Document No: A492946

Report To: Audit and Risk Committee

Waitomo District Council

Meeting Date: 13 October 2020

Subject: **Declaration of Members' Conflicts of Interest**

Purpose of Report

1.1 The purpose of this business paper is for members to –

1 Declare interests that may be deemed a potential conflict with their role as an elected member relating to the business papers for this meeting, and

2 Declare any interests in items in which they have a direct or indirect pecuniary interest as provided for in the Local Authorities (Members' Interests) Act 29168.

Commentary

2.1 **Conflicts of Interest**

2.2 Every elected member has a number of professional and personal links to their community. They may own a business or be a member on a board or organisation. They may have a pecuniary (financial) interest or a non-pecuniary (non-financial) interest. These interests are a part of living in the community which they need to make decisions about in their role with Council.

2.3 Elected members are governed by the Local Authorities (Members' Interests) Act 1968 and are guided by the Auditor-General in how this Act is administered. In relation to pecuniary interests, the two underlying purposes of the Act are to:

- ensure members are not affected by personal motives when they participate in local authority matters; and
- in contracting situations, prevent members from using their position to obtain preferential treatment from the authority (the Council).

2.4 Non-pecuniary interests relate to whether an elected member could be in danger of having a real or perceived bias for an issue under consideration.

2.5 Elected members will also have interests that are considered no greater than the public at large. For example, most elected members will own a property and therefore be a ratepayer in the Waitomo District.

2.6 Conflicts of interest at times cannot be avoided, and can arise without anyone being at fault. They need not cause problems when they are promptly disclosed and well managed.

2.7 **Declarations of Interests and Conflicts**

2.8 At the beginning of each triennial council term, elected members are requested to disclose known interests on behalf of themselves (including spouses and partners). It is up to the elected member to judge whether they have any interests to declare. Some elected members may not have any, other elected members may have many.

2.9 As well as this, elected members may decide that they have an interest in a particular issue or item to be discussed at a meeting. There is a standing item on every meeting agenda for elected members to declare conflicts of interest.

2.10 These declarations should be clear as to whether there is just an “interest” with no pecuniary benefit and no greater benefit than to any member of the public, or they may be a Council appointed representative to an organization, or whether there is a “conflict of interest” in that there could potentially be a pecuniary or other direct benefit to the elected member.

2.11 Members who have declared a “conflict of interest” at the commencement of a meeting should make a further declaration when that item of business is considered and leave the meeting table (or the meeting room) and not take part in any discussion, debate or voting on the matter of conflict.

2.12 Attached to and forming part of this business paper is information to assist elected members in determining conflicts of interest.

Declarations

The Chairperson will invite Committee members to give notice of any conflicts of interest relating to the business for this meeting.

In the event of a Declaration being made, the Committee member must provide the following information relating to the Declaration:

Item of Business on Agenda	**Reason for Declaration**	**Interest / Conflict**

MICHELLE HIGGIE
MANAGER – GOVERNANCE SUPPORT

Local Authority (Members' Interests) Act 1968

3.1 The Local Authority (Members' Interests) Act 1968 helps to protect the integrity of local authority decision-making by ensuring that Councillors are not affected by personal motives when they participate in Council decision-making and cannot use their position to obtain preferential access to contracts. This Act deals with two forms of "interest":

1. Pecuniary
2. Non-pecuniary

3.2 **<u>Pecuniary Interest</u>**

3.3 The **<u>two</u>** specific rules in the Act are that members cannot:

1. Enter into contracts with their local authority worth more than $25,000 (including GST) in a financial year unless the Auditor-General approves the contracts (referred to as the contracting rule). Breach of this rule results in automatic disqualification from office; and

2. Participate in matters before the Council in which they have a pecuniary interest, other than an interest in common with the public (referred to as the participation rule). Breach of this rule is a criminal offence and conviction results in automatic disqualification from office

3.4 A pecuniary interest is one that involves money. This could be direct or indirect. It is sometimes difficult to decide whether an interest in a particular matter is pecuniary or some other kind. It is always the responsibility of elected members to make this decision, to declare any interest when appropriate and to ensure that as an elected member you comply with the Act's requirements at all times. The Act generally provides that no person shall be capable of being a member of Council if that person is concerned or interested in any contracts with the Council where the total payments made by the Council in respect of such contracts exceeds $25,000 in any one financial year.

3.5 The Act also provides that an "interest" exists where a member's spouse is involved and/or where a member or their spouse is a major shareholder or have control or management of a company which contracts with Council or where the company has a pecuniary interest in the decision. It may also apply where your family trust has a contract with the Council.

3.6 The Act does provide that on application to it the Office of the Auditor General may give specific approval to a member being concerned or interested in a particular contract, in which case the provisions of the Act will not disqualify the Councillor from remaining in office. The approval needs be gained before the contract concerned is entered into.

3.7 The Act also requires that a member shall not vote or take part in the discussion of any matter in which he/she has any pecuniary interest, other than an interest in common with the public. This interest is required to be declared by the member and is noted in the minutes.

3.8 The Office of the Auditor General is the agency, which oversees this legislation and it also has the responsibility and power to institute proceedings against any member. The Act does not define pecuniary interest, however the Office of the Auditor-General uses the following test: "Whether, if the matter were dealt with in a particular way, discussing or voting on that matter could reasonably give rise to an expectation of a gain or loss of money for the member concerned."

3.9 In deciding whether you have a pecuniary interest you should consider the following factors: What is the nature of the decision being made? Do I have a financial interest in that decision – do I have a reasonable expectation of gain or loss of money as a result of making that decision? Is my financial interest one that is in common with the public? Do any of the exceptions in the Act apply to me? Could I apply to the Auditor-General for approval to participate?

3.10 Further guidance is provided in the booklet "Guidance for members of local authorities about the Local Authorities (Members' Interests) Act 1968" which has been provided to 5 elected members. It is important that you pay particular attention to the contents of this booklet as this is one of the few areas of the Council's business where staff do not set out to provide pro-active advice and members are personally liable for compliance with the provisions of this Act.

3.11 <u>Non-Pecuniary Interest</u>

3.12 Non-pecuniary interest is any interest the member may have in an issue that does not involve money. A common term for this is "bias" or pre-determination. Rules about bias operate not only to ensure that there is no actual bias, but also so there is no appearance or possibility of bias. The principle is that justice should not only be done, but it should be seen to be done. Bias may be exhibited where:-

- By their statements or conduct a member may indicate that they have predetermined the matter before hearing or considering all of the relevant information on it (including the Council's debate); or

- The member has a close relationship with an individual or organisation affected by the matter.

3.13 Non-pecuniary interest is a difficult issue as it often involves matters of perception and degree. The question you need to consider, drawn from case law, is: "Is there, to a reasonable, fair-minded and informed observer, a real indication of bias on the part of a member of the decision making body, in the sense that they might unfairly regard with favour (or disfavour) the case of a party to the issue under consideration?" If there is, the member should declare their interest and withdraw from the debate and take no further part in the discussion of this item. The law about bias does not put you at risk of personal liability. Instead, the validity of the Council's decision could be at risk. The need for public confidence in the decision-making process is paramount and perception can be an important factor. Again the booklet provided by Office of the Auditor General provides some excellent advice and information on this issue.

Waitomo District Council Procurement Policy 2018

4.1 The following are extracts from WDC's Procurement Policy:

WDC's procurement activities will be conducted in line with the core Procurement Principles and a decision framework that ensures:

- **Adherence** – all procurement is required and is undertaken in accordance with the Procurement Policy and all other associated WDC Policies and Strategies;
- **Openness** - all procurement is made in an open and transparent manner with full and fair opportunity for all eligible suppliers;
- **Fairness** - all procurement is carried out in a fair manner and decisions are made with impartiality and without bias;
- **Integrity** - all WDC employees and/or authorises third parties undertaking procurement do so ethically, equitably and with behavioural standards of the highest levels;
- **Value for Money** – all procurement considers the costs and benefits over the life of the goods, services and/or works, and in doing so takes into consideration local procurement;
- **Risk** – all procurement considers the risks (commercial and otherwise) and ensures these are managed appropriately;
- **Lawfulness** - all procurement is within the law and meets WDC's legal and organisational obligations;
- **Accountability** - employees and/or authorised third parties and suppliers are accountable for their performance; and
- **Sustainability** - all procurement is environmental and socially sustainable wherever possible, having regard to economic, environmental, and social impacts over their lifecycle.

Conflict of Interest and Declarations Policy 2018

WDC is required to identify, disclose, document and manage employees' conflicts of interest, and to ensure that decisions made on behalf of WDC and the community are fair and free of bias or perceived bias.

Note: the words "decision" and "decisions" should be taken to include recommendations and advice:

(a) that might significantly influence decisions that will be made by other people; or
(b) on development of strategies and policies that will guide future WDC decision making on service provision, purchasing, contracting or staff employment.

WDC recognises that the professional and personal interests of employees mean that conflicts of interest sometimes cannot be avoided, and can arise without necessarily establishing a fault. Conflict need not cause difficulties, and can be managed so that the best interests of WDC and its ratepayers, residents or customers are served.

DEFINITION OF CONFLICT OF INTEREST

A **conflict of interest** exists when an employee could be influenced or could be perceived as being influenced by a personal or private interest in **any transaction** while performing their WDC duties and/or responsibilities. A personal or private interest is an interest that may bring benefit to an employee as an individual, or to others associated with the employee i.e. spouse or family member, to whom the employee may later benefit.

A **transaction** includes, but is not limited to:

(a) the exercise or performance of a function, duty, or power of WDC; or
(b) an arrangement, agreement, or contract to which WDC is a party; or
(c) a proposal that WDC enter into an arrangement, agreement, or contract; or
(d) development of a strategy or policy that will guide future decision making on service provision, purchasing, contracting or staff employment; or
(e) the consideration of or decision made by or at a meeting of Council or its committees and subcommittees.

A Conflict of Interest may exist where the employee:

- will or may derive a benefit from the transaction – a financial, professional or personal benefit;
- has a financial interest in another party to a transaction;
- is a director, shareholder, officer or trustee of another party to the transaction, or is a person who will or may derive a financial benefit from the transaction;
- has an interest in another party tendering for work which WDC is considering; or
- is the partner, parent, child, spouse, sibling, or close friend of another party to the transaction, or a person who will or may derive a benefit from the transaction; or
- is an affected member or interested party in a proposal considered by Council.

Before you participate in any Council decision …

CONFLICTS OF INTEREST

Check you don't have a pecuniary interest and that there is no bias or predetermination.

1. Pecuniary Interest (Local Authorities (Members' Interests) Act 1968)

Could any of the proposals or decisions being considered by the Council lead to some sort of financial benefit or disadvantage for you or your partner/spouse or anyone financially dependent on you?

For instance, you will have a pecuniary interest where:

- You own or have shares in a café in a town and Council is considering whether to impose a ban on freedom camping in that town through a bylaw amendment, which would substantially reduce the number of customers to the café.
- You, your spouse, or family members are owners, directors or shareholders in a local business and Council is considering whether to improve the footpaths and roads that the business is situated on.
- Your partner works in a senior role for a construction firm that is bidding for a Council contract, and the Council is deciding on the preferred tender.
- You own a coastal residential property subject to erosion and the Council is considering whether to build a sea wall, which would protect you and your neighbours.
- You and your spouse own a farm and hold a resource consent to take water to support farming activities, and the Council is deciding whether or not to increase water monitoring charges, which could have the effect of increasing your annual fees as a consent holder by approximately $200.

No → 2. Non-pecuniary interests

Yes ↓

Is the financial benefit or disadvantage common to a large group of the public?

For instance:

- Your interest will be in common with the public if you are a ratepayer and the Council is proposing an increase in the uniform general charge or general rate.
- Your interest will not be in common with the public if the Council is proposing to impose a targeted rate on you and others who live in your street that will have the effect of increasing your rates by $100.
- Your interest will be in common with the public if you own a residential property in town and the Council is considering major upgrades to the town's water supply.
- Your interest will not be in common with the public if you own the property immediately adjacent to a reserve, and the Council is considering whether to sell the reserve to a developer.

Yes → 2. Non-pecuniary interests

No ↓

Potential or actual conflict – get advice or don't participate

2. Non-pecuniary interests - bias/predetermination

Is there something about you or someone close to you that could mean you might be perceived as not being impartial or as having a closed mind on the Council decision?

For instance, there may be bias or predetermination where:

- The Council is deciding whether to fluoridate the local water supply, and you are a member of the DHB and helped draft and present its submission to the Council strongly supporting fluoridation.
- Your brother holds a senior position in an engineering firm that is bidding for the contract to maintain the Council's wastewater pipes, and Council is deciding who to award the contract to.
- The Council is deciding whether to amend the rules in its regional plan about dairy effluent, and you are both a farmer and on the executive for the local Federated Farmers group, which has submitted on the proposed amendment.
- The Council is deciding whether or not to grant a resource consent that could have significant effects on the population of a native and endangered beetle. You are President of a local action group established to save the beetle.
- The Council is considering an amendment to its alcohol control bylaw that would introduce an alcohol ban along the main street of a local town, and your best friend owns the local pub in the town and has made a submission to the Council enthusiastically supporting the ban.
- The Council is deciding where to locate a new multi-sports stadium in the district, and you are a member of a local community board that recently took a proposal to Council seeking a new sports stadium in the community board area, and you took an active role in developing and presenting the proposal.
- A local business has sought an economic development grant from the Council, and the Council must decide whether to award the grant. The application was made by the business' general manager, who happens to be a neighbour with whom you have a very unhappy relationship (eg yelling matches, vandalism, complaints to the Police).
- Your sister-in-law is a property developer and is seeking a very advantageous agreement with the Council on development contributions for her latest subdivision, and the Council is deciding its negotiation parameters for the agreement.
- The Council has issued a request for tenders for its legal services and must decide who to appoint to its panel of legal providers, but in the meantime you have accepted repeated invitations to dinner, tickets for events, and a free Christmas ham, from one of the law firms that is tendering for the Council's work.
- A proposal to build a new dam has been controversial in the community for some time, and you have previously stated on your Facebook page that "The only way forward is to build the dam; there are no other options. I'll resign as a councillor if it doesn't go ahead". Following this, the Council used the special consultative procedure to hear submissions on the dam proposal and must now decide whether to proceed.
- The Council is considering the list of recipients for a Triennial Grant, one of the applicants is an organisation that you are a Chairperson or committee member.

No → **No conflict, okay to participate**

Yes ↓

Potential or actual conflict – get advice or don't participate

Interests v conflicts

Sometimes you may have an ***interest*** that does not necessarily create a ***conflict*** of interest.

Even if there is no conflict, all interests must be declared (at the appropriate time during a relevant meeting and/or recorded in the Council's Interests Register).

Need advice?

Talk to:

- The Chief Executive or Mayor
- Your own lawyer
- Office of the Auditor-General (for pecuniary interests only - the OAG cannot provide clearance on bias/predetermination)

More detailed guidance from the OAG is available at: https://www.oag.govt.nz/2010/lamia/docs/local-authorities-members-interests-act.pdf

Remember: If in doubt, stay out!

Disclaimer: This document provides general guidance only and should not be relied on as legal advice. The scenarios provided are just examples and not an exhaustive list of all possible situations. If you need advice on a specific situation, please see the "Need Advice" box.

WAITOMO DISTRICT COUNCIL
AUDIT, RISK AND FINANCE COMMITTEE

MINUTES OF A MEETING OF THE WAITOMO DISTRICT COUNCIL AUDIT, RISK AND FINANCE COMMITTEE HELD VIA ZOOM ON TUESDAY 5 MAY 2020 AT 9.00AM

PRESENT: via Zoom	Independent Chairperson Bruce Robertson
PRESENT: at Council Chambers	Mayor John Robertson, Deputy Mayor Guy Whitaker, Members Phil Brodie, Allan Goddard, Lisa Marshall, Janene New and Sue Smith
IN ATTENDANCE: at Council Chambers	Chief Executive, Manager – Governance Support, General Manager – Business Support, General Manager – Strategy and Environment (for part only); General Manager – Infrastructure Services (for part only) and General Manager – Community Services (for part only) and Yvette Ronaldson, Communications Officer (for part only)

1. Declarations of Member Conflicts of Interest

No declarations of conflicts of interests were made.

2. Confirmation of Minutes – 5 May 2020

Resolution

The Minutes of the Waitomo District Council Audit and Risk Committee meeting of 5 May 2020, including the Public Excluded minutes, be confirmed as a true and correct record.

Robertson/Brodie Carried

3. Mastercard Expenditure Report (December 2019 – June 2020)

The Committee considered a business paper presenting for the Committee's information and consideration, details of expenditure incurred via WDC issued Corporate Mastercards.

The Manager – Governance Support and Chief Executive answered Members questions.

Resolution

The Mastercard Expenditure Report for the period December 2019 – June 2020 be received.

Brodie/Whitaker Carried

4. Controller and Auditor-General – Notification of Extension to 20 June 2020 Statutory Timeframes

The Committee considered a business paper informing that Parliament had passed legislation on Wednesday 5 August to extend the statutory reporting timeframes by up to two months for organisations with a 30 June 2020 balance date that report under the Local Government Act 2020

The Chief Executive and General Manager – Business Support expanded verbally on the business paper advising that at this stage there is no plan to move from the agreed timeline for adoption of the 2019/2020 Annual Report and that confirmation has been received from Council's Auditor that they are well placed to complete the audit, including Inframax Construction Ltd, as per the agreed timeline.

Resolution

The business paper on Controller and Auditor-General – Notification of Extension to 30 June 2020 Statutory Timeframes be received.

J Robertson/Goddard Carried

5. 2021-2031 10 Year Plan Project Risks

The Committee considered a business paper providing an overview of, and the risks associated with, the work programme for development of the 2021-31 10 Year Plan.

The General Manager – Strategy and Environment and Chief Executive expanded verbally on the business paper and answered Members' questions.

Resolution

The business paper on 2021-31 10 Year Plan Project Risks be received.

New/Whitaker Carried

6. Building Consent Authority Accreditation

The Committee considered a business paper advising of the outcome of the recent audit of the Waitomo District Council Building Consent Authority carried out by International Accreditation New Zealand.

The General Manager – Strategy and Environment expanded verbally on the business paper and answered Members' questions.

The Committee requested its congratulations and thanks be passed on to the Building Team for such a successful audit outcome.

Resolution

The business paper on Building Consent Authority Accreditation be received.

New/Marshall Carried

7. Progress Report: District Plan Review

The Committee considered a business paper providing an overview of the progress of the District Plan Review and the associated work programme risks.

The General Manager – Strategy and Environment expanded verbally on the business paper and answered Members' questions.

Resolution

The Progress Report – District Plan Review be received.

Whitaker/Smith Carried

8. Progress Report: WDC Resource Consents – Compliance Monitoring

The Committee considered a business paper providing a progress report on compliance reporting against Resource Consent conditions.

The General Manager – Infrastructure Services and Chief Executive expanded verbally on the business paper and answered Members' questions.

The Chief Executive briefed the Committee on the history behind Council providing water (potable and wastewater) services in-house as opposed to contracting the service out.

Resolution

The Progress Report: Resource Consent – Compliance Monitoring be received.

Brodie/Smith Carried

9. Progress Report: Development of Business Continuity Plans

The Committee considered a business paper providing an update on progress with the development of Business Continuity Plans.

The General Manager – Business Support and Chief Executive expanded verbally on the business paper and answered Members' questions.

The Chief Executive pointed out that Waitomo District Council is not working in the same paradigm as it was when the current Risk Management Plan was developed and adopted. The Chief Executive advised that the Plan requires a full review and used the example of the Three Waters Reform as a new risk which needs to be addressed in the Risk Management Plan.

Resolution

1 The Progress Report – Development of Business Continuity Plans be received.

2 A full review of the Risk Management Plan be undertaken as a matter of urgency.

J Robertson/Goddard Carried

10. Progress Report: Review of Council's Investments

The Committee considered a business paper providing an update on progress with the review of Council's Investments.

The General Manager – Business Support expanded verbally on the business paper and answered Members' questions.

Resolution

The Progress Report: Review of Council's Investments be received.

Robertson/Marshall Carried

11. Unaudited Interim Financial and Non-Financial Report for the Year ended 30 June 2020

The Committee considered a business paper presenting the Unaudited Interim Financial and Non-Financial Report for the Year ended 30 June 2020.

The General Manager – Business Support and Chief Executive expanded verbally on the business paper highlighting the fact that the 2019/2020 year has provided numerous challenges in delivering the budgeted capital works program, including senior staff changes, internal capacity, availability of contractors and the delays created by the COVID-19 pandemic, the result of which was not completing the 2019/2020 capital works programme.

The Committee noted that significant work has been completed to determine a realistic capital works program for 2020/2021 which should enable completion of the carry over projects from the 2019/2020 capital works programme.

The Chief Executive clarified that the incomplete 2019/2020 capital works programme will carry over into 2020/2021 by default and therefore no resolution is required of the Committee as suggested in the business paper.

The Committee raised the following matters to be addressed by the General Manager – Business Support:

1 Provide a clear explanation of the meaning of "Receivables (Non-exchange)" and "Receivables (Exchange)" under the Current Assets in Appendix 2: Unaudited Interim Balance Sheet as at 30 June 2020 on page 158 of the Agenda, and circulate this explanation to the Committee by email.

2 Reinstate Debt Collection action.

3 In the next Financial Report, provide a year on year comparison for the last 5 years for Debt Collection.

Resolution

The business paper on Interim Unaudited Financial and Non-Financial Report for the period ended 30 June 2020 be received.

Goddard/Whitaker Carried

12. Motion to Exclude the Public

The Committee considered a business paper pursuant to Section 48 of the Local Government Official Information and Meetings Act 1987 giving Council the right by resolution to exclude the public and/or staff from the whole or any part of a meeting on one or more of the grounds contained within that Section.

Resolution

1 The public be excluded from the following part of the proceedings of this meeting.

2 The general subject of each matter to be considered while the public is excluded and the reason for passing this resolution in relation to each matter, as specified by Section 48(1) of the Local Government Official Information and Meetings Act 1987 are as follows:

General Subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under section 48(1) for the passing of this resolution
1. Progress Report: Risk Management – Procurement/Contract Schedule (January 2020 – June 2020)	Section 7(2)(c)(i) – To enable any local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)	Section 48(1)(a)(1)
2. Inframax Construction Ltd - Half Annual Report to 31 December 2019	Section 7(2)(c)(i) – To enable any local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)	Section 48(1)(a)(1)
3. Progress Report: Health and Safety (Risk Management)	Section 7(2)(a) To protect the privacy of natural persons, including that of deceased natural persons	Section 48(1)(a)(1)

3 Council agree the following staff, having relevant knowledge to assist in the consideration of the items of business to be public excluded, remain in attendance to assist the Committee with its decision making:

Staff Member	Reason for Remaining in Attendance
Chief Executive	Council CEO
Manager – Governance Support	Committee Secretary
General Manager – Community Services	Business Paper Author
General Manager – Business Support	Business Paper Author

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

Robertson/New Carried

The General Manager – Strategy and Environment and Chief Executive left the meeting at 3.44pm.

The meeting adjourned for afternoon tea at 3.44pm and reconvened at 3.56pm.

13. Consideration of Public Excluded Items for the purpose of making information Public following Council's decision taking

Resolution

Following consideration and decision taking of items of business with the public excluded, the Committee agreed that the following information be made public:

1 Progress Report: Risk Management – Procurement/Contract Schedule (January 2020 – June 2020)

Council's Resolution only be made public as follows:

Resolution

The Progress Report: Risk Management – Procurement/Contract Schedule (January 2020 to June 2020) be received.1

B Robertson/Whitaker Carried

<u>Note</u>: The business paper for this item is not made public for the reasons set out in Item 13 - "Motion to Exclude the Public" of these Minutes.

2 Inframax Construction Ltd - Half Annual Report to 31 December 2019

Council's Resolution only be made public as follows:

Resolution

1 The Committee rescind Resolution 2 of Public Excluded Item 1 – Inframax Construction Ltd – Half Annual Report to 31 December 2019 as contained in the Audit Risk and Finance Committee Minutes of 5 May 2020.

2 The business paper on Inframax Construction Limited - Half Annual Report to 31 December 2019 be received.

3 The Inframax Construction Limited – Half Yearly Report to 31 December 2019 be received.

4 The Inframax Construction Limited – Half Yearly Report to 31 December 2019 be made public and published on Council's website in accordance with Section 66(5) of the Local Government Act 2002.

B Robertson/Whitaker Carried

<u>Note</u>: The business paper for this item is not made public for the reasons set out in Item 13 - "Motion to Exclude the Public" of these Minutes.

3 Progress Report: Health and Safety

Council's Resolution only be made public as follows:

Resolution

The Progress Report: Health and Safety be received.

New/Smith Carried

Note: The business paper for this item is not made public for the reasons set out in Item 13 - "Motion to Exclude the Public" of these Minutes.

B Robertson/J Robertson Carried

There being no further business the meeting closed at 1.12pm

Dated this day of 2019.

BRUCE ROBERTSON
INDEPENDENT CHAIRPERSON

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Confidential

Document No: A492719

Report To: Audit and Risk Committee

Waitomo District Council

Meeting Date: 13 October 2020

Subject: **Mastercard Expenditure Report July / August 2020**

Purpose of Report

1.1 The purpose of this business paper is to present for the Committee's information and consideration, details of expenditure incurred via WDC issued Corporate Mastercard.

Commentary

2.1 **Introduction**

2.2 In today's technological climate, the use of credit cards is an everyday norm. The issue of WDC Corporate Mastercards is also deemed a prudent and sometimes necessary form of currency.

2.3 Many purchases can be made online with discounts not applicable through other purchasing avenues, necessitating the use of a credit card. In other circumstances the only purchase method available is online. Online purchases also significantly reduce staff time in making purchases.

2.4 From time to time WDC's Senior Management Team incur work related expenses where the use of a WDC corporate credit card is the most expedient method of payment. The use of corporate credit cards avoids time consuming processes for arranging pre-purchase cheques, petty cash or making payment personally and claiming back the expense after the fact.

2.5 **Acknowledgement of Risk**

2.6 However, it is also acknowledged that as with dealing with any type of cash equivalent, there is always a risk.

2.7 To mitigate the level of risk in WDC employees utilising credit cards, WDC has an implemented Credit Card Policy.

2.8 **Policy**

2.9 A copy of the ***Credit Card Policy*** is attached to and forms part of this business paper for information.

2.10 A summary of the Policy is as follows:

- Provides guidance on the use of a WDC Corporate Credit Card
- Limits approval of the issue of any credit card to the Chief Executive
- Requires a bi-annual review of both Cardholders and the Policy
- Details what is valid expenditure and what is not
- Makes an allowance for exceptional circumstances
- Requires all credit card purchases (both online and telephone) to reflect good security practice, to meet the criteria of WDC's Procurement Policy and comply with authorized Financial Delegations.

- Requires reimbursement of any unauthorized expenditure.
- Details the procedure for documenting monthly statements, monitoring by the Chief Executive and the approval (sign-off) of expenditure.
- Details card "limits" and the process for dealing with lost or stolen cards

2.11 **Presentation of Expenditure Details**

2.12 Copies of the monthly "Mastercard Statement Authorisation Forms" as explained in the Policy, will be presented to each Audit and Risk Committee Meeting.

2.13 Only copies of the actual signed Authorisation Form will be included. The supporting invoices/receipts will not be included in any Agendas, however should a Committee Member wish to view any of this supporting information, that information can be made available by arrangement.

2.14 Attached for the Committee's information are copies of signed Authorisation Forms for the period July/August 2020.

Suggested Resolution

The Mastercard Expenditure Report for the period July/August 2020 be received.

MICHELLE HIGGIE
MANAGER – GOVERNANCE SUPPORT

Attachments: (1) Mastercard Authorisation Forms: July/August 2020
(2) Credit Card Policy (Doc A207793)

A479523

RECEIVED
03 AUG 2020
WAITOMO DISTRICT COUNCIL

mastercard

BUSINESS MASTERCARD

53 GALWAY STREET, AUCKLAND CITY, 1010

TAX INVOICE
GST NO. 93 259 688

THE DIRECTOR
WAITOMO DISTRICT COUNCIL
P O BOX 404
TE KUITI
3941

Closing Date	Page
27/07/20	1

Current Annual Percentage Rate	Current Monthly Rate
19.950	1.6625

Card/ Customer No. 0000 0000 0860 2564

****** CONSOLIDATED SUMMARY ******

LIMIT	CARDHOLDER NAME	ACCOUNT NUMBER	BALANCE
$5000	MS M D HIGGIE	0000 0030 2936 5933	3526.13
$5000	MRS H M BEEVER	0000 0030 3956 2081	200.00
$5000	MR A M DUNCAN	0000 0030 6052 5296	323.60
$5000	MR A J HALE	0000 0030 6158 3906	3054.40
TOTAL CARDHOLDER LIMIT $20000		NET BALANCE	7104.13

WE ADVISE THAT $7,104.13 WILL BE DIRECTLY CHARGED TO YOUR ACCOUNT 030449 0070201 00 ON 20/08/20, PLEASE NOTE THIS TRANSACTION FOR YOUR RECORDS
PLEASE DIRECT ALL ENQUIRIES TO WESTPAC CARD SERVICES
ON 0800 888 111, AVAILABLE 24 HOURS A DAY, 7 DAYS A WEEK.

Mastercard Statement Authorisation Form

Waitomo District Council

Name:	**Michelle Higgie**
Position:	**Manager – Governance Support**
Statement Date:	**27 / 07 / 20**

(1)	**Creditor:**	Navigo Pty Ltd
	Date:	13 July 2020
	Amount:	$86.93 (AUD $80.00)
	GL Code:	816 21 700
	Expenditure:	OrgPlus Software Desktop 100 Support Plan Renewal - 6/7/2020 to 5/7/2021
(2)	**Creditor:**	NZTA
	Date:	17 July 2020
	Amount:	$384.80
	GL Code:	820 27 753
	Expenditure:	5,000km Road User Charges for 2019 Mazda BT-50 (Rego MGA225)
(3)	**Creditor:**	NZTA
	Date:	24 July 2020
	Amount:	$764.80
	GL Code:	820 27 748
	Expenditure:	10,000km Road User Charges for 2019 Mazda BT-50 (Rego LPS822)
(4)	**Creditor:**	NZTA
	Date:	24 July 2020
	Amount:	$764.80
	GL Code:	820 27 765
	Expenditure:	10,000km Road User Charges for 2016 Mitsubishi ASX (Rego KBU338)
(5)	**Creditor:**	NZTA
	Date:	24 July 2020
	Amount:	$1,524.80
	GL Code:	820 27 747
	Expenditure:	20,000km Road User Charges for 2019 Mazda BT-50 (Rego LPS811)

I certify that:

1 I have attached the necessary supplementary docket or receipt.
2 The account is payable.
3 The debt incurred is work related.
4 That any private component is identified and the amount has been reimbursed as follows:

Signature of Manager – Governance Support	**Authorised by Chief Executive:**	**Authorised by Mayor:**
Date: 11/8/2020	**Date:** 12/8/2020	**Date:** 13/8/20

Mastercard Statement Authorisation Form

Waitomo District Council

Name:	**Helen Beever**
Position:	**General Manager – Community Services**
Statement Date:	**27 / 07 / 20**

(1) Creditor:	BP 2GO Te Kuiti
Date:	21 July 2020
Amount:	$200.00
GL Code:	111 40 511
Expenditure:	Petrol Vouchers for Mayor's TUIA (Rangatahi Leadership Programme) Representative (Te Oranga Anderson) - Attendance at Tuia in Otorohanga (x3) and Rotorua (x1)

I certify that:

1. I have attached the necessary supplementary docket or receipt.
2. The account is payable.
3. The debt incurred is work related.
4. That any private component is identified and the amount has been reimbursed as follows:

Signature of GM – Community Services:	**Authorised by Chief Executive:**
Date: 11/08/2020	**Date:** 12/8/2020

Waitomo District Council

Mastercard Statement Authorisation Form

Name:	**Alister Duncan**
Position:	**General Manager – Business Support**
Statement Date:	**27 / 07 / 20**

(1)	**Creditor:**	Air New Zealand
	Date:	6-Aug-20
	Amount:	$323.60
	GL Code:	817 38 700
	Expenditure:	Return Airfare (Hamilton to Wellington) - Senior Accountant (Wayne La Roche) attendance at LGFA Conference

I certify that:

1 I have attached the necessary supplementary docket or receipt.
2 The account is payable.
3 The debt incurred is work related.
4 That any private component is identified and the amount has been reimbursed as follows:

Signature of GM – Business Support	**Authorised by Chief Executive:**
Date: 11/8/20.	**Date:** 12/8/20

Mastercard Statement Authorisation Form

Waitomo District Council

Name:	**Tony Hale**
Position:	**General Manager – Infrastructure Services**
Statement Date:	**27 / 07 / 20**

(1) Creditor:	NZ Transport Agency
Date:	13-Jul-20
Amount:	$764.80
GL Code:	820 27 733
Expenditure:	10,000km Road User Charges for WDC Fleet Vehicle (Rego JDQ986)

(2) Creditor:	NZ Transport Agency
Date:	13-Jul-20
Amount:	$764.80
GL Code:	820 27 729
Expenditure:	10,000km Road User Charges for WDC Fleet Vehicle (Rego JAC856)

(3) Creditor:	NZ Transport Agency
Date:	13-Jul-20
Amount:	$1,524.80
GL Code:	820 27 741
Expenditure:	20,000km Road User Charges for WDC Fleet Vehicle (RegoLHC171)

I certify that:

1. I have attached the necessary supplementary docket or receipt.
2. The account is payable.
3. The debt incurred is work related.
4. That any private component is identified and the amount has been reimbursed as follows:

Signature of GM – Infrastructure Services:	**Authorised by Chief Executive:**
Date: 11/08/20	**Date:** 12/8/20

A472090

A483710

mastercard

RECEIVED
03 SEP 2020
WAITOMO DISTRICT COUNCIL

BUSINESS MASTERCARD

53 GALWAY STREET, AUCKLAND CITY, 1010

TAX INVOICE
GST NO. 93 259 688

THE DIRECTOR
WAITOMO DISTRICT COUNCIL
P O BOX 404
TE KUITI

3941

Closing Date	Page
27/08/20	1

Current Annual Percentage Rate	Current Monthly Rate
19.950	1.6625

Card/ Customer No. 0000 0000 0860 2564

****** CONSOLIDATED SUMMARY ******

LIMIT	CARDHOLDER NAME	ACCOUNT NUMBER	BALANCE
$10000	✓MS M D HIGGIE	0000 0030 2936 5933	1720.80
$5000	✓MRS H M BEEVER	0000 0030 3956 2081	1529.60
$5000	MR A M DUNCAN	0000 0030 6052 5296	0.00
$5000	✓MR A J HALE	0000 0030 6158 3906	120.00
TOTAL CARDHOLDER LIMIT $25000		NET BALANCE	3370.40

WE ADVISE THAT $3,370.40 WILL BE DIRECTLY CHARGED TO YOUR ACCOUNT 030449 0070201 00 ON 20/09/20, PLEASE NOTE THIS TRANSACTION FOR YOUR RECORDS
PLEASE DIRECT ALL ENQUIRIES TO WESTPAC CARD SERVICES
ON 0800 888 111, AVAILABLE 24 HOURS A DAY, 7 DAYS A WEEK.

638720103304010Q05P09517

Waitomo District Council

Mastercard Statement Authorisation Form

Name:	**Michelle Higgie**
Position:	**Manager – Governance Support**
Statement Date:	**27 / 08 / 20**

(1)	**Creditor:**	NZTA
	Date:	28 July 2020
	Amount:	$764.80
	GL Code:	820 27 723
	Expenditure:	10,000km Road User Charges for 2014 Ford Ranger (Rego HKG235)

(2)	**Creditor:**	Air New Zealand
	Date:	31 July 2020
	Amount:	$433.60
	GL Code:	111 42 700
	Expenditure:	Mayor Robertson: Return Airfares for attendance at LGNZ Annual General Meeting in Wellington on 21 August 2020. Note: LGNZ AGM in Wellington cancelled (now to be via ZOOM) due to Covid Level 2. Flights cancelled and AirNZ issued Credit on 18 August 2020. A journal may be required to another GL number when the credit is used.

(3)	**Creditor:**	Air New Zealand
	Date:	31 July 2020
	Amount:	$515.60
	GL Code:	111 42 700
	Expenditure:	Chief Executive: Return Airfares for attendance at LGNZ Annual General Meeting in Wellington on 21 August 2020. Note: LGNZ AGM in Wellington cancelled (now to be via ZOOM) due to Covid Level 2. Flights cancelled and AirNZ issued Credit on 18 August 2020. Journal may be required to another GL number when the credit is used.

(4)	**Creditor:**	NZ Transport Agency
	Date:	21 August 2020
	Amount:	$6.80
	GL Code:	820 27 741
	Expenditure:	Toll Road Charge for Chief Executive (Vehicle Rego LHC171)

I certify that:

1 I have attached the necessary supplementary docket or receipt.
2 The account is payable.
3 The debt incurred is work related.
4 That any private component is identified and the amount has been reimbursed as follows:

Signature of Manager – Governance Support	**Authorised by Chief Executive:**	**Authorised by Mayor:**
MHiggie	[signature]	[signature]
Date: 24/9/20	**Date:** 30/9/2020	**Date:** 7/10/20

Mastercard Statement Authorisation Form

Waitomo District Council

Name:	**Helen Beever**
Position:	**General Manager – Community Services**
Statement Date:	**27 / 08 / 20**

(1)	**Creditor:**	NZTA
	Date:	7 August 2020
	Amount:	$764.80
	GL Code:	820 27 769
	Expenditure:	10,000km Road User Charges for 2016 Mitsubishi Triton (Rego KBU342)

(2)	**Creditor:**	NZTA
	Date:	7 August 2020
	Amount:	$764.80
	GL Code:	820 27 762
	Expenditure:	10,000km Road User Charges for 2015 Mitsubishi Triton (Rego JHR357)

I certify that:

1 I have attached the necessary supplementary docket or receipt.
2 The account is payable.
3 The debt incurred is work related.
4 That any private component is identified and the amount has been reimbursed as follows:

Signature of GM – Community Services:	**Authorised by Chief Executive:**
Date: 24/09/2020	**Date:** 30/9/2020

Mastercard Statement Authorisation Form

Waitomo District Council

Name:	**Tony Hale**
Position:	**General Manager – Infrastructure Services**
Statement Date:	**27 / 08 / 20**

(1) Creditor:	Hamilton Airport
Date:	10-Aug-20
Amount:	$60.00
GL Code:	811 40 545
Expenditure:	Airport Parking Fees – WDC Fleet Vehicle (Rego JBL852) – Greg Boyle

(2) Creditor:	Hamilton Airport
Date:	24-Aug-20
Amount:	$60.00
GL Code:	811 40 545
Expenditure:	Airport Parking Fees – WDC Fleet Vehicle (Rego JBL852) – Greg Boyle

I certify that:

1 I have attached the necessary supplementary docket or receipt.
2 The account is payable.
3 The debt incurred is work related.
4 That any private component is identified and the amount has been reimbursed as follows:

Signature of GM – Infrastructure Services: MHale	**Authorised by Chief Executive:**
Date: 28/9/20	**Date:** 30/9/20

Waitomo District Council

Credit Card Policy

Contents

1.0 Policy Background

1.1 This policy is intended to provide guidance on the use of Corporate Credit Cards.

2.0 Eligibility for Credit Cards

2.1 This policy authorises the issue of credit cards to:

- Members of the Executive Management Team
- The Manager – Governance Support
- The Mayor

3.0 Issuance of Additional Cards

3.1 The Chief Executive may approve the issue of additional cards to staff where that is appropriate. Before authorising the issuing of additional cards the Chief Executive must be satisfied that they are strictly necessary and will provide administrative efficiencies.

3.2 In approving the issue of a card, the Chief Executive will also confirm the approved credit limit. The credit limit will be set based on the minimum amount necessary to enable the cardholder to undertake their Council duties.

4.0 Maintenance and Review of Card Holder List

4.1 The Human Resources Officer shall maintain a central register (Doc#A207787) of all cardholders and a review of the register will be undertaken in conjunction with the bi-annual Policy review, or as otherwise required, to ensure that those staff currently holding cards should still do so. This frequency of review is seen as adequate, given the unlikelihood of a staff member moving from a position where they were entitled to hold a credit card to one where they are not entitled to do so.

5.0 Procedure for Issuing Cards

5.1 Upon approval from the Chief Executive, the Human Resources Officer will arrange for the issue of a corporate credit card via the General Manager – Business Support.

6.0 Valid expenditure

6.1 Corporate Credit cards are to be used:

- solely for the payment of business-related expenditure;
- subject to the limits in the appropriate annual operating expenditure budget; and
- in accordance with the Procurement Policy and Delegations Register.

6.2 Credit cards shall **not** be used for the following purposes:

- Personal purchases;
- Cash advances or cash reimbursement;
- Payment for any work attracting PAYE tax;
- Court costs or fines, tax payments, personal services or any other inappropriate spending.

6.3 **Exceptional Circumstances**

There may be circumstances that lend themselves to an exception to the above - e.g. emergencies where cash advances are required. In these cases an explanation is to be provided to the Chief Executive, or in the case of the Chief Executive, the Mayor, within two days of the expenditure being incurred and the expenditure is to be fully reimbursed to WDC prior to the monthly credit card payment being due.

6.4 **Internet Purchases**

Purchasing over the internet (using a Credit card) is authorised but the purchase transaction process must reflect good internet security practice. Good security practice involves ensuring the internet site is secure and purchasing only from established reputable companies. Where internet purchases are made, the cardholder is required to keep a copy of any online order forms completed when purchasing, and any purchasing over the internet needs to be consistent with WDC's normal purchasing procedures.

6.5 **Telephone Purchases**

Purchasing over the telephone (using a Credit card) is authorised but the purchase transaction process must reflect good telephone security practice. Good security practice involves ensuring the purchase is via an established and reputable company. Where telephone purchases are made, the cardholder is required to keep a manual record of the transaction. Purchasing over the telephone needs to be consistent with WDC's normal purchasing procedures.

7.0 Liability for Inappropriate Expenditure

7.1 WDC will not be liable for any unauthorised transactions incurred by the cardholder. In all cases the cardholder will be liable for the reimbursement to WDC of any inappropriate or unauthorised expenditure charged to the credit/purchasing card. Inappropriate expenditure is deemed to be that specified in this policy.

8.0 Procedure When More Than One Cardholder is Present

8.1 Where more than one cardholder is present (for example, at a staff function), it is expected that the most senior staff member will use their card for the payment of expenses incurred.

