5.71 million.
 - 30 June 2021 will be less than \$5.83 million.
- Total lending to Participating Local Authorities¹ at:
 - 30 June 2019 will be at least \$8,020 million.
 - 30 June 2020 will be at least \$8,261 million.
 - 30 June 2021 will be at least \$8,297 million.
- Savings on borrowing costs for council borrowers:
 - LGFA will demonstrate the savings to council borrowers on a relative basis to other sources of financing. This will be measured by maintaining or improving the prevailing secondary market spread between LGFA bonds and those bonds of a similar maturity issued by (i) registered banks and (ii) Auckland Council and Dunedin Council as a proxy for single name issuance of council financing.

6. Dividend policy

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

¹ Subject to the forecasting uncertainty noted previously

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

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

7. Governance

Board

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

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

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

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

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

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

Shareholders' Council

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

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

² Best practice as per NZX and Institute of Directors guidelines

8. Information to be provided to Shareholders

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

Annual Report

The LGFA's balance date is 30 June.

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

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

Half Yearly Report

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

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

Quarterly Report

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

- Commentary on operations for the relevant quarter, including a summary of borrowing margins charged to Participating Local Authorities (in credit rating bands).
- Comparison of LGFA's performance with regard to the objectives and performance targets set out in the SOI, with an explanation of any material variances.

LGFA Draft Statement of Intent 2018/19. Page 7

- Analysis of the weighted average maturity of LGFA bonds outstanding.
- In the December Quarterly Report only, commentary on the Net Debt/Total Revenue percentage for each Participating Local Authority that has borrowed from LGFA (as at the end of the preceding financial year).
- To the extent known by LGFA, details of all events of review in respect of any Participating Local Authority that occurred during the relevant quarter (including steps taken, or proposed to be taken, by LGFA in relation thereto).

Statement of Intent

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

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

Shareholder Meetings

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

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

9. Acquisition/divestment policy

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

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

10. Activities for which compensation is sought from Shareholders

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

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

11. Commercial value of Shareholder's investment

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

Subject to the Board's views on the appropriate capital structure for LGFA, the Board's intention will be

LGFA Draft Statement of Intent 2018/19. Page 8

to pay a dividend that provides an annual rate of return to Principal Shareholders equal to LGFA fixed rate bond cost of funds plus 2.00% over the medium term.

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

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

12. Accounting policies

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

The following statement is taken from the Financial Statements presented as part of LGFA's Annual Report 2017 (updated where necessary).

ATTACHMENT: Statement of accounting policies

a. Reporting Entity

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

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

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

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

b. Statement of Compliance

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

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

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

c. Basis of Preparation**Measurement base**

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

The financial statements are prepared on an accrual basis.

Functional and presentation currency

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

Foreign currency conversions

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

Changes in accounting policies

There have been no changes in accounting policies.

Early adoption standards and interpretations

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

Standards not yet adopted

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

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

d. Financial instruments**Financial assets**

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

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

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

At each balance date an assessment is made whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired when objective evidence

demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Financial liabilities

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

Derivatives

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

Fair value hedge

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

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

e. Other assets

Property, plant and equipment (PPE)

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

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

Intangible Assets

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

f) Other liabilities

Employee entitlements

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

g) Revenue and expenses

Revenue

Interest income

Interest income is accrued using the effective interest rate method.

LGFA Draft Statement of Intent 2018/19. Page 11

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

Expenses

Expenses are recognised in the period to which they relate.

Interest expense

Interest expense is accrued using the effective interest rate method.

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

Income tax

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

Goods and services tax

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

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

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

Commitments and contingencies are disclosed exclusive of GST.

h. Lease payments

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

i. Segment reporting

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

j. Judgements and estimations

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

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

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

REPORT TO: FINANCE AND MONITORING COMMITTEE

MEETING DATE: TUESDAY 20 MARCH 2018

**FROM: FINANCIAL CONTROLLER
AARON WILSON**

**SUBJECT: FINANCIAL QUARTERLY REPORT FOR THE SIX MONTHS
ENDED 31 DECEMBER 2017**

1.0 SUMMARY

- 1.1 The purpose of this report is to inform the Committee of the financial result for the three months ended 31st December 2017.
- 1.2 The Council is required to give effect to the purpose of local government as prescribed by Section 10 of the Local Government Act 2002. That purpose is to meet the current and future needs of communities for good quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses. Good quality means infrastructure, services and performance that are efficient and effective and appropriate to present and anticipated future circumstances.
- 1.3 This report concludes by recommending that the report for the 3 Months ended 31st December 2017 be received.

2.0 BACKGROUND

- 2.1 The accounting operating financial result is reported on quarterly during the year and at year end a report is prepared on the financial as well as the rating result. The rating result differs from the accounting result in respect of non-cash items such as depreciation, vested assets and development contributions that are not included.
- 2.2 This financial report is governance focussed and allows significant variances to be highlighted with explanations provided in a way this is easy to read and understand through dashboard analytics and commentary.
- 2.3 **If Councillors require clarification on any points, please contact the writer prior to the meeting to ensure complete answers can be given at the meeting on the detail in these reports.**

3.0 CURRENT SITUATION

- 3.1 Set out below is a summary of the operating financial result year to date. The financial results detailed below represent the accounting view and does not reflect the potential rating result for 2017/18:

	\$'000	\$'000	\$'000	Full Year Revised Budget*
2017/18	YTD Actual	YTD Revised Budget	YTD Variance	
Operating Revenue	65,098	60,016	5,082	120,798
Operating Expenditure	57,386	58,194	808	115,783
Net Surplus/(Deficit)	7,712	1,822	5,890	5,015

* Revised budget includes the Annual budget, Brought Forwards and surplus allocations from 16/17 financial year

- 3.2 The result above is presented against the revised budget. The revised budget includes changes and decisions made during the year on Council budgets which includes carry forwards from 2016/17 and allocations of the 2016/17 rating surplus.
- 3.3 Council's overall financial performance is \$5.89m ahead of YTD budget for the quarter ended 31 December 2017. Financial performance for the quarter is positive. Revenue is above budget and expenditure is under budget.
- 3.4 Overall revenue is \$5.08m ahead of YTD budget and expenditure is \$808,000, under YTD budget.