9.0 Documentation to Accompany Monthly Statements

9.1 Each Cardholder must complete a "Mastercard Statement Authorisation Form" (Doc# 317041) for every monthly credit card statement.

9.2 All credit card transactions in excess of $20.00 in value must be supported by original documentation (tax invoices and/or receipts) to corroborate transactions.

9.3 For credit card transactions less than $20.00 in value, the preference is to include supporting documentation, however this is not mandatory.

9.4 For transactions less than $20.00 in value which do not have supporting documentation, or where a transaction is in excess of $20.00 in value and supporting documentation is not available or has been lost by the cardholder, a note explaining the nature of the transaction and verifying that the expenditure incurred was valid and work-related must be included on the Mastercard Statement Authorisation Form.

9.5 For all entertainment and travel transactions, the business reason and other parties (if any) must be recorded along with the purpose of the meeting. This is to ensure that all transactions can be appropriately reviewed by the Authoriser, and to allow WDC to claim back the GST content of qualifying purchases. GST invoices (where relevant) shall be attached to the card statement prior to review by the Authoriser.

10.0 Monitoring

10.1 Credit card use is monitored monthly by the Chief Executive. The approval process must be structured in accordance with the following clause 11.0 'Approval of Expenditure'.

10.2 Credit card use is also monitored by the Audit, Risk and Finance Committee.

11.0 Approval of Expenditure

11.1 An approval hierarchy for monthly credit card statement approval, based on a "one-up" procedure where possible, has been defined as part of this policy as follows:

1 Executive Management Team statements must be approved by the Chief Executive.
2 The Chief Executive's statements must be approved jointly by the Mayor and Manager – Governance Support.
3 The Mayor's statements must be approved jointly by the Manager - Governance Support and Chief Executive.
4 The Manager – Governance Support's statements must be approved jointly by the Mayor and Chief Executive.

Note: The OAG guidance on sensitive expenditure states that it is essential that there should be no reciprocal arrangement for approving sensitive expenditure – therefore the Chief Executive cannot approve the Mayor's statements alone and vice versa.

11.2 The Manager - Governance Support and the Chief Executive will jointly approve the Mayor's statements (i.e. with the Mayor there can be no true "one-up procedure" and by having a joint authorisation any "reciprocal" arrangement is removed).

11.3 The Manager - Governance Support is also in the position of knowing the Mayor's daily activities/whereabouts and will know what claims are appropriate on his Mastercard.

11.4 The Manager - Governance Support's statements will be jointly approved by both the Chief Executive and Mayor as from time to time there are purchases made on behalf of both the Mayor and Chief Executive on the Manager - Governance Support's credit card (i.e. Airfares, Accommodation, etc.)

11.2 Items will be coded by the Cardholder for posting in the accounting system. Credit card payments must be authorised like other invoices and in accordance with the Procurement Policy and Delegations Register.

11.3 The approval hierarchy will be as follows:

Expenditure incurred by	Statements approved by
Mayor	Chief Executive and Manager - Governance Support
Chief Executive	Mayor (or Deputy Mayor in the Mayor's absence) and Manager - Governance Support
Manager - Governance Support	Mayor and Chief Executive
Executive Management Team	Chief Executive

12.0 Card Limits

12.1 Unless otherwise determined by the Chief Executive, the credit limit of cards shall be as follows:

- Chief Executive $10,000
- Mayor $5,000
- Executive Team Members $5,000
- Manager - Governance Support to CE $10,000

13.0 Procedure for the Surrender of Cards

13.1 All cards will be surrendered by the cardholder on termination of their employment with Council. The credit card is to be returned to the Human Resources Officer in the first instance who will then pass the card on to the General Manager – Business Support for cancellation. This cancellation should be processed to the card issuer within 5 working days of the employee leaving Council and the card destroyed. All final wage/salary payments will be approved upon return of the credit card.

14.0 Lost or Stolen Cards

14.1 The cardholder is responsible for immediately reporting a card that is lost or stolen to the Westpac Bank Credit Cards division of the Westpac Bank. The hotline telephone number **0800 888 111** is given to each cardholder when uplifting the card. If a card is lost or stolen outside New Zealand, it must be reported to the nearest VISA member bank or by ringing **+64 09 914 8026 collect.**

14.2 Written confirmation of what happened when the card was lost or stolen must be provided to Westpac Bank within a reasonable timeframe. Full details (where, when, how) must be included, as the bank may need to relay these details to police.

14.3 Replacement of a lost or stolen card is to be arranged through the Human Resources Officer.

15.0 Breach of Policy

15.1 Any breach of this policy will be considered to be serious misconduct. When there is reason to believe that violation of policy or law has occurred disciplinary action may be taken. For repeat offenders, or where the breach of policy is significantly serious, the card will be automatically cancelled and formal disciplinary action taken.

16.0 Policy Review

16.1 The Human Resources Advisor is responsible for the administration, revision, interpretation, and application of this Policy. The Policy will be reviewed and revised where necessary every two years.

17.0 Staff Contact

Human Resource Advisor

18.0 Policy Review Date

Next Review: August 2022 (2 years)

Policy Approved:

Chris Ryan
Chief Executive

Date: 6 August 2020

Document No: A492388

Report To:	**Audit and Risk Committee**
Meeting Date:	13 October 2020
Subject:	**Audit: 10 Year Plan 2021-31**
Type:	Decision Required

Waitomo District Council

Purpose of Report

1.1 The purpose of this business paper is to present the Audit Engagement Letter (AEL) for the audit of the Consultation Document (CD) and the 10 Year Plan 2021-31 (10YP).

Background

2.1 Section 94 of the Local Government Act (LGA) requires the 10 Year Plan must contain a report from the Auditor-General on whether or not both the CD and the 10YP give effect to the purpose specified in the LGA and to comment on the quality of information and assumptions underlying the forecast information provided.

Commentary

3.1 The AEL proposed is included as an attachment and forms part of this paper.

3.2 The AEL advises that Deloitte, on behalf of the Auditor-General, will be completing the audit of the CD and 10 Year Plan. Bruno Dente is the appointed auditor for this audit.

3.3 The AEL sets out the terms of the audit engagement and includes the specific responsibilities of both the auditor and Council, audit scope and objectives, the approach taken to complete the audit and the areas of audit emphasis. It also includes details of audit hours, fees and audit timing.

3.4 The particular areas of audit focus are detailed on page 4,5 and 6 of the AEL. A summary of the areas of focus are included in the following table:

Area of Focus	Description
Impact of the economic downturn caused by Covid-19 on Council's forecasts	Specifically reviewing the revenue assumptions, Levels of Service provided into the future and impacts on financial and infrastructure strategies. Valuation and revenue assumptions from Inframax Construction Limited.
Finance Strategy and Infrastructure Strategy	Specifically reviewing the alignment of strategies, effect of financial forecasts on the prudence of the financial strategy, assessing reasonableness of financial forecasts, review integrity and effectiveness of the financial model.

Assumptions	Review assumptions for completeness and reasonableness of application and disclosures relating to assumptions in terms of uncertainty and its potential effects.
Quality of asset related information	Assessment of asset management planning systems and processes, changes to forecast service levels, accuracy and reliability of asset related information and budget, affordability considerations.
Communicating the strategy and intended direction with the community	Reviewing how Council has articulated the strategy and direction including the identification of key focus areas, options, implications and impacts in its consultation document.

3.5 The audit timeline is as follows:

- Proposed CD available — 23 February
- Audit onsite — 30 Nov – 4 Dec
- Audit onsite — 5-14 March
- Audit opinion on draft CD — 30 March
- Audit onsite — 14-18 June
- Audit opinion on 10 Year Plan — 29 June

3.6 The proposed audit fee is $95,170 excluding GST and disbursements (2018: $88,330). This is an increase of $6,840 from the prior Consultation Document and 10 Year Plan audit. Proposed total audit hours are 552 hours (2018: 570 hours).

3.7 A budget of $100,000 was provided for in the 2020/2021 EAP for the Consultation Document and 10 Year Plan 2021/2031 audit.

Considerations

5.1 **Risk**

5.2 If the Committee does not agree to the AEL proposed or accept it subject to amendment, then the risk exists for non-compliance with legislative requirements around preparation and adoption of the Consultation Document and 10 Year Plan.

5.3 **Consistency with Existing Plans and Policies**

5.4 The AEL: proposal as presented is consistent with the delivery arrangements for the 10YP, Exceptions Annual Plan and Road Map Work Programme.

5.5 Significance and Community Views

5.6 Section 78 of the LGA requires that Council, in its decision making, give consideration to the views and preferences of persons likely to be affected by, or to have an interest in, the matter.

5.7 The CD and 10 Year Plan are key planning documents for our community and outlines the activities the Council plans to undertake, the cost of these proposals and how these will be paid for. It outlines Council's vision for the future and contains plans aimed at achieving that vision over time.

Recommendation

6.1 The business paper on Audit Engagement Letter for the Audit of the Consultation Document and 10 Year Plan 2021-31 be accepted as presented and the Committee approves the signing of the letter in line with delegation contained in the Terms of Reference of the Audit, Risk & Finance Committee.

Suggested Resolutions

1 The business paper on Audit: 10 Year Plan 2021-31 be received.

2 The Deloitte Audit Engagement Letter be accepted.

3 In accordance with the delegation contained in the Terms of Reference of the Audit, Risk and Finance Committee, the Mayor be authorised to sign on behalf of the Waitomo District Council the Deloitte Audit Engagement Letter.

ALISTER DUNCAN
GENERAL MANAGER - BUSINESS SUPPPORT

5 October 2020

Attachment: 1 Deloitte – Audit Engagement Letter for the Audit of the Consultation Document and 10 Year Plan 2021-31 (A492389)

Deloitte.

Deloitte
24 Anzac Parade
Hamilton East
Hamilton 3216

PO Box 17
Waikato Mail Centre
Hamilton 3240
New Zealand

Phone: +64 7 838 4800
Fax: +64 7 838 4810

16 September 2020

The Councillors
Waitomo District Council
PO Box 404
TE KUITI

Dear Councillors

AUDIT ENGAGEMENT LETTER: AUDIT OF THE CONSULTATION DOCUMENT AND LONG-TERM PLAN FOR THE PERIOD COMMENCING 1 JULY 2021

This audit engagement letter is sent to you on behalf of the Auditor-General, who is the auditor of all "public entities", including Waitomo District Council (the Council), under section 14 of the Public Audit Act 2001. The Auditor-General has appointed me, Bruno Dente, using the staff and resources of Deloitte Limited, under section 32 and 33 of the Public Audit Act 2001, to carry out the audit of the Council's consultation document and long-term plan (LTP).

This letter outlines:

- the terms of the audit engagement and the respective responsibilities of the Council and me as the Appointed Auditor;
- the audit scope and objectives;
- the approach taken to complete the audit;
- the areas of audit emphasis;
- the audit logistics; and
- the professional fees.

1. SPECIFIC RESPONSIBILITIES OF THE COUNCIL FOR PREPARING THE CONSULTATION DOCUMENT AND THE LONG-TERM PLAN

Our audit will be carried out on the basis that the Council acknowledges that it has responsibility for preparing the consultation document and LTP, by applying the Council's own assumptions, in accordance with the Local Government Act 2002 (the Act) (in particular, the requirements of Part 6 and Schedule 10) and in accordance with generally accepted accounting practice in New Zealand. We assume that elected members are familiar with those responsibilities and, where necessary, have obtained advice about them.

For clarity, we note the following statutory responsibilities as set out in the Act:

- section 93 of the Act requires the Council to have an LTP at all times, and Part 1 of Schedule 10 governs the content of the LTP;
- section 111 aligns the financial information with generally accepted accounting practice;
- section 83 (with reference to section 93A) sets out the special consultative procedure that the Council is required to follow to adopt the consultation document and LTP; and
- section 93C(4) requires an auditor's report on the consultation document, and section 94 requires a separate opinion on the LTP.

Please note that the audit does not relieve the Council of any of its responsibilities.

Other general terms are set out in the relevant sections of this letter and Appendix 1.

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2. OUR AUDIT SCOPE

The Act requires us to provide two separate reports, as follows:

- on the consultation document, a report on:
    - whether the consultation document gives effect to the purpose specified in section 93B; and
    - the quality of the information and assumptions underlying the information in the consultation document.
- on the LTP, a report on:
    - whether the LTP gives effect to the purpose in section 93(6); and
    - the quality of the information and assumptions underlying the forecast information provided in the LTP.

We expect our work to assess the quality of underlying information and assumptions to be a single, continuous process during the entire LTP preparation period.

Our focus for the first limb of each opinion will be to assess whether each document meets its statutory purpose. Given the different purposes of each document, we will assess the answers to different questions for each opinion.

Our focus for the second limb of each opinion will be to obtain evidence about the quality of the information and assumptions underlying the information contained in the consultation document and LTP. How we obtain this information depends on our judgement, including our assessment of the risks of material misstatement of the information and assumptions underlying the information contained in the consultation document and LTP, whether because of fraud or error.

Our audit opinions do not:

- provide a guarantee of absolute accuracy of the information in the relevant document;
- provide a guarantee that the Council has complied with all relevant legal obligations;
- express an opinion on the merits of any policy content; or
- include an opinion on whether the forecasts will be achieved.

3. OUR APPROACH TO THIS AUDIT

3.1. The content of the consultation document

The Act emphasises the discretion of the Council to decide what is appropriate to include in the consultation document and the associated consultation process. In deciding what to include in the consultation document, the Council must have regard to its significance and engagement policy, and the importance of other matters to the district and its communities.

We will need to understand how the Council has approached the task of applying its significance and engagement policy, and how it has considered the importance of other matters in deciding what to include in the consultation document. This will help inform our assessment of whether the consultation document achieves its statutory purpose.

3.2. Adopting and auditing the underlying information

Before adopting the consultation document, section 93G of the Act requires the Council to prepare and adopt the information that:

- is relied on by the content of the consultation document;
- is necessary to enable the Auditor-General to issue an audit report under section 93C(4); and
- provides the basis for the preparation of the LTP.

The information to be prepared and adopted needs to be enough to enable the Council to prepare the consultation document.

We consider that local authorities will need to have thought comprehensively about how best to meet the requirements of the Act. Consistent with the guidance of the Society of Local Government Managers (SOLGM), our view is that core building blocks of an LTP will be needed to support an effective consultation document. This will include, but not be limited to, draft financial and infrastructure strategies and the information that underlies them, including asset management information, assumptions, defined levels of service, funding and financial policies, and a complete set of financial forecasts.

We will work with management to understand the information proposed to be adopted and assess whether it will enable us to issue an audit report under section 93C(4).

In addition, the time frames to consider and adopt the LTP after the consultation process will be tight. From a practical perspective, it will be important that the Council is well advanced with the preparation of the full LTP when it issues the consultation document. Otherwise, you may find it difficult to complete the work and adopt the full LTP before the statutory deadline. The same is true for the audit work. The more audit work that is able to be completed at the first stage of the process, the less pressure there will be on you and the audit team at the end of the process.

3.3. Control environment

The Council is responsible for establishing and maintaining accounting and internal control systems (appropriate to the size of the Council), supported by written policies and procedures, designed to prepare the consultation document and LTP, and to provide reasonable quality information and assumptions underlying the information contained in these documents.

Our approach to the audit will be to identify, confirm, and assess the Council's key processes and controls over the underlying information and the production of both the consultation document and the LTP. The purpose of this assessment is to enable us to plan the most effective and efficient approach to the audit work needed to provide our two audit opinions. Our assessment is not for the purpose of expressing an opinion on the effectiveness of the Council's internal controls.

We will carry out a review of the control environment to help us understand the approach taken to develop the consultation document and LTP, develop expectations of what should be included in the consultation document and LTP, and identify areas of potential audit risk. This will involve discussions with elected representatives and selected staff throughout the Council, review of publicly available information about the Council, updating our knowledge of Council issues developed during recent years, and a review of Council minutes since the last audit review.

Our review of your self-assessment response (see below) and key controls relating to the underlying information and development of the LTP is useful to our initial assessment of audit risk and so the nature and extent of our overall audit work.

3.4. Project management, reporting deadlines, and audit progress

The development of the consultation document and LTP is a significant and complex project, and a comprehensive project plan is required for a successful LTP process. It is also essential that there is commitment throughout the organisation for the project, starting with the elected representatives. The involvement of senior management and elected representatives is important in deciding what to include in the consultation document.

The LTP has complex and inter-related information needs and draws together plans, policies, decisions, and information from throughout the Council and its community. We recognise that the Council will be doing its LTP preparation over an extended period. A more efficient and cost-effective audit can be achieved when audit work and feedback is provided in "real time" or on an "auditing as you go" basis as the underlying information is developed.

Consequently, we will discuss with you and your staff the Council's approach to preparing and completing the LTP. We expect that the Council is approaching its preparation on a project basis and recognise that our audit work should "shadow" that project timetable. The success of this "auditing as you go" approach will depend on the Council's project management of the overall LTP process, which should include time for audit work at appropriate points in the process.

3.5. Self-assessment

To assist our audit planning, we intend to use a self-assessment process to assist with our risk assessment process. The self-assessment requires you to reflect on your most significant issues and risks, governance of the LTP project, and the systems and processes you have in place (particularly to meet the purposes in the Act for the consultation document and the LTP), asset management, performance management and reporting, and financial management.

We will shortly be forwarding the self-assessment to you under a separate cover. We ask for your co-operation in completing this assessment for return to us by 20 November 2020.

The self-assessment is similar to those used with our audit of previous LTPs. The information provided through the self-assessment will be confirmed with you through discussion after its completion.

4. OUR PARTICULAR AREAS OF AUDIT EMPHASIS

4.1. Impact of the economic downturn caused by Covid-19 on the Council's forecasts

The response to manage Covid-19 has created significant uncertainty for businesses, local and central government organisations, as well as communities and families. The impact to the economy is likely to be negative, and share a number of impacts on Council, including on Council's revenue assumptions and the level of service Council provides in the future. In addition Council will need to consider the impact on their financial and infrastructure strategies, and key underlying assumptions such as valuations and revenue from Inframax Construction Limited.

We will review Council's approach to considering the impact of Covid-19 and how this has been factored into the underlying policies, strategies and assumptions used to prepare the LTP.

4.2. Financial strategy and infrastructure strategy

The Act requires a local authority to prepare two key strategies as part of the LTP: the financial strategy and the infrastructure strategy.

The purpose of the financial strategy is to:

- facilitate prudent financial management by the local authority by providing a guide for the local authority to consider proposals for funding and expenditure against; and
- provide a context for consultation on the local authority's proposals for funding and expenditure by making transparent the overall effects of those proposals on the local authority's services, rates, debt, and investments

The purpose of the infrastructure strategy is to:

- identify significant infrastructure issues for the local authority during the period covered by the strategy; and
- identify the principal options for managing those issues and the implications of those options.

The Act expects close alignment between the two strategies, and section 101B(5) allows for them to be combined into a single document.

Although the Act clearly sets the minimum requirements for these strategies, it does not define the only things that can be in a strategy. A good strategy should include what is needed to be a good quality strategic planning document. In the case of the infrastructure strategy, the principles of ISO 55000 should be considered, particularly where the Council is seeking to prepare a best practice strategy.

The overall key challenges identified from the previous LTP period included the following:

- Most local authorities spend is on maintaining and renewing assets, in particular roads and water systems. The information about the condition of these assets held by local authorities is limited and councils need to gain better information about the condition of their assets to support better planning. Lack of good information about these assets can limit councils' ability to have effective conversations with their communities about when they need to spend money on replacing or renewing these assets.
- Many local authorities face continued population growth and the demands associated with it but some face population declines in the near future. When an increasing proportion of the population is on a fixed income, local authorities with older populations are likely to face increasing challenges in providing community services, which rely on infrastructure.
- All councils are responding to increasing requirements for levels of service, including as a result of regulatory changes. Councils need to reinvest in their existing infrastructure, often at higher levels than in the past to address historical underinvestment and improve services to meet community expectations. Local authorities need to attempt to strike a careful balance between the need to fund services while maintaining debt levels and rates rises at acceptable and prudent levels.
- LTPs, and the strategies they contain, remain long and complex. Financial and infrastructure strategies are critical components of a council's LTP. Councils should report these strategies concisely and clearly show the current state of their finances and infrastructure, goals, and the trade-offs needed.
- Communities are already feeling the effects of climate change. Addressing these effects could compound the pressure of increasing capital expenditure forecasts. In many respects, councils do not know the extent of the challenges they face in responding to climate change and are forecasting expenditure without a good understanding of the risk.

Our focus when reviewing both strategies is to assess whether the Council has met the purpose outlined in the Act and presented the strategies in a coherent and easily readable manner. Specifically, we will:

- confirm that the two strategies are appropriately aligned;
- understand the effect of the financial forecasts included in the infrastructure strategy on the prudence of the financial strategy; and
- assess the reasonableness of the prepared forecasts by:
  - understanding how the Council has applied the effect of its assumptions (for example, allowing for changing demographics, the implications of the changing climate, the condition and performance of critical assets) and levels of service on expenditure decisions and outlined the implications of these decisions in the strategies;
  - reviewing the Council's relationship between its renewal capital expenditure and depreciation expenditure forecasts; and
  - checking that the infrastructure strategy is appropriately inflated.

The Council's financial modelling is a significant component of the underlying information that supports both the financial strategy and infrastructure strategy. We will place particular emphasis on the integrity and effectiveness of the financial modelling of all local authorities.

An additional role played by these strategies is to facilitate accountability to the community. It is critical that these strategies are presented in such a way that they are engaging and informative, and support the presentation of issues, options, and implications presented in the consultation document.

4.3. Assumptions

The quality of the Council's financial forecasts is significantly affected by whether the assumptions on which they are based are defined and reasonable. The Act recognises this by requiring all local authorities to clearly outline all significant forecasting assumptions and risks underlying the financial estimates in the LTP (Schedule 10, clause 17). *Prospective Financial Statements* (PBE FRS 42) also requires the disclosure of significant assumptions.

We will review the Council's list of significant forecasting assumptions and confirm that they are materially complete. We will also test the application of selected assumptions in the financial forecasts to check they have been reasonably applied. Finally, we will confirm that:

- all significant forecasting assumptions disclose the level of uncertainty associated with the assumption; and
- for all significant forecasting assumptions that involve a high level of uncertainty, the uncertainty and an estimate of the potential effects of the uncertainty on the financial forecasts are appropriately disclosed in the LTP.

We consider that the significant forecasting assumptions are crucial to the underlying information for the consultation document and will complete our review during our audit of the consultation document.

Climate change assumption

We will be paying more attention to the assumptions that the Council has made about climate change and the adequacy of other information and disclosures relating to climate change.

We will review the Council's climate change assumptions to determine whether they are reasonable and supportable. We will assess the quality of the supporting information the Council is using in developing its assumptions and disclosures included in the LTP, the consultation document (if relevant), and the adopted underlying information.

4.4. Quality of asset-related forecasting information

A significant portion of the Council's operations relates to the management of its infrastructure: the roading network and the "three-waters" of water supply, sewerage, and stormwater drainage. These activities typically make up about 54% of operational expenditure and 87% of capital expenditure.

To prepare reasonable quality asset information, the Council needs to have a comprehensive understanding of its critical assets and the cost of adequately maintaining and renewing them. An important consideration is how well the Council understands the condition of its assets and how the assets are performing.

In reviewing the reasonableness of the Council's asset-related forecasting information, we will:

- assess the Council's type asset management planning systems and processes;
- understand what changes the Council proposes to its forecast levels of service;
- understand the Council 's assessment of the reliability of the asset-related information;
- consider how accurate recently prepared budgets have been; and
- assess how matters such as affordability have been incorporated into the asset-related forecasts prepared.

Depending on what we identify in completing the above, we may have to complete further detailed testing on the Council's asset-related information.

4.5. Council-specific matters

A key aspect of the LTP process is clearly articulating the strategy and intended direction of the Council to the district. The identification of key focus areas, options, implications and impacts is essential for effective consultation with the community. It is important that the Council does not simply adopt a "business as usual" approach to consultation.

5. OTHER MATTERS

5.1. Our independence

It is essential that the audit team and Deloitte Limited remain both economically and attitudinally independent of the Council (including being independent of management personnel and the Council). This involves being, and appearing to be, free of any interest that might be regarded, whatever its actual effect, as being incompatible with integrity, objectivity, and independence.

5.2. Publication of the consultation document and adopted long-term plan on the Council's website

The Council is responsible for the electronic presentation of the consultation document and LTP on its website. This includes ensuring that there are enough security and controls over information on the website to maintain the integrity of the presented data. Please ensure that your project plan allows time for us to examine the final electronic file version of the respective documents, including our audit report, before their inclusion on the website.

We need to do this to ensure consistency with the paper-based documents that have been subject to audit.

6. AUDIT LOGISTICS

6.1. Audit timing

The key dates in the audit timetable are as follows:

Self-assessment provided to Council	1 October 2020
Self-assessment returned to audit team for consideration	20 November 2020
First interim visit (initial assessment) (likely offsite)	30 November – 4 December 2020
Second interim visit (see project plan for key dates & number of visits)	8 – 19 March 2021
Proposed consultation document available	23 February 2021
Audit opinion on consultation document required	30 March 2021
Draft management report on consultation document engagement	19 March 2021
Finalised management report on consultation document engagement	26 March 2021
Proposed LTP for adoption available	TBC
Third interim visit (see project plan for key dates & number of visits)	14 – 18 June 2021
Audit opinion on adopted LTP required	29 June 2021
Draft management report on LTP engagement	18 June 2021
Finalised management report on LTP engagement	25 June 2021

Should we encounter any significant problems or delays during the audit, we will inform you immediately.

We have an electronic audit management system. This means that our auditors will complete most of their work on their laptops. Therefore, we would appreciate it if the following could be made available during our audit:

- a suitable workspace for computer use (in keeping with the health and safety requirements discussed in Appendix 1); and
- electronic copies of key documents.

As noted in section 3.4, our audit work needs to be done as you develop your underlying information and prepare your consultation document and LTP, to ensure the timely completion of our audit.

To ensure that we meet agreed deadlines, it is essential that the dates agreed are adhered to.

7. PROFESSIONAL FEES

Our audit fee, covering both the consultation document and the LTP for the period commencing 1 July 2021, is $95,170 (excluding GST and disbursements), as outlined in Appendix 2.

The proposed fee is based on the following assumptions:

- Information required to conduct the audit is complete and provided in accordance with the agreed timelines. This includes the draft consultation document and the full draft financial strategy, draft infrastructure strategy and key underlying assumptions and information that supports the draft consultation document.
- There will be an appropriate level of assistance from your staff.
- All documentation (consultation document, LTP, and all other underlying documentation) provided will be subject to appropriate levels of quality review before submission for audit.
- The consultation document and LTP will include all relevant disclosures.
- We will review, at most, two drafts of each of the consultation document and LTP during our audit.

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- We will also review one printer's proof copy of the consultation document and LTP and one copy of the electronic version of the consultation document and LTP (for publication on your website).
- There are no significant changes in the structure or level of operations of the Council impacting on the audit, such as the establishment of a CCO to deliver core functions or a major restructuring of groups of activities.
- The local authority is preparing forecast financial statements for the "Council parent" only, rather than including consolidated forecast financial statements for the Council and any controlled entities in the adopted LTP.

If the scope and/or amount of work changes significantly (such as a change in direction during the development of the consultation document or between the development of the consultation document and the LTP), we will discuss the issues with you at the time.

If information is not available for the visits as agreed, or the systems and controls the Council use to prepare the underlying information and assumptions cannot be relied on, we will seek to recover all additional costs incurred as a result. We will endeavour to inform you as soon as possible should such a situation arise.

This fee is exclusive of any subsequent amendments the Council might make to the adopted LTP under section 93D.

We wish to interim bill as work progresses. We propose the following billing arrangements:

	$	
December	20,000	
March	50,000	
June	25,170	(Plus disbursements)
	95,170	

8. PERSONNEL

Our personnel involved in the management of the audit are:

Bruno Dente	Partner
Mike Hawken	Engagement Quality Control Review Partner
Matt Laing	Manager

We have endeavoured to maintain staff continuity as far as possible.

9. AGREEMENT

Please sign and return the attached copy of this letter to indicate that:

- it is in accordance with your understanding of the arrangements for this audit of the consultation document and LTP for the period commencing 1 July 2021; and
- you accept the terms of the engagement set out in this letter that apply specifically to the audit of the consultation document and LTP and supplement the existing audit engagement letter.

If there are any matters requiring further clarification, please do not hesitate to contact me.

Yours sincerely

B Dente

Bruno Dente
Partner
Deloitte Limited
On behalf of the Auditor General

cc	Chris Ryan	Chief Executive
	Alister Duncan	General Manager Business Support

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I acknowledge that this letter is in accordance with my understanding of the arrangements of the audit engagement. I also acknowledge the terms of the engagement that apply specifically to the audit of the consultation document and LTP, and that supplement the existing audit engagement letter.

Signed: ______________________________ *Date:* _______________

John Robertson
Mayor

Appendix 1: *Terms of the engagement that apply specifically to the audit of the consultation document and LTP*

Objectives

The objectives of the audit of the consultation document and LTP are:

- to provide independent opinions on the consultation document (under section 93C(4) of the Act) and on the LTP (under section 94(1) of the Act) about:
  - whether each document gives effect to the relevant statutory purpose; and
  - the quality of the information and assumptions underlying the information included in each document; and
- to report on matters relevant to the Council's planning systems that come to our attention.

Our audit involves performing procedures that examine, on a test basis, evidence supporting assumptions, amounts, and other disclosures in the consultation document and LTP, and evaluating the overall adequacy of the presentation of information.

We also review other information associated with the consultation document and LTP to identify whether there are material inconsistencies with the audited consultation document and LTP.

Provision of a management report to the Council

At a minimum, we will report to the Council at the conclusion of the engagement. The management report communicates matters that come to our attention during the engagement and that we think are relevant to the Council. For example, we will report:

- any weaknesses in the Council's systems; and
- uncorrected misstatements noted during the audit.

Please note that the Auditor-General may refer to matters that are identified in the audit of consultation documents and LTPs in a report to Parliament if it is in the public interest, in keeping with section 20 of the Public Audit Act 2001.

Materiality

Consistent with the annual audit, the audit engagement for the consultation document and LTP adheres to the principles and concepts of materiality during the 10-year period of the LTP and beyond (where relevant).

Materiality is one of the main factors affecting our judgement on the areas to be tested and the nature and extent of our tests and procedures performed during the audit. In planning and performing the audit, we aim to obtain assurance that the consultation document and LTP, and the information and assumptions underlying the information contained in these documents, do not have material misstatements caused by either fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence a reader's overall understanding of the consultation document and LTP.
Consequently, if we find material misstatements that are not corrected, we will refer to them in the audit opinion. Our preference is for any material misstatement to be corrected, avoiding the need to refer to misstatements in our opinion.

The standards applied when conducting the audit of the consultation document and adopted long-term plan

Our audit is carried out in accordance with International Standard on Assurance Engagements (New Zealand) 3000 (Revised): *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*. In meeting the requirements of this standard, we took into account particular elements of the Auditor-General's Auditing Standards and International Standard on Assurance Engagements 3400: *The Examination of Prospective Financial Information* that were consistent with those requirements.

Responsibilities

General responsibilities

The general responsibilities of the Council for preparing and completing the consultation document and LTP are consistent with those for the annual report, as set out in the existing audit engagement letter – but noting that the consultation document and LTP include forecast information.

These responsibilities include those set out in Appendix 1 of that audit engagement letter as detailed below:

- Appendix 1: Respective specific responsibilities of the Council and the Appointed Auditor:
    - responsibilities for compliance with laws and regulations; and
    - responsibilities to establish and maintain appropriate standards of conduct and personal integrity.

Specific responsibilities

The Council is responsible for:

- maintaining accounting and other records that:
    - correctly record and explain the forecast transactions of the Council;
    - enable the Council to monitor the resources, activities, and entities under its control;
    - enable the Council's forecast financial position to be determined with reasonable accuracy at any time; and
    - enable the Council to prepare forecast financial statements and performance information that comply with legislation; and
- providing us with:
    - access to all information and assumptions relevant to preparing the consultation document and LTP, such as records, documentation, and other matters;
    - additional information that we may request from the Council for the purpose of the audit;
    - unrestricted access to Council members and employees that we consider necessary; and
    - written confirmation of representations made to us in connection with the audit.

Health and safety of audit staff

The Auditor-General and Deloitte Limited take seriously their responsibility to provide a safe working environment for audit staff. Under the Health and Safety at Work Act 2015, we need to make arrangements with you to keep our audit staff safe while they are working at your premises.

We expect you to provide a safe work environment for our audit staff. This includes providing adequate lighting and ventilation, suitable desks and chairs, and safety equipment, where required. We also expect you to provide them with all information or training necessary to protect them from any risks they may be exposed to at your premises. This includes advising them of emergency evacuation procedures and how to report any health and safety issues.

Appendix 2: *Team mix and hours for the audit of the consultation document and LTP for the 10-year period commencing on 1 July 2021*

	Total hours
Appointed Auditor	37
Engagement Quality Review Director	10
Audit Manager	75
Other CA staff	221
Staff not yet CA qualified	209
Total	**552**

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FEE CALCULATIONS

	$
Net fee	95,170
OAG overhead contribution*	NIL
Total fee (including overhead contribution)	95,170
GST	14,276
Audit fee for the LTP for the period commencing 1 July 2021	109,446

* No OAG overhead is charged in relation to the audit of the LTP.

We will charge disbursements, including travel, on an actual and reasonable basis.

Document No: A492724

Report To: **Audit, Risk and Finance Committee**

Waitomo District Council

Meeting Date: 13 October 2020

Subject: **Audit Fees 2020, 2021 and 2022**

Type: Information Only

Purpose of Report

1.1 The purpose of this business paper is to brief the Audit, Risk and Finance Committee of the budget implications of the appointment of Deloitte to conduct the statutory audits for 2020, 2021 and 2022.

Background

2.1 At the Audit, Risk and Finance Committee meeting on 5 May 2020 the Committee considered a business paper:

1. Presenting the proposal to appoint an auditor to conduct the audit for the 2020, 2021 and 2022 financial years;

2. Presenting the Audit Engagement Letter (AEL) for the audit of the Annual Report and Summary Annual Report 2019/20 and;

3. Presenting a Draft Confirmation of Engagement letter to provide a Limited Independent Assurance Report (IAR) on certain matters in respect to the Debenture Trust Deed (DTD), and;

4. To obtain the Committee's approval for the signing of appointment and engagement letters.

2.2 A copy of that business paper is attached and forms part of this business paper as background information.

2.3 Bruno Dente and Matthew Laing of Deloitte attended the meeting via Zoom and expanded verbally on the business paper and answered Members' questions.

2.4 At that meeting the Chairperson requested the Executive to work with Deloitte in putting a proposal to the Auditor General requesting a reduced increase of 1.5% in year one, in lieu of COVID-19 impacts, and recommended that the proposal be accepted subject to investigating the reduced increase in year one. The Committee resolved as follows:

1 The business paper on Annual Report and Summary Annual Report 2019/20 – Appointment and Engagement of Auditor be received.

2 The Deloitte Audit Appointment letter be accepted as presented.

3 The Deloitte Audit Engagement Letter be accepted as presented.

4 *The Deloitte Draft Confirmation of Engagement – Limited Independent Assurance Report in respect to the Waitomo District Council's Debenture Trust Deed be accepted as presented.*

5 *In accordance with the delegation contained in the Terms of Reference of the Audit, Risk & Finance Committee, the Chief Executive be delegated authority to sign on behalf of the Waitomo District Council –*

a) The Deloitte Appointment Letter; and

b) The Deloitte Audit Engagement Letter; and

c) The Deloitte Confirmation of Engagement – Limited Independent Assurance Report in respect to the Waitomo District Council's Debenture Trust Deed, subject to no material changes from the draft attached to the business paper.

2.5 Council, at its meeting on 30 June 2020, considered a business paper presenting an alternative fee structure for Audit Fees for the financial years ending 30 June 2020, 2021 and 2022. A copy of that business paper is attached and forms part of this business paper as background information.

2.6 At that meeting Council resolved as follows:

1 *The business paper on Setting Audit Fees for Years Ending 30 June 2020, 2021 and 2022 be received.*

2 *Council select the Original Schedule of Fees and Deloitte's be notified of Council's decision.*

Commentary

3.1 The advice provided to the ARFC and Council meetings was silent on the available budget for these services. Copies of the relevant ARFC (5 May 2020) and Council (28 June 2020) business papers are attached to and form part of this business paper.

3.2 The total value of the Professional Services for the 3-year term is $472,195 + GST, as follows:

Financial Year Ending 30 June			
	EAP 2020	**EAP 2021**	**10YP 2022**
Fees (excl GST)	$154,120	$157,355	$160,720

3.3 The authorised budget for Audit Fees for the 2020 and 2021 financial years is less than the fees schedule adopted at the June Council Meeting, however the cost will be managed within the Business Support budgets.

	EAP 2020	**EAP 2021**	**10YP 2022**
Budget	$138,000	$140,000	$144,887

3.4 The budget for the Audit Cost in the LTP 2018 - 2028 and EAP 2020-2021 were based on the fees schedule for the audits for years 2017, 2018 and 2019.

3.5 The increase in fees is reflective of the increase in focus by the Auditor-General over the last five or six years, translating to additional resource requirements needed to complete the audits.

3.6 This trend is expected to continue and will be factored into the development of the 2021-2031 10YP.

Suggested Resolutions

1 The business paper on Audits Fees 2020, 2021 and 2022 be received.

2 The Committee note the increase in Audit Fees will be managed within the Business Support budget.

ALISTER DUNCAN
GENERAL MANAGER - BUSINESS SUPPORT

7 October 2020

Attachments: 1 Audit Risk and Finance Committee Business Paper – 5 May 2020
2 Council Business Paper – 28 June 2020

Document No: A468652

Report To: Audit, Risk and Finance Committee

Waitomo District Council

Meeting Date: **5 May 2020**

Subject: **Annual Report and Summary Annual Report 2019/20 – Appointment and Engagement of Auditor**

Type: Decision Required

Purpose of Report

1.1 The purpose of this business paper is to:

1. Present the proposal to appoint an auditor to conduct the audit for the 2020, 2021 and 2022 financial years;

2. Present the Audit Engagement Letter (AEL) for the audit of the Annual Report and Summary Annual Report 2019/20 and;

3. Present a Draft Confirmation of Engagement letter to provide a Limited Independent Assurance Report (IAR) on certain matters in respect to the Debenture Trust Deed (DTD), and;

4. Obtain the Committee's approval for the signing of appointment and engagement letters.

Background

2.1 **Appointment of Auditor**

2.2 Section 32 of the Public Audit Act 2001 (PAA) enables the Auditor-General to appoint a person to conduct the financial audit of a public entity.

2.3 **Audit Engagement Letter**

2.4 Section 99 of the Local Government Act 2002 (LGA) requires the Annual Report to contain a report from the Auditor-General on the Annual Report and Summary Annual Report. That report gives the Auditor's Opinion as to the following:

- whether the financial statements and performance information present fairly the position and performance of the Waitomo District Council for the year ended 30 June 2020,

- compliance with generally accepted accounting practice in accordance with Public Benefit Entity Reporting Standards,

- compliance with Schedule 10 of the Local Government Act 2002 (which outlines the contents of an Annual Report).

COPY

2.5 **Limited Independent Assurance Report – Debenture Trust Deed**

2.6 The Debenture Trust Deed (DTD) was executed on the 6 August 2010 and replaced a "Deed of Charge" which provided security to Westpac Bank as the sole lender at that time. It was further amended and restated on 10 April 2017 to enable borrowing from the Local Government Funding Agency.

2.7 Through execution of the DTD, Council has vested a security interest over its present and future rates revenues with the Trustee. The Trustee holds this security for the benefit of Council's secured lenders and enables efficient borrowing from a number of different parties.

2.8 Parties lending to Council on a secured basis include the Local Government Funding Agency, Westpac Bank and (historically) other investors.

2.9 Clause 10.2.6 of the DTD determines that at the same time as WDC provides the annual report to the Trustee, WDC must provide a separate report by the auditors addressed to the Trustee which states:

- Whether or not in the performance of auditors duties they have become aware of any matter which in their opinion is relevant to the exercise of performance of the powers or duties of the Trustee or in their opinion may require further investigation by the Trustee;
- Whether or not there is anything that is brought to the auditors attention to indicate the statements made in the reporting certificate are not materially correct
- Whether or not the register has been duly maintained in accordance with the DTD
- The amount of stock and principal money owed or secured under the stock at 30 June.

2.10 The limited independent assurance engagement is not an audit and the procedures that will be performed are less than for an audit.

Commentary

3.1 **Proposal to Conduct Audit (PCA)**

3.2 The PCA is included as Attachment 1 to this paper.

3.3 The PCA advises that the Auditor-General proposes to appoint Bruno Dente to conduct the audit for the financial years ending 30 June 2020, 2021 and 2022.

3.4 The PCA provides information on:

- The statutory basis for the audit and how the audit fees are set
- The entities covered by the proposal
- Key members of the audit team
- The hours planned to complete the audit and reasons for any change

- The proposed fees
- Assumptions relating to the proposed fees
- What the OAG overhead charge provides

3.5 **Audit Engagement Letter (AEL)**

3.6 The AEL is included as Attachment 2 to this paper.

3.7 The AEL advises that Deloitte, on behalf of the Auditor-General, will be completing the audit of the Annual Report and Summary Annual Report for 2019/20 year. Bruno Dente is the appointed auditor for this audit.

3.8 The AEL sets out the terms of the audit engagement and includes the specific responsibilities of both the auditor and Council, audit scope and objectives, the approach taken to complete the audit and the areas of audit emphasis.

3.9 **Limited Independent Assurance Report (IAR)**

3.10 The draft letter of confirmation of engagement for the Limited Independent Insurance Report is included as Attachment 3 to this paper.

3.11 Deloitte's are currently assessing the changes to the Local Government Funding Agency Foundation Policies and the implications that the changes will have on the way they will complete this report.

3.12 The letter sets out the terms and scope of the engagement and includes the specific responsibilities of both the auditor, the Trustee and Council. Also provided is an indicative report, likely to be issued. Due to this work being reliant on the statutory audit process the scope of that work is detailed in the appended engagement letter for the statutory audit. It will be completed as part of the statutory audit, but is separate body of work.

3.13 The engagement timetable provides that the procedures will be completed concurrently with the statutory audit of the annual financial statements and performance information.

3.14 The Trustee has elected to be a party to Independent Assurance Report.

3.15 The proposed engagement fee is estimated to be $4,500 excluding GST (2019: $4,000).

Analysis of Options

4.1 The Committee needs to consider each engagement letter and has the option of agreeing to them as presented.

4.2 The Committee also has the option of proposing further amendments to either the audit engagement letter and/or the limited independent assurance report engagement letter for Deloitte to consider.

COPY

Considerations

5.1 **Risk**

5.2 If the Committee does not consider and decide either to agree to the audit engagement letter or the independent assurance report engagement at this meeting, or propose changes to either engagement letters, then it runs the risk of non-compliance with legislative requirements around preparation and adoption of the Annual Report and/or potentially being in breach of the Debenture Trust Deed.

5.3 **Consistency with Existing Plans and Policies**

5.4 The decision to agree on the two engagement letters as presented will be consistent with Council's Long Term Plan, Exceptions Annual Plan and the Roadmap document.

5.5 Significance and Community Views

5.6 Section 78 of the LGA requires the Council to, in the course of its decision making, give consideration to the views and preferences of persons likely to be affected by, or to have an interest in, the matter.

5.7 The Annual Report is the key accountability document for our community and it explains how we have performed for that year. It is an important way of informing our community about how we are progressing in achieving our goals. It also highlights areas we are performing well in and areas that we need to improve on and how we plan to do this.

Recommendation

6.1 The business paper on Proposal to Appoint an Auditor, Audit Engagement Letter for the Audit of the Annual Report and Summary Annual Report 2019/20 and confirmation of engagement for the Limited Independent Assurance Report be accepted as presented and the Committee approves the signing of the three letters in line with delegation contained in the Terms of Reference of the Audit, Risk & Finance Committee.

Suggested Resolutions

1 The business paper on Annual Report and Summary Annual Report 2019/20 – Appointment and Engagement of Auditor be received.

2 The Deloitte Audit Appointment letter be accepted as presented.

3 The Deloitte Audit Engagement Letter be accepted as presented.

4 The Deloitte Draft Confirmation of Engagement – Limited Independent Assurance Report in respect to the Waitomo District Council's Debenture Trust Deed be accepted as presented.

5 In accordance with the delegation contained in the Terms of Reference of the Audit, Risk & Finance Committee, the Chief Executive be delegated authority to sign on behalf of the Waitomo District Council –

a) The Deloitte Appointment Letter; and
b) The Deloitte Audit Engagement Letter; and

c) The Deloitte Confirmation of Engagement – Limited Independent Assurance Report in respect to the Waitomo District Council's Debenture Trust Deed, subject to no material changes from the draft attached.

ALISTER DUNCAN
GENERAL MANAGER – BUSINESS SUPPORT

24 April 2020

Attachments:

1 Deloitte – Audit Appointment Letter for the Audit of the financial years ending 30 June 2020, 2021 and 2022 (A468665)

2 Deloitte – Audit Engagement Letter for the Audit of the Annual Report and Summary Annual Report 2019/20 (A468666)

3 Deloitte – Draft Confirmation of Engagement – Limited Independent Assurance Report in respect of the Waitomo District Council's Debenture Trust Deed (A468805)

COPY

Document No: A473022

Report To: Council Meeting

Waitomo District Council

Meeting Date: 30 June 2020

Subject: **Setting Audit Fees for Years Ending 30 June 2020, 2021 and 2022**

Type: Decision Required

COPY

Purpose of Report

1.1 The purpose of this business paper is to present to Council an alternative fee structure for Audit Fees for the financial years ending 30 June 2020, 2021 and 2022.

Background

2.1 The Audit, Risk and Finance Committee at its meeting of 5 May 2020 considered a business paper which included the appointment and engagement of an Auditor to conduct audits for the financial years ending 30 June 2020, 2021 and 2022.

2.2 The Office of the Auditor-General (OAG) proposed to appoint Bruno Dente of Deloitte Limited. Deloitte submitted to Waitomo District Council (WDC) a proposal to conduct the audit of WDC on behalf of the Auditor-General including the audit fees for each year.

2.3 Subsequent to Deloitte's submitting the proposal to WDC, the OAG issued a directive that any new audit contracts would have any increase capped at 1.5% for audit of the financial year ending 30 June 2020.

2.4 Deloitte's were requested to review the proposed fees in line with the directive from the OAG.

Commentary

3.1 The Auditor-General appoints all auditors of public entities and reviews fees proposed by the Auditor. Below is an extract from the Controller and Auditor-General's "Councillors' Guide to the Auditor-General".

"Appointing auditors and monitoring audit fees

The Auditor-General appoints auditors to carry out annual audits. These auditors are appointed from a group of about 50 audit service providers. For councils, the main audit service providers are Audit New Zealand, Ernst and Young, and Deloitte.

Most audits are allocated directly to an auditor, but from time to time an audit is subject to a competitive tender.

Although Audit New Zealand is organised and operates along the lines of a private sector professional services firm, it is not a profit-making business. It is expected to *break even. Its audit fees are used as a benchmark for maintaining reasonable fees among all auditors who do work on the Auditor-General's behalf.*

The Auditor-General monitors audit fees to ensure that fees are based on realistic hours (that is, hours that reflect the nature and extent of work required), an appropriate audit team mix, and charge-out rates that are in line with market rates. The aim is for fees that are fair to the public organisations and also provide a fair return to the auditors for the work they are required to do to meet the Auditor-General's auditing standards.

The allocation of audits and fee-setting and monitoring systems are independently reviewed annually to ensure that they are carried out with due probity and objectivity."

3.2 The audit fees submitted by Deloitte (and approved by the OAG) reflect the increase in the total number of audit hours required to complete audits. The main drivers for the additional hours, and in turn additional fees, are the result of changes to reporting standards and the assessment of the fair value of assets, including WDC's 100% shareholding in Inframax Construction Limited. These changes have resulted in the audit becoming a much larger job of work than historically. The increase in hours reflects the actual hours Deloitte required to complete WDC's 2018/2019 Audit, which was the first audit completed under the new reporting standards.

3.3 The revised fees are scheduled below -

Year ending 30 June	**2020**	**2021**	**2022**
Original Schedule of Fees (inc GST)	177,238	180,958	184,828
Alternative Schedule of Fees (inc GST)	160,376	189,389	193,259

3.4 The Alternative Fees Schedule transfers the increase in costs of the additional hours required to complete the audit from year one to years two and three of the contract.

Analysis of Options

4.1 Council has two options:

- Select Original Schedule of Fees or
- Select Alternative Schedule of Fees

4.2 Over the three years of this audit appointment, the total fees are the same.

Considerations

5.1 **RISK**

5.2 There is no risk in selecting either of the Schedule of Fees.

5.3 **CONSISTENCY WITH EXISTING PLANS AND POLICIES**

5.4 Either option is consistent with Council's plans and policies.

5.5 **SIGNIFICANCE AND COMMUNITY VIEWS**

5.6 Under the Significance and Engagement Policy 2014 this matter is of low significance and the expenditure has been budgeted for in the 2020/2021 Exceptions Annual Plan.

Suggested Resolutions

1 The business paper on Setting Audit Fees for Years Ending 30 June 2020, 2021 and 2022 be received.

2 Council select the Original Schedule of Fees and Deloitte's be notified of Council's decision.

OR

Council select the Alternative Schedule of Fees and Deloitte's be notified of Council's decision.

ALISTER DUNCAN
GENERAL MANAGER – BUSINESS SUPPORT

11/06/2020

Attachment(s): 1 Councillors' Guide to the Auditor-General (A473024)

COPY

Document No: A491784	
Report To:	**Audit, Risk and Finance Committee**
Meeting Date:	13 October 2020
Subject:	**Adoption of the Annual Report 2019/20**
Type:	Decision Required

Purpose of Report

1.1 The purpose of this business paper is to present the Draft Annual Report 2019/20 (Draft AR) for consideration and, subject to any amendments, to recommend AR to Council for adoption.

1.2 Council's auditors (Deloitte) will be in attendance at the ARFC meeting at 9:30am to discuss the audit and to present the Audit Report.

Background

2.1 The Draft AR shows the financial and non-financial performance of Waitomo District Council for the year ended 30 June 2020.

2.2 The Audit, Risk and Finance Committee (ARFC) received an Unaudited Interim Financial Report (IFR) for the year ended 30 June 2020 at the 11 August 2020 ARFC meeting and Council received an Unaudited Interim Non-Financial Report at the 25 August 2020 Council meeting.

2.3 As well as presenting the Draft AR for the ARFC's consideration this paper also provides a summary of significant changes since the IFR and commentaries on Council and Group results.

2.4 At the time of writing this business paper, the Draft AR report document is still progressing through the final review stages with Deloitte. No significant changes are expected from this review however there may be editorial or formatting changes that will be incorporated in the final document to be adopted.

Commentary

3.1 **Significant Changes since the Unaudited IFR**

3.2 The unaudited IFR was presented at the 11 August 2020 ARFC meeting, while the financial results and position were still in the process of being finalised. There have been subsequent changes to the results due to finalising the ledgers and the significant changes are discussed in section 3.3 to 3.9.

3.3 **Statement of Comprehensive Revenue and Expense**

3.4 Total revenue has decreased from $33.5 million in the IFR to $33.2 million in the Draft AR mainly arising from the removal of rates on council owned properties.

3.5 Total expenditure increased from $28.3 million to $28.5 million. The main changes include the reclassification of road marking costs that were recognised as capital expenditure in the IFR and reclassified to operating expenditure in the Draft AR. Additional professional services costs and depreciation expense were recognised within the roads activity, along with costs recognised for Mokau water supply operations and the back scanning project. Other minor adjustments have also been made as part of finalising the ledgers.

3.6 As a result of these changes to revenue and expenditure, the total surplus for the year has decreased from $5.1 million in the IFR to $4.6 million in the Draft AR.

3.7 The loss on valuation of the investment in ICL of $2.6 million was recognised in other comprehensive revenue and expense.

3.8 Further to this, the roads and solid waste assets revaluation was also completed and an increase on revaluation of $16 million was recognised.

3.9 These items along with the changes to total surplus discussed in 3.4 and 3.5, increased the total comprehensive revenue and expense from $4.7 million as reported in the IFR to $17.6 million.

3.10 **Statement of Financial Position**

3.11 Total assets increased from $367.2 million in the IFR to $380.5 million mainly as a result of:

- Loss on revaluation of the investment in ICL $2.6 million
- Increase in revaluation of roads and solid waste assets of $16 million

3.12 Total equity increased from $322.6 million in the IFR to $335.5 million mainly as a result of:

- Increase in revaluation reserve of $16 million from the roads and solid waste revaluation.

- Increase in Other Reserves as a result of the final reserve transfers, offset partly offset by a decrease in the Available for sale reserve from the loss on valuation of ICL investment.

3.13 **Draft 2019-20 Annual Report Highlights**

3.14 **Statement of Financial Performance (page 58)**

3.15 The budget provided a surplus of $4.6 million (below the forecast surplus of $5.1 million). The main variances are detailed below.

3.16 **Revenue**

3.17 Revenue was $2.3 million less than budget due to:

- As a result of excluding rates revenue on council owned properties from the actuals, rates revenue was $0.3 million less than forecast.

- Subsidies and grants were also $2.3 million less than budget as only 49% of the forecast physical works programme was completed therefore the associated NZTA subsidy revenue was significantly below forecast for the year. The completion of the capital expenditure programme was impacted by available internal capacity which initially delayed project delivery. Progress was further impacted by the COVID-19 pandemic response. The delayed projects will now be undertaken in the 2020/21 year.

- Investment income was $0.3 million less as no dividend was received from ICL due to the impact of COVID-19 on earnings and increased business uncertainty.

- Fees and charges revenue was $0.5 million more due to increased landfill disposal revenue as higher volumes of waste were received, trade waste revenue and quarry royalty revenue were also more than forecast. Additional revenue was also received for complex resource consent applications (where costs associated with planning consultants were recovered from applicants) and fees for building control services.

- Other revenue including gains/(losses) was $0.1 million more than budget due to a gain on the revaluation of investment property, a funding contribution for costs associated with the district plan review and gain on the sale of motor vehicles.

3.18 Operating expenditure was $1.8 million less than budget due to:

- Employee benefit expenditure was $0.1 million more than budget for organisational capacity and resourcing requirements.

- Finance costs were $0.6 million less than budget due to a reduced public debt level than forecast and interest rates were less than anticipated at the time the budget was prepared. Further to this the capital expenditure programme was delayed and will now be spent in the next financial year. This reduced finance costs for Leadership, Community Service, Solid Waste, Sewerage, Water Supply and Roads activities.

- Other expenditure was $1.3 million less than budget due to:

  - Rates paid on council owned property being excluded. The budget figure included rates on council owned property.

  - Grant expenditure for the proposed North King Country Indoor Sports and Recreation Centre was not spent.

  - Reduced operations and maintenance costs for all sewerage schemes. In particular expenditures for electricity, sludge disposal, sampling and chemicals were less for Te Kuiti.

3.19 **Statement of Financial Position (page 60)**

3.20 Total equity was $6.2 million more than expected due to:

- The surplus was $0.5 million less than budget.

- Other reserves were $1.2 million more than budget. Included in other reserves are council created reserves, cashflow hedging reserve and available for sale reserve. Council created reserves were $5.4 million more than budget as depreciation reserves and activity surpluses were more than forecast. Cashflow hedging reserve was $1.1 million less than budget due to the loss on cashflow hedges. There was also a $2.6 million decrease in the Available for sale reserve for the reduction in fair value of the investment in Inframax Construction Ltd to $8.8 million.

- The revaluation reserve was $9.6 million more than budget arising from the revaluation of roads and solid waste assets.

3.21 Current assets were $2.6 million more due to a higher level of cash and cash equivalents at balance date than the budget arising from a lower level of operating expenditure than forecast. These were offset partly by reduced receivables.

3.22 Current liabilities were $12.6 million less due to a lower portion of current borrowings than anticipated in the budgets. Overall borrowings were also less than budget. There was also a lower level of payables at balance date than was forecast.

3.23 Non current assets were $3.3 million less than expected due to the decrease in the value of other financial assets from the valuation of Inframax Construction Ltd. The value of the investment reduced to $8.8 million due to the subsidiary's projected revenue and increased business uncertainty. Intangible assets were less than anticipated as the COVID-19 pandemic response impacted on the progress of the information services projects.

3.24 Non current liabilities were $5.7 million more than budget due to a higher non current portion of borrowings being recognised. Derivative financial instruments were also $0.9 million more than expected.

3.25 **Capital Expenditure**

3.26 Total capital expenditure for the year ended 30 June 2020 was $6.1 million against a budget of $12.4 million or 49% of our forecast programme.

3.27 Projects were deferred due to the COVID-19 pandemic, which brought a halt to capital works and the related tenders during the lockdown and a sluggish restart in the final quarter of the year. These projects have now been deferred to the 2020/21 year.

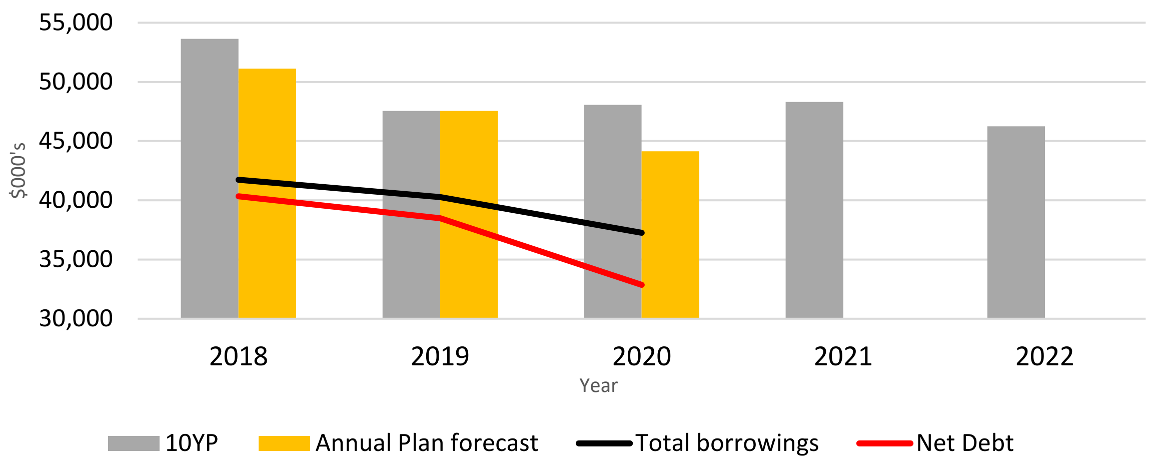
3.28 Some of the major projects completed were:

- The resource consent for the landfill volume expansion was granted during the year.
- The construction of the Kiritehere and Waikawau toilets were completed. This project was fully funded by a grant from the Tourism Infrastructure Fund.
- Aerodrome safety improvements were completed.
- Completed road pavement rehabilitation of a 1.4km long section of Totora Road.
- 0.3km of previously narrow footpaths were widened on Te Kumi Road.
- Resurfaced 25.7km of sealed roads
- Re-metalled 51km of unsealed roads
- Reactive and planned road maintenance of urban roads (50km sealed and 3km unsealed)
- Maintenance of 162 bridges
- Renewal of 1110 metres of drainage and culverts
- Maintained and or replaced 323 signs/markers and 94 posts.
- Installed additional monitoring instruments at the Mokau and Piopio Water Treatment Plants.
- Improvement of SCADA across all Water Treatment Plants undertaken.
- Monitoring bore drilled at the Te Kuiti domain to investigate alternative water supply.
- Improvements to council's website

- Alpha One integration for online building consent applications
- Improvements to our cyber security and end point virus protection for Council's information systems.

3.29 **Borrowings**

3.30 Council's 2018-28 10YP provides a forecast for borrowings. This forecast is updated each year through the annual plan process. The following graph illustrates the trends in the level of borrowings over the last three financial years compared to both planning documents.



3.31 These trends show that actual borrowings have reduced to **$37.3 million** at 30 June 2020 and are significantly less than forecast in 10YP and annual plan. Net debt was **$32.9 million** at 30 June 2020.

3.32 Council has continued to manage the funding of the capital works programme from a mixture of subsidies and grants funding, available reserves and borrowing.

3.33 **Group Performance**

3.34 At 30 June 2020, total equity for the Group was $337.7 million, an increase of $22.1 million from the prior year. This increase in equity reflects the net asset increases as detailed below.

3.35 The Group's after tax profit of $4.9 million.

3.36 Current assets increase of $0.9 million arising from the increase in cash and cash equivalents at balance date offset partly by reduced receivables owing.

3.37 Current liabilities increase of $1 million from the increase in level of current borrowings recognised and increases in employee entitlements owing at year end and derivative financials instruments.

3.38 Non current assets increase of $17.3 million arising mostly from the revaluation of roads and solid waste assets.

3.39 Non current liabilities decrease of $4.9 million due mainly to a portion of Council's borrowings reclassified to current borrowings.

3.40 **Statement of Service Performance (Key Performance Indicators)**

3.41 The Statements of Service Performance provide detailed information on the performance measures and targets for each of the significant activities. The performance summary is given on pages 19-20 of the Draft AR with more detailed information disclosed within each activity on pages 21-56 of the Draft AR.

3.42 Of the 76 key performance indicators measured, 63 (83%) (2019: 82%) were achieved and 13 (17%) (2019: 18%) were not achieved.

3.43 **Audit**

3.44 Auditors will be present at the meeting to report on the audit process and present the Audit report. The Report to ARFC from the Auditors is enclosed separately as Enclosure 2 to this business paper.

Analysis of Options

4.1 ARFC has the option of recommending the adoption of the Annual Report to Council or requesting further information/changes from its staff and auditors. The usual date that Council must adopt the Annual Report is 31 October 2020 however due to the COVID-19 Pandemic, this date has been extended to 31 December 2020.

4.2 As Council is currently developing the 2021-31 10 Year Plan. It is recommended that the Annual Report be adopted prior to 31 October as not to interrupt the 2021-31 10 Year Plan development project.

Considerations

5.1 Risk

5.2 There is potential risk that some revenue included in the financial statements is subsequently not converted to cash. The raising of invoices and recognition of income is carried out with management review and approval to minimise this risk. Debtors and other receivables are actively monitored and reviewed. The risk is also mitigated by the recognition of a provision for doubtful debt at 30 June 2020.

5.3 There is a risk that the accounting estimates and judgments used when performing valuations over assets may not reflect the assets actual condition or, the useful lives do not reflect the actual consumption of benefits of the asset. To minimise this risk, infrastructural asset valuations have been determined in reference to industry guidelines and adjusted for local conditions. Asset inspections, deterioration and condition modeling are also carried out as part of asset management planning.

5.4 There is a risk that the financial results and position stated within this report is materially different for those assets were not revalued at 30 June 2020. These assets include water, wastewater, stormwater and land and building assets. To minimise this risk, an assessment of the fair value of significant assets in between revaluation years has been completed by external valuers.

5.5 There is a risk that the accounting estimates and judgements used when performing the valuation of the investment in ICL may result in the actual value of the investment being different than the fair value reflected in the Annual Report. In deriving the valuation of the investment, the valuers noted that it was not possible to assess with any certainty the implications of COVID-19 on the Company's financial performance or the economy as a whole and that the Valuer's advice was subject to significant caveats and caution due to the uncertainty that exists for businesses including access to capital, supply chain disruption, demand for products and services and the extent and duration of measures implemented by the Government and various authorities to contain and/or prevent the spread of COVID-19.

5.6 There is a risk that some financial assets may become impaired, but that the impairment amount is unknown. This will cause an over statement of carrying value of the asset in this report, that would subsequently need to be corrected in a later report.

5.7 Consistency with Existing Plans and Policies

5.8 This Draft AR measures our performance against year two of the 2018-2028 Ten Year Plan, and nothing in this Draft AR is inconsistent with existing plans and policies.

5.9 Significance and Community Views

5.10 The financial performance of Council in the past year is a significant matter to be shared with the District Community. The Annual Report and Summary Annual Report will be available on Council's website and in Council offices and library.

Recommendation

6.1 The Draft Annual Report 2019/20 be recommended to Council for adoption.

6.2 A copy of the Draft Annual Report 2019/20 is enclosed separately and forms part of this business paper.

Suggested Resolutions

1 The business paper on Adoption of Annual Report 2019/20 be received.

2 The Audit, Risk and Finance Committee recommend the audited Annual Report 2019/20 be referred to Council for adoption.

TINA HITCHEN
FINANCE MANAGER

TERRENA KELLY
GENERAL MANAGER – STRATEGY AND ENVIRONMENT

8 October 2020

Separate Enclosure 1: Draft Annual Report 2019/20 (A492949)

Separate Enclosure 2: **Confidential:** Deloitte Report to the Audit and Risk Committee for the year ended 30 June 2020 (A492779)

Document No: A492365

Report To: Audit, Risk and Finance Committee

Waitomo District Council

Meeting Date: 13 October 2020

Subject: **Local Government Funding Agency - Annual Report**

Type: Information Only

Purpose of Report

1.1 The purpose of this business paper is to present the Annual Report of the Local Government Funding Agency for year ended 30 June 2020.

Background

2.1 The LGFA was established in December 2011 principally to borrow domestically or offshore and provide lending to local authorities across New Zealand.

2.2 Waitomo District Council (WDC) joined the LGFA as a borrower and guarantor in April 2017. Substantially all its borrowings are now provided from the LGFA.

2.3 As a borrower WDC would look to the LGFA as first lender of choice for Council's borrowing requirements. As a guarantor to the LGFA, WDC has ongoing interest in the financial strength of LGFA.

Commentary

3.1 LGFA has performed well over the last year with total interest income increasing by 2.5% when compared to the previous year. Operation profit has decreased by 5.2%, this decrease is less than signaled in the Statement of Intent forecasts.

3.2 The membership has increased by three with Taranaki Regional, Kaikoura District and Carterton District Councils joining, membership is now 67 councils.

3.3 Financial Performance for the year to 30 June 2020.

3.4 Net operating profit for the twelve months was $10,623,000 a decrease of $578,000 from the corresponding period for the prior year.

3.5 Net interest income and operating profit are ahead of SOI forecast and expenses are less than budget for the year ended 30 June 2020.

3.6 Importantly "the financial strength of the LGFA was reaffirmed by credit rating agencies Standard & Poor's and Fitch who both maintain the credit rating at AA+, the same as the New Zealand Government".

3.7 The ability of the LGFA to maintain its financial strength and high credit rating is important for Council as a borrower, so debt funding can be sourced on favourable terms and as a guarantor because it further reduces the already very low likelihood of the guarantee being exercised.

3.8 Total loans to Councils by LGFA are $10.869 billion as at 30 June 2020 and were $9.311 billion in the comparable period last year.

3.9 Bonds on issue to investors in LGFA total $11.660 billion as at 30 June 2020 and was $9.335 billion last year.

3.10 Performance Targets Statement of Intent

2019/20 SOI measures	Target	Result
Net Interest Income	Greater than $17.9m	$18.2m
Annual issuance and operation expenses (excluding AIL)	Less than $6.3m	$6.26m
Total Lending to Participating Local Authorities	At least $9,792m	$10,899m
Annual Survey – value added by LGFA	80% satisfaction score	100%
Meet lending request were those request meet LGFA operational and covenant requirements	All	All
Market Share of all council borrowing in New Zealand	75% market share	86%
Review each Participating Local Authority's financial position	All participating Local Authorities	31 of the 64 councils visited.
Treasury Policy Breaches	None	2
Refinance existing loans to councils and LGFA bone maturities	All	All
Maintain credit rating equal to New Zealand Government	AA+	AA+

Suggested Resolutions

1 The business paper on Annual Report – Local Government Funding Agency be received.

2 The Annual Report – Local Government Funding Agency for the year ended 30 June 2020 be received.

ALISTER DUNCAN
GENERAL MANAGER - BUSINESS SUPPORT

5 October 2020

Attachment(s):
1 Covering Letter to Guarantor Local Authorities, Local Government Funding Agency Annual Report for year ended 30 June 2020 (A492367)
2 Local Government Funding Agency Annual Report for year ended 30 June 2020 (A492368)

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

28 August 2020

Dear Guarantor

LGFA 2020 Annual Report

I have attached our Annual Report for 2020 as we thought it might be of interest to you as a guarantor. We are pleased to highlight another strong year for LGFA that included several achievements.

1. **We have made longer dated borrowing options available to an increased number of council borrowers**
   By 30 June 2020, LGFA had loans outstanding of $10.90 billion. This is an increase over the past year of $1.59 billion and we added three new council members to bring the number of member councils to sixty-seven.

2. **Provide certainty of access to markets through a difficult financing environment**
   It was pleasing that LGFA was able to deliver on its objective of ensuring councils could access financing during the very difficult COVID-19 period where capital markets were essentially locked down.

3. **Significant market share of sector borrowing for the year.**
   For the 12-month period to 30 June 2020, LGFA provided 85.7% of the sector borrowing and we are appreciative of the support from our borrowing councils.

4. **A strong financial position to provide comfort to guarantors.**
   The financial strength of LGFA has been enhanced with a Net Operating Profit of $10.6 million for the 2019/20 year and Shareholder Equity of $83.62 million as at 30 June 2020.

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

We intend holding our Annual General Meeting (AGM) on Thursday 19th November 2020 in Wellington and for information purposes for our guarantors, we will send you a Notice of AGM by Friday 18th September 2020.

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

Kind regards

Mark Butcher
Chief Executive

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

Financing New Zealand councils' infrastructure investment

Te tuku pūtea ki te haumitanga hanganga kaunihera o Aotearoa

Annual report

30 June 2020

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

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

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

Contents
Ihirangi

Message from the Chair and Chief Executive

He karere mai i te Toihau me te Tumuaki

Craig Stobo, Board Chair

For the year ended 30 June 2020

"LGFA's robust business model was built by stakeholders who had experienced the severe funding challenges of the Global Financial Crisis. That prescience was rewarded by the performance of LGFA during the funding challenges resulting from COVID-19"

Mark Butcher, Chief Executive

We are pleased to record another period of strong financial and non-financial performance to 30 June 2020 and to highlight the following developments over the past year.

Strong Financial and Operational Performance

LGFA total interest income for the financial year of $370.2 million was a 2.5% increase over the 2018-19 financial year result of $361.1 million while net operating profit of $10.6 million for the financial year was a 5.2% decrease on the 2018-19 financial year result of $11.2 million.

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

Expenses have been managed under the SOI budget over the financial year. Lower fees from a reduced utilisation of the standby facility and lower Approved Issuer Levy (AIL) payments due to lower offshore investor holdings relative to forecast were positive. These savings were partially offset by higher legal and NZX costs associated with the record amount of LGFA bond issuance.

The financial strength of LGFA was affirmed by credit rating agencies S&P Global Ratings and Fitch Ratings who both maintained our credit rating at 'AA+' which, very importantly, is the same as the New Zealand Government. In January 2020, Fitch Ratings placed our long-term foreign currency rating on positive outlook while S&P Global Ratings retained the positive outlook on both our local and foreign currency ratings.

Borrowing activity

LGFA issued a record $3.31 billion of bonds over the financial year (including a net increase of $400 million of treasury stock) and outstandings now total $11.66 billion (including $800 million of treasury stock) across nine maturities from 2021 to 2033. The amount issued during the year was significantly more than the average historical issuance amount of $1.60 billion per financial year.

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

The performance of LGFA bonds over the past year was also pleasing with LGFA bond spreads to NZGB tighter on all LGFA bond maturities. While LGFA bond spreads to swap were narrower in the 2020 to 2025 maturities, spreads were wider on the longer-dated LGFA bonds. Outright yields declined between 109 bps (1.09%) on the 2033 maturity and 120 bps (1.20%) on the 2024 maturity over the year.

Lending to the sector

LGFA was established in December 2011 to provide long-dated borrowing, certainty of access to markets and to reduce the borrowing costs for the local government sector. The original 31 shareholders, including the Crown, remain as shareholders. Over the past year, we added three new members with Taranaki Regional, Kaikoura District and Carterton District Councils joining. Total membership is now 67 councils, and this is expected to rise in the coming year.

Long-dated lending to councils over the 2019-20 year was $2.33 billion as councils refinanced their April 2020 loans and increased their borrowing to fund infrastructure projects. This was slightly less than the record amount of $2.45 billion in the prior year but our estimated market share of 85.7% remained high. The average tenor of long-dated borrowing by councils of 5.4 years over the 12-month period was shorter than the prior year's 6.0 years.

Short-dated lending for terms less than 12 months continues to be supported by councils and as at 30 June 2020, LGFA had $316 million of short-term loans outstanding to twenty-seven councils.

The changing world and sector outlook

The success of LGFA over the past eight years has been in part due to its ability to evolve and adapt to meet the needs of the local government sector. This has been apparent with the introduction of new products and the introduction of long-dated bond maturities allowing councils to undertake long-dated borrowing.

The sector is now considering its part in the COVID-19 economic recovery as well as responding to the Central Government proposal for the restructure of the three waters (drinking, waste and storm waters). These may have a medium-term impact on the sector but LGFA remains comfortable in its ability to assist the sector in meeting any changes as a result of these initiatives.

The impact from COVID-19 on the sector and LGFA

The local government sector has felt the impact from COVID-19. The move to level 4 lockdown in March resulted in the closure of community facilities and a corresponding loss of revenue from fees and charges. In addition, some councils experienced reduced income from their investments. A further impact will be felt in the 2020/21 financial year as some councils reduce planned rate increases in recognition of a growing level of hardship in their communities. Councils have responded by reducing non-essential operational expenditure while still maintaining core council services. Most councils have looked to retain their planned capital expenditure budgets over the 2020/21 financial year on the basis that this expenditure will play a part in their local economic recovery.

Additional support for the local authority sector has been provided by the Government through grant funding for both shovel-ready projects and the first stage of the three-waters reform. On-going grant funding from the Provincial Growth Fund will also assist a number of councils. This additional grant revenue from the government will be significant in helping councils in the delivery of their long term capital expenditure programmes as well as providing economic stimulus to local economies over the coming year.

The consequences of Covid-19 presented LGFA with challenges and opportunities. The overriding challenge was the announcements by the New Zealand Government on 17 March and 1 April that the bond programme for the 2019-20 financial year would rise from $10 billion to $13 billion and then to $29 billion respectively. This enormous shift had the effect of potentially ‘crowding out’ borrowers in NZ dollar debt markets including LGFA. Crucial price making by our banking intermediaries became erratic and market liquidity evaporated.

This meant our investors could not manage their portfolios; and LGFA faced the real prospect of being unable to issue bonds around the time of its April 2020 bond maturity. At the same time our council clients’ demand for funding increased substantially as they faced revenue shortfall uncertainties. These pincered pressures meant LGFA faced the prospect of drawing down its Liquid Assets Portfolio to provide funding to Councils.

At a strategy day on 18 March, the Board approved the following actions to strengthen both the Company’s capital and investor confidence:

- to increase the percentage of borrower notes that a council subscribes for when undertaking long term borrowing from LGFA from 1.6% to 2.5% of their borrowing
- to increase the on-lending margin to councils from 10 bps to 20bps
- to accelerate discussions with the Crown to extend and increase LGFA’s $1 billion liquidity facility beyond its December 2021 expiry; and
- to commence discussions with the RBNZ to add LGFA bonds to its Large-Scale Asset Purchase (LSAP) programme.

LGFA successfully achieved all these objectives. Market liquidity returned, we syndicated a record $1.10 billion of a 2026 bond in mid-April following on from numerous investor conference calls to explain the COVID-19 impact on the sector and the response by LGFA. Councils received their required funding during this period and our Liquid Assets Portfolio increased to over $1 billion in size.

In addition, and throughout the year, LGFA sought to enhance secondary market liquidity through doubling the amount of treasury stock held by LGFA (available for stock lending) and increasing the soft cap on each on individual LGFA bond maturity to $1.75 billion.

We have also received stakeholder approval to undertake two significant changes in the past year. We have increased the Net Debt / Total Revenue covenant for councils with a long-term credit rating of ‘A’ equivalent or higher. This will assist councils with greater financial flexibility through the COVID-19 economic recovery phase as well as reflecting the strong financial position of the sector. We have also progressed work on LGFA being able to lend directly to a Council-Controlled Organisation (CCO) and we expect to undertake our first loan to a CCO by the end of the 2020 calendar year.

Global Reporting Initiative

Finally, this year’s annual report is our first report prepared to meet the requirements of the Global Reporting Initiative (GRI) Standards (core option). The GRI Standards are the world’s most widely used sustainability reporting standard.

Reporting on our material issues under the GRI framework expands environmental, social and governance (ESG) performance reporting with the aim of meeting the wider sustainability reporting expectations of stakeholders and will provide an opportunity for us to evolve our business strategy over time to create greater value for our stakeholders and society.

Acknowledgments

The Company’s work cannot be implemented without the support of our staff, fellow directors, Shareholders Council, New Zealand Debt Management (NZDM) and the Reserve Bank of New Zealand, all whose efforts should be acknowledged. We believe the Company’s future remains positive and look forward to working with all stakeholders in the year ahead.

Craig Stobo
Chair, LGFA Board

Chief Executive

LGFA Staff, from left: Mark Butcher, Ariadne Clarke, Neil Bain, Jane Phelan, Sumitha Kaluarachi, Andrew Michl, Koshick Ranchhod

LGFA Board of Directors, from left: John Avery, Linda Robertson, Craig Stobo, Anthony Quirk, Philip Cory-Wright, Mike Timmer

Performance highlights
Ko ngā tino hua

Bonds issued over the financial year
(excluding treasury stock)

$2,905 million

Lending to councils over the financial year

$2,328 million

Total interest income

$370.2 million

▲ 2.5%
increase over the 2018-19 financial year

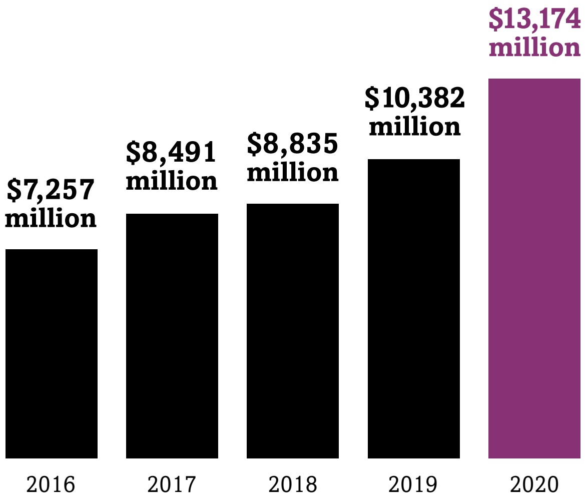
Net operating profit

$10.6 million

▼ 5.2%
decrease over the 2018-19 financial year

Total assets
30 June 2020

$13,174 million



Liquidity
30 June 2020

$166 million Cash

$589 million Marketable securities

$500 million Bank and term deposits

$800 million Treasury Stock for repo

$700 million Government committed liquidity facility
$1 billion total limit available

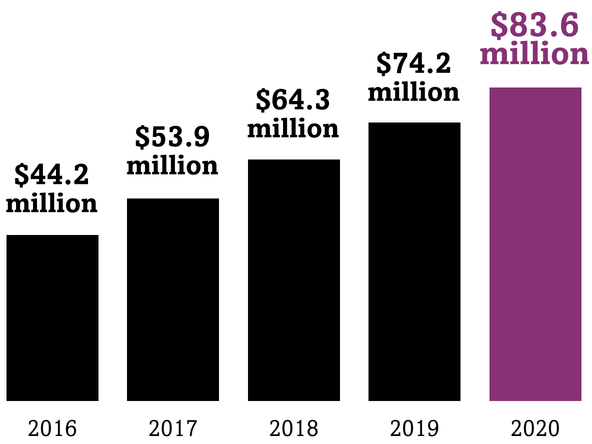
Shareholder funds
30 June 2020

$83.6 million

Fully paid shares
$25 million

Retained earnings
$58.6 million

Shareholder equity



Borrower notes
$182 million

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

Performance against objectives

Ko ngā whakatutukinga ki ngā whāinga

The statement of service performance details LGFA's performance against the objectives and targets set out in the LGFA Statement of Intent 2019-20 (SOI)

2019-20 performance objectives.

The SOI set out two primary performance objectives and eight additional objectives for LGFA for the year ended 30 June 2020:

Primary Objectives

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

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

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

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

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

Additional objectives

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

- Operate with a view to making a profit sufficient to pay a dividend in accordance with its stated Dividend Policy;
- Provide at least 75% of aggregate long-term debt funding to the Local Government sector;
- Achieve the financial forecasts (excluding the impact of AIL) set out in section 4 of the SOI;
- 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;
- Take appropriate steps to ensure compliance with the Health and Safety at Work Act 2015;
- Maintain LGFA's credit rating equal to the New Zealand Government sovereign rating where both entities are rated by the same Rating Agency;
- Introduce CCO lending by December 2019 and report quarterly, the volume of lending to CCOs; and
- Comply with its Treasury Policy, as approved by the Board.

Performance against primary objectives

This section sets out LGFA's performance for the year ended 30 June 2020 against the two primary objectives set out in the 2019-20 SOI.

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

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

LGFA lending base margins are 20 basis points (bps) for all borrowing terms between May 2021 and April 2033 following an increase of 10 bps in March. We had previously reduced margins in June 2018 but in March the LGFA Board increased these following its biennial Capital Structure Review. The base margin charge covers our operating costs and provides for our capital to grow in line with the growth in our balance sheet to maintain a satisfactory capital buffer. There is an additional credit margin added to the base margin depending upon whether a council has a credit rating or is a guarantor or not a guarantor.

Our estimated annual savings to councils are between -4 bps and 10 bps depending upon the term of borrowing. These estimates are based upon the secondary market levels at 30 June 2020 of LGFA bonds compared to bonds issued by Auckland and Dunedin councils. A cautious approach needs to be taken in drawing conclusions from the data as it is based upon an implied level in the secondary market and not on actual issuance costs. LGFA is a constant issuer of debt and the size of debt tranches are also an important factor eg. the Dunedin 2021 bond has $70 million on issue compared to $1.55 billion of the comparable LGFA bond. Borrowing margins of all issuers have narrowed over the past quarter but LGFA borrowing margins have moved less than other borrowers due to our large volume of issuance.

	Savings to AA rated councils (bps)			
As at 30 June 2020	Dunedin 2021	Auckland 2022	Auckland 2025	Dunedin 2026
AA rated councils margin to swap (bps)	36	33	56	75
Less LGFA margin to swap (bps)	(8)	(18)	(40)	(45)
LGFA gross funding margin advantage (bps)	28	15	16	30
Less LGFA base margin (bps)	(20)	(20)	(20)	(20)
Total savings (bps)	8	(5)	(4)	10

LGFA continues to borrow at very competitive spreads compared to the AAA rated sovereign/supranational/agency (SSA) issuers (who borrow in the New Zealand debt capital markets) and to the domestic banks.

As at 30 June 2020	Comparison to other borrowers – Secondary Market Spread to Swap (bps)									
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2033
LGFA (AA+)	9	18	25	32	40	45	48	-	57	57
Asian Development Bank (AAA)	15	-	29	37	42	47	-	-	-	-
Inter American Development Bank (AAA)	20	-	30	39	42	-	-	65	-	-
International Finance Corp (AAA)	15	-	31	39	-	-	49	-	-	-
KBN (AAA)	19	-	35	39	51	-	-	-	-	69
Rentenbank (AAA)	17	25	29	39	47	-	-	-	-	-
World Bank (AAA)	11	24	29	38	42	-	-	-	-	-
Nordic Investment Bank (AAA)	11	-	30	-	43	-	-	-	-	-
ANZ (AA-)	-	-	55	63	-	-	-	-	-	-
BNZ (AA-)	-	-	51	-	73	-	-	-	-	-
Westpac Bank (AA-)	-	44	53	66	72	-	-	-	-	-

2. Offering short and long-term borrowings with flexible lending terms

Councils can access flexible lending conditions by using LGFA's short-term lending and term lending products. Short-term lending is for loans between 30 days and 364 days while term lending is where councils can borrow for any term between one year and the longest-dated LGFA bond maturity on any drawdown date. Therefore, council members can borrow for terms ranging from 30 days to almost 13 years at any time they wish to draw down.