Revenue

- 3.5 Subsidies, grants and donations are above YTD budget by \$2.70m with the main driver being the 100% subsidies received for the Whakatu Arterial roundabout which was not budgeted for. This additional revenue is offsetting the capital cost for this part of the project.
- 3.6 Fees and charges revenue across Council are favourable by \$1.43m with the main drivers being:
- Community Facilities & Programme fees and charges are \$431,296 favourable and is mainly driven by an insurance payout to the Hastings Sports Centre of \$228,249. In addition Splash Planet revenue is up by \$105,326, along with higher than budgeted swimming pool revenue of \$41,278.
 - Asset management fees and charges are favourable by \$514,548. This is driven by higher than budgeted revenues at the Landfill with higher volumes along with the final payment received of \$280,000 for the harvesting of the forestry block.
 - Planning and Regulatory services are favourable to budget by \$220,612 driven by higher environmental consents revenue along with higher than budgeted parking revenues.
- 3.7 Development contributions are favourable to YTD budget by \$1m, due to increased development activity, particularly at Irongate and Lyndhurst. Phasing of budgets in relation to when contributions occur is difficult, and creates timing differences as it is not always known in advance in what month a payment will occur when the budget is being set.

- 3.8 Overall revenue has performed well in the first half of the year with many of the revenue lines reflective of the increased activity within the region. There are no areas of concern across Council's business activities.

Expenditure

- 3.9 Overall expenditure is tracking below budget to 31 December 2017 by \$808,000 or 1.3% of total budgeted expenditure year to date.
- 3.10 Maintenance Group unfavourable net position is \$236,174. This has been driven by increased operational costs, but is expected to balance out by year end.
- 3.11 Council continues to spend significant sums of money on water supply activity including both Capital and Operational expenditure. This activity is funded by way of a separate water account which is designed to either accumulate reserves or run in deficit depending on expenditure needs and Council decision making. This allows Council to spread the impact of "lumpy" expenditure in this activity.
- 3.12 Given the planned large scale expenditure on water supply, Council in the 2017/18 Annual Plan, provided for the water account to run in deficit for a number of years to come. This approach will be continued in the 2018 – 2028 Long Term Plan.
- 3.13 The current year's budget was based on expenditure and activity levels forecast in February 2017. Operational requirements and the overall capital investment forecast have increased since that time as operational and project requirements have been planned in detail and become better understood. Greater public awareness of water leaks has led to increased demand on maintenance services, while water quality testing, monitoring and chlorination requirements have also been higher than initially forecast. This is leading to budgeted variances. It is not possible to defer most of the work driving these costs.
- 3.14 These variances will affect the year end balance of the water account. However, the proposed increases to the Water Supply Targeted Rate will ensure a surplus position is achieved during the life of the 2018-28 Long Term Plan.
- 3.15 Below is a summary of operating water services costs:

Water Services		31st December 2017	
Operating Expenditure	YTD Actual	YTD Budget	Variance
Connections	1,946	1,760	(185)
Reticulation	778,979	388,836	(390,143)
Treatment	103,749	63,500	(40,249)
Compliance	831,558	205,653	(625,904)
Pumpstations	141,948	72,646	(69,301)
Pumpstations - Electricity	429,106	564,400	135,294
Other Costs	42,940	19,760	(23,180)
Planning Advice	473,201	75,648	(397,553)
Insurance	95,820	86,800	(9,020)
Total	3,263,111	1,711,371	(1,420,242)

- 3.16 Areas in Council that are favourable due to the timing of expenditure, include, capital grants not yet paid out, (\$1,450,000, HB Community Fitness Centre Trust) along with lower spends in Transport due to lower expert advice and consultancy (\$293,000). Finance costs are also favourable due to lower than expected levels of debt.

Capital Spend

- 3.17 Council's total capital budget (including carry forwards, renewals, new works, and growth projects) for 2017/18 is \$94.1m. Capital spend year to date of \$28.8m is well ahead of actual spend for the prior year, and just behind current year budget, which includes carry forwards from the prior year.

Treasury

- 3.18 Total net external borrowing as at the end of December 2017 is \$65.7m with committed borrowing facilities of \$75.7m, providing headroom of \$10m. The liquidity ratio is at 115% compared to the policy minimum of 110%.

	YTD 31 December 2017	30 June 2017
	\$'000	\$'000
Facilities at start of year	70,741	60,741
New/matured facilities (net)	5,000	10,000
Facilities at end of year	75,741	70,741
Borrowing at start of year	60,741	50,741
New Loans Drawn	5,000	15,000
Repayment of Loan	0	(5,000)
Net borrowings at end of period	65,741	60,741
Plus unutilised facilities	10,000	10,000
Total borrowing facilities available	75,741	70,741
<i>Liquidity Ratio</i>	<i>115%</i>	<i>116%</i>

- 3.19 The following table sets out Council's overall compliance with the Treasury Management Policy as at 31 December 2017:

Measure	Compliance	Actual	Minimum	Maximum
Liquidity	✓	115%	110%	170%
Fixed debt	✓	84%	55%	95%
Funding profile:				
0 – 3 years	✓	46%	10%	50%
3 – 5 years	✓	26%	20%	60%
5 years +	✓	27%	10%	60%

- 3.20 Council is currently compliant with Treasury Management Policy. The Risk and Audit subcommittee is responsible for reviewing Council's treasury performance and policy with advise from PricewaterhouseCoopers (PwC). Current debt forecasts predict debt at 30 June 2018 to be between \$80m and \$85m with major capital projects well underway.