Over the 12-months ended 30 June 2020:

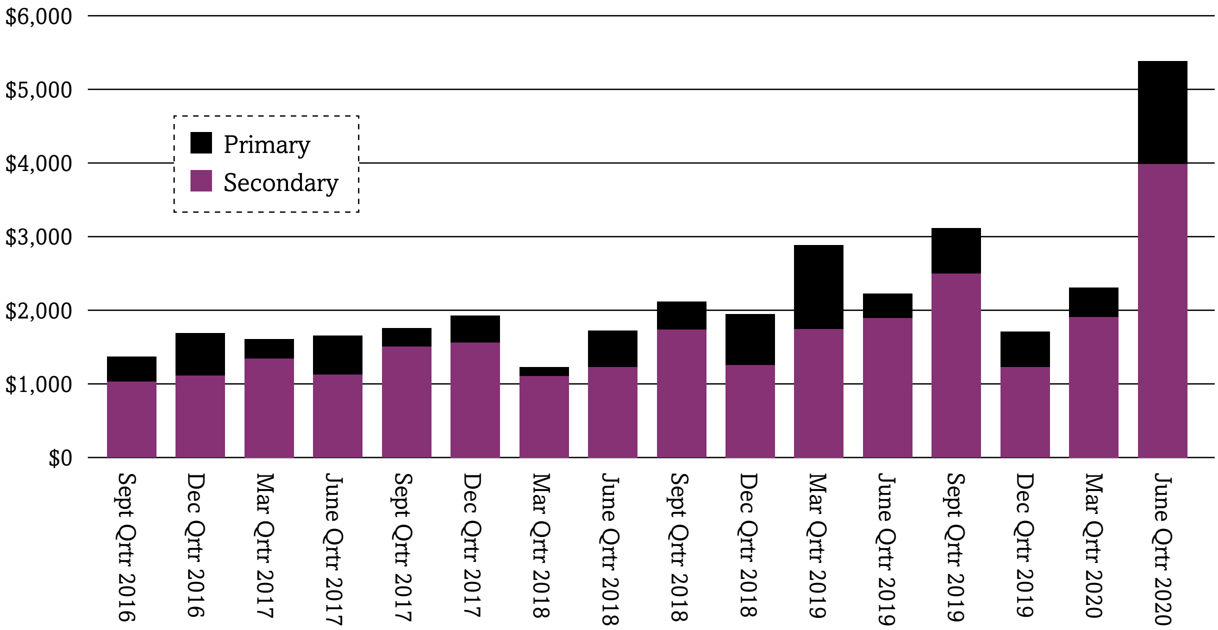
- 53 councils borrowed a total of $2.33 billion over 205 individual loans (excluding short-dated borrowing).
- The average borrowing term for the year was 5.4 years, compared with 6.0 for the previous 2018-19 year.
- 78% of term loans were issued on a floating rate basis, with the remaining 22% issued on a fixed rate basis.
- Short-term borrowing by councils has been well received with loan terms of between one and 12-months. As at 30 June 2020, there were $315.5 million of short-term loans outstanding to 27 councils.

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

LGFA issued a record $2.90 billion bonds over the 12-months to June 2020, with eight tenders and two syndications.

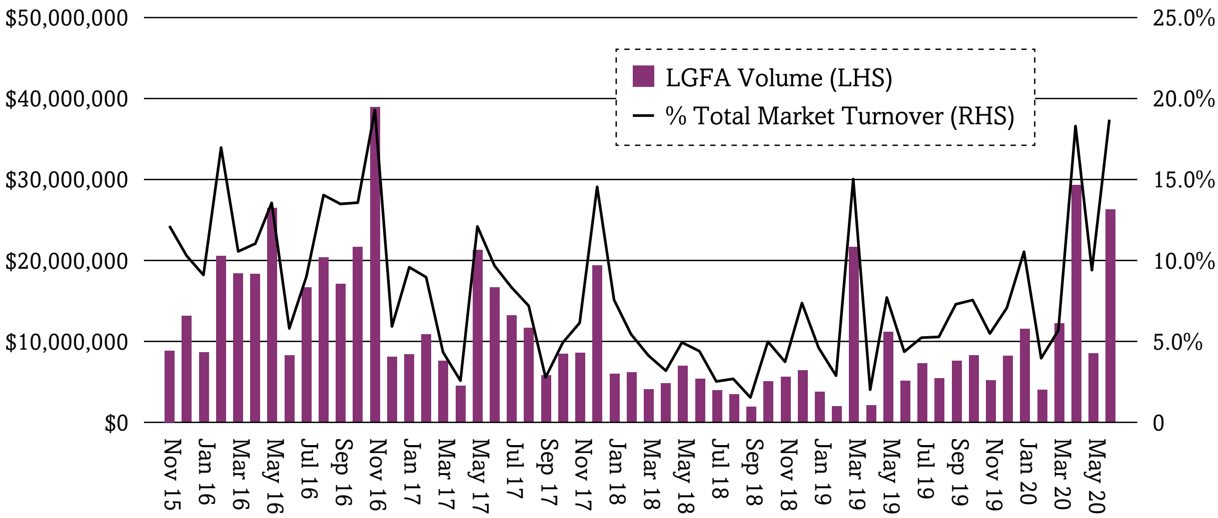
Activity in LGFA bonds in both the primary market (tender or syndicated issuance) and secondary market (between banks and investors) during the during the year totalled $12.54 billion, compared with $8.73 billion for the 2018-19 year. There was $2.91 billion of primary issuance and an estimated $9.63 billion of secondary market activity in LGFA bonds over the 12-months.

LGFA Primary and Secondary Market Activity (NZ$million)



LGFA bonds were listed on the NZX Debt Market in November 2015 and have averaged turnover of $11.1 million per month or 8.3% of the total turnover of the NZX Debt Market since listing. There was light turnover on the NZX over the year as retail investors were more attracted to high term deposit rates and higher-yielding bond issues by lower credit quality borrowers. There was an increase in volume over the second six-month period (averaging $15.3 million per month) due to the lack of retail bond primary issuance by corporate borrowers in NZD during this time period.

LGFA Turnover on NZX (monthly)

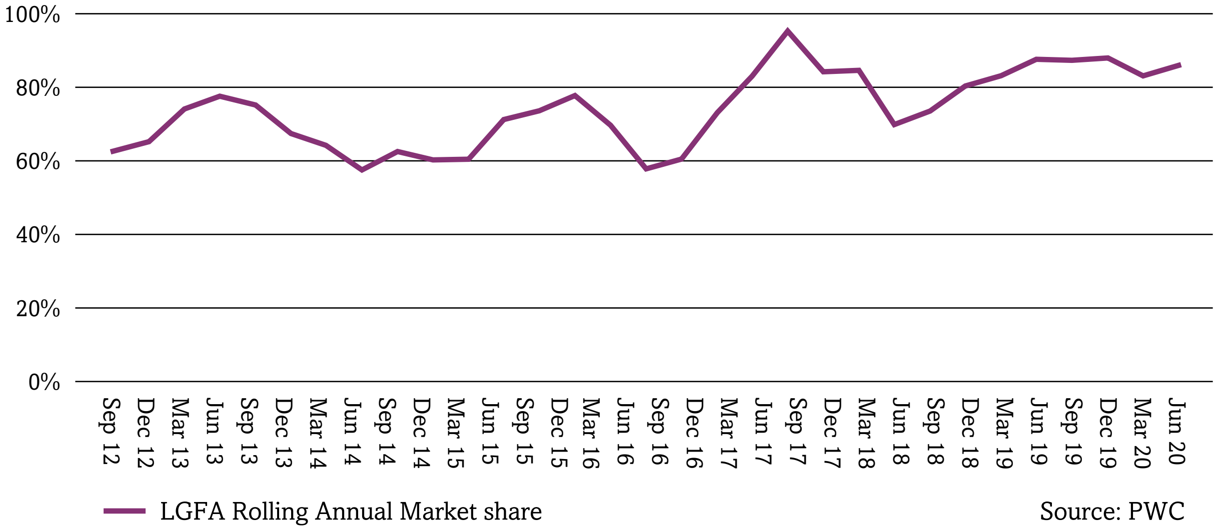


LGFA documented an Australian Medium-Term Notes Programme in November 2017 and refreshed the programme documents in March 2020. There is no immediate intention to use this programme, but it provides flexibility if there is a significant market disrupting event in the future.

4. Being the debt funder of choice for New Zealand local government

Our estimated market share of council borrowing for the rolling twelve-month period to 30 June 2020 was 86%, which compares favourably to the historical average since 2012 of 74%.

LGFA Market Share – rolling one year average



We survey our council members each year and the latest stakeholder survey result in July 2019 was a 100% positive response to the question "How would you rate LGFA in adding value to your borrowing requirements?" We also received a 99% positive response to the question "How satisfied are you with the pricing that LGFA has provided to your Council?"

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

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

Although travel restrictions due to the COVID-19 lockdown restricted our ability to meet with councils during the final quarter of the year, LGFA conducted 38 visits to 31 different councils over the 12-month period to June 2020 to discuss their financial performance and any developments with the underlying council operations.

By 30 November each year, member councils are required to complete an annual compliance certificate in relation to their 30 June financial statements.

Annual compliance certificates were completed by council members in 2019 and all councils were compliant with the financial covenants as at June 2019.

ii. Implement the changes to the Foundation Policies that were approved at the November 2018 AGM to allow for lending to Council Controlled Organisations (CCOs). Changes to operational policies and practices need to ensure that no additional risk is borne by lenders, guarantors or the Crown

Shareholders approved the changes to the Shareholder Agreement, Notes Subscription Agreement (NSA), Multi Issuer Deed (MID) and Guarantee and Indemnity Deed (GID) and Foundation Policies to allow for lending to CCOs and to offer standby facilities. The Borrower Notes percentage will also rise from 1.6% to 2.5% of a council's borrowings from July 2020 to assist with improving LGFA's capital position. It is planned to commence lending to CCOs and offer standby facilities in the 2020-21 year.

iii. LGFA will analyse finances at the Council group level where appropriate and report to the Shareholder Council and shareholders as to which Participating Local Authorities are measured on a group basis.

LGFA reviews council agendas and management reports on an ongoing basis for councils on the LGFA borrower watch-list. No council has yet to request to LGFA that they be measured on a group basis.

LGFA completed work on credit default assessment analysis of its member councils in conjunction with adopting IFRS9 for accounting purposes.

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

Over the course of the year, LGFA management met with the Treasury, Reserve Bank of New Zealand, OECD and Department of Internal Affairs to discuss local government sector issues.

LGFA hosted its annual Shareholder Borrower Day in August 2019 and staff attended the LGNZ conference, Infrastructure NZ Building Nations Symposium and SOLGM Annual Summit.

LGFA continues to assist the sector and their advisers in finding ways for the Company to play a supporting role in providing solutions to off balance sheet financing for councils. We are currently providing technical input into the Cameron Partners Ratepayer Financing Scheme (RFS).

LGFA has been a member of the Department of Internal Affairs-led workstream on assessing the impact of COVID-19 on council finances.

A Special General Meeting (SGM) of shareholders on 30 June 2020 passed a resolution to relax the Net Debt / Total Revenue covenant within the Foundation Policies for those councils with a minimum credit rating of ‘A’. Effective from 1 July 2020, the change was made to allow councils some additional financial flexibility in dealing with the COVID-19 crisis and to allow councils to co-invest alongside Central Government to pursue an infrastructure-led growth recovery response to the crisis. LGFA assessed the impact on guarantors to be negligible and consulted with stakeholders including investors, banks and credit rating agencies.

Performance against additional objectives

LGFA has eight performance objectives which complement the primary objectives. This section sets out LGFA’s performance for the year ended 30 June 2020 against the additional objectives set out in the 2019-20 Statement of Intent.

7. Operate with a view to making a profit sufficient to pay a dividend in accordance with its stated Dividend Policy

LGFA’s Net Operating Gain was $10.62 million for the financial year. The average cost of funds for the twelve-month period was 1.51%, which is lower than the 2.78% for the prior 2018-19 financial year due to the lower outright level of interest rates. The LGFA Board has the sole discretion to set the dividend.

8. Provide at least 75% of aggregate long-term debt funding for Participating Local Authorities

As noted earlier, our estimated market share of council borrowing for the rolling twelve-month period to 30 June 2020 was 86%. Our market share remains strong compared to our global peers.

As at 30 June 2020, there were 67 participating local authority members of LGFA, an increase of three from a year ago. We estimate a further five councils will become members in the next twelve months.

9. Achieve the financial forecasts (excluding the impact of AIL) set out in Section 4

For the 12-month period to 30 June 2020, Net Interest Income (NII) was $398k above budget while expenses were $209k below budget. Net Operating Gain of $10.62 million was $606k above budget. Included in the NII is the unrealised mark to market movement in fixed rate swaps that are not designated effective for hedge accounting purposes. We have used these swaps to reduce exposure to fixed rate loans made outside of the normal tender process and to reduce mismatches between time periods in our balance sheet. The unrealised loss increases as interest rates fall and the year-to-date revaluation is a loss of $1.3 million.

10. Ensure its products and services are delivered at a cost that does not exceed the forecast for issuance and operating expenses

Expenses for the 12-month period were $7.67 million which is $209k below budget. This variance is the consequence of:

- Issuance and on-lending costs (excluding AIL) at $2.575 million were $133k above SOI budget. A larger amount of bond issuance and short-term lending increased these costs relative to SOI budget, primarily in relation to higher NZX costs and legal costs. These were offset to some extent from lower fees than budgeted relating to the NZDMO facility.
- Operating costs at $3.685 million were $170k below budget due to lower IT, personnel, travel and general overhead costs, offset by slightly higher legal costs relative to SOI budget.
- Approved Issuer Levy (AIL) payments of $1.396 million were $172k below SOI budget. We pay AIL on behalf of offshore investors at the time of semi-annual coupon payment. During the twelve-month period, offshore investor holdings of LGFA bonds were less than forecast.

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

LGFA has a Health and Safety staff Committee which reports on a regular basis to the LGFA Board by the Risk and Compliance Manager. There were no Health and Safety incidents during the year. LGFA staff moved to work from home in late March as the country moved to Level 4 in the COVID-19 response and returned to offices under Level 1.

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

Standard and Poor's (S&P) and Fitch Ratings (Fitch) review LGFA's credit rating on an annual basis and formal review meetings were held in September 2019 with Fitch and in November 2019 with S&P.

On 18 November 2019, Fitch affirmed our long-term local currency credit rating as AA+ and classified LGFA as a corporate mission, government-related entity (GRE) under its GRE rating criteria. Fitch equalises our ratings with those of the New Zealand Government. On 28 January 2020 Fitch placed our foreign currency credit rating of AA on positive outlook. Fitch left the local currency credit rating unchanged at AA+ with a stable outlook.

On 28 February 2020, S&P affirmed LGFA's long-term local currency credit rating as AA+ and our long-term foreign currency credit rating of AA. Both ratings remained on positive outlook. Both credit ratings and outlook are the same as the New Zealand Government.

13. Introduce CCO lending by December 2019 and report quarterly, the volume of lending to CCOs to both the Shareholder Council and shareholders

Council members approved the amendments to the Shareholder Agreement, Notes Subscription Agreement (NSA), Multi Issuer Deed (MID), Guarantee and Indemnity Deed (GID) and Foundation Policies to allow for lending to CCOs on 6 July 2020. The approval process took longer than expected due to the need to have the changes to the documents approved by every council and by the response to COVID-19. We expect to undertake our first loan to a CCO in the 2020-21 fiscal year.

14. Comply with its Treasury Policy as approved by the Board

There were two compliance breaches of the Treasury Policy during the 12-month period ending 30 June 2020.

There was no financial loss to LGFA from either breach and reputational risk was assessed to be minimal.

There was full reporting on both breaches to the LGFA Board and Shareholders Council, and a formal review of both breaches was led by the Chair of the Audit and Risk Committee. LGFA management have reviewed controls that could be put in place to mitigate the risk of further breaches.

Performance targets

2019-20 performance targets	Target	Result for 12-month period to 30 June 2020	Outcome
Net interest income for the period to 30 June 2020	Greater than $17.9 million	$18.2 million	✓
Annual issuance and operating expenses (excluding AIL) for the period to 30 June 2020	Less than $6.30 million	$6.26 million	✓
Total lending to Participating Local Authorities at 30 June 2020	At least $9,792 million	$10,899 million	✓
Conduct an annual survey of councils who borrow from LGFA	Achieve at least an 80% satisfaction score for the value added by LGFA	100%	✓
Meet all lending requests from Participating Local Authorities, where those requests meet LGFA operational and covenant requirements			✓
Achieve 75% market share of all council borrowing in New Zealand		86%	✓
Review each Participating Local Authority's financial position, its headroom under LGFA policies and arrange to meet each Participating Local Authority at least annually			✗ Refer 5i, page 14
No breaches of Treasury Policy, any regulatory or legislative requirements including the Health and Safety at Work Act 2015			✗ Refer 14, page 16
Successfully refinance of existing loans to councils and LGFA bond maturities as they fall due			✓
Maintain a credit rating equal to the New Zealand Government rating where both entities are rated by the same credit rating agency			✓

About us
Mō mātou

Establishment

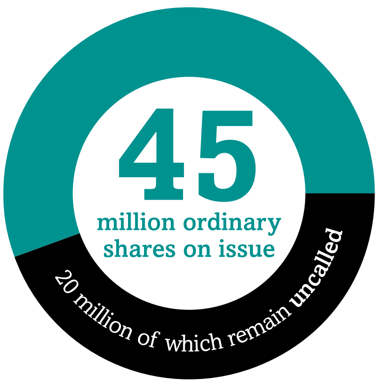
The New Zealand Local Government Funding Agency Ltd (LGFA) specialises in funding the New Zealand local government sector, the primary purpose being to provide more efficient funding costs and diversified funding sources for New Zealand local authorities. LGFA was established to raise debt on behalf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

Incorporated on 1 December 2011 under the Companies Act 1993

Enabled by Local Government Borrowing Act 2011

Council-controlled organisation under the Local Government Act 2002

Ownership



20%
New Zealand Government

80%
30 councils

Share ownership is restricted to New Zealand Government or councils.

Governance overview

20%
Shareholding
New Zealand Government

80%
Shareholding
30 councils

31 Shareholders

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

Shareholders' Council
Page 49

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

Review and report performance of LGFA and the Board;

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

Recommend to Shareholders as to any **changes to policies**, or the Statement of Intent (SOI), requiring their approval;

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

LGFA Board
Page 41-49

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

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

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

Bonds listed on NZX Debt Market

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

Supervised by independent trustee

Guarantee structure

All shareholder councils are guarantors as well as councils with total borrowings over $20 million.

LGFA's securities obligations are guaranteed by council guarantors.

A council's obligations under the guarantee is secured against rates revenue

LGFA is not guaranteed by the New Zealand Government.

Credit rating as at 30 June 2020

Standard & Poor's

Domestic Currency

AA+

(Positive Outlook)

Foreign Currency AA

(Positive Outlook)

Fitch Ratings

Domestic Currency

AA+

(Stable Outlook)

Foreign Currency AA

(Positive Outlook)

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

New Zealand Domestic Bond Deal of the Year

New Zealand Local Government Funding Agency

NZ$1 billion 2.25% April 2024

Joint lead managers: Bank of New Zealand

Westpac Banking Corporation New Zealand Branch

File 1 - Page 90

Our history

Dec 2011

Incorporated December 2011

Commenced bond issuance February 2012

April 2015 and December 2017 bonds issued

June 2012

KangaNews NZ Domestic Issuer of the Year – 2012

March 2019 bond issued

INFINZ award for Best Bond issue of 2012

Inaugural LGFA Borrowers Forum

June 2013

Inaugural dividend of $1.5m declared

May 2021 and April 2023 bonds issued

June 2014

April 2020 and April 2027 bonds issued

Bespoke lending introduced

Refinanced April 2015 bond ($240m) and council loans

New Treasury Management System implemented

Transitioned front/ middle/back office from NZDMO

June 2015

LGFA Bonds listed on NZX November 2015

Commenced LGFA Bill issuance

Commenced short-term lending to councils

Transitioned to Financial Markets Conduct Act

June 2016

Bond lending facility established October 2016

April 2033 bond issued

June 2017

Refinanced December 2017 bond ($1.015b) bond and council loans

April 2022 bond issued

First bond not matched to a New Zealand Government bond maturity

June 2018

April 2024 bond issued via inaugural syndication ($1.0b)

Refinanced March 2019 bond ($1.240b) and council loans

June 2019

KangaNews NZ. NZ Domestic Bond Deal of the Year

Refinanced April 2020 bond ($980m) and council loans

April 2026 bond issued via syndication ($1.0b)

Reserve Bank adds LGFA bonds to its Large Scale Asset Purchase programme. April 2020

June 2020

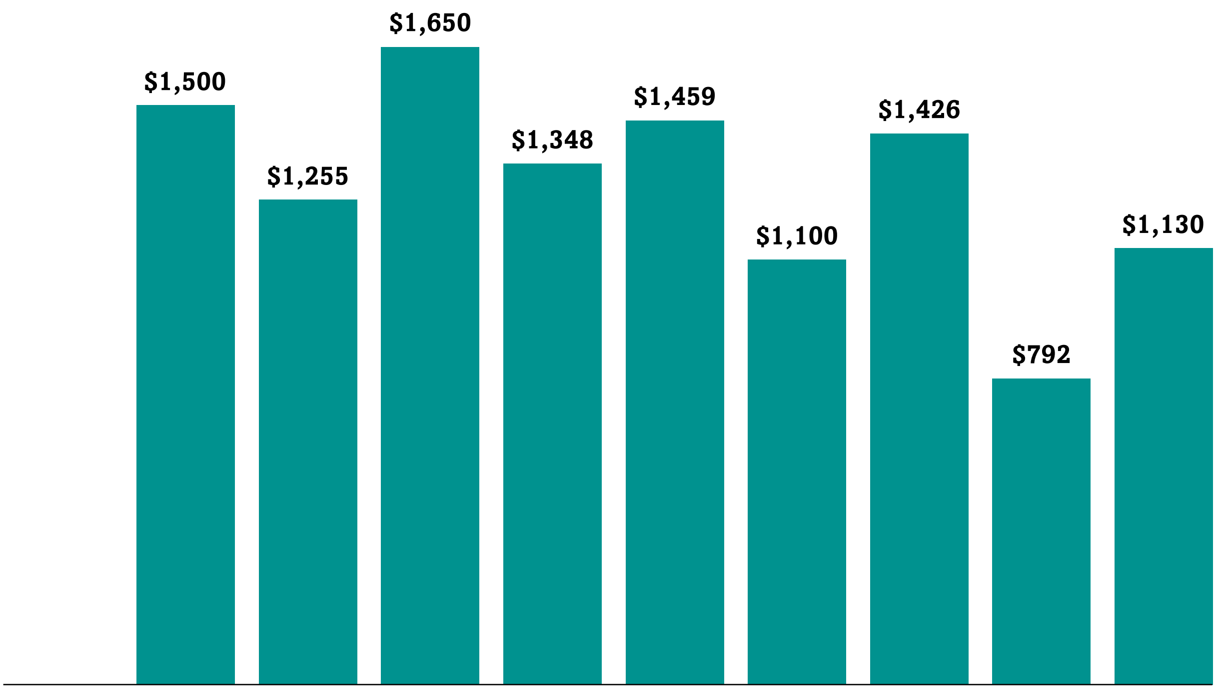
LGFA bonds on issue

Ko ngā pūtea taurewa pūmau kua tukuna e te LGFA

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

As 30 June 2020 : NZ$11,660 million

Includes NZ$800 million treasury stock



Maturity	**May 2021**	**Apr 2022**	**Apr 2023**	**Apr 2024**	**Apr 2025**	**Apr 2026**	**Apr 2027**	**Apr 2029**	**Apr 2033**
Coupon	6.00%	2.75%	5.50%	2.25%	2.75%	1.50%	4.50%	1.50%	3.50%
NZX Code	LGF040	LGF090	LGF050	LGF100	LGF070	LGF120	LGF060	LGF110	LGF080

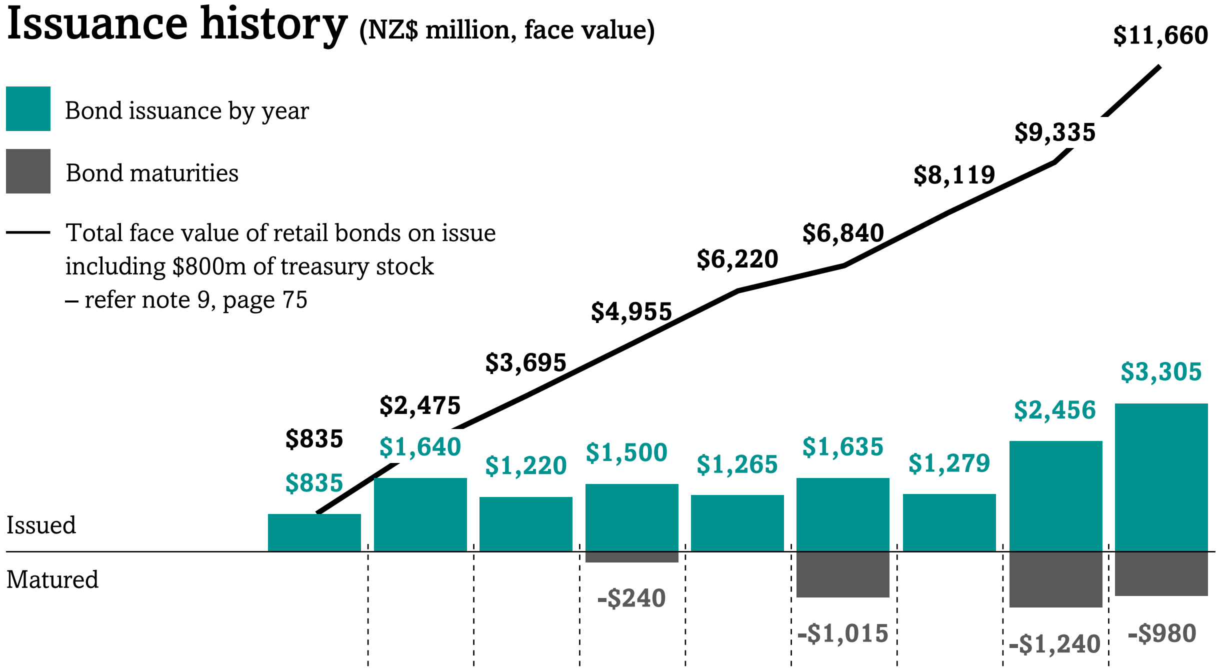
In addition to the retail bonds listed on the NZDX, LGFA have $130 million of Wholesale Floating Rate Notes on issue.

LGFA bond issuance

LGFA typically issues a new bond maturity via an initial syndication and then through ongoing regular scheduled tenders.

- Preferred bond tender sizes are between NZ$150 million to NZ$200 million with at least three maturities offered at each tender.
- LGFA bonds match NZ Government Bond maturities where possible for maturity and coupon and Approved Issuer Levy is paid on behalf of offshore holders.
- Target issuance of NZ$1 billion plus per series over time with a soft cap of $1.75 billion per series to support market liquidity.
- All bonds New Zealand dollar (NZD) to date, but have capability to issue non-NZD bonds if required.
- All LGFA bonds listed on NZX.

Issuance history (NZ$ million, face value)



Financial year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Average tender size (NZ$ million)	209	182	153	188	141	143	137	188	182
Average issuance term (years)	5.3	6.6	7.0	7.9	8.1	8.3	6.1	6.6	6.9

LGFA typically issues a new bond maturity each year

LGFA is the largest domestic issuer of NZD domestic bonds (excluding New Zealand Government)

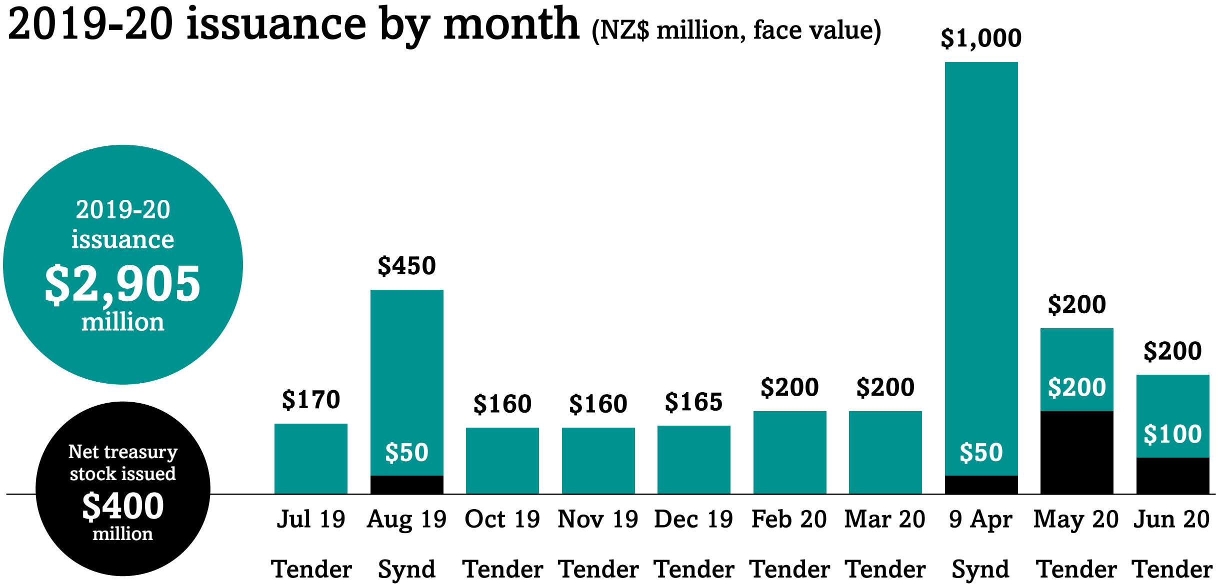
LGFA is the largest issuer of debt listed on the NZDX

2019-20 issuance by maturity (NZ$ million, face value)

LGFA bond issuance by bond maturity over the 12-month period to 30 June 2020

	May 21	Apr 22	Apr 23	Apr 24	Apr 25	Apr 26	Apr 27	Apr 29	Apr 33	Total
Tenders										
17 Jul 2019	-	60	-	60	-	-	-	-	50	170
2 Oct 2019	-	50	-	35	-	-	-	-	75	160
6 Nov 2019	-	40	-	40	30	-	-	-	50	160
11 Dec 2019	-	40	-	30	-	-	-	60	35	165
5 Feb 2020	-	75	-	50	-	-	-	75	-	200
11 Mar 2020	-	80	50	23	-	-	-	47	-	200
6 May 2020	-	50	50	-	-	-	50	-	50	200
3 Jun 2020	-	50	-	60	-	-	-	60	30	200
Total tender issuance	**-**	**445**	**100**	**298**	**30**	**-**	**50**	**242**	**290**	**1,455**
Syndication	**-**	**-**	**-**	**-**	**-**	**1,000**	**-**	**450**	**-**	**1,450**
Total 2019-20 issuance	**-**	**445**	**100**	**298**	**30**	**1,000**	**50**	**692**	**290**	**2,905**
Prior issuance	1,450	710	1,450	950	1,379	-	1,276	-	740	7,955
	1,450	**1,155**	**1,550**	**1,248**	**1,409**	**1,000**	**1,326**	**692**	**1,030**	**10,860**
Treasury stock	50	100	100	100	50	100	100	100	100	800
Total bonds on issue	**1,500**	**1,255**	**1,650**	**1,348**	**1,459**	**1,100**	**1,426**	**792**	**1,130**	**11,660**

2019-20 issuance by month (NZ$ million, face value)



	Jul 19	Aug 19	Oct 19	Nov 19	Dec 19	Feb 20	Mar 20	9 Apr	May 20	Jun 20
Tender coverage ratio	2.6x	n/a	2.3x	1.6x	1.8x	1.7x	1.3x	n/a	3.5x	1.5x
Weighted average yield	1.99	1.77	1.73	1.74	1.78	1.76	1.71	1.61	1.56	1.51

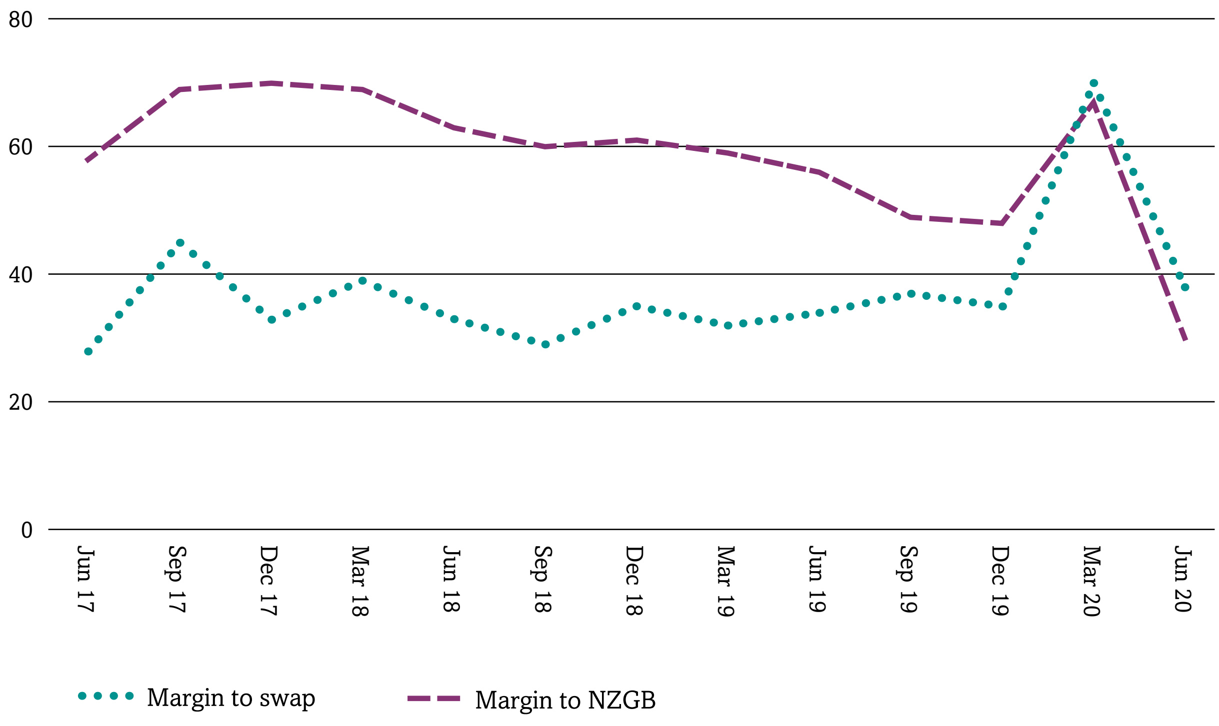
LGFA bond margins (basis points)

LGFA bond margins against swap and NZ government bonds (NZGB) as at 30 June 2020

Margin to swap	May 21	Apr 22	Apr 23	Apr 24	Apr 25	Apr 26	Apr 27	Apr 29	Apr 33
30 June 2019	15	22	30	37	41	n/a	46	n/a	67
30 June 2020	9	18	25	32	40	45	48	57	69
Annual change	6	4	5	5	1	n/a	(2)	n/a	(2)

Margin to NZGB	May 21	Apr 22	Apr 23	Apr 24	Apr 25	Apr 26	Apr 27	Apr 29	Apr 33
30 June 2019	35	36	42	59	65	n/a	70	n/a	92
30 June 2020	14	13	18	22	31	34	36	44	58
Annual change	21	23	24	37	34	n/a	34	n/a	34

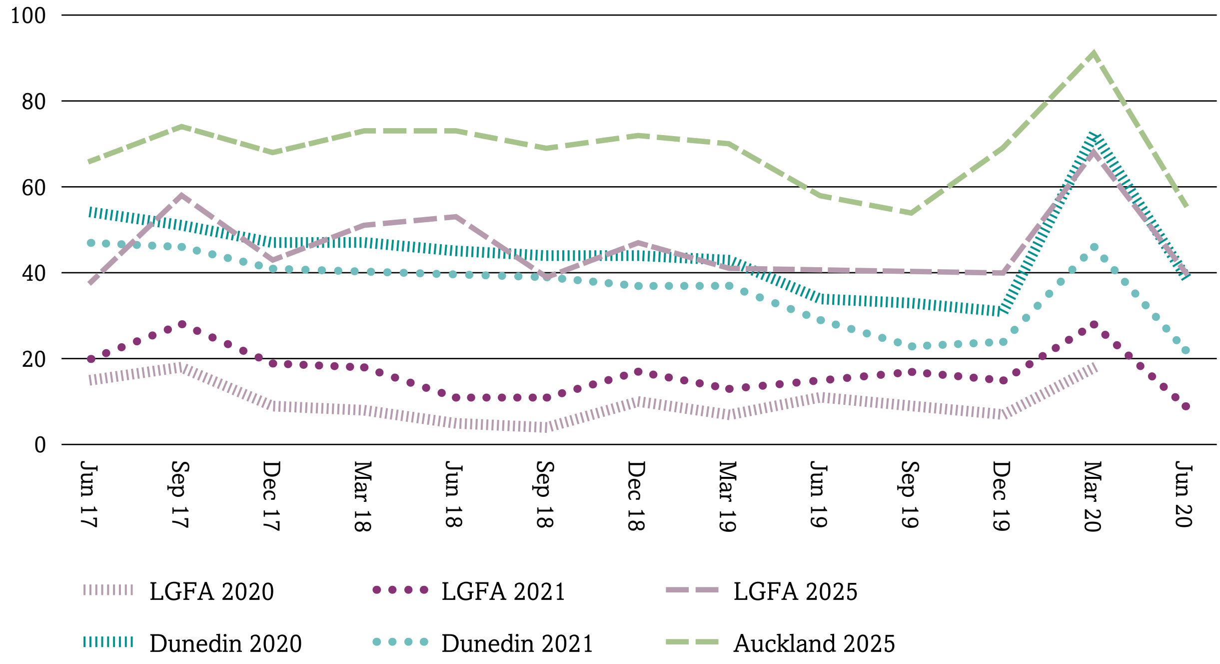
LGFA bond margins to swap over NZGB over the 36 months to 30 June 2020 (basis points)



Average of all LGFA bonds outstanding: Secondary market levels as at end of each month taken from end of month closing rate sheets published by NZ banks.

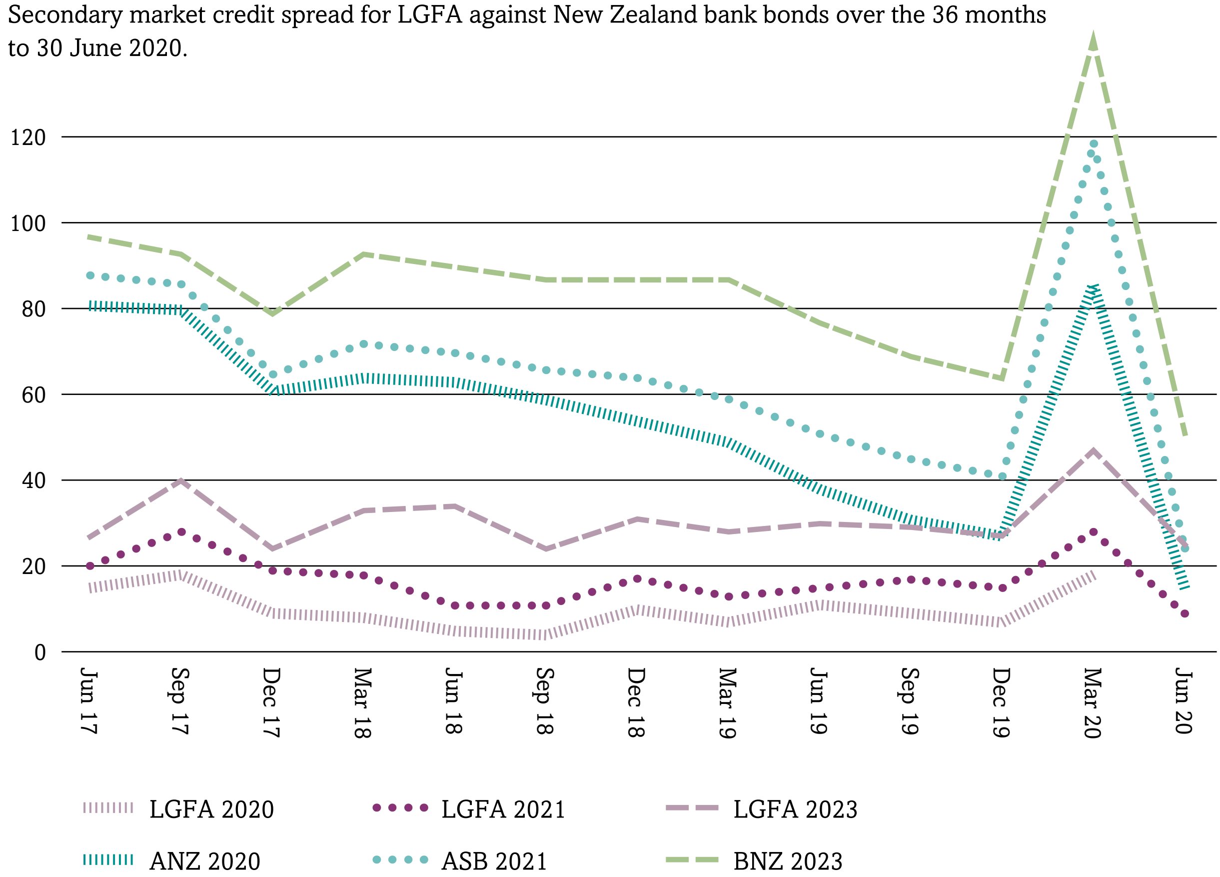
Secondary market credit spread to swap for LGFA and council bonds (basis points)

Secondary market credit spread for LGFA against Auckland Council and Dunedin City Council over the 36 months to 30 June 2020.

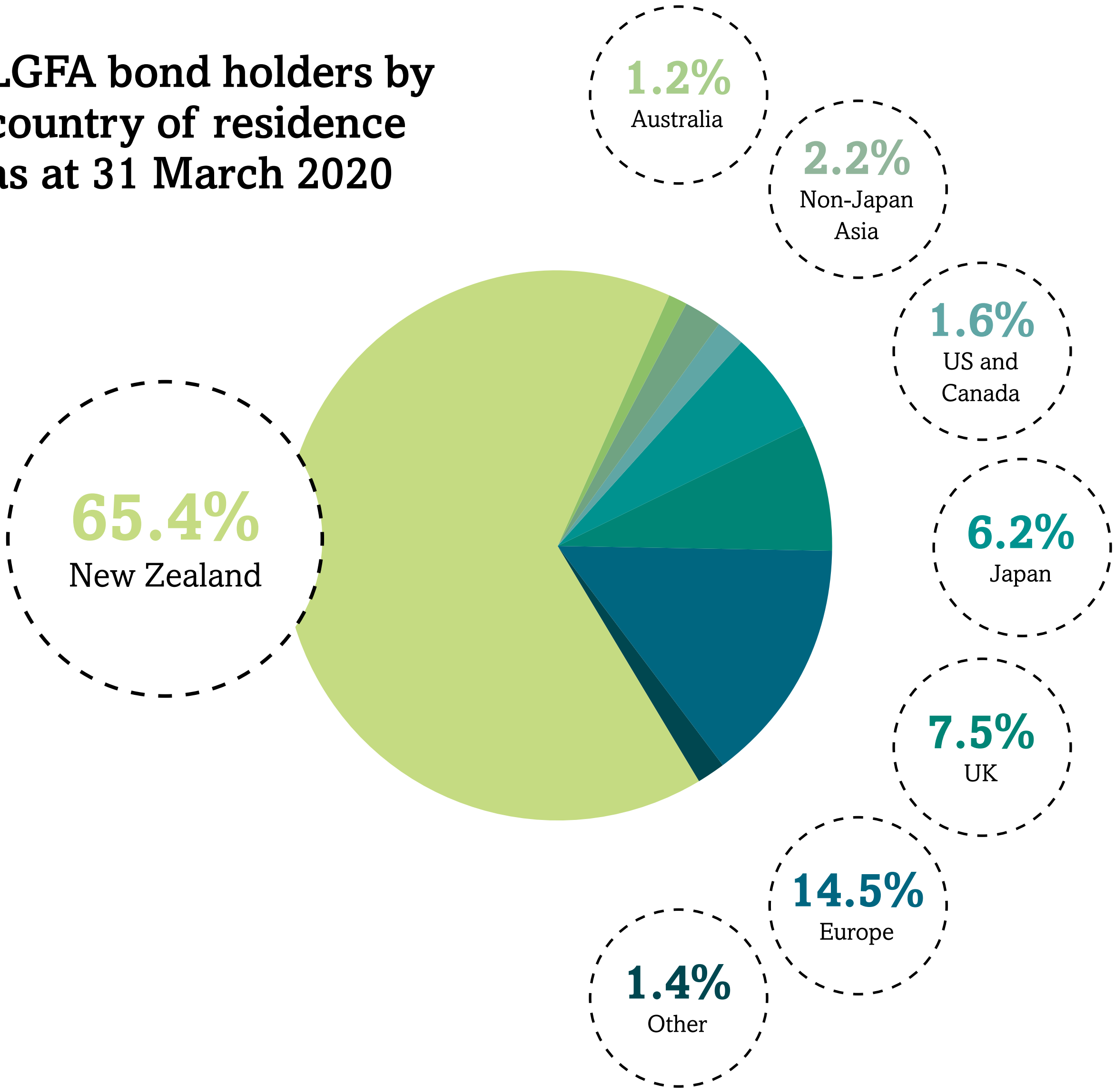


Secondary market credit spread to swap for LGFA and bank bonds (basis points)

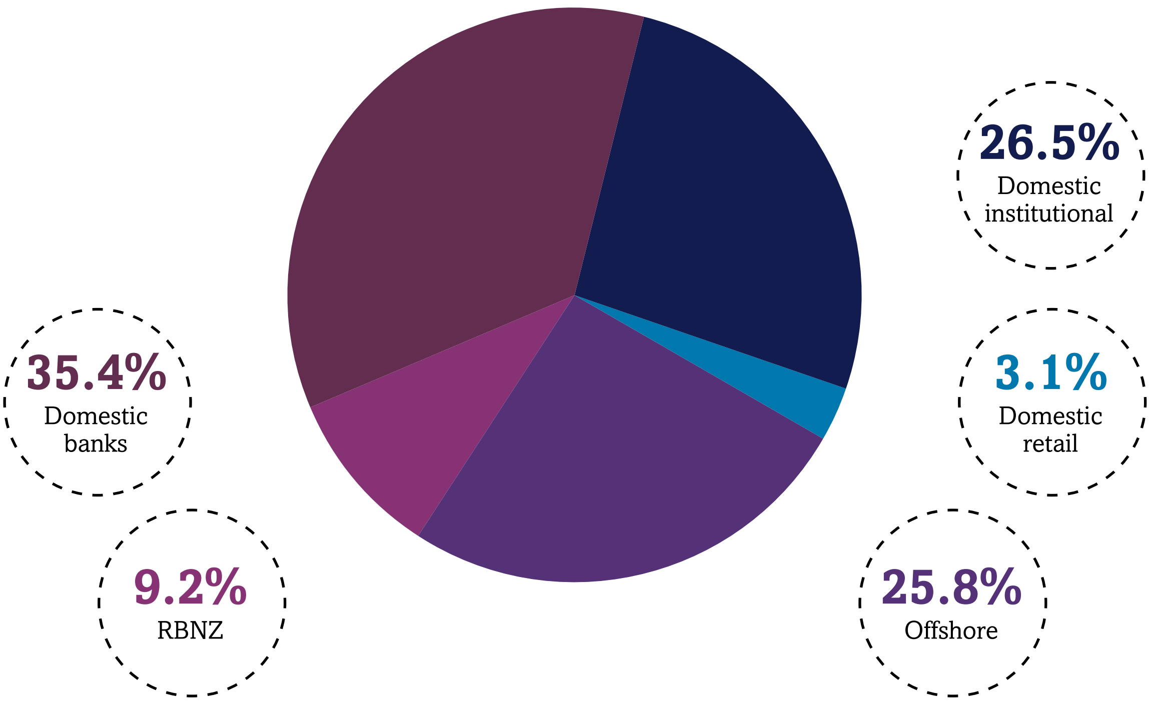
Secondary market credit spread for LGFA against New Zealand bank bonds over the 36 months to 30 June 2020.



LGFA bond holders by country of residence as at 31 March 2020



LGFA bond holders by investor group as at 30 June 2020



Member councils
Ko ngā kaunihera e noho mema ana

LGFA operates with the primary objective of optimising the debt funding terms and conditions for its member councils.

Among other things this includes:

- Providing savings in annual interest costs
- Offering short and long-term borrowings with flexible lending terms
- Enhancing the certainty of debt markets
- Being the funder of choice for New Zealand local government

To become a member council of LGFA, a council is required to complete a formal application. Following an application for membership, LGFA management completes a formal review of the council's financial position and its ability to comply with LGFA's financial covenants, which is considered by the LGFA Board who approve all council memberships. All member councils are required to complete a compliance certificate each year which certifies that the council has complied with LGFA's financial covenants. In addition, LGFA monitor all member councils' annual reports, annual plans and long term plans on an ongoing basis to ensure that the financial forecasts are consistent with the LGFA financial covenants.

As at 30 June 2020

30 member councils are shareholders

67 member councils were eligble to borrow from LGFA

54 member councils were guarantors of LGFA's securities obligations

Total member council borrowings at 30 June 2020

(NZ$ million)

Member type	Number of councils	Amount borrowed	% of total borrowings
Guarantors	54	10,736	98.8%
Non guarantors	13	133	1.2%
Total	**67**	**10,869**	**100%**

86%
LGFA's estimated market share of local government debt

Member	Amount borrowed	% of total borrowings
Auckland Council	2,757	25.4%
Christchurch City Council	1,924	17.7%
Wellington City Council	635	5.8%
Tauranga City Council	525	4.8%
Hamilton City Council	480	4.4%
Wellington Regional Council	425	3.9%
Rotorua District Council	217	2.0%
Hutt City Council	216	2.0%
Kapiti Coast District Council	210	1.9%
Tasman District Council	208	1.9%
57 other member councils	3,272	30.2%
Total face value	**10,869**	**100%**

Loans to Auckland Council are limited to a maximum of **40%** of total loans

Over the 12 months to 30 June 2020

53
member councils borrowed a total of
$2,328 million

Comprising **205**
individual term loans

With an average term of
5.4 borrowing years

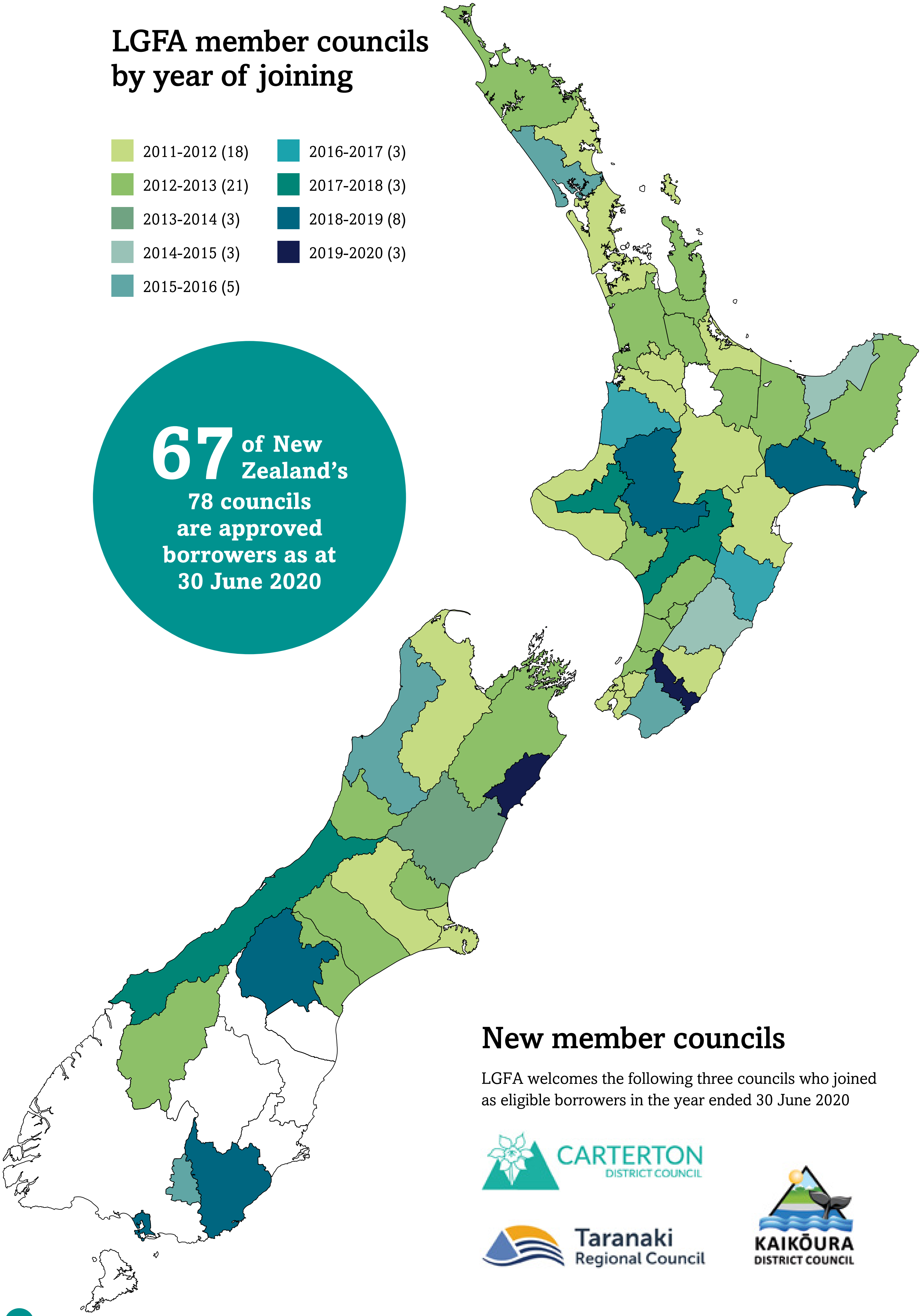
At 30 June 2020

$316 million
of short term loans were outstanding to
27 member councils

Member councils are required to comply with LGFA financial covenants at all times

LGFA member councils by year of joining

- 2011-2012 (18)
- 2012-2013 (21)
- 2013-2014 (3)
- 2014-2015 (3)
- 2015-2016 (5)
- 2016-2017 (3)
- 2017-2018 (3)
- 2018-2019 (8)
- 2019-2020 (3)



67 of New Zealand's 78 councils are approved borrowers as at 30 June 2020

New member councils

LGFA welcomes the following three councils who joined as eligible borrowers in the year ended 30 June 2020

CARTERTON DISTRICT COUNCIL

Taranaki Regional Council

KAIKŌURA DISTRICT COUNCIL

Member councils by year of joining

North Island

2011-12	Auckland Council	Shareholder
2011-12	Bay of Plenty Regional Council	Shareholder
2011-12	Greater Wellington Regional Council	Shareholder
2011-12	Hamilton City Council	Shareholder
2011-12	Hastings District Council	Shareholder
2011-12	Masterton District Council	Shareholder
2011-12	New Plymouth District Council	Shareholder
2011-12	South Taranaki District Council	Shareholder
2011-12	Taupo District Council	Shareholder
2011-12	Tauranga City Council	Shareholder
2011-12	Waipa District Council	Shareholder
2011-12	Wellington City Council	Shareholder
2011-12	Western Bay of Plenty District Council	Shareholder
2011-12	Whangarei District Council	Shareholder
2012-13	Far North District Council	Borrower and Guarantor
2012-13	Gisborne District Council	Shareholder
2012-13	Hauraki District Council	Shareholder
2012-13	Horowhenua District Council	Shareholder
2012-13	Hutt City Council	Shareholder
2012-13	Kapiti Coast District Council	Shareholder
2012-13	Manawatu District Council	Shareholder
2012-13	Matamata-Piako District Council	Borrower and Guarantor
2012-13	Palmerston North City Council	Shareholder
2012-13	Rotorua District Council	Borrower and Guarantor
2012-13	Thames-Coromandel District Council	Shareholder
2012-13	Waikato District Council	Borrower and Guarantor
2012-13	Whakatane District Council	Shareholder
2012-13	Whanganui District Council	Shareholder
2013-14	Horizons District Council	Borrower and Guarantor
2013-14	Upper Hutt City Council	Borrower and Guarantor
2014-15	Opotiki District Council	Borrower
2014-15	Porirua City Council	Borrower and Guarantor
2014-15	Tararua District Council	Borrower
2015-16	Kaipara District Council	Borrower and Guarantor
2015-16	South Wairarapa District Council	Borrower and Guarantor
2016-17	Central Hawkes Bay District Council	Borrower
2016-17	Northland Regional Council	Borrower
2016-17	Waitomo District Council	Borrower and Guarantor
2017-18	Rangitikei District Council	Borrower
2017-18	Stratford District Council	Borrower
2018-19	Hawkes Bay Regional Council	Borrower and Guarantor
2018-19	Ruapehu District Council	Borrower and Guarantor
2018-19	Waikato Regional Council	Borrower and Guarantor
2018-19	Wairoa District Council	Borrower
2019-20	Taranaki Regional Council	Borrower and Guarantor
2019-20	Carterton District Council	Borrower

South Island

2011-12	Christchurch City Council	Shareholder
2011-12	Otorohanga District Council	Shareholder
2011-12	Selwyn District Council	Shareholder
2011-12	Tasman District Council	Shareholder
2012-13	Ashburton District Council	Borrower and Guarantor
2012-13	Grey District Council	Borrower
2012-13	Marlborough District Council	Shareholder
2012-13	Nelson City Council	Borrower and Guarantor
2012-13	Queenstown Lakes District Council	Borrower and Guarantor
2012-13	Timaru District Council	Borrower and Guarantor
2012-13	Waimakariri District Council	Shareholder
2013-14	Hurunui District Council	Borrower and Guarantor
2015-16	Buller District Council	Borrower
2015-16	Canterbury Regional Council	Borrower and Guarantor
2015-16	Gore District Council	Borrower
2017-18	Westland District Council	Borrower
2018-19	Clutha District Council	Borrower
2018-19	Invercargill City Council	Borrower and Guarantor
2018-19	Mackenzie District Council	Borrower
2018-19	West Coast Regional Council	Borrower
2019-20	Kaikoura District Council	Borrower

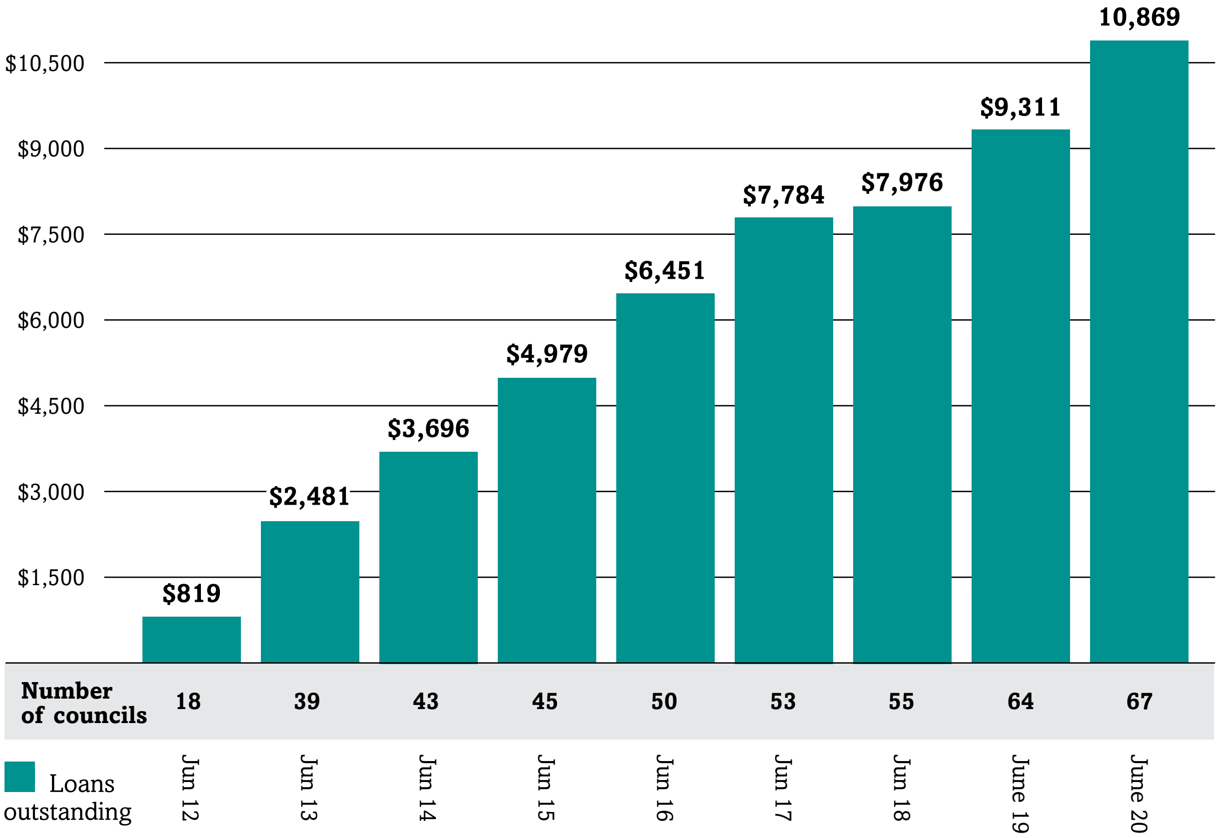
88%
of LGFA loans are to councils with credit ratings of
AA-
or better as at 30 June 2020

30
member councils have credit ratings (A+ to AA+ range)

LGFA assign internal credit ratings for all councils, including all councils without extrernal credit ratings.

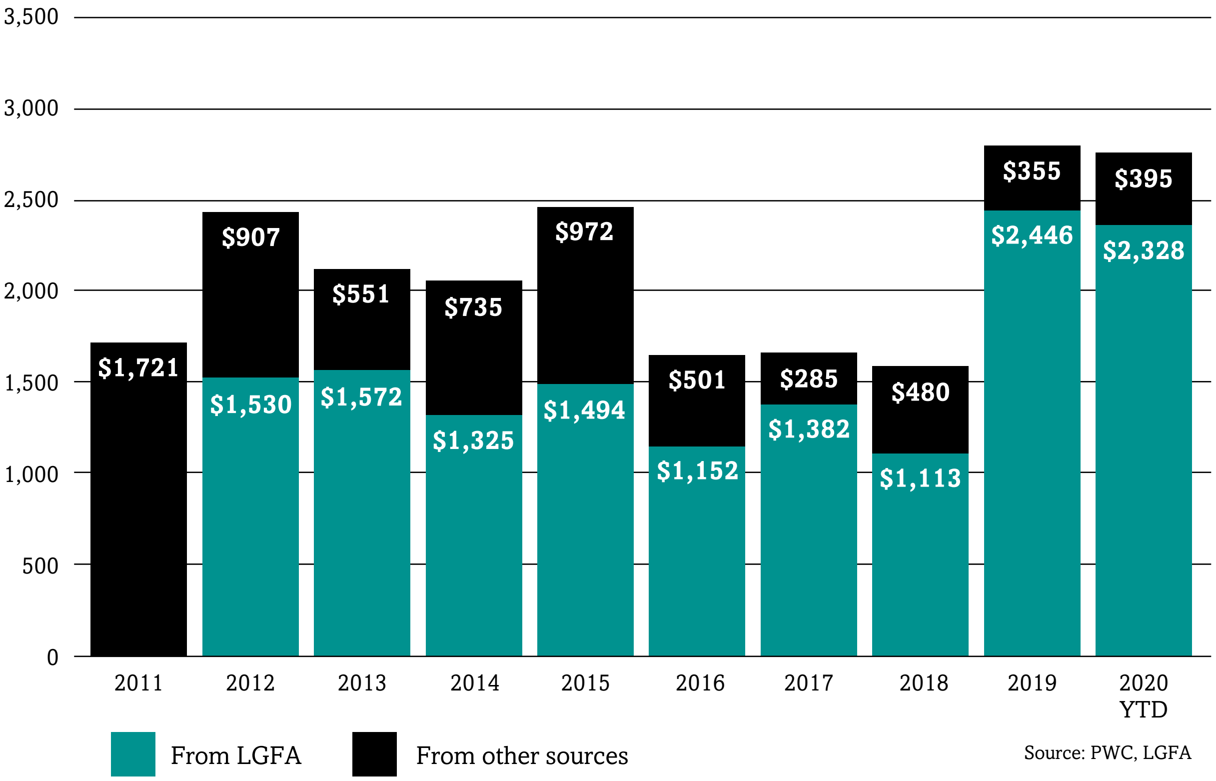
LGFA council members and nominal loans outstanding

(NZ$ million)



Councils' borrowing

All councils (NZ$ million) calendar year



Source: PWC, LGFA

Upgrading the Great Lake Pathway, Taupo
Taupo District Council

Sustainability at LGFA
Toitūtanga ki te LGFA

LGFA was established with the primary objective of optimising the debt funding terms and conditions for our member councils. Key to achieving this objective is that we conduct our affairs in accordance with sound business practice, while having regard to the interests of the community and by exhibiting a sense of social and environmental responsibility, as well as being a good employer.

This year's annual report is our first to have been prepared to under the Global Reporting Initiative (GRI) sustainability reporting standards which are the most widely adopted global standards for sustainability reporting. This report has been prepared in accordance with the GRI Standards: Core option.

In 2019, LGFA engaged Proxima, an independent sustainability consultancy, to work with staff and directors to undertake an analysis of material sustainability issues relevant to our business and key stakeholders. Following a series of internal workshops, including discussions with key stakeholders, we determined our material topics. Material topics are those issues that reflect our significant economic, environmental, and social impacts or that substantively influence the assessments and decisions of our stakeholders.

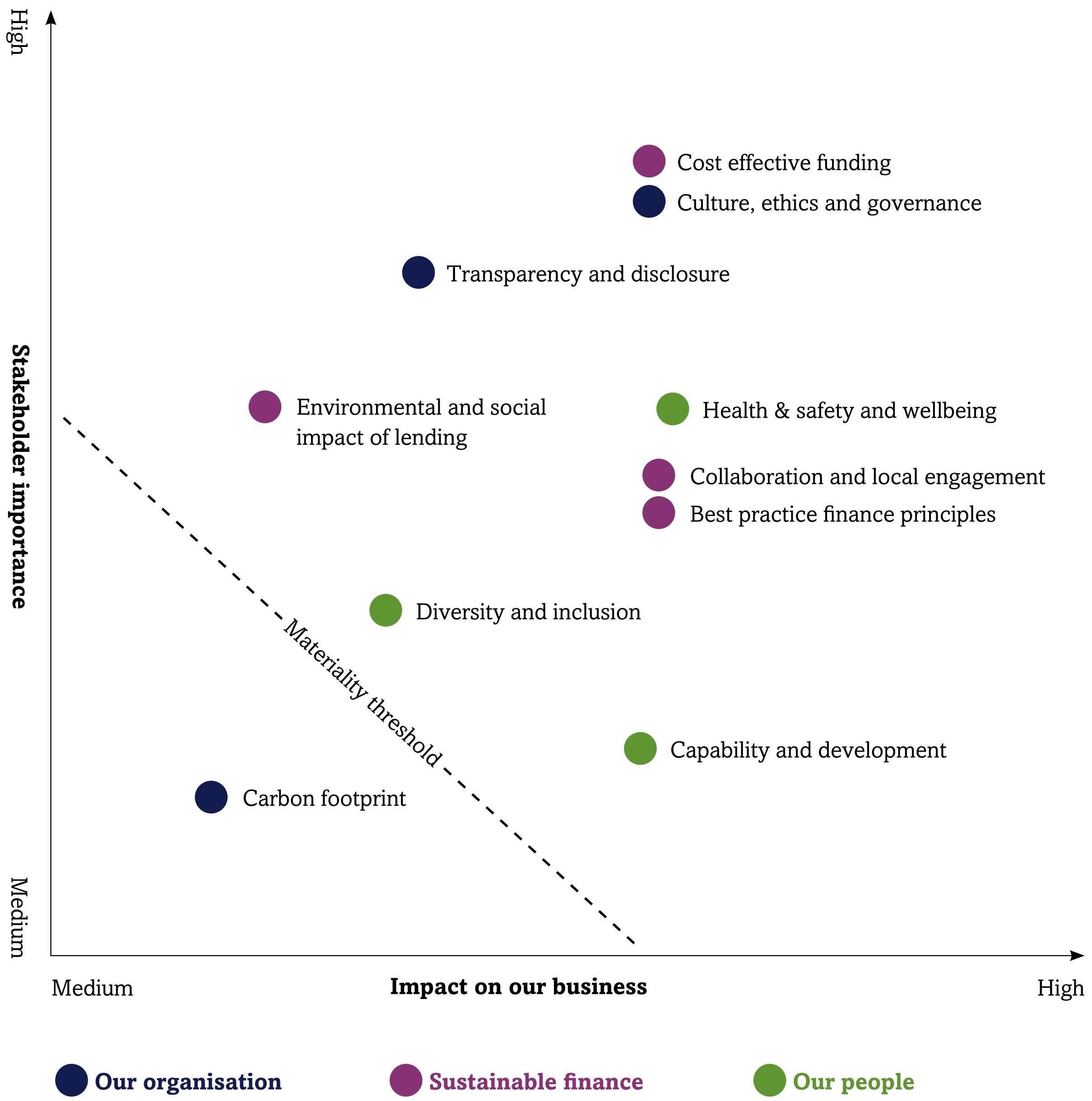
LGFA's ten material topics are grouped under three overarching principles.

Our organisation	Sustainable finance	Our people
Culture, ethics and governance	Cost effective funding	Health & safety and wellbeing
Transparency and disclosure	Environmental and social impact of lending	Diversity and inclusion
Carbon footprint	Collaboration and local engagement	Capability and development
	Best practice finance principles	

LGFA's materiality matrix

LGFA's materiality matrix depicts the outcome of our materiality analysis and is prioritised by stakeholder importance and the estimated impact on our business or on society. The prioritisation of these material topics will assist us to review our management approach and assess where we can improve over time.

Our approach and performance on each material topic can be found in this Annual Report and are referenced in the GRI Index on page 85.



In 2020, LGFA made a donation to **Kauri 2000** to offset carbon for air travel kilometres by staff. **Kauri 2000** was established in 1999 as a project to celebrate the start of the new millennium by planting 2000 kauri on the Coromandel Peninsula. To date the Trust has planted over 50,000 trees and continues to plant kauri throughout the Coromandel.

LGFA's material topics

In order of priority

Our organisation **Sustainable finance** **Our people**

Cost effective funding

- Delivery of lower cost funding
- Access to longer term funding
- Ongoing contribution to NZ Capital Markets
- NZX listing

Transparency and disclosure

Transparency and disclosure are essential for shareholder, rating agencies and investor confidence and codified through:

- Shareholders' agreement
- NZX listing rules
- Financial accounting standards
- Regulatory compliance

Health & safety and wellbeing

- Compliance with Health and Safety at Work Act 2015
- Health and safety committee and regular reporting to Board
- Flexible workplace

Best practice finance principles

- Knowledge sharing
- Audit and risk independence
- Best practice risk management framework
- Credit metrics
- External rating / lower margin borrowing
- Operational excellence
- Product and process improvement
  - CCO lending
  - Bills
  - Flexible maturities
  - Standby facilities

Carbon footprint

- Air travel kilometres travelled offset by donation to Kauri 2000.
- Paperless office – use electronic where possible for transaction recording.
- Physical offices – minimal impact given small size
- Video links reduce need for physical travel
- Compliance with Climate Change Response (Zero Carbon) Amendment Act 2019

Culture, ethics and governance

High ethical standards required and codified through:

- NZX Corporate Governance Code
- Code of Ethics
- Code of Conduct
- Board Charter
- ARC Charter

Environmental and social impact of lending

- Development of green financing option for councils
- Lower cost financing promotes greater ability for councils to fund green/social impact projects

Collaboration and local engagement

- Industry sponsor – Kanganews and SOLGM
- Infrastructure funding development liaison with Crown and industry
- Productivity Commission
- LGNZ
- Regular engagement with council employees and elected officials

Diversity and inclusion

- Diversity policy and reporting
- Equal opportunity
- Māori language plan
- Flexible working

Capability and development

- Regular attendance for staff and directors at industry training and conference events

Construction underway on the new $27 million Whau Valley Treatment Plant
Whangarei District Council

Green, social and sustainability lending

Ko te tuku pūtea taurewa mā te taiao, mā te hapori, mā te toitūtanga

A commitment to assist councils finance projects that promote environmental and social wellbeing in New Zealand.

LGFA recognises the risks inherent in climate change at the national and regional level and wishes to support New Zealand's shift to a low-carbon economy. LGFA also recognises it has a role to play in New Zealand's contribution to meeting the United Nations Sustainable Development Goals (SDGs) and helping its council members to build a stronger and more resilient society.

One of the principal objectives of LGFA, being a Council Controlled Organisation, under the Local Government Act 2002, is to exhibit a sense of social and environmental responsibility and LGFA acknowledges the future importance of assisting its council members by financing projects that promote environmental and social wellbeing in New Zealand and progress the SDGs.

LGFA has commenced consulting with member councils on the feasibility of establishing a future loan program that will enable councils to undertake green, social and sustainability projects that will help drive forward ambitious climate, environmental and social projects in the New Zealand local government sector. The loans will be Green, Social or Sustainable (GSS Loans).

Green, social and sustainability loans

Any future GSS lending program would be underpinned by a framework that encompasses evaluation and eligibility criteria, transparency of disclosures and reporting and ongoing independent external review.

The criteria for GSS lending would include projects that are able to provide a proven reduction in energy consumption and/or greenhouse gas emissions, that strengthen the level of local adaptation to challenges posed by climate change, or that have an identified social objective. These projects would target requirements higher than the minimum requirements in the relevant legislation and have explicit climate, environmental, social or sustainable ambitions.

File 1 - Page 108

Pipe replacement on Queens Drive, Invercargill.
Invercargill City Council

GSS lending would support councils with financing across a wide range of projects that promote achievement across the following green and social project categories:

Green Categories	Social Categories
Renewable Energy	Affordable Basic Infrastructure
Energy Efficiency	Access to Essential Services
Pollution Prevention and Control	Affordable Housing
Environmentally Sustainable Management of Living Natural Resources and Land Use	Employment Generation Including through the Potential Effect of SME Financing and Microfinance
Terrestrial and Aquatic Biodiversity Conservation	Food Security
Clean Transport	Socioeconomic Advancement and Empowerment
Sustainable Water and Wastewater Management	
Climate Change Adaptation	
Eco-efficient and/or Circular Economy Adapted Products, Production Technologies and Processes	
Green Buildings	

As at the date of this report, work is progressing on consulting councils on the development of a framework. This project is scheduled to be completed in the coming year, the outcome of which will form part of our 2021 Annual Report.

Corporate governance
Ārahitanga ā-rangatōpū

NZX Corporate Governance Best Practice Code

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

LGFA is a listed issuer on the NZX Debt Market and this section sets out LGFA's compliance with the eight core principles underpinning the NZX Corporate Governance Best Practice Code 2020.

LGFA considers that its governance practices have not materially differed from the NZX Code for the year ended 30 June 2020. Areas where LGFA has implemented alternative measures to the Code are as follows:

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

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

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

Principle 1
Code of ethical behaviour

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

Code of Ethics

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

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

The Code of Conduct Policy requires employees and directors to carry out their roles while maintaining high standards of integrity and conduct by clearly setting out standards for expected behaviour. In addition, the policy sets out LGFA's commitment to behave in a fair and reasonable manner to employees, while providing a fair and safe working environment.

Protected Disclosures and Whistle Blowing

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

Financial Products Trading Policy

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

Principle 2
Board composition and performance

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

LGFA Board Charter

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

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

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

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

Board composition

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

The directors of LGFA as at 30 June 2020:

Craig Stobo
Independent Chair

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

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

John Avery
Independent Director

LLB, C.F.Inst.D

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

Philip Cory-Wright

Independent Director

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

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

Linda Robertson

Independent Director

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

Linda Robertson is a professional company director with over 20 years of governance experience and more than 30 years' experience in executive finance roles having worked in the banking and energy sector in New Zealand. Linda is currently chair of Central Lakes Trust and Crown Irrigation Investments, and a director of Dunedin City Holdings Limited, Dunedin City Treasury Limited and Dunedin Stadium Properties Limited. She is chair of the Audit and Risk Committee for the Central Otago District Council, a member of the Board of AWS Legal, a member of the Risk and Audit Committee for The Treasury and a member of the Capital Markets Advisory Committee for The Treasury.

Mike Timmer

Non-Independent Director

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

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

Anthony Quirk

Independent Director

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

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

Directors and staff interests as at 30 June 2020

Craig Stobo (Chair)

Director

Precinct Properties New Zealand Limited (Chair and shareholder)

Elevation Capital Management Limited (Chair and shareholder)

Saturn Portfolio Management Limited (Chair and shareholder)

Stobo Group Limited (Managing Director and shareholder)

AIG Insurance NZ Limited (Chair)

SouthWest Trustees Limited (Shareholder)

Appello Services Limited

Biomarine Group Limited (Chair and shareholder)

Legend Terrace Limited (Chair and shareholder)

John Avery

Director

Strategic Pay Limited

General disclosure

Royal New Zealand Ballet (Trustee)

Philip Cory-Wright

Director

South Port New Zealand Limited

Matariki Forest Group Limited

Powerco Limited

Papa Rererangi i Puketapu (New Plymouth Airport) (Chairman)

Anthony Quirk

Director

Milford Asset Management Limited (and associated subsidiaries) (Non-Executive Director and shareholder)

Compass Housing NZ (Deputy Chair)

Humanitix, New Zealand (Chair)

Linda Robertson

Director

Dunedin City Holdings Limited

Dunedin City Treasury Limited

Dunedin Stadium Property Limited

Central Lakes Trust (Chair) and associated subsidiaries.

Crown Irrigation Investments Limited (Chair)

General disclosure

Capital Markets Advisory Committee, The Treasury (Member)

Risk & Audit Committee, The Treasury (Member)

Audit & Risk Committee, Central Otago District Council (Chair)

Board, AWS Legal (Member)

Mike Timmer

General disclosure

Greater Wellington Regional Council (Officer)

Finance Committee, Physiotherapy New Zealand (Chairman)

Whanganui District Council Risk & Audit Committee (Member)

Mark Butcher – Chief Executive

New Plymouth PIF Guardians Limited (Chair)

Waikato-Tainui Group Investment Committee (Chair)

Nominating Committee for Guardians of New Zealand Superannuation (Member)

Neil Bain – Chief Financial Officer

Audit & Risk Committee, Central Hawkes Bay District Council (Chair)

Nomination of Directors

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

Retirement and re-election of Directors

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

Director tenure

As at 30 June 2020

Director	Originally appointed	Last reappointed/ elected	Tenure	Next reappointment
Craig Stobo (Chair)	1 December 2011	21 November 2017	8 years, 7 months	November 2021
John Avery	1 December 2011	21 November 2018	8 years, 7 months	November 2022
Philip Cory-Wright	1 December 2011	24 November 2016	8 years, 7 months	November 2020
Anthony Quirk	21 November 2017	21 November 2017	2 years, 7 months	November 2021
Linda Robertson	24 November 2015	21 November 2019	4 years, 7 months	November 2023
Mike Timmer	24 November 2015	21 November 2019	4 years, 7 months	November 2020

Board performance review

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

Director and staff capability

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

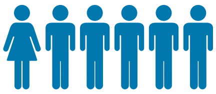
Diversity

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

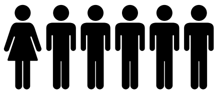
LGFA has formally adopted a Diversity Policy which applies to both LGFA employees and directors. Diversity and inclusiveness at LGFA involves recognising the value of individual differences and managing them in the workplace. Diversity in this context covers gender, age, ethnicity, cultural background,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

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

Gender diversity of directors

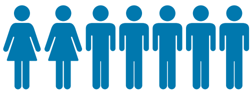


2020
Female 1, Male 5

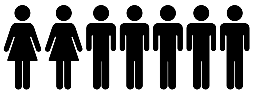


2019
Female 1, Male 5

Gender diversity of employees



2020
Female 2, Male 5



2019
Female 2, Male 5

Indemnities and insurance

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

Principle 3
Board committees

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

Audit and Risk Committee

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

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

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

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

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

Principle 4
Reporting and disclosure

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

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

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

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

The GRI sustainability reporting standards are the most widely adopted global standards for sustainability reporting and this year's annual report is our first to have been prepared to meet the requirements of the Global Reporting Initiative (GRI) Standards (core option).

Principle 5
Remuneration

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

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

Board remuneration is determined by an Ordinary Resolution of shareholders. The current board remuneration was approved by shareholder resolution at the Annual General Meeting on 21 November 2019.

Director annual fee breakdown

Position. Fees per annum	2020	2019
Board Chair	$102,000	$97,000
Audit and Risk Committee Chair	$63,000	$60,000
Director / ARC Member	$59,000	$55,000
Director	$57,000	$55,000

Director remuneration

Director	2020
Craig Stobo	$102,000
John Avery	$57,000
Philip Cory-Wright	$59,000
Anthony Quirk	$59,000
Linda Robertson	$63,000
Mike Timmer	$59,000
Total	**399,000**

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

The CEO remuneration package comprises a fixed cash component of $530,000 per annum as at 30 June 2020 ($530,000, 2019) and an at-risk short-term incentive of the fixed cash component. The short-term incentive payment is made annually at the Board's discretion subject to the CEO and LGFA meeting a range of specific performance objectives for the respective financial year.

Chief Executive remuneration

Position. Fees per annum	2020	2019
Salary	530,000	530,000
Taxable benefits	-	-
Subtotal	530,000	530,000
Pay for Performance STI	79,500	71,500
Kiwisaver Employer Contribution	24,000	24,000
Total remuneration	609,500	601,550

Staff remuneration

Total remuneration	2020
$140,000 to $149,999	1
$170,000 to $179,999	1
$180,000 to $189,999	1
$260,000 to $269,999	1
$300,000 to $309,999	1
$600,000 to $609,999	1
Total staff receiving $100,000 or more	**6**

Principle 6
Risk management

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

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

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

A detailed description of LGFA's risk management processes, including managing treasury exposures, is detailed in the Managing Risk section of this report.

Internal audit

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

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

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

Health and safety

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

Principle 7
Auditors

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

External audit

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

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

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

Principle 8

Shareholder rights and relations

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

LGFA has 31 shareholders, comprising the New Zealand Government (20%) and the following 30 councils

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

Foundation documents

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

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

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

LGFA Shareholders' Council

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

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

Members of the Shareholders' Council as at 30 June 2020

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

Managing risk

Ko te whakahaere tūraru

An effective risk management framework is a critical component of LGFA's business structure as the company is exposed to business and treasury related risks as a result of its normal business activities in relation to raising and on-lending funds to local councils.

The objective of LGFA's risk management function is to ensure that effective controls and frameworks are implemented to ensure that risks are managed effectively and in compliance with LGFA's governance and legislative requirements. The risk management function ensures that LGFA can achieve its objectives, as set out in the Statement of Intent, in a manner that is consistent with the risk appetite of the company's shareholders and Board.

The objective of LGFA's risk management framework is to ensure that the organisation operates within shareholder and Board-approved risk limits. LGFA's approach to risk management is based on the following core elements:

- The LGFA Board oversees the risk appetite of the organisation and ensures that it is consistent with the constitution and shareholders' agreement.
- The risk appetite is reflected in policies that are approved by the LGFA Board and Audit and Risk Committee, as defined by the LGFA register of policies.
- LGFA management ensures that policies and controls are implemented and maintained to ensure that all relevant risks are identified, monitored, measured and managed.
- The Internal Audit (IA) and risk and compliance function provide assurance to both the Board and the Audit and Risk Committee on the performance of internal controls and risk management systems that are in place.

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

- The 1st line of defence establishes risk ownership within the business and is represented by the operational risk and control processes within the business. Business managers are responsible for identifying controls, maintaining effective controls and mitigating risks.
- The 2nd line of defence establishes risk control within the organisation by ensuring that risks are actively and appropriately managed by processes such as the regular review of risk reports and compliance monitoring against the risk management framework.
- The 3rd line of defence establishes independent assurance on the risk governance framework provided by both the internal and external audit functions which review and highlight control weaknesses and inefficiencies to management and the Board.

LGFA risk register

The LGFA risk register is a key component of the company's risk management framework.

The key objective of the LGFA risk register is to ensure that the company assesses the inherent risks faced by the business on an ongoing basis.

The risk register:

- Identifies the inherent risks that LGFA is exposed to when conducting its core business activities;
- Provides an assessment of the likelihood and potential impact of the inherent risks on the business;
- Describes the internal control framework and management processes that are in place to manage and mitigate the identified inherent risks;
- Provides commentary on internal audit coverage of the identified inherent risks; and
- Assesses the likelihood and impact of the residual risks.

The LGFA risk register is reviewed quarterly by management and at each meeting of the Audit and Risk Committee.

Treasury risk management

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

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

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

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

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

Liquidity risk

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

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

Interest rate risk / market risk

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

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

- **Value at Risk** calculates the potential amount LGFA's portfolio could be expected to lose 5% of the time over a given time period. It is calculated using historical changes in underlying risk variables and applying those changes to the current portfolio.