4.0 SIGNIFICANCE AND CONSULTATION

- 4.1 This report does not raise any issues that are significant in terms of the Councils Significance and engagement Policy that would require consultation.

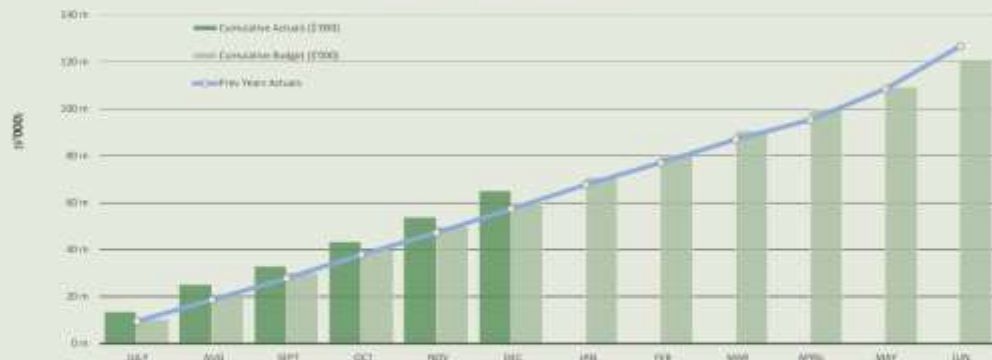
5.0 RECOMMENDATIONS AND REASONS

- A) That the report of the Financial Controller titled "Financial Quarterly Report for the six months ended 31 December 2017" dated 20/03/2018 be received.

Attachments:

Hastings District Council Quarterly Dashboard as at 31 December 2017

Whole of Council Revenue



Total Revenue Streams	Actual Ytd (\$'000)	Budget Ytd (\$'000)	Variance Ytd (\$'000)
Rates (Budget)	36,307	36,109	148
Fees, charges & metered water supply charges	12,316	10,884	1,432
Subsidies and Grants	13,040	10,347	2,692
Development and financial contributions	2,945	1,838	1,007
Interest revenue	53	0	53
Other revenue	438	608	-170
Total	65,098	60,916	5,082

Comments:

Fees and Charges are \$1.4m above budget across a range of activities in Council. Grants and subsidies are \$3.7m above budget mainly due to timing of NZTA roading funding, along with Whakatu Arterial being ahead of schedule.

How we are doing by key revenue streams (\$'000)

NZTA Subsidies

\$2,379

Favourable Variance

\$1.3m relates to Whakatu Arterial work funded 100% by NZTA which was not budgeted for with the balance of the favourable budget due to the work programmes being ahead of schedule.

Grants & Donations

\$314

Favourable Variance

Driven by Social Development grants and carry forward of Marae Whakaote development grant along with timing of grant received for HB Opera House.

Development Contribution

\$1,007

Favourable Variance

Increased development activity.

Resource Consents

\$115

Favourable Variance

Revenue is above budget due to additional resource consent activity.

Landfill (HDC Share)

\$498

Favourable Variance

Higher Landfill revenue is above budget largely due to share of forestry harvest along with higher volumes Year to date

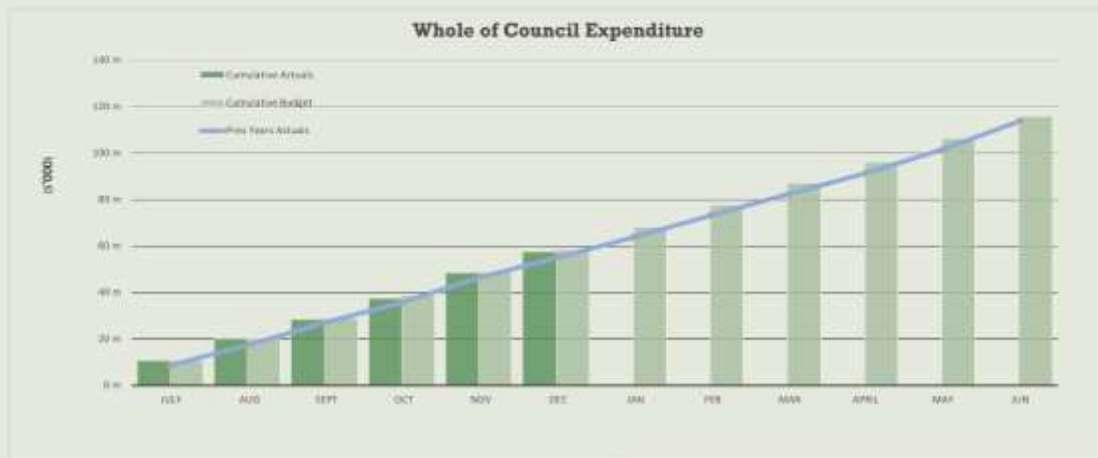
Splash Planet

\$105

Favourable Variance

Year to date revenue is ahead of budget.