LGFA measures VaR over a daily time horizon with a 95% confidence interval. A daily 95% VaR exposure of $1 million means that there is a 5% chance that the portfolio could potentially lose more than $1 million over the next business day.

- **Partial Differential Hedge** measures the sensitivity of a portfolio to a one basis point change in underlying interest rates. For example, a PDH of NZD$100,000 means that the portfolio value will increase by NZD$100,000 for a one basis point fall in interest rates.

In addition, LGFA also undertakes scenario analysis to model the potential effect of changing market environments on the balance sheet.

Counterparty credit risk

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

Counterparty credit risk is managed through counterparty limits for investments. These are determined as a function of the term of investment, liquidity and credit quality of the counterparty (as measured by credit rating).

Counterparty risk on derivative contracts is mitigated by transacting all derivative trades through the Treasury (New Zealand Debt Management) as the counterparty.

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

Foreign currency risk

Foreign currency risk is the risk of an adverse change in the fair value of a financial instrument due to a change in foreign exchange rates.

Exposure to foreign currency risk could exist if LGFA accesses foreign capital markets for funding purposes. To date, all funding has been sourced through New Zealand domestic currency.

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

Operational risk

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

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

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

Lending risk

As at 30 June 2020, LGFA provides debt funding solely to New Zealand Local Government councils. The Local Government borrowing counterparty will be the Council itself and will not be any Council-Controlled Organisation, Council-Controlled Trading Organisation, Council joint venture or partially owned entity.

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

All Local Authorities that borrow from LGFA:

- Provide debenture security in relation to their borrowing from LGFA and related obligations, and (if relevant), equity commitment liabilities to LGFA and (if relevant) guarantee liabilities to a security trustee approved for LGFA's creditors.
- If the principal amount of a Local Authority's borrowings is at any time equal to, or greater than, NZD 20 million, then it is required to become a party to a deed of guarantee and an equity commitment deed.
- Issue securities (bonds/floating rate notes/commercial paper) to LGFA (ie. not enter into facility arrangements).
- Comply with their own internal borrowing policies.

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

Financial covenants are measured on a parent council only basis, not consolidated group, unless requested by a parent council and approved by the LGFA board.

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

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

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

On 30 June 2020 a Special General Meeting of Shareholders approved a change to the Net Debt/Total Revenue covenant contained within the Foundation Policy Covenants. For the financial year ending June 2020 a covenant limit of 250% applies. This increases to 300% for the June 2021 and June 2022 years and then reduces by 5% for each of the subsequent years until 280% applies from the June 2026 year.

Financial statements
Nga taukī pūtea

In the opinion of the directors of the New Zealand Local Government Funding Agency Limited, the financial statements and notes on pages 55 to 77:

- Comply with New Zealand generally accepted accounting practice (GAAP), New Zealand equivalents to International Financial Reporting Standards (NZIFRS) as appropriate for profit-oriented entities and give a true and fair view of the financial position of the Company as at 30 June 2020, and
- Have been prepared using appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.
- The directors believe that proper accounting records have been kept which enables, with reasonable accuracy, the determination of the financial position of the Company and facilitates the compliance of the financial statements with the Financial Markets Conduct Act 2013 and the Financial Reporting Act 2013.

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

For and on behalf of the Board of Directors

Craig Stobo
Chair, LGFA Board
28 August 2020

Linda Robertson
Chair, Audit and Risk Committee
28 August 2020

Statement of comprehensive income

For the year ended ended 30 June 2020 in $000s

	Note	Year ended 2020	Year ended 2019
Interest income			
Cash and cash equivalents		394	490
Marketable securities		4,462	4,118
Deposits		6,341	3,887
Derivatives		152,621	104,568
Loans		206,402	248,015
Fair value hedge ineffectiveness	2c	-	-
Total interest income		**370,220**	**361,078**
Interest expense			
Bills		6,632	9,519
Bond repurchase transactions		590	358
Lease liability		22	-
Bonds		341,783	328,907
Borrower notes		2,914	3,535
Total interest expense		**351,941**	**342,319**
Net interest income		**18,279**	**18,759**
Operating expenses			
Issuance and on-lending expenses	3	3,971	4,287
Operating expenses	4	3,685	3,271
Total expenses		**7,657**	**7,558**
Net operating profit		**10,623**	**11,201**
Total comprehensive income		**10,623**	**11,201**

Statement of changes in equity

For the year ended 30 June 2020 in $000s

	Note	Share capital	Retained earnings	Total equity
Equity as at 30 June 2018		**25,000**	**39,290**	**64,290**
Adjustment on adoption of NZ IFRS 9			(57)	(57)
Net operating profit			11,201	11,201
Total comprehensive income for the year			11,201	11,201
Transactions with owners			-	-
Dividend paid on 7 September 2018			(1,285)	(1,285)
Equity as at 30 June 2019		**25,000**	**49,149**	**74,149**
Net operating profit			10,623	10,623
Total comprehensive income for the year			10,623	10,623
Transactions with owners			-	-
Dividend paid on 6 September 2019			(1,155)	(1,155)
Equity as at 30 June 2020	**11**	**25,000**	**58,616**	**83,616**

Statement of financial position

As at 30 June 2020 in $000s

	Note	2020	2019
Assets			
Financial assets			
Cash and bank balances		165,826	56,198
Marketable securities		589,124	255,715
Deposits		499,824	136,216
Derivatives in gain	2d	1,018,775	622,559
Loans	5	10,899,756	9,310,617
Non-financial assets			
Prepayments		642	570
Other assets	12	419	457
Total assets		**13,174,365**	**10,382,332**
Equity			
Share capital	11	25,000	25,000
Retained earnings		58,616	49,149
Total equity		**83,616**	**74,149**
Liabilities			
Financial liabilities			
Payables and provisions		705	563
Bills	6	647,021	503,225
Bond repurchases	9	202,755	24,625
Derivatives in loss	2d	19,075	12,926
Bonds	7	12,038,468	9,612,394
Borrower notes	8	182,272	154,168
Non-financial liabilities			
Other liabilities		453	282
Total liabilities		**13,090,748**	**10,308,183**
Total equity and liabilities		**13,174,365**	**10,382,332**

Statement of cash flows

For the year ended 30 June 2020 in $000s

	Note	Year Ended 2020	Year Ended 2019
Cash Flow from Operating Activities			
Cash applied to loans		(1,556,491)	(1,330,360)
Interest paid on bonds issued		(381,666)	(385,850)
Interest paid on bills issued		(6,609)	(9,516)
Interest paid on borrower notes		(745)	(2,874)
Interest paid on bond repurchases		(333)	(341)
Interest received from loans		223,829	244,079
Interest received from cash & cash equivalents		372	490
Interest received from marketable securities		6,729	3,742
Interest received from deposits		5,713	4,786
Net interest on derivatives		171,367	160,664
Payments to suppliers and employees		(7,452)	(7,420)
Net cash flow from operating activities	10	**(1,545,287)**	**(1,322,601)**
Cashflow from Investing Activities			
Purchase of marketable securities		(335,676)	(24,513)
Purchase of deposits		(362,980)	64,000
Net Cashflow from Investing Activities		**(698,656)**	**39,487**
Cashflow from Financing Activities			
Cash proceeds from bonds issued		2,146,925	1,255,337
Cash proceeds from bills issued		143,773	29,802
Cash proceeds from bond repurchases		177,874	18,425
Cash proceeds from borrower notes		(24,066)	18,400
Dividends paid		(1,155)	(1,285)
Cash applied to derivatives		(89,782)	(31,647)
Net Cashflow from Financing Activities		**2,353,570**	**1,289,032**
Net (Decrease) / Increase in Cash		**109,627**	**5,918**
Cash, Cash Equivalents and Bank overdraft at beginning of year		56,198	50,281
Cash, Cash Equivalents and Bank overdraft at end of year		**165,826**	**56,198**

1 Statement of accounting policies

a. Reporting entity

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

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

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

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

The financial statements are as at and for the year ended 30 June 2020.

These financial statements were authorised for issue by the Directors on 28 August 2020.

b. Statement of compliance

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

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

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

c. Basis of preparation

Measurement base

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

The financial statements are prepared on an accrual basis.

Functional and presentation currency

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

Foreign currency conversions

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

Changes in accounting policies

NZ IFRS 16 Leases

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

On adoption of NZ IFRS 16, LGFA recognised right-of-use assets and lease liabilities in relation to its property leases which had previously been classified as operating leases under NZ IAS 17 Leases.

In adopting NZ IFRS 16, LGFA elected to use the simplified retrospective approach which does not require restatement of comparative information. The lease liability is recognised at the present value of the remaining lease payments, discounted using LGFA's incremental borrowing rate, with the corresponding right-of-use asset recognised as an equal amount.

The following items in the balance sheet were impacted by the change of accounting on 1 July 2019: Other assets and Other liabilities both increased by $0.157 million.

Lease payments previously included in other operating expense are now classified to financing and depreciation costs under NZ IFRS 16.

There have been no other changes to accounting policies.

Early adoption standards and interpretations

LGFA has not early adopted any standards.

New standards adopted

NZ IFRS 16 Leases became effective from 1 July 2019.

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.

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 and bank accounts and deposits with an original maturity of no more than three months.

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

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

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

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

Financial liabilities

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

Derivatives

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

Fair value hedge

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

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

e. Other assets

Property, plant and equipment (PPE)

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

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

Intangible Assets

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

f. Other liabilities

Employee entitlements

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

g. Revenue and expenses

Revenue

Interest income

Interest income is accrued using the effective interest rate method.

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

Expenses

Expenses are recognised in the period to which they relate.

Interest expense

Interest expense is accrued using the effective interest rate method.

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

Income tax

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

Goods and services tax

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

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

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

Commitments and contingencies are disclosed exclusive of GST.

h. Segment reporting

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

i. Judgements and estimations

The preparation of these financial statements requires judgements, estimates and assumptions that affect the application of policies and reported amounts. For example, the fair value of financial instruments depends critically on judgements regarding future cash flows, including inflation assumptions and the risk-free discount rate. Refer note 2a.

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 and these estimates and underlying assumptions are reviewed on an ongoing basis. Where these judgements significantly affect the amounts recognised in the financial statements they are described in the following notes.

The financial statements at 30 June 2020 include estimates and judgements of the potential impact of COVID-19 on LGFA's financial position and performance. Whilst there has been no material impact on the estimates and judgements at the date these financial statements are authorised, it is noted that there is significant uncertainty with regards to the medium and long-term effects of COVID-19 on the local government sector.

2 Analysis of financial assets and financial liabilities

a. Categories of financial instruments

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

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

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

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

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

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

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

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

Marketable securities and bonds

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

Deposits

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

Loans

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

Borrower notes

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

Fair value of financial assets and financial liabilities

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

As at 30 June 2020 in $000s	Financial liabilities at amortised cost	Financial assets at amortised cost	Financial assets measured at fair value in accordance with NZ IFRS 9	Fair value
Financial assets				
Cash and bank balances	-	165,826	-	165,826
Trade and other receivables	-	-	-	-
Marketable securities	-	589,124	-	591,617
Deposits	-	499,824	-	501,625
Derivatives	-	-	1,018,775	1,018,775
Loans	-	10,899,756	-	12,713,917
	-	**12,154,529**	**1,018,775**	**14,991,758**
Financial liabilities				
Payables and provisions	705	-	-	705
Bills	647,021	-	-	647,235
Bond repurchases	202,755	-	-	202,879
Derivatives	-	-	19,075	19,075
Bonds	12,038,468	-	-	12,196,826
Borrower notes	182,272	-	-	186,725
	13,071,221	**-**	**19,075**	**13,253,445**

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

b. Financial risk management

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

Market risk

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

Interest rate risk

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

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

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

As at 30 June 2020 in $000s	Face value	Less than 6 months	6 months - 1 year	1-2 years	2-5 years	Over 5 years
Financial assets						
Cash and bank Balances	165,826	165,826	-	-	-	-
Marketable securities	576,298	335,758	112,903	18,214	109,423	-
Deposits	497,980	397,980	100,000	-	-	-
Loans	10,868,876	9,118,964	529,990	153,300	532,200	534,423
Financial liabilities						
Bills	(647,500)	(647,500)	-	-	-	-
Bond repurchases	(202,478)	(202,478)	-	-	-	-
Derivatives	-	(9,347,750)	1,014,500	1,065,000	3,735,250	3,533,000
Bonds	(10,990,000)	(130,000)	(1,450,000)	(1,155,000)	(4,207,000)	(4,048,000)
Borrower notes	(168,845)	(141,197)	(8,130)	(2,453)	(8,515)	(8,551)
Total	**100,157**	**(450,397)**	**299,263**	**79,061**	**161,358**	**10,872**

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

Interest rate sensitivity

Changes in interest rates impact the fair value of fixed rate assets and liabilities, cash flows on floating rate assets and liabilities, and the fair value and cash flows of interest rate swaps. A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) profit or loss and equity by the amounts shown in the following table. This analysis assumes that all other variables remain constant.

For the period ending 30 June in $000s	2020		2019	
	100 bps increase $000s	100 bps decrease $000s	100 bps increase $000s	100 bps decrease $000s
Fair value sensitivity analysis				
Fixed rate assets	-	-	-	-
Fixed rate liabilities	484,492	(493,186)	(369,387)	376,054
Derivative financial instruments	(483,279)	491,932	369,387	(376,054)
	1,213	**(1,254)**	**-**	**-**
Cash flow sensitivity analysis				
Variable rate assets	89,636	(89,636)	76,708	(76,708)
Variable rate liabilities	(2,712)	2,712	(1,227)	1,227
Derivative financial instruments	(93,608)	93,608	(79,320)	79,320
	(6,684)	**6,684**	**(3,839)**	**3,839**

Credit risk

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

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

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

Exposure to credit risk

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

As at 30 June 2020 in $000s	NZ government agencies	NZ local authorities	NZ registered banks	Other counter-parties	Total carrying value
Financial assets					
Cash and bank balances	165,070	-	756	-	165,825
Trade and other receivables	-	-	-	-	-
Marketable securities	123,615	52,181	89,868	323,460	589,124
Deposits	-	-	459,783	40,041	499,824
Derivatives	999,700	-	-	-	999,700
Loans	-	10,899,756	-	-	10,899,756
	1,288,385	**10,951,937**	**550,406**	**363,501**	**13,154,229**

As at 30 June 2019 in $000s	NZ government agencies	NZ local authorities	NZ registered banks	Other counter-parties	Total carrying value
Financial assets					
Cash and bank balances	55,679	-	520	-	56,198
Trade and other receivables	-	-	-	-	-
Marketable securities	40,962	48,668	135,597	30,488	255,715
Deposits	-	-	136,216	-	136,216
Derivatives	609,632	-	-	-	609,632
Loans	-	9,310,617	-	-	9,310,617
	706,273	**9,359,285**	**272,333**	**30,488**	**10,368,378**

Collateral and credit enhancements

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

Credit quality of financial assets

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

Liquidity risk

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

The Treasury (New Zealand Debt Management) provides a committed liquidity facility that LGFA can draw upon to meet any exceptional and temporary liquidity shortfall. As at 30 June 2020, the undrawn committed liquidity facility was $700 million (2019: $700 million). The facility is due to expire in December 2021.

Contractual cash flows of financial instruments.

The following table shows the contractual cash flows associated with financial assets and liabilities.

As at 30 June 2020 in $000s	On demand	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total contractual cash flows	Total carrying value
Financial assets							
Cash and bank balances	165,826	-	-	-	-	165,826	165,826
Trade and other receivables	-	-	-	-	-	-	-
Marketable securities	-	194,160	222,916	175,954	-	593,029	589,124
Deposits	-	289,288	212,759	-	-	502,048	499,824
Loans	-	224,293	1,902,829	6,047,790	3,355,153	11,530,065	10,899,756
Financial liabilities							
Payables and provisions	(705)	-	-	-	-	-	(705)
Bills	-	(530,500)	(117,000)	-	-	(647,500)	(647,021)
Bond repurchases	-	(102,752)	(100,276)	-	-	(203,028)	(202,755)
Bonds	-	(483)	(1,843,131)	(6,420,275)	(4,512,260)	(12,776,150)	(12,038,468)
Borrower notes	-	(438)	(31,198)	(99,957)	(59,551)	(191,144)	(182,272)
Derivatives	-	(21,309)	266,054	554,255	265,760	1,064,760	999,700
	165,121	**52,258**	**512,953**	**257,766**	**(950,898)**	**37,904**	**83,008**

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

c. Hedge accounting

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

The following table shows the gain or loss on the hedging instrument and the hedged item attributable to the hedged risk for fair value hedge relationships.

For the year ended ended 30 June in $000s	2020 Gain/(loss)	2019 Gain/(loss)
Hedging instruments – interest rate swaps	319,032	312,996
Hedged items attributable to the hedged risk – fixed rate bonds	(319,032)	(312,996)
Ineffectiveness recognised in profit or loss from fair value hedges	**-**	**-**

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

d. Offsetting

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

As at 30 June 2020 in $000s	Derivative assets	Derivative liabilities
Gross amounts	1,018,775	19,075
Amounts offset	-	-
Carrying amounts	1,018,775	19,075
Amounts that don’t qualify for offsetting	-	-
Financial assets & liabilities	(19,075)	(19,075)
Collateral	-	-
Net amount	**999,700**	**-**

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

3 Issuance and on-lending expenses

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

For the year ended 30 June in $000s	2020	2019
NZDM facility fee	650	644
NZX	559	455
Rating agency fees	609	596
Legal fees for issuance	499	493
Regulatory, registry, other fees	157	147
Trustee fees	100	100
Approved issuer levy[1]	1,396	1,708
Information services[2]	-	144
	3,971	**4,287**

1. The amount of Approved Issuer Levy is a function of the number of the offshore holders of certain LGFA bond maturities.
2. From 1 July 2019, information services costs are reported under Information Technology in Operating Expenses (Note 4)

4 Operating expenses

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

For the year ended 30 June in $000s	2020	2019
Information technology[1]	689	-
Consultants	127	205
Directors fees	399	377
Insurance	78	65
Legal fees	139	84
Other expenses	354	796
Auditors' remuneration		
Statutory audit	103	96
Advisory services	-	-
Personnel	1,798	1,648
	3,685	**3,271**

1. Information technology aggregates all LGFA information technology-related expenses under a single category. Previously, these expenses were recorded across information services, consultants and other expenses.

5 Loans

As at 30 June in $000s	2020 Short-term loans	2020 Loans	2019 Short-term loans	2019 Loans
Ashburton District Council	10,001	32,279	10,025	27,465
Auckland Council	-	2,766,155	-	2,422,898
Bay of Plenty Regional Council	-	192,077	90,974	50,631
Buller District Council	-	20,005	-	20,013
Canterbury Regional Council	6,002	48,129	6,006	32,108
Central Hawkes Bay District Council	-	20,107	-	2,027
Christchurch City Council	25,094	1,904,271	27,110	1,721,759
Clutha District Council	2,003	7,030	-	5,020
Far North District Council	10,001	46,686	-	40,149
Gisborne District Council	-	58,754	5,982	42,819
Gore District Council	6,004	16,538	6,011	13,059
Greater Wellington Regional Council	-	425,877	-	401,676
Grey District Council	3,967	15,196	4,978	15,305
Hamilton City Council	-	481,064	-	356,737
Hastings District Council	-	150,335	-	105,985
Hauraki District Council	-	44,102	-	38,192
Hawkes Bay Regional Council	-	2,507	-	2,509
Horizons Regional Council	6,987	37,199	-	35,182
Horowhenua District Council	16,003	90,618	11,006	85,780
Hurunui District Council	8,005	30,065	-	32,140
Hutt City Council	-	216,523	-	179,746
Invercargill City Council	25,013	65,165	25,093	30,095
Kaikoura District Council	4,007	3,008	-	-
Kaipara District Council	-	44,089	999	44,189
Kapiti Coast District Council	-	210,353	-	210,804
Manawatu District Council	11,519	65,669	-	68,229
Marlborough District Council	27,224	73,157	26,545	73,252
Masterton District Council	-	51,215	-	50,248
Matamata-Piako District Council	-	26,561	2,546	21,597
Nelson City Council	-	75,118	-	65,264
New Plymouth District Council	-	139,939	-	99,535
Northland Regional Council	-	9,729	-	9,728
Opotiki District Council	-	8,620	-	5,125
Otorohanga District Council	-	3,035	-	3,048

5 Loans (cont)

As at 30 June in $000s	2020 Short-term loans	2020 Loans	2019 Short-term loans	2019 Loans
Palmerston North City Council	-	137,267	10,024	104,439
Porirua City Council	-	131,787	-	86,894
Queenstown Lakes District Council	20,027	95,525	20,076	85,644
Rangitikei District Council	-	3,020	-	3,013
Rotorua District Council	22,855	195,105	2,817	180,186
Ruapehu District Council	8,005	17,061	3,027	13,070
Selwyn District Council	-	35,092	5,097	10,053
South Taranaki District Council	-	101,232	-	80,383
South Wairarapa District Council	-	22,018	-	20,023
Stratford District Council	-	15,571	1,003	13,570
Taranaki Regional Council	3,992	-	-	-
Tararua District Council	2,006	33,080	4,020	21,104
Tasman District Council	31,143	177,039	25,380	127,172
Taupo District Council	-	115,177	-	115,452
Tauranga City Council	-	526,768	9,963	432,609
Thames-Coromandel District Council	-	61,147	-	51,244
Timaru District Council	22,577	67,203	17,568	67,313
Upper Hutt City Council	2,993	46,108	4,975	38,174
Waikato District Council	-	95,222	-	80,400
Waikato Regional Council	-	32,085	-	22,120
Waimakariri District Council	-	160,550	10,010	135,872
Waipa District Council	13,503	40,053	-	15,013
Wairoa District Council	-	9,045	1,514	3,519
Waitomo District Council	7,022	30,044	10,055	30,093
Wellington City Council	-	635,684	-	533,151
West Coast Regional Council	2,001	6,610	1,985	5,608
Western Bay of Plenty District Council	-	90,212	-	90,478
Westland District Council	-	19,652	-	18,688
Whakatane District Council	-	67,178	5,008	57,298
Whanganui District Council	7,510	94,290	-	73,408
Whangarei District Council	9,992	142,301	9,976	122,543
	315,456	**10,584,299**	**359,771**	**8,950,846**

As at 30 June 2020, $1,960 million of loans are due to mature within 12 months. This comprises all short-term loans and $1,645 million of loans.

6 Bills on issue

As at 30 June 2020 in $000's	Face value	Unamortised premium	Accrued interest	Total
8 July 2020	110,000	-	(21)	109,979
17 July 2020	58,500	-	(31)	58,469
22 July 2020	12,000	-	(9)	11,991
6 August 2020	225,000	-	(102)	224,898
12 August 2020	75,000	-	(79)	74,921
9 September 2020	50,000	-	(59)	49,941
7 October 2020	17,000	-	(36)	16,964
11 November 2020	50,000	-	(63)	49,937
9 December 2020	25,000	-	(37)	24,963
15 December 2020	25,000	-	(43)	24,957
	647,500	**-**	**(479)**	**647,021**

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

7 Bonds on issue

Bonds on issue do not include $800 million face value of issued LGFA bonds subscribed by LGFA and held as treasury stock. Refer Note 9: Treasury stock and bond repurchase transactions.

As at 30 June 2020 in $000's	Face Value	Unamortised premium	Accrued interest	Fair value hedge adjustment	Total
Fixed interest bonds					
15 May 2021	1,450,000	19,259	11,111		
14 April 2022	1,155,000	16,630	6,769		
15 April 2023	1,550,000	55,449	17,935		
15 April 2024	1,248,000	6,717	5,908		
15 April 2025	1,409,000	(31,014)	8,152		
15 April 2026	1,000,000	763	3,156		
15 April 2027	1,326,000	56,918	12,554		
20 April 2029	692,000	(14,904)	2,042		
14 April 2033	1,030,000	8,706	7,683		
Total fixed interest	**10,860,000**	**118,524**	**75,309**	**854,268**	**11,908,100**
Floating rate notes					
14 October 2022	130,000	(58)	426	-	130,368
Total	**10,990,000**	**118,465**	**75,735**	**854,268**	**12,038,468**

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

8 Borrower notes

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

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

9 Treasury stock and bond repurchase transactions

Periodically, LGFA subscribes for LGFA bonds as part of its tender process and holds these bonds as treasury stock. LGFA bonds held by LGFA as treasury stock are derecognised at the time of issue and no liability is recognised in the statement of financial position. As at 30 June 2020, $800 million of LFGA bonds had been subscribed as treasury stock.

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.

As at 30 June 2020, bond repurchase transactions comprised:

in $000s	30 June 2020	30 June 2019
15 May 2021	25,970	-
14 April 2022	25,196	15,535
15 April 2023	27,670	-
15 April 2024	25,139	-
15 April 2025	22,135	-
15 April 2026	-	-
15 April 2027	31,145	5,837
20 April 2029	22,899	-
14 April 2033	22,600	3,252
	202,755	**24,624**

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

For the year ended 30 June in $000s	2020	2019
Net profit/(loss) for the period	10,603	11,201
Cash applied to loans	(1,556,491)	(1,330,360)
Non-cash adjustments		
Amortisation and depreciation	528	(3,428)
Working capital movements		
Net change in trade debtors and receivables	87	62
Net change in prepayments	(72)	(9)
Net change in accruals	58	(66)
Net Cash From Operating Activities	**(1,545,287)**	**(1,322,601)**

11 Share Capital

As at 30 June 2020, LGFA had 45 million ordinary shares on issue, 20 million of which remain uncalled.

All ordinary shares rank equally with one vote attached to each ordinary share. Ordinary shares have a face value of $1 per share.

Shareholder information

Registered holders of equity securities as at 30 June 2020	2020		2019	
New Zealand Government	5,000,000	11.1%	5,000,000	11.1%
Auckland Council	3,731,960	8.3%	3,731,960	8.3%
Christchurch City Council	3,731,960	8.3%	3,731,960	8.3%
Hamilton City Council	3,731,960	8.3%	3,731,960	8.3%
Bay of Plenty Regional Council	3,731,958	8.3%	3,731,958	8.3%
Greater Wellington Regional Council	3,731,958	8.3%	3,731,958	8.3%
Tasman District Council	3,731,958	8.3%	3,731,958	8.3%
Tauranga City Council	3,731,958	8.3%	3,731,958	8.3%
Wellington City Council	3,731,958	8.3%	3,731,958	8.3%
Western Bay of Plenty District Council	3,731,958	8.3%	3,731,958	8.3%
Whangarei District Council	1,492,784	3.3%	1,492,784	3.3%
Hastings District Council	746,392	1.7%	746,392	1.7%
Marlborough District Council	400,000	0.9%	400,000	0.9%
Selwyn District Council	373,196	0.8%	373,196	0.8%
Gisborne District Council	200,000	0.4%	200,000	0.4%
Hauraki District Council	200,000	0.4%	200,000	0.4%
Horowhenua District Council	200,000	0.4%	200,000	0.4%
Hutt City Council	200,000	0.4%	200,000	0.4%
Kapiti Coast District Council	200,000	0.4%	200,000	0.4%
Manawatu District Council	200,000	0.4%	200,000	0.4%
Masterton District Council	200,000	0.4%	200,000	0.4%
New Plymouth District Council	200,000	0.4%	200,000	0.4%
Otorohanga District Council	200,000	0.4%	200,000	0.4%
Palmerston North District Council	200,000	0.4%	200,000	0.4%
South Taranaki District Council	200,000	0.4%	200,000	0.4%
Taupo District Council	200,000	0.4%	200,000	0.4%
Thames - Coromandel District Council	200,000	0.4%	200,000	0.4%
Waimakariri District Council	200,000	0.4%	200,000	0.4%
Waipa District Council	200,000	0.4%	200,000	0.4%
Whakatane District Council	200,000	0.4%	200,000	0.4%
Whanganui District Council	200,000	0.4%	200,000	0.4%
	45,000,000	**100%**	**45,000,000**	**100%**

Capital management

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

Dividend

LGFA paid a dividend of $1,155,000 on 6 September 2019, being $0.0462 per paid up share (2019: $1,285,000 on 7 September 2018, being $0.0514 per paid up share).

12 Other assets

As at 30 June in $000s	2020	2019
Intangible assets[1]	306	457
Right-of-use lease asset	113	-
Total other assets	**419**	**457**

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

13 Capital commitments

As at 30 June 2020, there are no capital commitments.

14 Contingencies

There are no contingent liabilities at balance date.

15 Related parties

Identity of related parties

LGFA is related to the local authorities set out in the Shareholder Information in note 11.

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

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

Related party transactions

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

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

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

Transactions with key management personnel:

Salaries $951,900 (2019: $904,300)

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

16 Subsequent events

On 6 July 2020 the group of Participating Local Authorities approved changes to the Multi Issuer Deed, Guarantee and Indemnity Deed and Notes Subscription Agreement. This allowed LGFA to lend to CCOs and CCTO's, and permitted an increase in the Borrower Notes Percentage from 1.6% to 2.5% of a member council's borrowings.

On 11 August 2020, the Minister of Finance and LGFA signed an amendment to the Crown Liquidity Facility that extends the term of the facility to 31 December 2031 (from 31 December 2021) and increases the size of the facility to $1.5 billion (from $1 billion).

On 28 August 2020, the Directors of LGFA declared a dividend of $878,500 ($0.03514 per paid up share).

Subsequent to balance date, LGFA has issued $1.2 billion in bonds (including $100 million of treasury stock).

INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY LIMITED'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2020

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

Opinion

We have audited:

- the financial statements of the company on pages 55 to 77, that comprise the statement of financial position as at 30 June 2020, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the company on pages 10 to 17.

In our opinion:

- the financial statements of the company on pages 55 to 77:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2020; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Accepted Accounting Practice (NZ GAAP) and they comply with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS); and
- the performance information of the company on pages 10 to 17 presents fairly, in all material respects, the company's actual performance compared against the performance targets and other measures by which performance was judged in relation to the company's objectives for the year ended 30 June 2020.

Our audit was completed on 28 August 2020. This is the date at which our opinion is expressed.

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

Basis for our opinion

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

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

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

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at $85 million determined with reference to a benchmark of company Total Assets. We chose the benchmark because, in our view, this is a key measure of the company's performance. In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of a reasonably knowledgeable person ('qualitative' materiality).

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit

KPMG

procedures to address those matters in order that the readers as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements.

The key audit matter	How the matter was addressed in our audit
Existence and impairment of loans	
Refer to Note 5 to the Financial Statements. The loans LGFA has provided to local government make up over 83% of total assets. The loans are recognised at amortised cost and the nature of the counterparties is such that we do not consider these loans to be at high risk of significant misstatement. However, based on their materiality, and the judgement involved in assessing the credit worthiness of counterparties they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit. In addition, the Covid-19 pandemic has created significant additional risks across a number of areas of the business, particularly the assessment of the provision for credit impairments. All forward looking assumptions are inherently more uncertain during these unprecedented times. While this key audit matter is unchanged from last year, the underlying audit risk has increased which impacted the extent and nature of audit evidence that we had to gather.	Our audit procedures included: - understanding the processes in place to assess borrowers and to record loan transactions. This included evaluating the control environment in place at LGFA. - agreeing the 30 June 2020 loan balances to external confirmations received from NZ Clear. - assessing the borrowers' compliance with financial covenants. We did not identify any material differences in relation to the existence or impairment of loans.
Application of hedge accounting	
Refer to Note 2 of the Financial Statements. LGFA enters into derivatives (interest rate swaps) to manage interest rate risk related to issuing fixed rate bonds. Fair value hedge accounting is applied where specific requirements are met around documentation of the hedge relationship and the relationship is demonstrated as being an effective hedge. Hedge accounting is complex, particularly in the area of whether the requirements (both initial and ongoing) for its application are met. Should the requirements for hedge accounting not be met, LGFA could experience significant volatility in the Statement of Comprehensive Income from changes in the fair value of the derivatives. Due to the size of the derivative positions and the complexity of hedge accounting we consider this to be a key audit matter.	Our audit procedures included: - reviewing LGFA's accounting policies related to financial instruments. - agreeing the terms of the derivatives to the confirmation provided by the derivative counterparty. - using our treasury valuation specialists we independently recalculated the fair value of all of the derivatives recorded by LGFA. - ensuring the hedge documentation supporting the application of hedge accounting was in accordance with NZ IFRS 9 and the disclosures made in the financial statements were appropriate. - determining that management's hedge effectiveness calculations were correctly performed using appropriate source information. We did not identify any material differences in relation to the application of hedge accounting.

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

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

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

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

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

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

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

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

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

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

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

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

KPMG

auditor’s report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the company to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

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

Our responsibilities arise from the Public Audit Act 2001.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 4 to 9, 18 to 54 and 82 to 86, but does not include the financial statements and the performance information, and our auditor’s report thereon.

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

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

Independence

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

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

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

Motuoapa Reservoir.
Taupo District Council

Other disclosures
He whākitanga anō

Donations

A donation of $3000 was made to Kauri 2000 for the year ended 30 June 2020.

Net Tangible Assets

Net tangible assets per $1,000 of listed bonds as at 30 June 2020 is $7.09 (2019: $7.95).

Earnings per security

Earnings per $1,000 of bonds on issue as at 30 June 2020 is $0.90 (2019: $1.20).

Amount per security of final dividends

Not applicable

Spread of Quoted Security holders

Holding Range	Holder Count	Holder Count %	Holding Quantity	Holding Quantity %
10,000 to 49,999	355	39.1	$9,098,000	0.08
50,000 to 99,999	194	21.4	$13,712,000	0.12
100,000 to 499,999	238	26.2	$47,730,000	0.41
500,000 to 999,999	38	4.2	$25,566,000	0.22
1,000,000 to 9,999,999,999,999	83	9.1	$11,563,894,000	99.17
Total	**908**	**100.0**	**$11,660,000,000**	**100.00**

Newly built Waverley Water Treatment Plant at a cost of $2.1m.
South Taranaki District Council

GRI Index
Tāpiritanga GRI

The GRI Standards are the world's most widely used sustainability reporting standard.

This is the first year LGFA has prepared its annual report in compliance with the GRI Standards. The following index is based on the GRI core option.

Disclosure title	Reference/Disclosure
102-1. Name of the organisation	Page 18
102-2. Activities, brands, products and services	Pages 18-27
102-3. Location of headquarters	Page 87
102-4. Location of operations	Page 87
102-5. Ownership and legal form	Pages 18, 59
102-6. Markets served	Pages 4-6, 10-17, 18-27, New Zealand
102-7. Scale of the organisation	Pages 4-6, 18-32, 57
102-8. Information on employees and other workers	Pages 45, 47, 77
102-9. Supply chain	Pages 18-27
102-10. Significant changes to the organization and its supply chain	None.
102-11. Precautionary Principle or approach	Page 38
102-12. External initiatives	Page 40
102-13. Membership of Associations	Financial Service Providers Register
102-14. Statement from senior decision-maker	Pages 4-6
102-16. Values, principles, standards, and norms of behaviour	Pages 40-49
102-18. Overview of Governance Structure	Page 19
102-40. List of stakeholder groups	Pages 4-7, 10-16, 28-33, 49
102-41. Collective bargaining agreements	None.
102-42. Identifying and selecting stakeholders	Page 34
102-43. Approach to stakeholder engagement	Pages 4-6, 15, 34
102-44. Key topics and concerns raised	Page 34
102-45. Entities included in the consolidated financial statements	Page 59
102-46. Defining report content and topic Boundaries	Page 34
102-47. List of material topics	Pages 34-36
102-48. Restatements of information	None
102-49. Changes in reporting	None

102-50. Reporting period	1 July 2019 to 30 June 2020
102-51. Date of most recent report	2019 Annual Report
102-52. Reporting cycle	Annual
102-53. Contact point for questions regarding the report	lgfa@lgfa.co.nz
102-54. Claims of reporting in accordance with the GRI Standards	The report has been prepared in accordance with the GRI Standards: Core option
102-55. GRI content index	Page 85
102-56. External assurance	None
Cost effective funding	Pages 4-6, 10-17, 28
Culture, ethics and governance	Pages 34-36, 40-49
Transparency and disclosure	Pages 4-6, 34-36, 40-49, 50-53
Environmental and social impact of lending	Pages 4-6, 34-36, 38-39
Health & safety and wellbeing	Pages 11, 16-17, 34-36, 48
Collaboration and local engagement	Pages 4-6, 15, 34-36
Financial markets best practice and influence	Pages 4-6, 10-17, 40-53
Diversity and inclusion	Pages 4-6, 45
Capability and development	Pages 4-6, 45
Carbon footprint	Pages 34-36
Health and Safety and Wellbeing	
403-1 Occupational health and safety management system	Page 48
403-9 Work-related injuries	Page 16
403-10 Work-related ill health	Page 16
Diversity and Inclusion	
405-1 Diversity of governance bodies and employees	Page 45
405-2 Ratio of basic salary and remuneration of women to men	Page 47
Capability and Development	
404-2 Programs for upgrading employee skills and transition assistance programs	Page 45

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

Document No: A492256

Report To:	**Audit, Risk and Finance Committee**
Meeting Date:	13 October 2020
Subject:	**2021-31 10 Year Plan Significant Forecasting Assumptions**
Type:	Information Only

Purpose of Report

1.1 The purpose of this business paper is to provide an overview of the Significant Forecasting Assumptions for the 2021-31 Ten Year Plan (10YP).

Background

2.1 At its meeting on 11 August, the Audit, Risk and Finance Committee (ARFC) was provided with a project update on the 10YP Development Project and a description of the key project risks.

2.2 This paper outlines the Significant Forecasting Assumptions for the 10YP.

2.3 Significant Forecasting Assumptions

2.4 Forecasting assumptions are one of the factors that help frame the right debate within an 10YP. They must state how various issues may or may not affect our ability to meet our levels of service in the future. While all forecasting assumptions are important pieces of information in their own right, forecasts of growth and demand are major drivers of expenditure and can play a role in the choice of funding. Forecasting assumptions are required under schedule 10 of the Local Government Act 2002.

2.5 SOLGM best practice states that significant forecasting assumptions need to be:

- realistic
- evidence-based – especially where assumptions are outside industry norms
- internally consistent with other assumptions
- applied consistently across the 10YP (unless there is good reason not to and the difference in treatment and reason are both disclosed in the 10YP).

2.6 The 10YP must disclose all significant forecasting assumptions, the level of uncertainty associated with each of these assumptions and quantify the potential effect of the uncertainty on the financial estimates.

Commentary

3.1 SIGNIFICANT FORECASTING ASSUMPTIONS FOR THE 10YP

3.2 COVID-19 Pandemic

3.3 New Zealand experienced a re-emergence of COVID-19 community transmissions where Auckland was subject to Alert Level 3 (A3) restrictions, while the rest of NZ, was at Alert Level 2 (A2) restrictions. Although the Alert Level restrictions have now eased, the World is still largely in various stages of lockdown due to the COVID-19 Pandemic. This affects some elements of council business and to varying extents, all the 10YP assumptions.

3.4 The assumptions and their risk, uncertainty and implication assessments will still need to be kept under review and updated as more information becomes available regarding the long-term predictions and assumed effects of the pandemic. A review of the Assumptions will be undertaken in November 2020 for consideration at a workshop scheduled to be held in December 2020.

3.5 FINANCE RELATED ASSUMPTIONS

3.6 A number of the assumptions used in developing the budgets are dependent on the supply of information from external sources that, at the time of writing, is not yet available. These are summarised as follows.

3.7 Return on Investment Assumption (RoI)

3.8 This assumption will be informed by the outcome of the Investment Policy review workstream which remains a work in progress.

3.9 Inflation Adjustors

3.10 This assumption uses information prepared by Business and Economic Research Limited (BERL) for the local government sector and deals primarily with areas of expenditure local authorities are exposed to through their business. BERL are expected to release this report in October 2020. In addition to the standard price level change adjustors, BERL will also incorporate three scenarios to illustrate how the recovery post COVID-19 might unfold. The review of these assumptions will take place in the next quarter and will be brought back to Council in December 2020.

3.11 Cost of Funds (Interest Rates) on Borrowings Assumption (CoF)

3.12 As part of the development of the EAP 20-21, the CoF methodology and associated assumption was reviewed and discussed by Council in early 2020.

3.13 The CoF was agreed and applied in the EAP 20-21. Council's auditors have agreed that this CoF methodology be incorporated into the development of the 2021-31 10YP to ensure consistency between the EAP 20-21 and the first year of the 10YP.

3.14 The assumption methodology was changed to calculate CoF based on each tranche of debt plus any projected movement in borrowings. The projected CoF is calculated using the BKBM (Bank Bill Benchmark Rate), the applicable borrowing margin forecast by LGFA and a modest margin. The projected interest rate is applied to each tranche for a period applicable to that tranche from the interest reset date. The relevant interest rate applied to each tranche is then used to calculate the weighted interest rate for each year of the 10YP.

3.15 A modest margin of 20 basis points is applied to the interest rate assumption as a modest mitigation for the impact of any unforeseen increases in interest rates and to ensure that there is sufficient budget capacity to prudently cover those increases.

3.16 The forecast CoF assumption methodology will be applied in the 10YP budget development phase and will be further considered by Council as part of the 10YP workstream.

3.17 KEY DOCUMENTS USED DURING REVIEW

3.18 The following policy setting considerations were used during the review of the forecasting assumptions.

3.19 Waitomo District Council Strategic Framework

3.20 This document guides the way council works and identifies the priorities to develop the work programme.

3.21 A strategic direction assumption is not essential to include within the 10YP as the strategic direction is a secondary driver, driven by other overarching trends and needs outside of Council's capacity to influence (e.g. climate change, central government directives, economic changes, natural disasters, changes to the demography etc). It is however, a useful guiding document to inform the review of forecasting assumptions generally.

3.22 An assessment of the impacts of climate change in the Waikato Region: Ministry for the Environment data

3.23 The MoE resource provides an overview of how the climate in the Waikato region is likely to change into the future and what implications this has for the region.

3.24 Waikato Regional Annual Economic Profile 2019

3.25 Infometrics: This profile describes key trends in respect of economy, employment, productivity, business growth, population growth, standard of living and tourism. This economic profile reports on March years (e.g. 2019 refers to the 12 months to March 2019) for all indicators except population (as at June 2019) and dairy sector statistics (May 2019) and business units (snapshot as at February 2019).

3.26 Waitomo District Annual Economic Profile 2019

3.27 Infometrics: This dashboard provides a snapshot of key trends and reports on economy, employment, productivity, business growth, population growth, standard of living and tourism for the year on key trends over economy, employment, productivity, business growth, population growth, standard of living and tourism. This economic profile reports on March years (e.g. 2019 refers to the 12 months to March 2019) for all indicators except population (as at June 2019) and dairy sector statistics (May 2019) and business units (snapshot as at February 2019).

3.28 Other Sources

3.29 The following sources were used to inform the development of the draft 2021 assumptions:

- Waitomo District Council Environment Scan.
- Technological change and the future of work, New Zealand Productivity Commission, March 2020.
- Creating Futures: reports and information relating to and developed by the Waikato Projections Working group, 2018-2019. This group is planning on

releasing a population projection for the Waikato Region at the TA level. The demographic assumptions will be checked against the updated projections to ensure the robustness of the current assumptions and data used.

- Business and Economic Research Limited (BERL) Economic Scenarios to 2030 – the post COVID-19 scene (published July 2020).

3.30 <u>DRAFT SIGNIFICANT FORECASTING ASSUMPTIONS</u>

3.31 The full set of draft significant forecasting assumptions are included in Appendix 1 of this report.

Suggested Resolution

The business paper on 2021-31 10 Year Plan Significant Forecasting Assumptions be received.

IHSANA AGEEL
<u>MANAGER - STRATEGY AND POLICY</u>

2 October 2020

Appendix Draft 2021-31 10YP Significant Forecasting Assumptions (A492256 #5-13)

DRAFT 2021-31 10YP SIGNIFICANT FORECASTING ASSUMPTIONS

GLOBAL IMPACT

CLIMATE CHANGE

Forecasts for climate change present significant implications for Waitomo District's environment, economy and the safety of our communities. Over the next century the Waikato region can expect:

- rising sea levels,
- more extreme weather,
- more droughts in the east,
- more intense rainfall and increased wind in the west,
- warmer, drier summers, milder winters and shifting seasons.

It is assumed that there will be increased risk of adverse outcomes associated with natural hazards such as river and coastal flooding, coastal erosion and severe weather.

Through the 10 Year Plan (10YP) and asset management planning process, Waitomo District Council through its activity and asset planning has considered the consequences arising from climate change, including new capital work, occurring in areas with the potential to be impacted by climate change. The 30 year Infrastructure Strategy explicitly considers the resilience of infrastructure in the event of natural disasters, identifies and provides for the management of risks relating to such disasters, and makes appropriate financial provision for those risks.

As part of the review of the Waitomo District Plan, Council is considering the potential risk from climate change on coastal areas and in respect of flood events. The purpose of this work is to help build intergenerational resilience to Climate Change within the District. The initial assessment suggests that an adaptive management strategy is required for coastal townships. Climate change scenarios have been used to model coastal erosion and coastal inundation, and also flooding in Te Kuiti and Piopio. The Proposed District Plan provisions will be drafted to guide and manage the response which will further inform the planning and management phases.

Assumption	Level of Uncertainty	Impact on Integrity of 10YP
1. The impacts of climate change will be minimal over this LTP planning period.	Low - Medium	Low

TECHNOLOGICAL CHANGE

Technology is progressing quickly, at a rate that is, worldwide, overwhelming society's ability to adapt. Whereas technology in the past replaced muscle, today technology is replacing cognition, which may affect how the workforce of the future is structured through a shift in the demand of skills. Adaption of new technology by the council and our communities will require support to remove barriers to desirable change.

Use of new technology will be necessary to help provide communities with data, and a way to engage with council. Through technology, subject to cost, communities will be able to be increasingly involved in the council's work in different ways and be empowered to take action. It is important to note, it is the nature of technology that some of the downstream effects of innovation can be unexpected, and this uncertainty is where the potential for risk lies.

Disruption is, by definition, uncertain. The nature or timing of any disruption is unexpected and is outside the control of the council. However, council can manage this uncertainty by fostering a working environment which allows for agility in decision making and change at both a governance and operational level. For the purposes of these 2021-31 long term planning assumptions, this represents a low risk for Waitomo District Council.

	Assumption	Level of Uncertainty	Impact on Integrity of 10YP
2.	That the impact of technological change or disruption will not adversely affect Councils ability to deliver services.	Medium	Low

GLOBAL PANDEMIC

The full impact of the COVID-19 pandemic in New Zealand and specifically in the Waitomo District is as yet unknown. Even if the COVID-19 pandemic does not end up having a significant impact on council's activities and levels of service, it is unknown when another pandemic or other crisis might occur. This is evident by the resurgence of community transmission in August 2020.

Council has systems and procedures in place for many staff to be able to work remotely if needed, however some of the council's activities simply cannot be performed remotely. Council may also be required to stop or reduce many of its business-as-usual activities to focus resources on an Emergency Management response.

Further widespread self-isolation, quarantine or new lockdowns would have an impact on customer-facing, direct contact activities. There would also likely be a significant impact on some ratepayers' ability to pay their rates, therefore affecting Council's income.

Council's investments would be negatively affected by national and global economic downturn due to pandemic responses.

	Assumption	Level of Uncertainty	Impact on Integrity of 10YP
3.	(a) Council will be able to deliver its core services at the levels or at a reduced level (depending on the alert level) during a global crisis or pandemic, with sufficient systems and procedures in place to ensure business continuity. (b) Council will be able to adequately resource and support any Emergency Management response in the event of a global crisis or pandemic.	Medium -High	Low- Medium

NATIONAL IMPACT

FUTURE PRICE CHANGES – RATES OF INFLATION

For the first year of the 10YP (2021/22), all financial statements have been prepared using 2021 dollars. Price level adjustments for inflation, as prepared by Business and Economic Research Limited (BERL) in their report dated <>, have been included in all financials statements for the following nine years of the 10YP.

The figures in the table below shows the per annum escalation adjustments applied to particular cost groups from year 2-10 of the 10YP.

Planning Year	Category adjustor				Price indices		Overall Local Government Cost Index (LGCI)
	Planning and regulation	Roading	Community activities	Water and Environmental	All salary and wage rates - Local Government	Local Government administration	
Group of Activities	Regulation Resource management	Roads	Recreation and Property Community and Partnerships	Water, Wastewater, Stormwater Solid Waste		Leadership	
2022/23							
2023/24							
2024/25							
2025/26							
2026/27							
2027/28							
2028/29							
2029/30							
2030/31							

Note: The actual escalation adjustor table will be populated following the release of the BERL report and presented to Council at a later date.

The inflation assumptions have been applied to capital and operating cost forecasts, as the indices include a combined forecast of operating and capital costs. Because of this combination in the composition of the indices, they may either understate or overstate changes in the prices of operating and capital expenditure.

The above inflation forecasts do not make allowance for spikes in pricing that traditionally occur during re-tendering or renewal processes for medium to long term operating and maintenance contracts. These movements can be as large as 10% in the year immediately following contract re-tendering/renewal, due partly to the inherent increase in levels of service that are introduced to the new contract specifications, either consciously as a change to the scope of works or as a consequence of contract interpretation over previous years.

The risk associated with this assumption is that the rates of inflation may increase at a rate different to that forecast. Rates of inflation greater than those assumed will impact in particular on future cost estimates and the ability of the community to afford the consequential rate increases. This risk may be mitigated by revising budget estimates in conjunction with preparation of each Annual Plan and inflation estimates when the 10YP is reviewed every three years.

Assumption	Level of Uncertainty	Impact on Integrity of 10YP
4. Actual rates of inflation will be consistent with the projected inflation adjustors.	Low	Low

NZ TRANSPORT AGENCY FINANCIAL ASSISTANCE RATES

The Financial Assistance Rate (FAR) received by the Council from the New Zealand Transport Agency (NZTA) for qualifying road and footpaths expenditure has been confirmed at 75% for years 1,2 and 3 of the 10YP. We have assumed operating and capital expenditure programmes which have in the past received NZTA subsidies will continue to meet the criteria for funding and this funding will continue over the life of the 10YP.

The risk associated with this assumption is that NZTA may reduce the FAR contribution level to less than the 75% in years 4 to 10 of the 10YP. This may result in a lower level of service or delay in the work programme and may ultimately lead to a deterioration of the districts road and footpath network. A reduction in the FAR contribution level would increase the local share of funding required from ratepayers.

Assumption	Level of Uncertainty	Impact on Integrity of LTP
5. NZTA Financial Assistance Rates will continue to be received at 75% on qualifying road and footpath expenditure	Low	Medium

EXTERNAL BORROWING

Council joined the Local Government Funding Authority (LGFA) in 2017 as a borrower and guarantor and borrows substantially all its debt funding needs through the LGFA. Council's borrowing options include bank borrowing and obtaining funds from the LGFA.

If Council were not able to borrow any additional funding this would result in either project delays or reduced levels of service. Council considers the risk of not being able to access borrowing is minimal as security is provided through its ability to generate an income from rates. Council has credit facility in place which is renewed annually, and Council is able to borrow through commercial banks and the LGFA.

Assumption	Level of Uncertainty	Impact on Integrity of LTP
6. Council is able to access external borrowing at levels forecast in the 10YP	Low	Low

EXPECTED INTEREST RATES ON BORROWING

Interest rates are expected to remain at historic lows for the foreseeable future. This is primarily due to policy settings to keep interest rates low to cushion the economic impact of the COVID-19 pandemic and low economic outlook prevalent prior to the pandemic. The outlook is for a sustained period of low interest rates due to depressed economies across the world.

Interest costs are projected based on the current tranches of debt and any projected movement in external debt. The relevant interest rates are calculated using the BKBM (Bank Bill Benchmark Rate), the applicable borrowing margin forecast by LGFA and a modest margin. The projected interest rate is applied to each tranche for a period applicable to that tranche, from the interest reset date. The relevant interest rate applied to each tranche is then used to calculate the weighted interest rate for each year of the 10YP.

The risk associated with this assumption is that interest rates may be different to those forecast. Any increases in the interest rates above the interest rate forecast may result in increased operational costs and the rates funding requirement in those years or alternatively a delay in the start date of some projects in order to keep overall costs contained within the annual budgets.

Council's Treasury Policy contains the parameters for external borrowings to limit interest rate risk and provides for the use of interest rate risk management instruments such as interest rate swaps to deliver greater certainty over interest costs. To further mitigate the impact, a margin has been included in the forecast interest rate to ensure that there is sufficient capacity to offset any unexpected increases. Council's commitment to debt reduction sees overall forecast debt to decrease significantly over the 10YP.

Note: The actual interest rate assumption will be calculated as part of the budget development phase of the 10YP and presented to Council at a later date.

Assumption	Level of Uncertainty	Impact on Integrity of 10YP
7. The annual interest rate on borrowings will be < >	Medium	Low

CENTRAL GOVERNMENT CHANGES TO POLICY OR LEGISLATION

The details of future legislative changes are unable to be anticipated with any level of certainty. The information that has been made available through various policy announcements to date suggests that the potential risks to materially impact this 10YP are medium to high in scale, particularly in regard to the government's proposed Three Waters Reform. However, given the lack of detail available on future legislative changes and their timing cost to council, projects have been planned based on the current legislative regime.

Changes to regulations or rules that affect how we operate (usually through requiring compliance with new and higher standards) cannot be anticipated at this point, especially the unknown details of the 3 waters reform and its impact on Council. As a result, this 10YP has been developed based on current legislation, regulations, rules and policy.

Assumption	Level of Uncertainty	Impact on Integrity of 10YP
8. Impact of Central Government changes to policy or legislation on local government income or expenditure.	Medium - High	Medium

WAITOMO DISTRICT IMPACT

PROJECTED GROWTH AND SOCIETAL CHANGE FACTORS

The census data from 2001, 2013 and 2018 shows that, the district had a higher proportion of children and teenagers than the rest of New Zealand. The proportion of the population in the 50 to 64-year-old categories was also above the national average.

The key points are:

- The age distribution of age groups for the projected population is similar, with only the projected total population differing.
- The trend toward an aging population continues. The proportion of people aged 65+ is forecast to increase from 13% in 2013 to between 25% and 29% by 2048.
- The proportion of the population under 15 years of age is forecast to decline from around 24% in 2013 to between 17% and 23% in 2048.

The result of this changing age structure is that the proportion of people aged between 15 and 64 years of age is forecast to decline from 63% to around 53%. This may have a flow-on effect to the make-up of the work force in the district. Council considers these changes have been adequately catered for in its 2021-31 10YP. Any departure from this assumption can be addressed during the 3-yearly review of the Plan.

In terms of geographic spread of growth, the Te Kuiti Ward is expected to experience a population decline and only small growth in dwellings. The population and number of dwellings is projected to grow in the Waitomo Rural Ward.

Population and dwelling growth flows through to rating units. The district's rating units are predominantly Residential and Residential Lifestyle, with nearly two thirds of the total rating units falling under these two categories. Therefore, any rating unit growth is heavily dependent on dwelling growth. The number of Commercial and Industry rating units is projected to increase in Piopio, and Te Kuiti with no growth elsewhere.

The demographic and development trends show that there is no demand for growth related infrastructure at the present time or in the foreseeable future. For the past few years Council has been working on improving the condition of its core infrastructure assets, particularly in the Water Supply and Sewerage activity areas, in order to support public health outcomes and to meet its resource consent and other legislative requirements.

The growth and development trends support an approach of continuing to upgrade and maintain existing assets as opposed to the development of new capacity driven infrastructure. There is currently enough capacity in the infrastructure network to allow for minimal growth should it occur. Council does not anticipate any significant land-use changes during the period of the 2021-31 10YP.

Assumption	Level of Uncertainty	Impact on Integrity of 10YP
9. The impact of population and societal change has been adequately provided for in the financial estimates.	Low	Low

FORECAST RETURN ON INVESTMENTS

This assumption will be reviewed and updated pending the outcome of the Investment Rationale workstream that is currently underway.

The financial annual return on Council's investment in ICL is assessed at <>. Surplus investment income will be utilised prudently to accelerate retirement of term debt.

Due to the uncertainty in determining the future value of the investment, no increase or decrease in the value of the investment has been recognised over the life of the plan.

Assumption	Level of Uncertainty	Impact on Integrity of 10YP
10. The annual financial return on investments is assessed at <>	Medium	Low

RESOURCE CONSENTS

Council has assumed that the resource consents it requires for its infrastructural activities will be obtained and/or renewed within the nominated time frames with conditions that can be met within expenditure estimates.

The expenditure estimates have been prepared based on experience and trends with past consent processes and standards. If the consent conditions are more stringent than expected then the levels of rating, debt, capital and maintenance expenditures will be higher and may require compensating reallocation of other expenditure priorities. Similarly, consent application processes that take longer than estimated could result in additional costs due to the need to extend existing operational arrangements.

The financial impact of consent issues is considered to be minor with time delays required to complete consent processes more likely to be a greater issue than additional costs over what has already been allowed for in the financial estimates.

Assumption	Level of Uncertainty	Impact on Integrity of 10YP
11. Resource consent acquisition and compliance processes are within estimated timeframes and expenditure estimates. • 3 Waters • Landfill and Other Activities	Medium Low	Medium Low

RATING BASE

It has been assumed that there will be no material increase or decrease in Council's rating base (number of rateable assessments) over the term of the 2021-31 10YP. This assumption is conservative to minimise the risk of understating average prospective rate increases. Any actual increase in the rating base will help to absorb average rate increases.

Assumption	Level of Uncertainty	Impact on Integrity of 10YP
12. There is no change in the rating base over the 10YP.	Low	Low

REVENUE FOR WATER AND TRADE WASTE SERVICES

There are two major users of Council services built into the financial forecasts. These are the metered water revenue and trade waste revenue received from the two large meat processing companies within the district. The underlying assumption in Council's financial forecasts is that the companies will continue to operate within the District.

The risk associated with this assumption is that the loss of one or both of these companies would reduce the revenue forecast in the 10YP. There is no information to suggest the likelihood of the companies closing during the life of the 10YP.

Assumption	Level of Uncertainty	Impact on Integrity of 10YP
13. The two major users of water and trade waste services will continue to operate within the district	Low	Low

TRANSFER OF OWNERSHIP OF STRATEGIC ASSETS

Note: This assumption will be reviewed and updated pending the outcome of the Investment Rationale workstream that is currently underway.

For the purpose of the 2021-31 10YP period Council has assumed that there will be no transfer of ownership of significant assets. However, Central Government's Three Waters Reform Programme and Council's commitment to Tranche 1 of that programme, has increase the uncertainty in the later years of the 10YP. Council also intends to assess its investment portfolio for optimal use as part of its regular management practice.

Assumption	Level of Uncertainty	Impact on Integrity of 10YP
14. There is no transfer of ownership of significant assets	High	High

ASSET REVALUATION

Asset revaluation amounts are based on the assumed rates of inflation within this plan.

Infrastructure and Land and Building assets are revalued by an independent valuer on a 3-yearly basis in accordance with the Accounting Policies. Asset revaluation cycles differ for each class of asset and the projections within this 10YP assume a three yearly staggered revaluation cycle of asset classes.

No provision has been made in the plan for changes in value for investment properties or assets held for sale as there will be no cash flow implications or any impact on the levels of service provided by the Council's groups of activities due to the valuation.

If the value of the asset class increases at a higher rate than the assumed level of inflation this may require an increase in rates funding to ensure we fund the increased depreciation charge or alternatively may impact on the level of services able to be delivered within the forecast funding limits. If the value of the asset class increases at lower rate than the assumed level of inflation this may reduce the rates funding requirement as depreciation costs would be less.

Assumption	Level of Uncertainty	Impact on Integrity of 10YP
15. Asset revaluation amounts are based on the assumed rates of inflation.	Low	Low

USEFUL LIVES OF ASSETS

Council has made a number of assumptions about the useful lives of its assets. The detail for each asset category is included in the Statement of Accounting Policies. The useful lives assumed in the 2021-31 10YP are consistent with the NZ Infrastructure Asset Valuation and Depreciation Guidelines prepared by the National Asset Management Steering (NAMS) Group and adjusted for local conditions based on past experience. Experienced independent valuers review and confirm the useful lives for existing assets in the three yearly asset revaluation.

The risk associated with this assumption is that variations may occur between actual and assumed useful asset lives. An incorrect assumption of the useful life will impact on depreciation expense and the relevant asset replacement programme. If the asset useful life assumptions are incorrect, this may lead to asset failure or premature asset replacement. This risk is mitigated by physical inspection of assets, asset replacement programs and ongoing improvement to asset data quality. Council has developed an Infrastructure Strategy detailing the level of investment need to replace, renew or upgrade existing assets over the next 30 years.

Assumption	Level of Uncertainty	Impact on Integrity of 10YP
16. Assets will deliver the required level of service over their document useful life.	Low	Low

SOURCES OF FUNDING FOR THE FUTURE REPLACEMENT OF STRATEGIC ASSETS

The funding needed for the future replacement of significant assets is set by Council's Revenue and Financing Policy, that incorporates the balanced budget and intergenerational principles. The funding sources used by Council for the renewal or replacement of assets are subsidies and grants, depreciation reserves and loan funding. The Council has over the term of the 10YP set revenue levels sufficient to fully fund consumption on its assets (unless stated otherwise).

The risk associated with this assumption is that the required actual asset renewal funding varies from the forecast funding required. If asset consumption calculations are insufficient to cover the costs of renewing or replacing the asset, it may lead to reduction in service levels, additional loan funding or a higher rating requirement. This risk may be mitigated through review of work programmes and revising budget estimates in conjunction with each Annual Plan. Council has also built depreciation reserves over time and generally these reserves have positive balances, so should be sufficient to fund renewals at least in the short term. Council has developed an Infrastructure Strategy detailing the level of investment need to replace, renew or upgrade existing assets over the next 30 years.

Assumption	Level of Uncertainty	Impact on Integrity of 10YP
17. Subsidies and depreciation reserves will generally be adequate to fund asset renewal expenditure.	Low	Low

DEVELOPMENT/FINANCIAL CONTRIBUTIONS

A Development Contribution Policy (DCP) pursuant to the Local Government Act 2002 is only appropriate where Council proposes to undertake significant new growth-related capital projects. In the absence of growth, the costs of developing and implementing a DCP significantly outweighs the benefits.

The growth projections indicate that there is likely to be a small amount of growth in dwellings and in rating units, despite a decrease in population. This is, however, over the 30-year projection, less than 0.5% increase/decrease across these measures, therefore general stability can be anticipated, and the impact of growth is assumed to be low.

The Resource Management Amendment Act 2020 re-enacted the ability for Councils to collect financial contributions from 1 July 2020, therefore financial contributions will be incorporated into the Proposed District Plan.

Assumption	Level of Uncertainty	Impact on Integrity of 10YP
18. No material growth related capital expenditure is expected.	Low	Low

AVAILABILITY OF CONTRACTORS TO COMPLETE CAPITAL PROGRAMME

It is assumed there is sufficient capacity within the professional services and physical works contractor market to undertake the capital programme.

There is a low/medium degree of uncertainty around this assumption as there are high levels of forecasted capital expenditure from other central and local government agencies in the North Island as well as strong ongoing demand for new housing and development nationally. The impact of this on supply and demand on the contracting sector may impact on price competitiveness. Against that, the civil construction sector is seeing spill-over of out of district contractors seeking to establish local market foothold. Procurement processes are well subscribed at the proposal stage, with the impact of Government funded “shovel ready” projects relatively short-term and minor compared with longer term, core services delivery.

Assumption	Level of Uncertainty	Impact on Integrity of 10YP
19. Availability of contractors to complete capital programme	Medium	High

Document No: A492408

Report To: Audit, Risk and Finance Committee

Waitomo District Council

Meeting Date: 13 October 2020

Subject: **Progress Report – Development of Service Delivery Continuity Plans**

Type: Information Only

Purpose of Report

1.1 The purpose of this business paper is to inform the Committee on progress with the development of continuity plans for Service Delivery in an emergency setting.

Background

2.1 Council's Risk Management Framework prioritises two strategic risks that have a high residual risk - Council's investment in Inframax Construction Ltd and Business (Service Delivery) Continuity.

2.2 The second highest residual risk priority relates to service delivery (Strategic Risks 6.3 and 6.4). Interruption to Council's functionality and vulnerability of critical IT infrastructure are high residual risk exposures that would benefit from dedicated continuity planning.

2.3 Council agreed to a programme to develop the necessary Continuity Plans being scheduled for 2020/21.

Commentary

3.1 An initial investigation was completed in early 2020 during the development of the 2020/2021 Exceptions Annual Plan to identify the budget required to develop, agree and implement a Continuity Plan arrangement. Sufficient budget has been included to progress this project.

3.2 The draft Request for Proposal was prepared and reviewed. Subsequent discussion on the appropriate method for procurement resulted in a Registration of Interest process being considered the most effective option.

3.3 The procurement method is under action and the Registration of Interest option is being developed.

Suggested Resolution

The Progress Report – Development of Business Continuity Plans be received.

ALISTER DUNCAN
GENERAL MANAGER - BUSINESS SUPPPORT

5 October 2020

Document No: A492421

Report To: Audit, Risk and Finance Committee

Meeting Date: 13 October 2020

Subject: **Progress Report: Risk Management Framework – Implementation Plan and Monitoring**

Type: Information Only

Purpose of Report

1.1 The purpose of this progress report is to inform the Audit, Risk and Finance Committee of progress on the implementation of the Risk Management Framework (RMF) and Risk Management Implementation Plan (RMI Plan) adopted by the Council on 28 May 2019.

Background

2.1 <u>October 2018</u>

2.2 In 2018, WDC agreed the importance of, and need for, a RMF and subsequently developed a Draft RMF to provide a means for the identification and mitigation of key organisational risks.

2.3 At a Workshop of the Audit and Risk Committee (ARC) held on 16 October 2018, Council's strategic risks were considered and a Risk Register agreed.

2.4 Following the 16 October 2018 Workshop, the following actions were then completed:

1. The Risk Register was modified to incorporate the ARC's feedback from the 16 October 2018 Workshop.

2. The agreed key risk identification and prioritisation methodology (risk assessment) was applied to each of the agreed strategic risks.

3. An assessment and prioritisation of residual risks, following application of current risk controls and measures, was completed.

4. Identification and documentation of future controls and treatments attaching to the high priority residual risks, including additional resourcing implications, was completed.

5. A programme of implementation, monitoring and reporting on progress towards developing WDC's risk maturity was drafted and if agreed will be included in the Road Map Work Programme (RMWP) for the appropriate years.

2.5 February 2019

2.6 The first four actions (out of the five) described above, were incorporated into a Draft RMF and associated Risk Register and presented to the ARC for consideration at its meeting of 12 February 2019. The ARC, at its 12 February 2019 meeting, resolved -

1 *Council notes and agrees the proposed controls and treatments needed to address the identified residual strategic risks, and the need for additional resourcing to implement those measures.*

2 *Council notes that the additional resourcing requirements will be introduced through the draft 2019/20 Exceptions Annual Plan process.*

3 *Council notes that monitoring and reporting progress towards developing the maturity of Council's Risk Management Framework will take place in accordance with Council's Roadmap.*

2.7 May 2019

2.8 The fifth action (out of the five described above) entailed development of a Draft RMI Plan for developing WDC's risk maturity by the ARC ahead of making any recommendations on the RMF and RMI Plan to Council. Adoption of a RMF and an associated RMI Plan concluded the first phase of the risk management work.

2.9 The ARC at its meeting of 14 May 2019 resolved to recommend both the RMF and RMI Plan to Council for adoption as follows:

2 *The Audit and Risk Committee recommends that Council:*

(a) *Adopt the Risk Management Implementation Plan for intervention of the strategic residual risks identified in the Strategic Risk Register;*

(b) *Note the requirement for an annual review of the Risk Register in May of each year, including a review of any externalities impacting on or introducing new, strategic risks, to ensure changing circumstances are anticipated, monitored and mitigated accordingly;*

(c) *Note the requirement for a monitoring and reporting programme to be adopted in May each year for the financial year ahead, which will be linked to the agreed strategic risks, and will form part of ARC's meeting programme for the year.*

2.10 Council in turn, at its meeting on 28 May 2019 resolved as follows:

2 *The Risk Management Framework incorporating the overarching and strategic risks identified in the Strategic Risk Register be adopted.*

3 *Council note and agree the proposed controls and treatments needed to address the identified residual strategic risks, and the need for additional resourcing to implement those measures.*

4 *Council note that the additional resourcing requirements will be introduced through the draft 2019/20 Exceptions Annual plan process.*

5 *Council note that monitoring and reporting progress towards developing the maturity of Council's Risk Management Framework will take place in accordance with Council's Road Map Work Programme.*

6 *The Risk Management Implementation Plan for intervention of the strategic residual risks identified in the Strategic Risk Register be adopted.*

7 *Council note that the Audit and Risk Committee will undertake an annual review of the Strategic Risk Register in May of each year, including a review of any externalities impacting on or introducing new, strategic risks, to ensure changing circumstances are anticipated, monitored and mitigated accordingly.*

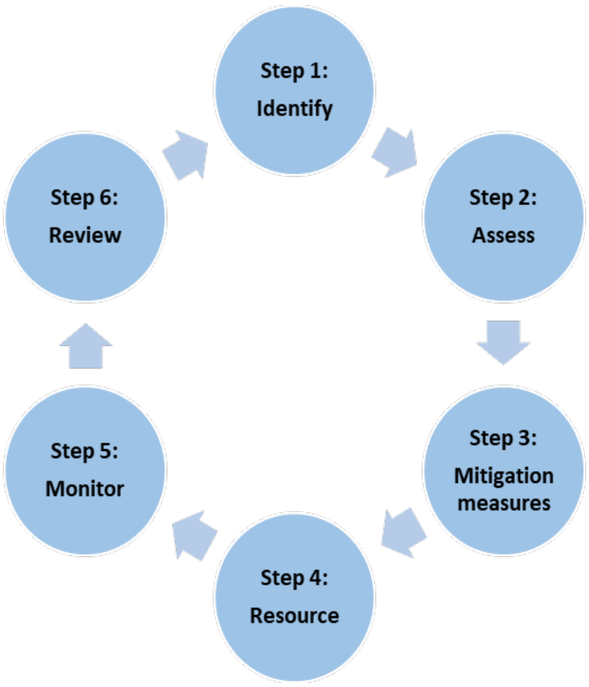
8 *Council note that the Audit and Risk Committee will develop a monitoring and reporting programme in May for the financial year ahead, linked to the agreed strategic risks, and to form part of Audit and Risk Committee's agenda programme for the year.*

Commentary

3.1 <u>Introduction</u>

3.2 The RMF assumes a perpetual development and review cycle (six-step continuum), starting with identification of potential risks, qualitative and quantitative assessment of those risks, development of controls and treatments designed to mitigate any residual risks, investment in the resourcing required to implement the agreed controls and measures (or accept the risk), then monitoring and reporting on progress towards implementation.

3.3 The final step provides for a review of the RMF to take account of any new strategic risks that may be identified over time, and to assess risk management maturity.



3.4 The RMF provides a prioritised RMI Plan which takes into account Council's modest resource capacity, typical of smaller, rural local authorities, and noting the sensitivity of that resource to the demands of competing work demands.

3.5 The RMI Plan addressed residual risks scored as "High" (assessed risk scores of 9-10).

3.6 Risk Priorities

3.7 Priority Number One – Investment (Shareholding)

3.8 Two strategic risks offer high residual risk. The first is the investment (by way of a 100% shareholding) in Inframax Construction Ltd (Strategic Risk 3.2).

3.9 The assessment records the likelihood and consequence of the investment not achieving its financial and strategic objectives, even after allowing for current risk controls and treatments, is high. The mitigation of this risk requires increased reporting, and establishment of a policy based rationale supported by an external cost/benefit analysis for the continued ownership of Inframax.

3.10 Priority Number Two – Business (Service Delivery) Continuity

3.11 The second highest residual risk deals with the need to assure capacity to function in an emergency setting (Strategic Risks 6.3 and 6.4). Impacts on level of service functionality and vulnerability of critical IT infrastructure are high residual risk exposures.

3.12 Other High Residual Risk Priorities

3.13 Subsequent mitigation measures for the remaining high residual risks (risk scores between 9 and 12) have been scheduled for implementation in order of relative priority, over subsequent years.

3.14 The full list of other High Residual Risks is summarised in the table below:

Risk Register Reference	Strategic Risk Category	Strategic Risk Description	Residual Risk Level Score	Proposed Residual Controls and Treatments
3.2	Financial	WDC's shareholding investment does not meet financial and strategic objectives	12	• Establish a policy based rationale and supported by external cost/benefit analysis for continued ownership of Inframax
6.3	Business Continuity	Business function is significantly interrupted due to a lack of business continuity planning and organisational resilience	12	• Develop business continuity plans
6.4	Business Continuity	Critical IT infrastructure failure	12	• Develop business continuity plans
4.1	Technology	Cyber Security breach as a result of unauthorised access.	9	• Monitor effectiveness of current risk controls and treatments on a periodic basis. • Undertake independent baseline securities and policies assessment

Risk Register Reference	Strategic Risk Category	Strategic Risk Description	Residual Risk Level Score	Proposed Residual Controls and Treatments
4.2	Technology	Not keeping up with technological change at the customer and internal services interface	9	• Review the effectiveness of current risk controls and treatments and identify interventions to address gaps.
4.3	Technology	Inadequate investment in WDC's ICT (technological & human resources)	9	• Review the effectiveness of current risk controls and treatments and identify interventions to address gaps. • Investigate resourcing options for driving changes necessary to maintain WDC's ICT up to date and relevant to organisational and customer needs.
6.1	Business Continuity	Damage to critical WDC infrastructure and buildings following a natural disaster such as earthquake, fire, flood	9	• Undertake site specific risk audits of critical infrastructure and buildings and prepare risk management/retreat plans.
6.2	Business Continuity	Damage to critical infrastructure and buildings following a manmade disaster such as explosion, fire, etc.	9	• Undertake site specific risk audits of critical infrastructure and buildings and prepare risk management plans.

3.15 The six year implementation programme reflects Council's limited capacity to take an expedited approach to advance a Risk Mitigation Work Plan.

3.16 Other Lower Risk Priorities

3.17 It is recognized that many other lower scale risks exist in addition to the identified "high" risk priorities.

3.18 Similarly, new strategic risks will be identified from time to time through the work of the Audit Risk and Finance Committee and will need to be considered against the initial programme.

Risk Management Implementation Plan

No.	Risk Register Ref.	Strategic Risk Description (Residual Risk Scores 9 - 12 only)	Risk Controls and Treatments	2019/ 20	2020/ 21	2021/ 22	2022/ 23	2023/ 24	2024/ 25
1	3.2	WDC's shareholding investment does not meet financial and strategic objectives	Establish a policy based rationale and supported by external cost/benefit analysis for continued ownership of Inframax						
2	6.3	Business function is significantly interrupted due to a lack of business continuity planning and organisational resilience	Develop business continuity plans						
3	6.4	Critical IT infrastructure failure	Develop IT business continuity plan						
4	4.1	Cyber security breach as a result of unauthorised access	Undertake independent baseline securities and policies assessment.						
			Monitor effectiveness of current risk controls & treatments on a periodic basis.						
5	4.2	Not keeping up with technological change at the customer and internal services interface	Review the effectiveness of current risk controls and treatments and identify interventions to address gaps						
6	4.3	Inadequate investment in WDC's ICT (technology and HR)	Review the effectiveness of current risk controls and treatments and identify interventions to address gaps						
			Investigate resourcing options for driving changes necessary to maintain WDC's IT up to date and relevant to organisational and customer needs						
7	6.1	Damage to critical infrastructure & buildings following a natural disaster	Undertake site specific risk audits of critical infrastructure & buildings & prepare risk management/retreat plans						
8	6.2	Damage to critical infrastructure & buildings following a human disaster	Undertake site specific risk audits of critical infrastructure & buildings & prepare risk management plans						
9	-	General	Annual Review of Risk Register incorporating any new externalities (May)						

3.19 A copy of the full Risk Register as adopted by Council on 28 May 2019 is enclosed separately and forms part of this business paper.

3.20 <u>Next Steps</u>

3.21 The RMF (including the Risk Register) and RMI Plan has been adopted, the RMF and RMI Plan (for residual risk interventions, reporting on implementation of the agreed additional controls and treatments, or any new risk intervention requirements that may occur) has been incorporated into the RMWP to develop the maturity of WDC's risk management framework.

3.22 In addition to the staged RMI Plan, an annual review of the Risk Register by the ARC is programmed for May each year. This annual review process will include a scan of externalities impacting on, or introducing new strategic risks, so that changing circumstances are anticipated, monitored and mitigated accordingly.

3.23 The RMWP effort provides for the review to occur ahead of each new financial year start date and outside the development phase of each Exceptions Annual Plan/LTP.

3.24 It is anticipated that the reporting against the RMI Plan will include the required reporting against relevant strategic risks at least once a year.

Progress to Date

4.1 Presentation of the RMWP was scheduled for consideration at the August 2019 Council meeting.

4.2 However this was deferred until the 8 October 2019 Council meeting to enable the new Group Manager – Business Support to have an input into the various projects, including the RMF work stream.

4.3 A workshop on the 11 February 2020 was conducted to present the background and options to progress the development of the mitigation strategy for residual risk of Priority Number One – Investment (Shareholding).

4.4 The Audit Risk and Finance Committee subsequently resolved:

"The Committee considered a business paper presenting for consideration a proposed review process for Council's investment in its 100% shareholding Company.

Resolution

1 *The business paper on Council Investments be received.*

2 *The Audit, Risk and Finance Committee appoint a Working Party comprising:*

Mayor Robertson
Deputy Mayor Whitaker
Cr Goddard

to provide governance oversight over the development of an Investment Policy.

4 *The Working Party appointed is authorised to engage with Council's 100% Shareholding Company Board, as required, to advise and inform the development of a Council Investment Policy noting that the current form of Council's investment is a 100% shareholding in Inframax Construction Ltd as a Shareholder Company.*

5 *The Audit, Risk and Finance Committee note the indicative project timeline as follows:*

Step	**When**
Governance engagement with Company Board	TBA (subject to advice)
Discussion with external expert on process and timeline	Late Feb/ early March
Working Party review and authorise project plan and timeline	Mid-March – early April
Audit, Risk and Finance Committee review and consider advice/report received from external experts	5 May 2020

4.5 The delivery of the Investment Review workstream process and programme is currently under review.

4.6 A separate progress report on the Business (Service Delivery) Continuity Plan Project is included elsewhere in this Agenda.

Suggested Resolution

The business paper on Progress Report: Risk Management Framework –Implementation Plan and Monitoring be received.

ALISTER DUNCAN
GENERAL MANAGER – BUSINESS SUPPORT

Separate Enclosure: Risk Register as adopted by Council on 28 May 2019 (A429516)

Document No: A492230

Report To: Audit, Risk and Finance Committee

Waitomo District Council

Meeting Date: 13 October 2020

Subject: **Progress Report: Civil Defence and Emergency Management**

Type: Information Only

Purpose of Report

1.1 The purpose of this business paper is to brief the Audit, Risk and Finance Committee on current activities within the Civil Defence and Emergency Management (CDEM) portfolio.

Background

2.1 Waitomo District Council (WDC) provides Civil Defence and Emergency Management functions for the District as required by the Civil Defence and Emergency Management Act 2002 ("the Act").

2.2 WDC's emergency management activities are assisted by the Emergency Management Operations Manager and Emergency Management Coordinator employed by Waipa District Council to provide a shared service arrangement for Waipa District Council, Otorohanga District Council and Waitomo District Council; jointly operating and collaborating as the Western Waikato Emergency Operating Area (WWEOA).

Commentary

3.1 For the reporting period, the following CDEM activities have been undertaken in the Waitomo District under the four "Rs" (Reduction, Readiness, Response, and Recovery).

3.2 This includes emergency management activities within the shared service arrangement between Waipa, Otorohanga and Waitomo District Councils.

3.3 <u>REDUCTION</u>

3.4 No reduction activities were undertaken during the reporting period largely due to COVID-19 response activities and Alert Level 2, 3 and 4 restrictions.

3.5 **READINESS**

3.6 **LOCAL WELFARE COMMITTEE**

3.7 Welfare services support individuals, families and communities in being ready for, responding to and recovering from emergencies. Welfare services carry out activities across the 4Rs to provide for the needs of people affected by an emergency and to minimise the consequences of the emergency for individuals, families and communities.

3.8 The Waitomo/Otorohanga Local Welfare Committee is chaired by the Local Welfare Manager. Community representation incudes representatives from organisation such as Red Cross, Citizens Advice Bureau, Social Services Committees, Community House, Salvation Army, Neighbourhood Watch, Ministry for Social Development, Department of Health and Maori Wardens. The Group Welfare Manager and Group Public Information Manager also attended the meetings.

3.9 This Committee was instrumental in providing valuable guidance on local welfare matters during the COVID-19 response. This included providing volunteers for the buddy system and foodbank support.

3.10 **RESPONSE**

3.11 **COVID-19 – NATIONAL STATE OF EMERGENCY WWEOC RESPONSE**

3.12 The Western Waikato Emergency Operations Centre (WWEOC) was established on Thursday, 26 March 2020 at 0800 hours to support the Waikato District Health Boards response, at a local level, to the COVID-19 National State of Emergency.

3.13 The WWEOC operated the Civil Defence function on behalf of Waipa, Waitomo, and Otorohanga Territorial Authorities. The WWEOC was disestablished on Thursday, 14 May 2020 as the response was combined with Taupo and South Waikato Districts, based out of Taupo.

3.14 During the response phase 53 staff from across the three Councils were engaged to work at the WWEOC on a rostered basis, working 7 days a week. The intent for the WWEOC during this period was:

1. Lead and coordinate the non-health consequences of COVID-19, across the Western Waikato CDEM area.
2. Support the DHB's to deliver their health response. This included supporting the only formal Community Based Assessment Centre (CBAC) based at the Te Kuiti Hospital.
3. Provide positive leadership and reassurance to our communities through accurate and timely communications.

3.15 The WWEOC was responsible for the delivery, management and oversight of the non-health response requirements including:

- Supporting 6 foodbanks with more than $101,000 of groceries (cost recoverable from NEMA) to provide 1,183 food parcels to vulnerable people and families.
- Providing drivers for health shuttles and Meals on Wheels services.

- Coordinating 136 volunteers to assist with buying groceries and medication for vulnerable people.

- Responding to 244 requests for assistance.

3.16 The WWEOC was also focussed on information sharing including:

- 84 Status Reports provided to the coordinating Waikato Group. These daily reports from all Waikato EOCs were combined into a Waikato Situation Report to assist in national decision-making.

- 38 media releases to the community and 32 reports to Councillors from the three Councils.

- Daily contact with representatives of the key Iwi partners.

3.17 The WWEOC supporting our Iwi partners with:

- Enabling support to the Kawhia community via the Kawhia Marae Collective and the Maniapoto Māori Trust Board.

- Providing logistics and security for Waikato-Tainui food parcel distribution centres in both Cambridge and Kihikihi.

- Regular contact with Raukawa to monitor support requirements.

3.18 EOC Timeline

26 March – 13 May	Waipa, Otorohanga and Waitomo District Councils' operating as a single merged WWEOC.
14 May – 3 June	Waipa, Waitomo, Otorohanga, Taupo and South Waikato District Councils' operating as a merged 'Southern EOC'.
3 June – 29 June	Transition period with key Southern EOC staff operating to manage handover of EOC services to correct agencies for long-term support.

3.19 RECOVERY

3.20 Recovery is one of the 4 'R's (reduction, readiness, response, recovery). Planning for recovery helps ensure measures are in place to minimise the consequences of emergencies on communities.

3.21 The Civil Defence Emergency Management Act 2002 places a duty on Local Authorities to plan and provide for CDEM within their districts or regions (section 64); and this includes recovery.

3.22 GENERAL

3.23 CDEM SHARED SERVICE

3.24 The Western Waikato Emergency Operating Area Shared Service Agreement was originally signed in 2013 between Waitomo, Waipa and Otorohanga District Councils.

3.25 The intent of the shared service is to develop and support the capacity and capability of the partnering Councils to prepare for, respond to and plan for the recovery from (in conjunction with Recovery Managers from each Council) a civil defence emergency in any part of their Districts.

3.26 The existing Agreement's three year term expired in June 2020 and was renewed with the three organisations supporting the shared service approach for a further three year period. There were no significant changes and it was agreed that Waipa District Council would continue to administer the delivery of CDEM activities and services in conjunction with Otorohanga and Waitomo District Councils.

3.27 EMERGENCY MANAGEMENT TRAINING

3.28 Foundation Course training continues to be carried out across all three Councils with new staff engaged when joining the respective organisation. A systematic approach of engaging with existing staff has also been actioned.

Suggested Resolution

The Progress Report: Civil Defence and Emergency Management (CDEM) be received.

HELEN BEEVER
GENERAL MANAGER – COMMUNITY SERVICES

October 2020

Document No: A492409

Report To: Audit and Risk Committee

Meeting Date:	13 October 2020
Subject:	**Progress Report: NZTA Technical Audit**
Type:	Information Only

Purpose of Report

1.1 The purpose of this business paper is to brief the Audit Risk and Finance Committee on the findings of DRAFT Investment Audit Report following a Technical Audit of the Waitomo District Council Roading investment by Tony Lange of the NZ Transport Agency in March 2020.