Hastings District Council Quarterly Dashboard as at 31 December 2017



Total Expenditure	Actual Ytd (\$'000)	Budget Ytd (\$'000)	Variance Ytd (\$'000)
Personnel Costs	16,390	16,302	16
Depreciation	15,535	15,587	51
Finance Costs	1,836	2,278	442
Other Operating Costs	23,725	24,023	298
Total	57,386	58,194	808

Comments:

Personnel costs and Depreciation are close to budget.

Finance Costs are under budget due to lower than expected debt and prudent treasury management.

Other Operating costs are favourable to budget.

How we are doing by key expenditure categories (\$'000)

Grants & Donations

\$1,683

**Favourable
Variance**

Grants budgeted for release for specific areas have not matched the timing of expected spend. The major project receiving HDC grant that created this favourable variance is the AHT HB project, which was \$1.45m under budget and is being carried forward into 2017-18.

Finance Costs

\$442

**Favourable
Variance**

Finance Costs are under budget due to lower than expected debt and prudent treasury management

Water Supply

-\$1,420

**Unfavourable
Variance**

Water services expenditure is above budget with the main drivers being water quality monitoring, repairs and expert advice. This is detailed further within this report.

Electricity cost

\$221

**Favourable
Variance**

Water pump station electricity is lower than budgeted due to operational efficiencies, along with other savings across the rest of Council.

Roading Maintenance Work

\$180

**Favourable
Variance**

Roading Maintenance work is higher than budget by \$245k due to Sealed Pavement Maintenance in Rating Area 2 proceeding ahead of plan. This will align by the end of the year.

Parks Maintenance

-\$236

**Unfavourable
Variance**

Maintenance Group (Council's works division) Unfavourable Net Position driven by increased operational costs including repair & maintenance of plant and machinery. This is expected to balance out by year end.

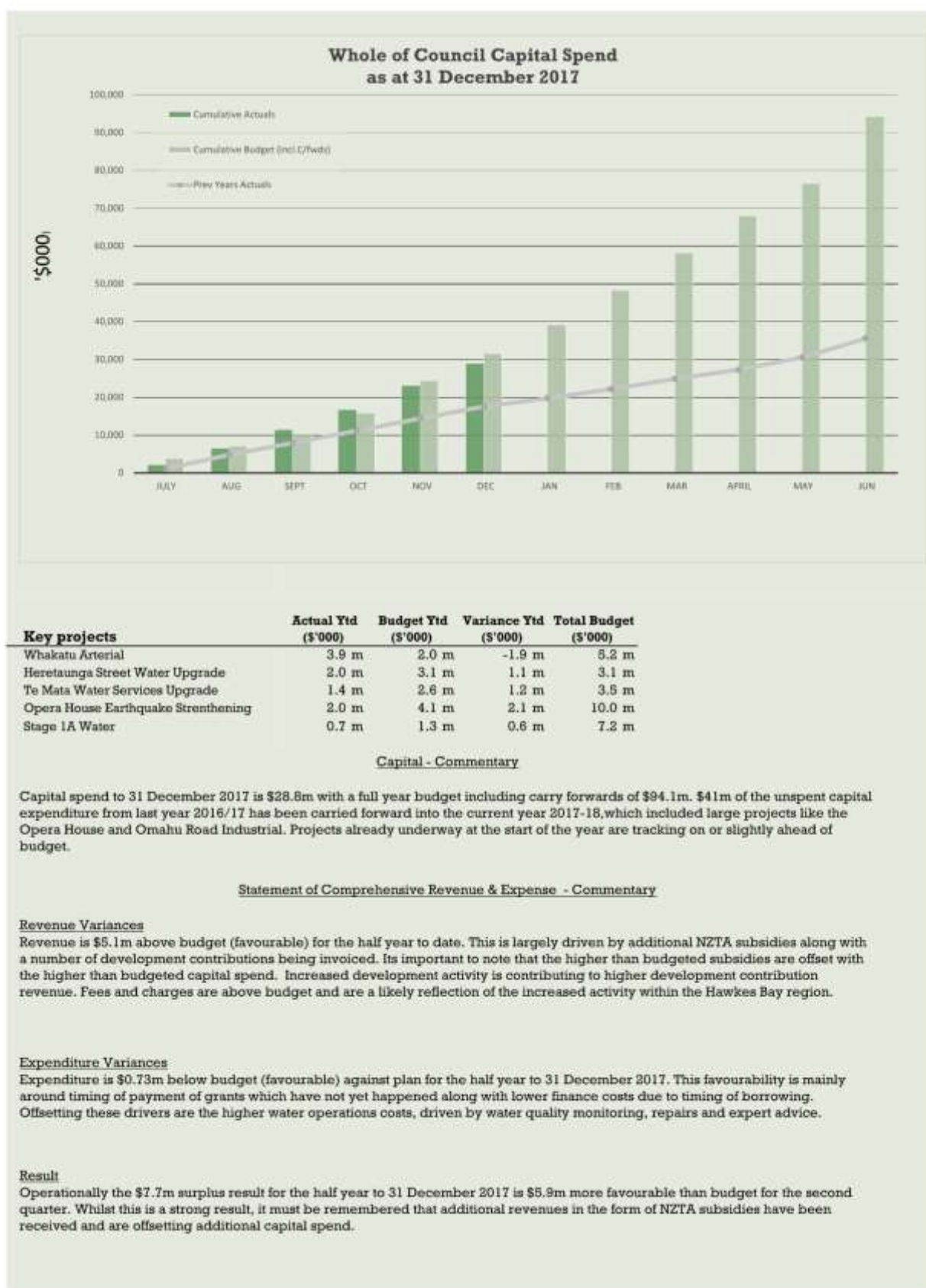
Hastings District Council
Statement of Comprehensive Revenue and Expense
As at 31 December 2017

Previous YTD Actuals (\$'000)	Description	Actuals (\$'000)	Budgets (\$'000)	Variance (\$'000)	Total Budget (\$'000)
	Revenue				
35,360	Rates	36,307	36,159	148	72,318
11,385	Fees, charges & metered water supply	12,316	10,884	1,432	21,740
8,621	Subsidies and Grants	13,040	10,347	2,692	21,238
1,488	Development and financial contributions	2,945	1,938	1,007	3,876
101	Interest revenue	53		53	
462	Other revenue	438	688	-250	1,626
57,418	Total Revenue	65,098	60,016	5,082	120,796
	Expenditure				
15,426	Personnel Costs	16,290	16,307	16	32,556
15,519	Depreciation & Amortisation Expense	15,535	15,587	51	31,173
1,697	Finance Costs	1,836	2,278	442	4,550
22,313	Other Operating Costs	23,725	24,023	298	47,504
54,956	Total Expenditure	57,386	58,194	808	115,783
2,462	SURPLUS/(DEFICIT)	7,712	1,822	5,890	5,015

Hastings District Council
Statement of Comprehensive Revenue and Expense by Segment
As at 31 December 2017

Previous YTD Actuals (\$'000)	Description	Actuals (\$'000)	Budgets (\$'000)	Variance (\$'000)	Total Budget (\$'000)
	REVENUE				
35,360	Rates	36,307	36,159	148	72,318
3,242	Comm Fac and Prog	5,109	4,409	700	10,008
3,053	Plan and Reg Service	3,527	3,306	221	5,924
562	Parks Management	549	584	-35	1,186
3,417	Waste Services	3,840	3,248	592	6,497
7,906	Transportation	12,187	8,707	3,481	17,457
2,797	Water Services	2,409	2,837	-427	5,924
405	Econ Grow and Org Im	491	324	167	680
676	Governance and Support Services	678	443	235	806
57,418	TOTAL REVENUE	65,098	60,016	5,082	120,796
	EXPENDITURE				
9,418	Comm Fac and Prog	9,533	9,809	276	19,484
5,921	Plan and Reg Service	6,398	6,173	-224	12,837
-652	Property Management*	-572	-464	108	-1,335
4,700	Parks Management	5,515	6,871	1,156	13,565
3,163	Waste Services	3,876	4,064	189	8,119
14,322	Transportation	13,741	14,490	749	28,881
11,583	Water Services	13,281	11,411	-1,870	22,556
2,816	Econ Grow and Org Im	2,897	3,081	184	6,105
3,685	Governance and Support Services	2,717	2,957	240	5,572
54,956	TOTAL EXPENDITURE	57,386	58,194	808	115,783
2,462	SURPLUS/(DEFICIT)	7,712	1,822	5,890	5,015

* Property Management expenditure includes recoveries received from other activities of Council at 31 December. Property Management had recovered more than they had spent.