Background

2.1 The Investment Audit is carried out by the NZ Transport Agency (NZTA) to monitor investment and performance under Section 95(1)(e)(ii) of the Land Transport Management Act 2003. These Audits are usually done once in three years. This audit was done as part of the NZTA Investment for the 2018–2021 NLTP.

2.2 The objective of this audit is to provide assurance that the NZTA's investment is delivering value for money and assures that risk associated with the investment is managed appropriately.

Commentary

3.1 The Executive Summary

3.2 WDC's roading network is generally in good condition. Network indices for pavement condition, surface condition and smooth travel are stable and compare well with national values.

3.3 Compared with the Rural Districts Peer Group, for the years 2017–2019 maintenance costs are high with WDC ranked at 23/25 for expenditure. WDC's average cost for this period is $5,245 lane/kilometre within the peer group range of $2,236 to $6,335 lane/kilometre.

3.4 Renewals

3.5 There is an opportunity to tension the renewals programme to reduce costs. The number of annual deaths and serious injuries (DSIs) on Waitomo roads are comparatively low for the Waikato region.

3.6 Crashes that do occur are predominately on Secondary Collector roads. This road group accounts for 26% of the network by length but significantly carries 57% of vehicle traffic.

3.7 The Audit report considers the road safety audit procedures are poor, are inconsistently applied and there is a lack of consistency in the application of delineation against road classifications or national guidelines.

3.8 WDC's data quality results as assessed by the Road Efficiency Group are very good. Recording data that is complete, timely and accurate improves the evidence to support WDC's Investment case.

3.9 WDC personnel who assisted with the audit exhibited good knowledge and are aware of the challenges that face the network along with the constraint of a small rating base.

3.10 The table below captures the audit recommendations and the WDC responses:

NZ Transport Agency report recommend that		**WDC Response/Commentary and Implementation Date**
R1.1	Undertakes a rigorous validation of renewal sites to optimise the renewal programme.	Rehabs and Reseals are done on a needs basis rather than an age basis with due consideration of the dTIMS Forward Works Program (FWP), a three-yearly visual assessment FWP by an expert evaluator, Net Present Value (NPV) calculations are completed to justify Rehabs. Agree with suggestion to optimise the renewals programme. To be implemented in Rehab Contracts let for the 2021/22 construction season.
R1.2	Ensures that all values (quantities, costs and asset life) used in Net Present Value analysis are robust and reflect site requirements for the 'do minimum' and 'options' analysis.	WDC uses best available values (quantities, costs and asset life) for Net Present Value analysis. NPV calculations seem to be disproportionally weighted for recent historic maintenance costs and this can lead to the NPV giving favour to maintenance options rather than rehabs. The method is to be changed and implemented in Rehab Contracts let for the 2021/22 construction season.
R1.3	Implements a seal extension programme for unsealed roads at intersections and bridge approaches	A sites candidate list is already been compiled and priced. The intention is to incorporate this in the Low Cost Low Risk (LCLR) works FWP and do such improvements over time in a prioritised order in accordance with the procurement policy requirements. To be applied for the 2020/21 and 2021/22 construction seasons.
R2.1	Ensures that the ONRC is integrated into Council's business systems, planning documents, management practices and reports.	WDC's roads have ONRC classifications and ONRC is used to guide investment decisions. This approach is being progressively implemented into systems, planning documents, management practices and reports, the AMP and the Transition Plan. Underway. Full implementation by 2021/22 construction season.

NZ Transport Agency report recommend that		WDC Response/Commentary and Implementation Date
R2.2	Implements a monitoring programme to measure if problem statements are rectified.	The current AMP review cycle will include a monitoring programme to measure if problem statements are rectified. This should be in place by the end of 2020.
R2.3	Implements a project plan for each improvement task	The new AMP and LTP plan is to implement a project plan for each improvement task
R4.1	Undertakes an audit of signs, markings and delineation to identify inconsistent practice and implement a programme of work to ensure roads comply with the Traffic Control Devices manual	This recommendation is accepted, to implement regular audits of signs, markings and delineation by March 2021.
R4.2	Meet the duty of care requirement for Temporary Traffic Management as set in the Code of Practice for Temporary Traffic Management.	This recommendation is accepted for the WDC bylaw section relevant to the Cattle crossings requires a review to get relevant TMP requirements in line with the Code of Practice for Temporary Traffic Management. To be implemented by 30 June 2022.
R4.3	Undertake routine audits of temporary traffic management sites to ensure compliance with the Code of Practice for Temporary Traffic Management.	This recommendation is accepted. WDC will undertake regular TMP Audits accordingly. Documented monthly TMP Audits to be in place by December 2020.
R4.4	Comply with the Road Safety Audits process as defined in NZTA Planning and Investment Knowledge Base.	This recommendation is accepted and a Road Safety Audit process will be implemented by March 2021.

3.11 A copy of the full Report is attached as Attachment 1: DRAFT Investment Audit Report.

Commentary

3.1 The following additional commentary is offered in response to relevant sections of the Audit Report recommendations for clarification:

3.2 <u>Section 1: Network Condition and Management:</u>

3.3 **NZTA Report**: “Compared with the Rural Districts peer group for the three years 2017 – 2019 maintenance costs are high…”

3.4 **WDC Comment**: The relative remoteness, the historical prevalence of sub-standard pavement strengths, the high proportion of steep roads with out-of-context curves and soft, weak sub-strata with high rain fall incidence all contribute to a higher than average maintenance cost for the network.

3.5 **NZTA Report**: "Delivery of Council's Low cost, low risk programme is well behind plan."

3.6 **WDC Comment**: COVID-19 lockdown has affected the delivery of the Low Cost Low Risk programme of works. It is now being progressed.

3.7 Section 4: Road Safety

3.8 **NZTA Report**: "Of note was a pavement renewal site, Taharoa Road where the 'as built' cross-section detail did not meet Austroads Guide to Road Design Part 3: Geometric Design guidelines."

3.9 **WDC Comment**: Road safety is a high priority for WDC and the recommendation for edge marker posts to be installed on all rural roads regardless of road class, as well as the recommendation for raised pavement markers will be assessed for implementation where it is not already in place. In the case of Taharoa Road, the steep drain was not expected as the original drain was not so deep and thickly overgrown and silted up. The slight over excavation combined with a marginal widening and the limited road reserve width available after the Rehab led to the steepness of the drain. A current project is underway to make this safe by way of a culvert and infill. Limited road reserve widths make it impossible to always meet Austroads Guide to Road Design Part 3: Geometric Design guidelines.

Suggested Resolution

The Progress Report: NZTA Technical Audit 2020 be received.

TONY HALE
GENERAL MANAGER – INFRASTRUCTURE SERVICES

October 2020

Attachment: Attachment 1: DRAFT Investment Audit Report A492411

WAKA KOTAHI
NZ TRANSPORT AGENCY

INVESTMENT AUDIT REPORT

Technical Audit of Waitomo District Council

Monitoring Investment Performance

Report of the investment audit carried out under Section 95(1)(e)(ii) of the Land Transport Management Act 2003.

TONY LANGE

2 MARCH 2020

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New Zealand Government

Approved Organisation (AO):	Waitomo District Council
Waka Kotahi NZ Transport Agency Investment (2018 – 2021 NLTP):	$ 36,228,331 (budgeted programme value)
Date of Investment Audit:	2 March 2020
Audit Team:	Tony Lange - Senior Investment Auditor (Lead) Scott McKenzie – Roading Manager, Mackenzie DC Rob Bullick – Principal Investment Advisor
Report No:	RATLT-1991

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AUTHORITY SIGNATURES

Prepared by:

Tony Lange, Senior Investment Auditor

Approved by:

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Yuliya Gultekin, Practice Manager Audit & Assurance Date

DISCLAIMER

WHILE EVERY EFFORT HAS BEEN MADE TO ENSURE THE ACCURACY OF THIS REPORT, THE FINDINGS, OPINIONS, AND RECOMMENDATIONS ARE BASED ON AN EXAMINATION OF A SAMPLE ONLY AND MAY NOT ADDRESS ALL ISSUES EXISTING AT THE TIME OF THE AUDIT. THE REPORT IS MADE AVAILABLE STRICTLY ON THE BASIS THAT ANYONE RELYING ON IT DOES SO AT THEIR OWN RISK, THEREFORE READERS ARE ADVISED TO SEEK ADVICE ON SPECIFIC CONTENT.

EXECUTIVE SUMMARY

Waitomo District Council's road network is generally in good condition. Network indices for pavement condition surface condition and smooth travel are stable and compare well with national values. Compared with the Rural Districts peer group for the three years 2017 – 2019 maintenance costs are high with Council ranked at 23/25 for expenditure. Council's average cost for this period is $5245 lane/kilometre within the peer group range of $2236 to $6335 lane/kilometre. Significantly renewal quantities are high. There is an opportunity for Council to tension the renewals programme to reduce costs.

The number of annual deaths and serious injuries (DSIs) on Waitomo roads are comparatively low for the Waikato region. Crashes that do occur are predominately on Secondary Collector roads. This road group accounts for 26% of the network by length but significantly carries 57% of vehicle traffic.

Road safety audit procedures are poor. They are inconsistently applied and there is a lack of consistency in the application of delineation against road classifications or national guidelines.

Council's data quality results as assessed by the Road Efficiency Group are very good. Recording data that is complete, timely and accurate improves the evidence to support Councils Investment case

Council personnel who assisted with the audit exhibited good knowledge and are aware of the challenges that face the network along with the constraint of a small rating base.

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AUDIT RATING ASSESSMENT

Subject Areas		Rating Assessment*
1	Network Condition and Management	Some Improvement Needed
2	Activity Management Planning	Some Improvement Needed
3	Data quality	Effective
4	Road Safety	Some Improvement Needed
	Overall Rating	**Some Improvement Needed**

** Please see Introduction for Rating Assessment Classification Definitions*

RECOMMENDATIONS

The table below captures the audit recommendations. Agreed dates are provided for the implementation of recommendations by the approved organisation.

We recommend that Waitomo District Council:		Implementation Date
R1.1	Undertakes a rigorous validation of renewal sites to optimise the renewal programme.	AO
R1.2	Ensures that all values (quantities, costs and asset life) used in Net Present Value analysis are robust and reflect site requirements for the ‘do minimum’ and ‘options’ analysis.	AO
R1.3	Implements a seal extension programme for unsealed roads at intersections and bridge approaches	AO
R2.1	Ensures that the ONRC is integrated into Council’s business systems, planning documents, management practices and reports.	AO
R2.2	Implements a monitoring programme to measure if problem statements are rectified.	AO
R2.3	Implements a project plan for each improvement task	AO
R4.1	Undertakes an audit of signs, markings and delineation to identify inconsistent practice and implement a programme of work to ensure roads comply with the Traffic Control Devices manual	AO
R4.2	Meet the duty of care requirement for Temporary Traffic Management as set in the Code of Practice for Temporary Traffic Management.	AO
R4.3	Undertake routine audits of temporary traffic management sites to ensure compliance with the Code of Practice for Temporary Traffic Management.	AO
R4.4	Comply with the Road Safety Audits process as defined in Waka Kotahi Planning and Investment Knowledge Base.	AO

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1.0 INTRODUCTION

1.1. Audit Objective

The objective of this audit is to provide assurance that the Waka Kotahi NZ Transport Agency's (hereafter Waka Kotahi) investment in Council's land transport programme is being well managed and delivering value for money. We also seek assurance that the Council is appropriately managing risk associated with Waka Kotahi's investment. We recommend improvements where appropriate.

1.2. Assessment Ratings Definitions

	Effective	Some Improvement Needed	Significant Improvement Needed	Unsatisfactory
Investment management	Effective systems, processes and management practices used.	Acceptable systems, processes and management practices but opportunities for improvement.	Systems, processes and management practices require improvement.	Inadequate systems, processes and management practices.
Compliance	Waka Kotahi and legislative requirements met.	Some omissions with Waka Kotahi requirements. No known breaches of legislative requirements.	Significant breaches of Waka Kotahi and/or legislative requirements.	Multiple and/or serious breaches of Waka Kotahi or legislative requirements.
Findings/ deficiencies	Opportunities for improvement may be identified for consideration.	Error and omission issues identified which need to be addressed.	Issues and/or breaches must be addressed, or on-going Waka Kotahi funding may be at risk.	Systemic and/or serious issues must be urgently addressed, or on-going Waka Kotahi funding will be at risk.

1.3. Council Comments

Prior to this report being approved, Waitomo District Council was invited to comment on the auditors' findings, recommendations and suggestions. Where appropriate this report has been amended to reflect this dialogue. Any additional auditee response comments are attached in the Appendices.

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2.0 ASSESSMENT FINDINGS

Our findings relating to each subject area are presented in the tables below. Where necessary, we have included recommendations and/or suggestions.

* * *

1. Network Condition and Management	Some Improvement Needed

Network condition as measured by the key indices of Surface Condition, Pavement Integrity and Smooth Travel show the network is in good condition. We note the recent improvement in the Pavement Integrity value and therefore question the quantity of pavement renewal work.

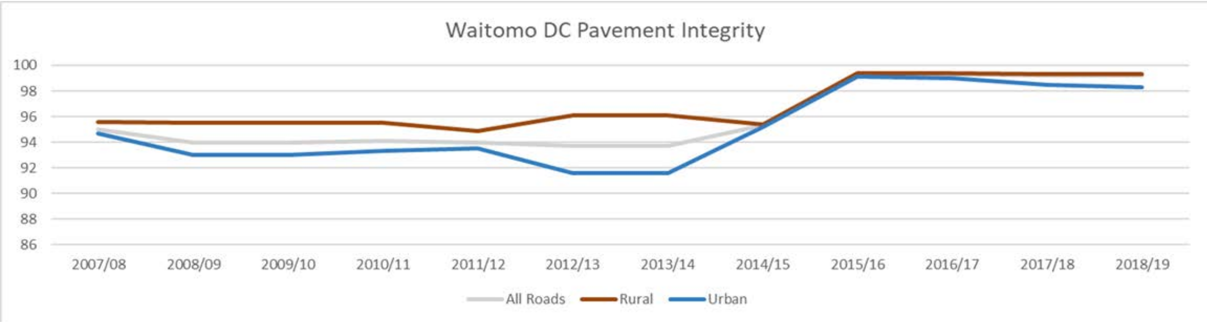

Figure 1 Pavement Integrity - source WK Transport Data

Significantly, renewal quantities are high when compared to peers for chipseal and pavement rehabilitation renewals. A reason for the high quantities lies in the current maintenance contract. The contract has underpinned quantities in the schedule of works for surfacing and pavement renewals. We acknowledge the reason for underpinned quantities is to provide the contractor with guaranteed work. However, it undermines the need to do the work when the surface or road condition is good and is therefore not cost efficient or the most effective solution available to Council. There is an opportunity for Council to tension the renewals programme to reduce costs either through negotiation in the existing contract, let March 2017 with a 3+2+2 format, or in the new maintenance contract.

Net present value (NPV) analysis sheets for pavement renewals were provided for the audit in accord with conditions set in Waka Kotahi's Planning and Investment Knowledge Base. Selection of the renewal option was preferred however this can be expensive and is risk adverse.

A review of the NPV sheets revealed an over estimation of maintenance costs compared with a low cost for the option to renew the pavement. This results in a low marginal difference between maintenance or renewal of the road section.

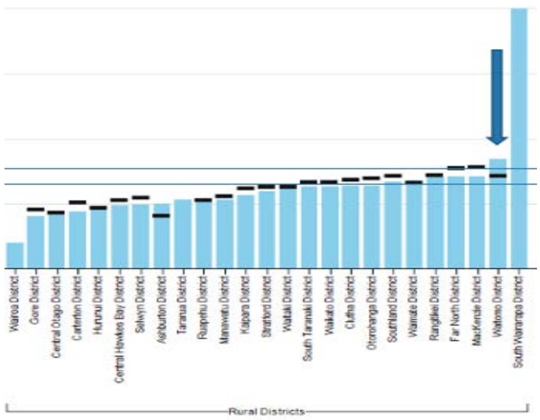

Figure 2 Chipseal resurfacing

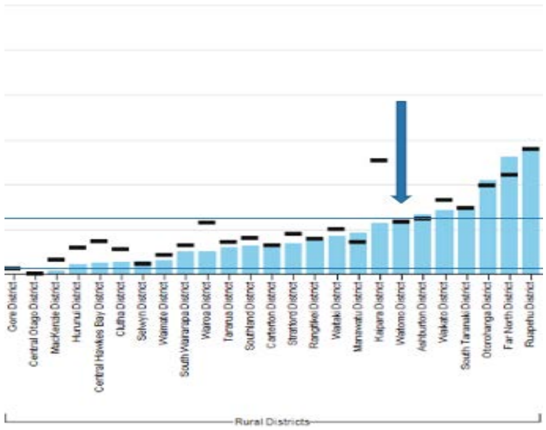

Figure 3 Rehabilitation

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As part of the field inspection we visited sites planned for pavement renewal and noted little visible defects, rutting, cracking and maintenance repairs, to warrant a full pavement renewal project. Compounding the issue was the road class with identified renewal sites on One Network Road Classification (ONRC) low volume roads. For rural low volume roads, traffic volumes are generally less than 50 vehicles a day. It is best practice to undertake heavy maintenance on the defects and monitor condition due to low traffic numbers on low volume roads. This method is more cost effective than undertaking a full pavement renewal over the affected treatment length. We support this approach in parallel with an active surfacing programme to prevent water entering the pavement. Overall unsealed roads had good ride quality with little obvious defects in terms of potholes and corrugation on the roads we travelled. Intersections are well-known for defects due to flat grades and the accelerative and braking forces on the unbound materials. To counter the high incidence of defects, improve safety at intersections and reduce maintenance costs we encourage Council to seal the unsealed approach road. This applies equally to bridge approaches on unsealed roads. Best practice for seal length on the approach road is provided in Austroads Guide to Road Design Part 3: Geometric Design. Factors to consider are the approach speed and type of vehicle. It is best to calculate the approach length based on a Class 5 heavy motor vehicle e. g. a milk tanker with trailer, a vehicle common to the network Delivery of Council's Low cost, low risk programme is well behind plan. In claim #7 dated 31/1/20 actual expenditure was $27,544 for a planned spend of $1,859,112. It is important that Council review the low-cost programme for delivery. If there is a likelihood that the full programme will not be delivered, then we require Council to declare and return surplus funds to Waka Kotahi to reallocate. On the field visit we noted several sites with detritus on the road, poor delineation of stock crossings and poor design at vehicle entranceways. While these events are minor in nature, they do have a cumulative impact on safety. We remind Council that safety is a high priority for Waka Kotahi, and therefore important that Council's maintenance intervention strategy prioritises safety over asset preservation.	
Recommendations	**We recommend that Council:** R1.1 Undertakes a rigorous validation of renewal sites to optimise the renewal programme. R1.2 Ensures that all values (quantities, costs and asset life) used in Net Present Value analysis are robust and reflect site requirements for the 'do minimum' and 'options' analysis. R1.3 Implements a seal extension programme for unsealed roads at intersections and bridge approaches
Suggestions	**We suggest that Council:** S1.1 Considers negotiating a variance to the current maintenance contract for renewal quantities
Waitomo District Council's comment	AO

* * *

2. Activity Management Planning	Some Improvement Needed
Independent reviews of Council 2018 -21 Activity Management Plan (AMP) highlight a need to improve the document. Council's AMP scored a mark of 1.26/3 by the Road Efficiency Group's AMP Excellence review and a mark of 1.8/3 from Waka Kotahi.	

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In the first instance Council must consider the findings of each review and address the identified gaps when preparing the draft 21 -24 AMP.

In addition, we make the following observations of the 18 – 21 AMP;

- The problem statements are vague and are not well supported by evidence within the AMP
- Ensure there is a line of sight between each problem statement and a defined work programme to address the problem. This needs to be supported with a monitoring plan to measure if the action taken does address the problem.
- For the network the AMP including appendices is in excess of 200 pages. We noted that it contains repeated paragraphs throughout the document. A solution is to replace words with graphs to evidence the need for work.
- For the noted improvement tasks, we suggest that all tasks are managed as projects. Good project attributes are a defined scope, timeline, owner and resource needed to complete the project (people and $).

We remind Council of a condition of funding to ensure the One Network Road Classification system is fully embedded within Council's processes, systems and reports. At the commencement of the 2018-21 NLTP an Indicative Funding letter was sent to Council (April 2018) with an Appendix. This letter contained specific and general conditions applicable to your funding approval. Under general conditions there was a requirement that all authorities would commit to:

- Ensuring the organisation's business systems, planning documents, management practises and reporting integrate the One Network Road Classification framework into all transport related decision making. This is to ensure robust evidence investment decisions are made which deliver value for money on a best whole of life basis. We would expect to see asset segmentation by ONRC in the AMP.
- Delivering and reporting of the organisation's ONRC and your own key performance indicators.

It is important that these conditions are integrated into Council's update for the 2021-24 AMP.

Recommendations	**We recommend that Council:** R2.1 Ensures that the ONRC is integrated into Council's business systems, planning documents, management practices and reports. R2.2 Implements a monitoring programme to measure if problem statements are rectified. R2.3 Implements a project plan for each improvement task
Suggestions	**We suggest that Council:** S2.1 Considers refining the AMP by removing repeated information and replacing text with graphs where appropriate.
Waitomo District Council's comment	AO

* * *

3. Data Quality	Effective
Council place a high value on network data. This is reflected in the REG data quality score of 86/100. We concur with the REG score though note, data gaps exist for condition information and the timeliness of data recorded in the database. For maintenance costs, ensure that work is coded correctly.	

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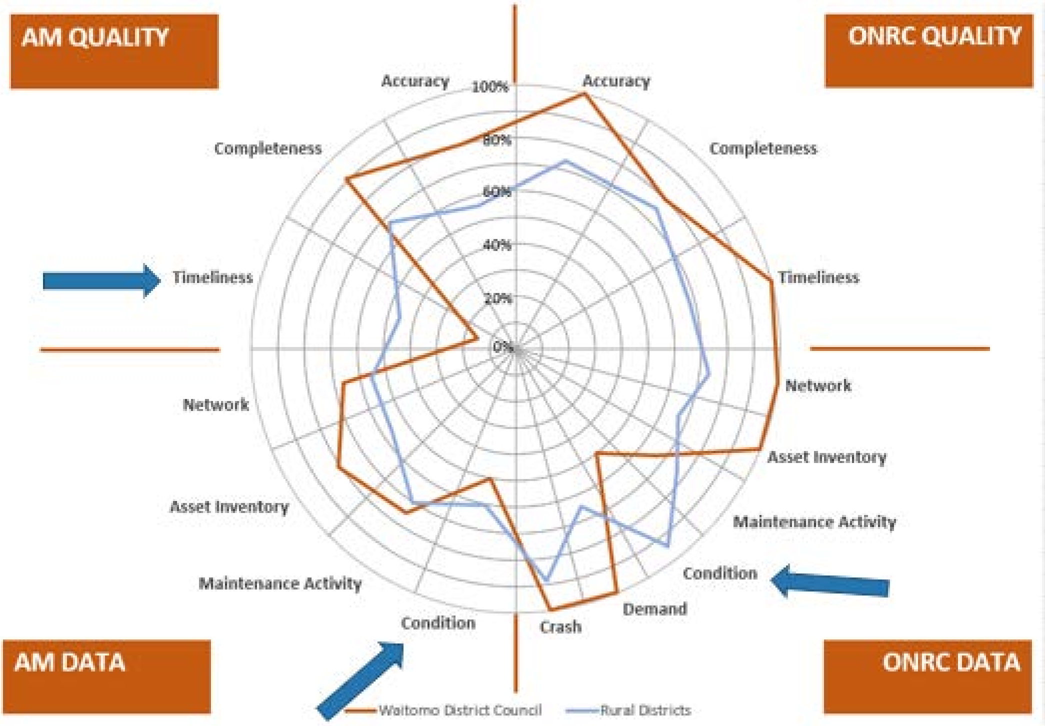

Figure 4 REG data quality score

Significant benefit on network surveys and data management has accrued to Council with its membership of the Waikato Regional Transport Accord.

Suggestions	**We suggest that Council:** S3.1 Reviews the REG Data Quality results and identifies opportunities to improve the condition information and timeliness of data
Waitomo District Council's comment	AO

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4. Road Safety	Some Improvement Needed

Providing a network that is safe for users is a high priority for Waka Kotahi. The number of annual deaths and serious injuries (DSIs) on Waitomo roads is comparatively low for the Waikato region. Crashes that do occur are predominately on Secondary Collector roads. This road group accounts for only 26% of the network by length but carries a significant proportion - 57%, of all vehicle traffic. Safety improvements should focus on this road class in the first instance.

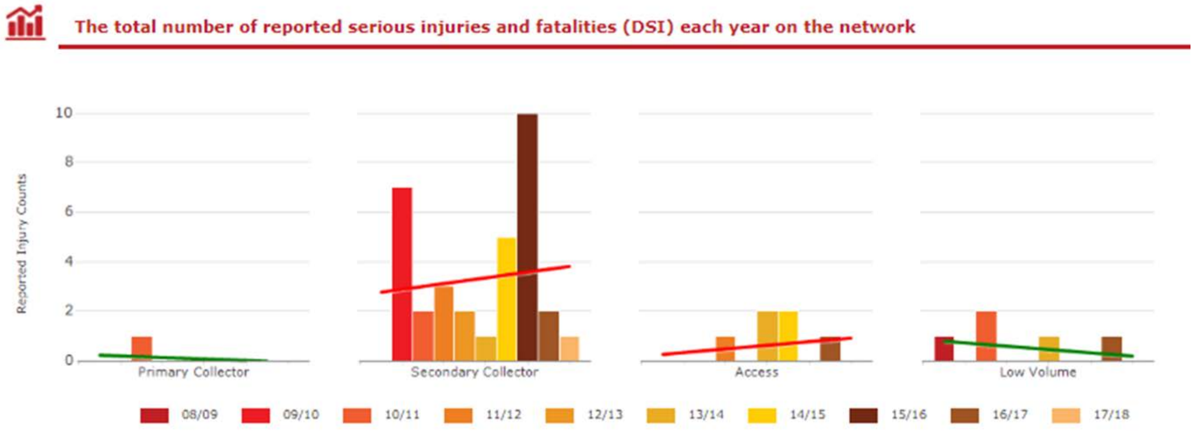

Figure 5 Waitomo crash statistics, source REG ONRC

The purpose of the One Network Road Classification system is to ensure roads of the same class have the same features e.g. delineation and signage. On our field inspection we noted a variance of delineation and signage on roads of the same class and, across boundary roads with neighbouring councils.

A Waka Kotahi research report on road delineation, Research Report 618, Best Value Delineation for Rural Roads recommended that edge marker posts should be installed on all rural roads regardless of road class. Edge Markers are a cost-effective all-weather safety solution that provide critical guidance particularly at night as they improve motorist's judgement of speed and distance. The addition of raised pavement markers further enhances driver safety. However, to be effective edge markers and raised pavement markers need to be installed correctly and ongoing maintenance is required.

It is important that safety is a high priority for Council and the maintenance team. Ensuring that all roads of the same class comply with the Traffic Control Devices standard is the first step to achieve a decline in death and serious crashes.

Temporary traffic management at several worksites did not comply with the Code of Practise for Temporary Traffic Management (CoPTTM). Safety for the public and contractors, hinges on compliance with the CoPTTM. It is the role of Council to approve and manage all temporary traffic management sites. We draw Council's attention to CoPTTM section A5.3.1 which lists the duty of care requirements for Council as the Road Controlling Authority.

Road safety audit procedures are poor. We observed several sites with safety defects that would have been identified during the audit process had it been done. Of note was a pavement renewal site, Taharoa Road where the 'as built' cross-section detail did not meet Austroads Guide to Road Design Part 3: Geometric Design guidelines.

Figure 6 Taharoa Rd Rehabilitation site

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The constructed road had substandard shoulder width and the crossfall into the stormwater was steep and exceeded the guide. Further it appears the surface has flushed. Narrow shoulder width is a safety risk as there is no room for a vehicle to safely navigate back on to the seal and will likely result in premature rut formation due to the lack of shoulder support Guidance on road safety audits is available here, https://www.nzta.govt.nz/resources/road-safety-audit-procedures/. Road safety audits must be carried out for all renewal and improvement projects funded by the National Land Transport Plan.	
Recommendations	**We recommend that Council:** R4.1 Undertakes an audit of signs, markings and delineation to identify inconsistent practice and implement a programme of work to ensure roads comply with the Traffic Control Devices manual R4.2 Meet the duty of care requirement for Temporary Traffic Management as set in the Code of Practice for Temporary Traffic Management. R4.3 Undertake routine audits of temporary traffic management sites to ensure compliance with the Code of Practice for Temporary Traffic Management. R4.4 Comply with the Road Safety Audits process as defined in Waka Kotahi Planning and Investment Knowledge Base.
Waitomo District Council's comment	AO

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3.0 APPENDICES

APPENDIX A

Council Feedback

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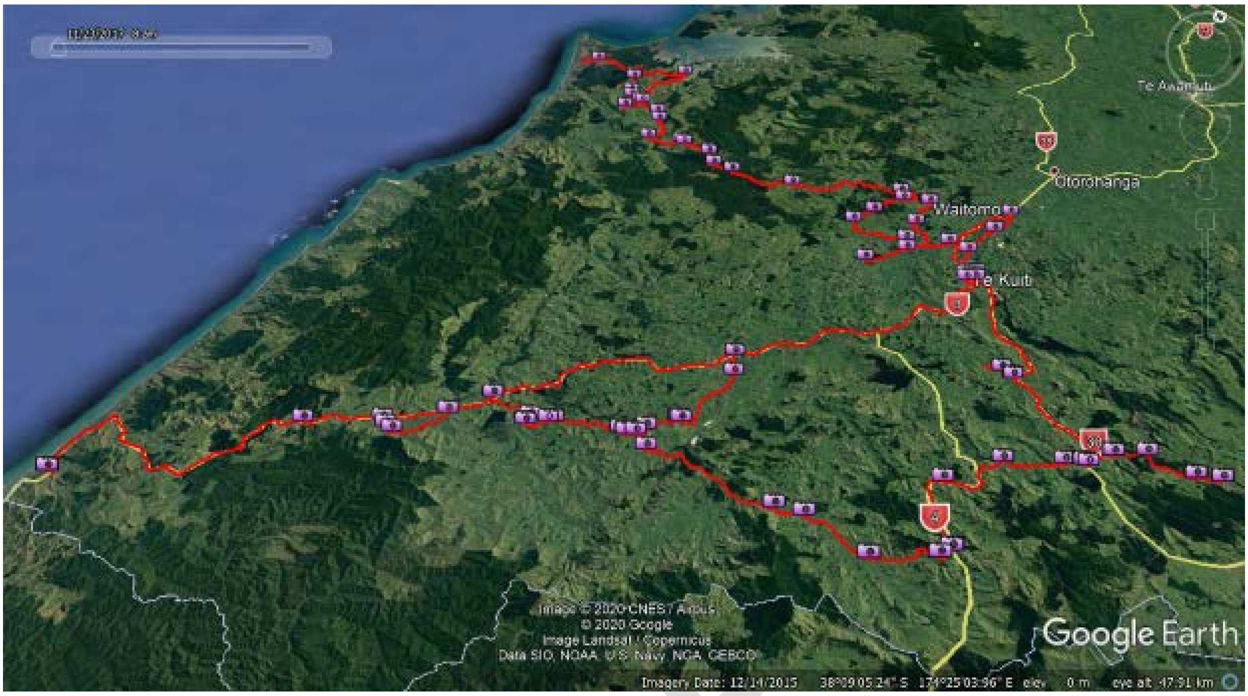
APPENDIX B

Network Field Inspections



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APPENDIX C

Sample of Audit Photos

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Document No: A492494

Report To:	**Audit and Risk Committee**
Meeting Date:	13 October 2020
Subject:	**Progress Report: WDC Resource Consents – Compliance Monitoring**
Type:	Information Only

Waitomo District Council

1.0 Purpose of Report

1.1 The purpose of this business paper is to brief Council on compliance reporting against Resource Consent conditions.

2.0 Local Government Act S.11A Considerations

2.1 Section 11A of the LGA reads as follows:

11A Core services to be considered in performing role

In performing its role, a local authority must have particular regard to the contribution that the following core services make to its communities:

(a) network infrastructure:
(b) public transport services:
(c) solid waste collection and disposal:
(d) the avoidance or mitigation of natural hazards:
(e) libraries, museums, reserves, and other recreational facilities and community amenities.

2.2 Compliance and monitoring against Resource Consent conditions is consistent with Section 11A of the Local Government Act 2002.

3.0 Risk Considerations

3.1 This is a progress report only, and as such no risks have been identified in regards to the information contained in this business paper.

4.0 Commentary

4.1 WDC is required to report on resource consent compliance to Waikato Regional Council (WRC) in accordance with the conditions that regulate the various resource consents held by WDC.

4.2 The following tables set out details of the compliance reporting requirements for WDC's resource consents.

RESOURCE CONSENT		REPORT DUE
Monthly		
No. 116844 -	Benneydale Water Treatment Plant Condition 9 (Surface Water Take)	Monthly
No. 117290 -	Piopio Wastewater Treatment Plant Condition 26 (Discharge)	Monthly
No. 140685 -	Rangitoto Quarry Landfill, William Street, Te Kuiti Condition 65 - Ring Drain	Monthly
No. 140685 -	Rangitoto Quarry Landfill, William Street, Te Kuiti Condition 66 – SW2	Monthly
Quarterly		
No. 112639 -	Te Kuiti Wastewater Treatment Plant Conditions 7 to 19 (Discharge) Condition 30 (Reasonable Mixing)	December, March, June, September
No. 140685 -	Rangitoto Quarry Landfill, William Street, Te Kuiti Condition 66 – SW1, SW2, SW3	February, May, August, November
No. 140685 -	Rangitoto Quarry Landfill, William Street, Te Kuiti Condition 72 – SW – Ring Drain & Groundwater	February, May, August, November
Six Monthly		
No. 133317 -	Te Kuiti Water Treatment Plant Condition 11 (Water Take)	January/July
No. 118813 -	Benneydale Wastewater Treatment Plant Condition 16 to 23	January/July
No. 117945 -	Benneydale Water Treatment Plant (Backwash)	April/October
No. 140685 -	Te Kuiti Landfill (William Street) Condition 63 and 14 DH2/3/4/7 (Oct to March, April to Nov)	May/November
No. 107477 -	Piopio Water Treatment Plant Conditions 6 and 9 (Water Take) (Nov-April, May-Oct)	May/November

RESOURCE CONSENT	REPORT DUE
No. 107478 - Piopio Water Treatment Plant (Backwash) (Nov-April, May-Oct)	May/November
No. 140685 - Rangitoto Quarry Landfill, William Street, Te Kuiti Condition 62 - LEACHATE	June/November
Annually	
No. 118813 - Benneydale Wastewater Treatment Plant Condition 26 (Discharge to Land and Water)	31st March
No. 120340 - Mokau Closed Landfill Condition 3, 6 & 10	Monitoring Ceased by mutual agreement with WRC (11/2017)
No. 113038 - Te Kuiti Water Treatment Plant Conditions 1 & 2 (Ground Water Take)	1st of May
No. 105054/55/56/57/58/59/60 - Waitomo Stormwater Schedule A (22) Conditions 4,5 & 6	31st May
No. 105054 - Te Kuiti Stormwater Condition 6	31st May
No. 116274 - Benneydale Water Treatment Plant Conditions 2, 3, 4 & 7 (Groundwater Take)	1st of June
No. 113544 - Mokau Water Treatment Plant (Water Take)	July
No. 113545 - Mokau Water Treatment Plant (Backwash)	July
No. 140685 - Rangitoto Quarry Landfill, William Street, Te Kuiti Annual Report Condition 71.	1st September
No. 140685 - Rangitoto Quarry Landfill, William Street, Te Kuiti Annual Report Consents 78 ***Independent Peer Reviewer***	1st October
No. 120048 - Te Kuiti Wastewater Treatment Plant Condition 6 (Groundwater b1 to b7)	September 30th
No. 112639 - Te Kuiti Wastewater Treatment Plant Condition 20 (Discharge)	September 30th
No. 103287, 103288 and 103289 - Te Kuiti Walker Road - Closed Landfill Discharge to Land, Air and Divert (Nov, Jun)	November *(within two months of sampling)*

RESOURCE CONSENT	REPORT DUE
No. 103193 - Benneydale Closed Landfill SH30 Conditions 2, 3 and 5 No. 103194 - Conditions 2 and 3	Monitoring Ceased by mutual agreement with WRC (08/2018)
No. 103196 - Piopio Closed Landfill Condition 2, 3 and 4	Monitoring Ceased by mutual agreement with WRC (08/2018)
No. 103198 - Aria Closed Landfill Conditions 2 and 4	Monitoring Ceased by mutual agreement with WRC (08/2018)
Biennial	
No. 117290 - Piopio Wastewater Treatment Plant Condition No 7 and 9 (Discharge) (Operations and Management)	September 2014, 2016, 2018, etc.
No. 112639 - Te Kuiti Wastewater Treatment Plant Condition 24	June 2015 (*and every two years after*)
No. 118813 - Benneydale Wastewater Treatment Plant Condition 27 (Management Plan Review)	from 2010 every two years
Other	
No. 112639 - Te Kuiti Wastewater Treatment Plant Condition 28 (after 3 years Fish Passage/Migration Barrier Assessment)	Monday, 18 December 2017 (*Work in progress)*

4.3 The following Resource Consent Compliance Reports have been made to WRC:

1. RC 116844 Benneydale WTP - Surface water take - July 2020 (Doc A481183).

   - Full compliance achieved.

2. RC 140685 Te Kuiti Landfill Quarterly Report - January to June 2020 (Doc A481036).

   - Partial compliance achieved, groundwater monitoring bore DH2 presented exceedances within ammoniacal nitrogen and chloride.

   - The lack of rain during autumn may suggest no dilution at all within the leachate discharge, therefore analysing the values from DH2 and DH4, the probability of leachate contamination into the stormwater or groundwater seems very low, the concentration on all stormwater and bore sites are very low in comparison, and just above trigger limits. Furthermore, the ring drain values were well below trigger limits.

   - Parameters return below trigger limits during July 2020, all monitoring sites are currently fully compliant.

3. RC 117290 Piopio WWTP Discharge July 2020 (Doc A481918).

   - Full compliance achieved, pending on next monitoring sample results.

4. RC 117945 Benneydale WTP, Backwash discharge October 2019 to March 2020 (Doc A483498).

   - Full compliance achieved.

5. RC 101753/101754/124718 - Waitomo District Landfill – Annual Report 2019/2020 (Doc A483722).

   - Partial compliance achieved.

   - Chloride and ammoniacal nitrogen exceedances to trigger limits during May and June at one of the monitoring bores, but currently fully compliant.

   - Riparian planting has been introduce within the stormwater discharge since then.

6. RC 117290 Piopio WWTP Discharge August 2020 (Doc A488522).

   - Partial compliance achieved.

   - Total ammoniacal nitrogen exceeded values at 19mg/l during July and August 2020 (trigger limits of 10 mg/l).

   - It is expected that the quality of the discharge should improve as the maintenance progresses together with the increment of ambient temperatures which favours the nitrification process and therefore reduction of ammoniacal nitrogen.

7. RC 116844 Benneydale WTP - Surface water take - August 2020 (Doc A488643).

    - Full compliance achieved.

8. RC 138063 Te Waitere Wastewater disposal – Annual report 2019/2020 (Doc A489466).

    - Partial compliance achieved.
    - There was one exceedance to the daily total threshold during September 2019, however, the average of the seven days before and after the exceedance gave a total below the limits of 6.3 m^3/day.
    - The discharge flow return to normal straight after this continuous pumping, which suggest it may be related to an unauthorised discharge into the pump station.

9. RC 112639 Te Kuiti Wastewater Treatment Plant (TKWWTP) Discharge, June to August 2020 (Doc A490035).

    - Full compliance achieved.

10. RC 116844 Benneydale WTP – Surface water take – September 2020 (Doc A492415).

    - Full compliance achieved.

Suggested Resolution

The Progress Report: WDC Resource Consent – Compliance Monitoring be received.

TONY HALE
GENERAL MANAGER – INFRASTRUCTURE SERVICES

October 2020

Document No: A479884

Report To: **Audit, Risk and Finance Committee**

Waitomo District Council

Meeting Date: 11 August 2020

Subject: **Motion to Exclude the Public for the Consideration of Council Business**

Purpose

1.1 The purpose of this business paper is to enable consideration as to whether or not the public should be excluded from the consideration of Council business.

1.2 The Committee may choose whether or not to consider any of the items in the public or public excluded portion of the meeting.

Commentary

2.1 Section 48 of the Local Government Official Information and Meetings Act 1987 gives the right, by resolution, to exclude the public from the whole or any part of the proceedings of any meeting, only on one or more of the grounds contained within that Section.

Suggested Resolutions

1 The public be excluded from the following part of the proceedings of this meeting.

2 The general subject of each matter to be considered while the public is excluded and the reason for passing this resolution in relation to each matter, as specified by Section 48(1) of the Local Government Official Information and Meetings Act 1987 are as follows:

General Subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under section 48(1) for the passing of this resolution
1. Progress Report: Health and Safety	Section 7(2)(a) To protect the privacy of natural persons, including that of deceased natural persons	Section 48(1)(a)(1)
2. Progress Report: Procurement Summary (July 2020 – September 2020)	Section 7(2)(c)(i) – To enable any local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)	Section 48(1)(a)(1)
3. Civic Financial Services Limited Half - Yearly Report to 30 June 2020	Section 7(2)(c)(i) – To enable any local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)	Section 48(1)(a)(1)

General Subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under section 48(1) for the passing of this resolution
4. Inframax Construction Limited: Financial Statements - 2019/2020 Financial Year	Section 7(2)(c)(i) – To enable any local authority holding the information to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)	Section 48(1)(a)(1)

3 Council agree the following staff, having relevant knowledge to assist in the consideration of the items of business to be public excluded, remain in attendance to assist the Committee with its decision making:

Staff Member	Reason for Remaining in Attendance
Chief Executive	Council CEO
Manager – Governance Support	Committee Secretary
General Manager – Community Services	Business Paper Author
General Manager – Infrastructure Services	Business Paper Author
General Manager – Business Support	Business Paper Author

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

MICHELLE HIGGIE
MANAGER – GOVERNANCE SUPPORT