REPORT TO: FINANCE AND MONITORING COMMITTEE

MEETING DATE: TUESDAY 20 MARCH 2018

FROM: CHIEF FINANCIAL OFFICER
BRUCE ALLAN

SUBJECT: GROWTH DEVELOPMENT INVESTMENTS - RISK
ASSESSMENT

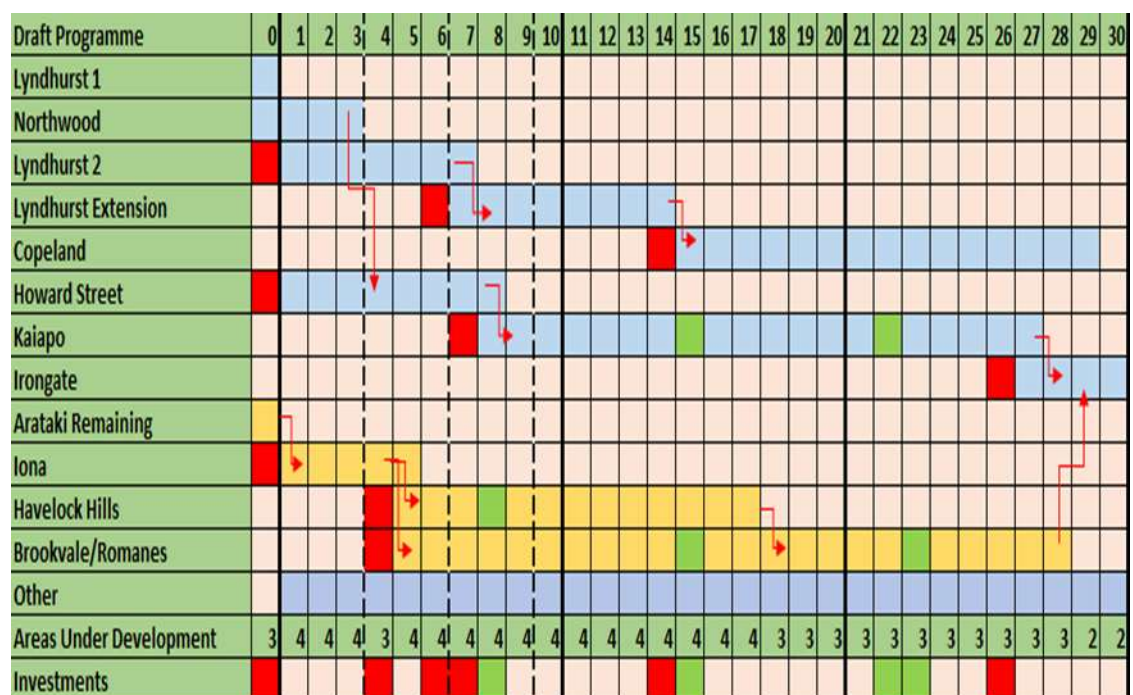
1.0 SUMMARY

- 1.1 The purpose of this report is to inform and update the Committee about the potential financial implications and the risk exposure that Council faces with the advancement of the District Plan variations, the priority setting and the Long Term Plan financial allocations which inform the Development Contributions Policy.
- 1.2 This update follows on from reports Council has previously received in regards to the risk profile established through the implementation of the growth related infrastructure budgeted.
- 1.3 The Council is required to give effect to the purpose of local government as prescribed by Section 10 of the Local Government Act 2002. That purpose is to meet the current and future needs of communities for good quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses. Good quality means infrastructure, services and performance that are efficient and effective and appropriate to present and anticipated future circumstances.
- 1.4 The objective of this decision relevant to the purpose of Local Government is to ensure Council is fully informed of the potential financial implications from the proposed variations to the District Plan; ensuring that Council implements the infrastructure required of the District Plan variations in the most cost effective way.
- 1.5 This report concludes by recommending that this report be received.

2.0 BACKGROUND

- 2.1 At the Planning and Regulatory meeting on 10 May 2016 Councillors received a report on the financial implications of the District Plan variations and related growth projects which meant an investment in growth related infrastructure was going to be required much earlier than the 2015-25 Long Term Plan had envisaged.
- 2.2 The direction of Council in 2015 and 2016 was to proceed with variations to the District Plan for industrial areas at Omahu and Irongate and the residential areas of Iona / Middle Road and Howard Street. This direction would have financial implications on the debt Council has to incur, the Development Contributions required to service that debt and the potential risk that Development Contributions may have to increase should development not occur at the rates projected.

- 2.3 Councils are also being encouraged by Central Government to open up as much land as possible for development, yet infrastructure in growth comes with risk for Councils. In most instances and certainly in the Hastings District, even if land is made available it is still at the whim of the developer who may be restricted in how fast they can bring sections and ultimately houses to the market and many will understandably control the release of sections to manage their own risks and control profit margins over the long run.
- 2.4 In November 2017 Council received a report on the Heretaunga Plains Urban Growth Strategy (HPUDS) and a proposed resetting of greenfields priorities and sequencing for inclusion in the Long Term Plan. Council adopted the sequencing in principle as a basis for future structure planning and indicative infrastructure programming through the 2018-28 Long Term Plan and the 30 Year Infrastructure Strategy.
- 2.5 Attached as **Attachment 1** is a map showing currently active development areas in varying states of progress.
- 2.6 The adopted sequencing was as follows:



- 2.7 In that report Council were reminded of the agreed priority setting for growth areas and the infrastructure that was required to make available that land.

3.0 CURRENT SITUATION

- 3.1 The following is an updated timeline of District Plan Variations currently underway which will ultimately require some form of growth related infrastructure spend from Council.



Omahu and Irongate Variations

- 3.2 The Omahu and Irongate Variations have progressed through the submissions and Hearing processes under the Resource Management Act. The Hearing decisions on both variations had been appealed to the Environment Court. The Omahu Appeal has been settled and the consent documents have been signed by the Court which means that this variation is now operative.
- 3.3 The Irongate appeal has been mediated and a settlement has also been reached. The consent documents have been signed by the Court which means that this variation is also now operative.

Howard Street Variation

- 3.4 Like the Omahu and Industrial Variations, the Howard Street Variation which brings additional greenfield residential on stream has been through the full resource management process, but has also been appealed to the Environment Court. Informal mediation on this appeal is ongoing.

Iona Variation

- 3.5 The Draft Iona Structure Plan was released to the community for informal comment, with comments closing on 4th September 2017. The Council has applied to the Minister for the Environment for a direction to adopt the Streamlined Planning Process for the Structure Plan and rezoning for Iona. The Minister issued the direction on 28 February 2018 and the direction has been set with the Notification of the Variation to occur by 6 April 2018 and recommendations to the Minister on the hearing of submissions by 31 July 2018.

Brookvale

- 3.6 The recommendations from the HPUDS Review identified an area of greenfield land at Brookvale in Havelock North. This area is significantly larger than the area sought by this Council as a replacement for the Arataki extension which currently cannot proceed for reverse sensitivity reasons. A large proportion of this land is also subject to appeal. Mediation on the appeal is due to resume upon the appellant completing the structure plan for the appealed area of land. It is possible that development of this land may proceed sooner than the Council anticipated either by means of resource consent or through the appeal process.

Lyndhurst Stage 2

- 3.7 The deferred zoning on Lyndhurst Stage 2 was lifted in late 2016. The infrastructure corridor upon which the successful servicing of this area relies has recently been agreed. The subdivision of land within Stage 2 has begun with the following progress update:

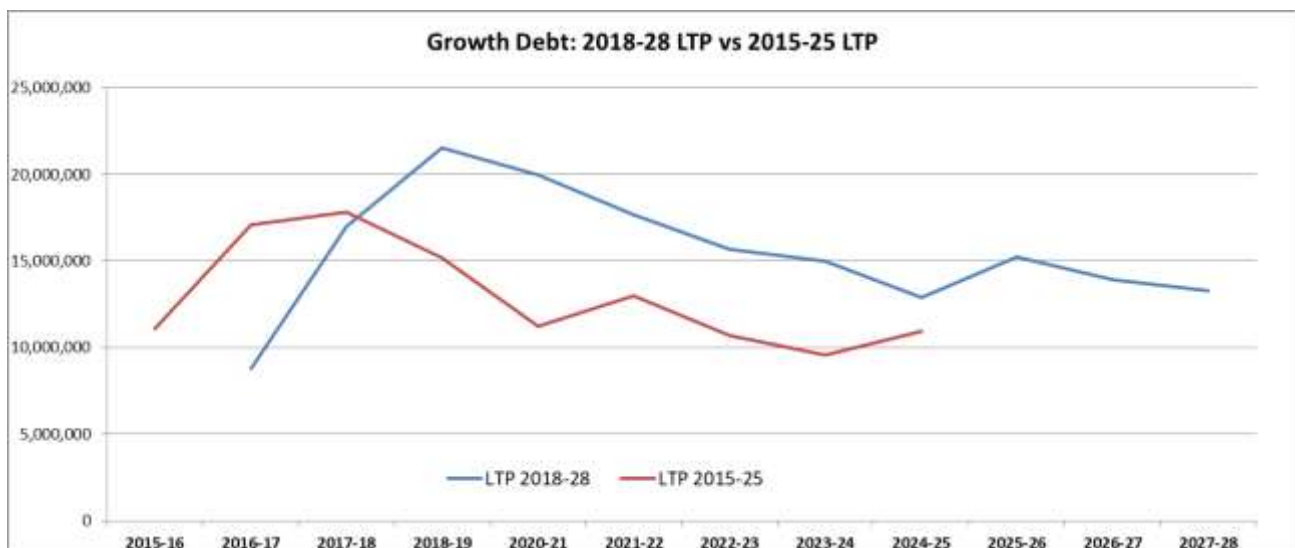
- 14 titles for Stage 3 have been issued, with titles for an additional 30 lots anticipated for mid-2018.
- 20 lots have been consented for in Stage 6. The estimated construction commencement date is March 2018.
- The upgrade of Lyndhurst Road is under construction and scheduled for completion in mid-2018.
- The mains services are scheduled for installation during 2018.

2018-28 Long Term Plan

- 3.8 The draft 2018-28 Long Term Plan has been finalised and a \$43m investment plan on top of the 2017/18 budget of \$19m has been mapped out over the next ten years. The next 3 years (including the current year) has a heavy investment with \$35m budgeted.

Description	17/18 Actuals	17/18 Annual Plan (incl C/fwds)	18/19 LTP	19/20 LTP	20/21 LTP	21/22 LTP	22/23 LTP	23/24 LTP	24/25 LTP	25/26 LTP	26/27 LTP	27/28 LTP	Total 2018-28 LTP Capex
			Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	
2018-28 LTP SUMMARY													
Brookvale Road	-	-	-	-	-	859	1,764	2,020	579	-	-	-	5,222
Howard Street	25	1,165	1,000	2,558	752	-	-	-	-	-	-	-	4,310
Iona / Middle	-	2,415	1,880	614	1,070	64	55	-	-	-	975	-	4,658
Omahu Industrial	390	5,543	1,000	722	-	754	-	791	-	832	-	-	4,100
Lyndhurst Stage II	601	3,465	2,939	-	157	-	342	-	-	-	-	-	3,438
Lyndhurst Extension	-	-	-	-	-	-	-	226	566	1,665	-	617	3,074
Tomoana Industrial - Stage 1	-	-	-	-	-	129	-	-	-	118	543	1,946	2,736
Irongate Industrial	1,080	1,874	3,599	-	-	-	-	338	-	648	-	-	4,585
Other	274	4,730	474	814	378	1,637	165	355	1,186	3,511	1,610	1,113	11,244
	-	-	-	-	-	-	-	-	-	-	-	-	
	2,369	19,192	10,892	4,709	2,356	3,444	2,326	3,730	2,330	6,774	3,128	3,676	43,365

- 3.9 The capital expenditure required to meet this reset sequencing is now reflected in the draft 2018-28 Long Term Plan that is about to be released for consultation.
- 3.10 The 2017/18 budget of \$18.6m is unusually large and includes \$14.3m of growth related expenditure that has been carried forward from prior years. Work at Omaha Road and Lyndhurst in particular will get underway with earnest this year.
- 3.11 The impact of this forecast capital expenditure will have an impact on the debt profile for growth related debt with growth debt solely funded from Development Contributions. The graph below shows the impact on growth related debt compared to the 2015-25 Long Term Plan. Current debt levels are lower than had been anticipated through the 2015-25 LTP with some projects not progressing as previously planned. Industrial developments at Irongate and Omaha Road were heavily weighted to the early years of that plan and while the Irongate water supply and wastewater have largely been implemented, these two development still make up a large proportion of the 2017/18 budget. Likewise Lyndhurst stage II had been budgeted for in the early years of the 2015-25 LTP and is only now progressing.
- 3.12 The impact of these deferred capital projects is that actual growth related debt is lower at 30 June 2017 than anticipated in the 2015-25 LTP. However the impact of these deferred projects now coming on stream and the reset sequencing following HPUDS 2017 means that projects like Howard Street and Iona/Middle are forecast to happen much earlier than previously forecast. Growth related debt is now forecast to reach \$21.5m, significantly more than the \$17.9m peak in the 2015-25 LTP.



- 3.13 Increased growth related debt comes with risk to Council as this debt is funded solely through development contributions and any interest incurred on this debt is ring fenced and capitalised. If growth does not occur at rates expected then the level of growth related debt will increase further.

- 3.14 The residential programme is heavily weighted to the first few years of the 2018-28 LTP with Howard Street, Iona / Middle Road and Lyndhurst all forecast to have significant investments over the first three years of the plan.
- 3.15 Officers have however been working hard to secure development contributions upfront and have secured development contributions from over 40% of the developable land at Omahu Road. The payment of development contributions has the added benefit to the landowners of reducing their development contributions as well as reducing risk to Council. Officers are also working hard with the landowners at Irongate to secure a larger proportion of development contributions upfront. While the upfront contributions received from landowners is extremely positive, the timeframe that DC's are expected to be received has shortened which could still be imparted if development slows.
- 3.16 While the LTP signals when the capital expenditure will be required, expenditure will only be incurred when demand for sections suggests it is reasonable to do so. If take up of sections does not proceed as predicted, then the timing of capital expenditure can be delayed. Conversely, if section uptake is quicker than expected then this capital expenditure will have to be brought forward, provided all necessary planning, consenting and engineering design has been undertaken.
- 3.17 Slower than expected growth will impact on the amount of development contributions received and the amount of the growth related debt that can be repaid. This is a risk that Council will have to manage and be cognisant of as it progresses through this greenfield sequencing.
- 3.18 **Industrial**
- 3.19 The Omahu Road and Irongate Industrial developments are progressing well and Council is committed to development works in these industrial development areas. Recent economic activity in Hawkes Bay has provided a boon for Council and enabled the capital expenditure at Omahu Road to be progressed with a much reduced risk profile than had previously been expected. Of the 53ha of developable land at Omahu, Development Contributions have been received for 21.3ha representing \$3.9m or 40% of the land available.
- 3.20 Irongate is also progressing well. Infrastructure for the water supply and wastewater are largely complete and Officers are working with the landowners to secure a large proportion of development contributions up front. This will not only reduce the DC's payable by the developers due to reduced interest costs, but also reduce the risk to Council. At the time of writing this report, Officers are confident of securing upfront Development Contributions for a further 22ha in addition to the 16ha that have paid or have an agreement to pay by 30 June 2018. This would represent \$3.25m of Development Contributions paid upfront or 39% of the 96.5ha of land available for development required to recover all costs associated with this development area.
- 3.21 The rezoning and release of over 150ha of industrial land in the Hastings District is significant and requires major upfront investments from Council to enable this to occur. The work undertaken by officers to secure upfront

Development Contributions has de-risked this investment for Council to a large degree.

Provincial Growth Fund

- 3.22 Availability of supportive funding mechanisms to enable local authorities to manage risk related to the delivery of growth supporting infrastructure prior to receiving the associated development contributions are currently limited or non-existent. Councils are under increasing pressure to meet the needs of growing communities. To ensure continuity of land supply, councils are required to construct growth related infrastructure in advance of development activity. Unless Councils have funds set aside for this purpose, councils need to borrow funds which are repaid through development contributions (DC's).
- 3.23 The impact of this is twofold, it adds debt to the balance sheet and for some council's this is not sustainable or possible within their prudential limits. It also adds risk to Council's finances if growth does not occur as planned and development contributions are not received to repay that debt and meet financing costs. Councils are therefore typically conservative with the timing of growth related infrastructure sometimes resulting in land supply constraints creating supply and demand issues.
- 3.24 A letter being prepared by Mayor Hazlehurst to the Chief Executives of the Hawke's Bay Council's and the Governance of Matariki (REDS) highlights this problem with the lack of any supportive funding mechanisms to enable local authorities to manage risk associated with delivery of growth supporting infrastructure and recommends that this is included in the priorities for Hawkes Bay, for consideration in making an application to the Provincial Growth Fund for assistance.
- 3.25 Any Central Government funding mechanisms would facilitate earlier delivery of growth infrastructure projects, reducing financial risk to Councils and ratepayers and allowing Hawke's Bay to capitalise on the associated economic growth opportunities when they arise.

Other critical fail risks

- 3.26 While the implementation of the adopted growth sequencing provides elevated risk to Council if the economy slows, there are a number of risks Council faces in actually delivering on this programme. There is a delivery risk with having a more aggressive approach to making new land available for development. Council is already under pressure with the largest capital programme in its history. Having this programme of work added to the large water delivery programme and normal business as usual renewal programmes puts pressure on Council's planning staff and planning consultants, infrastructure design consultants, project managers and civil construction contractors to deliver on this plan.
- 3.27 The impact of this delivery risk is that growth opportunities could be missed which may have long lasting economic implications for this district. The chief Executive and senior management are very aware of this risk and are continuing to look for ways to mitigate this risk going forward.

4.0 SIGNIFICANCE AND ENGAGEMENT

- 4.1 While the financial implications of the infrastructure investments for growth projects are significant, this report is for information only purposes and at this stage no decision is required that would be considered significant in relation to Council's Significance and Engagement policy.
- 4.2 The timing of related infrastructure investments for growth projects has been included in the 2018-28 Long Term Plan and will be consulted on as part of that consultation process.

5.0 RECOMMENDATIONS AND REASONS

- A) That the report of the Chief Financial Officer titled "Growth Development Investments - Risk Assessment" dated 20/03/2018 be received.
- B) That Council note the advice on financial risk associated with the proposed programme of infrastructure investment for growth related projects.

With the reasons for this decision being that the objective of the decision will contribute to meeting the current and future needs of communities for good quality local infrastructure in a way that is most cost-effective for households and business by:

- i) Ensuring that Council is aware of the risks associated with the implementation of the infrastructure required to enable the adopted growth sequencing to occur in the most cost effective way.

Attachments:

1 Growth Development Areas

FIN-09-4-18-159

