Notice is hereby given that an ordinary meeting of the Finance, Audit & Risk Subcommittee will be held on:

Date:	**Wednesday 21 March 2018**
Time:	**4.00 pm**
Meeting Room:	**Council Chambers**
Venue:	**Horowhenua District Council Levin**

Finance, Audit & Risk Subcommittee

OPEN AGENDA

MEMBERSHIP

Chairperson	Cr Barry Judd	
Members	Cr Wayne Bishop	
	Cr Ross Brannigan	
	Cr Ross Campbell	
	Mayor Michael Feyen	
	Cr Neville Gimblett	
	Cr Victoria Kaye-Simmons	
	Cr Jo Mason	
	Cr Christine Mitchell	
	Cr Piri-Hira Tukapua	
	Cr Bernie Wanden	
Reporting Officer	Mr Doug Law	(Chief Financial Officer)
Meeting Secretary	Mrs Karen Corkill	

Contact Telephone: 06 366 0999
Postal Address: Private Bag 4002, Levin 5540
Email: enquiries@horowhenua.govt.nz
Website: www.horowhenua.govt.nz

Full Agendas are available on Council's website
www.horowhenua.govt.nz

Full Agendas are also available to be collected from:
Horowhenua District Council Service Centre, 126 Oxford Street, Levin
Te Awahou Nieuwe Stroom, Foxton,
Shannon Service Centre/Library, Plimmer Terrace, Shannon
and Te Takeretanga o Kura-hau-pō, Bath Street, Levin

Whilst Report 18/144: Council's Options for Insuring Below-ground Infrastructural Assets, is an Open Agenda item, the meeting will commence with the public excluded to allow representatives from Aon Insurance to address Subcommittee Members on the report as there are some aspects which are commercially sensitive.

Exclusion of the Public : Local Government Official Information and Meetings Act 1987

The following motion is submitted for consideration:

That the public be excluded from the following part(s) of the proceedings of this meeting.

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

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

7.1 Council's Options for Insuring Below-ground Infrastructural Assets

Reason for passing this resolution in relation to each matter	Particular interest(s) protected (where applicable)	Ground(s) under section 48(1) for the passing of this resolution
The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.	s7(2)(h) – The withholding of the information is necessary to enable the local authority to carry out, without prejudice or disadvantage, commercial activities. s7(2)(i) The withholding of the information is necessary to enable the local authority to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations).	s48(1)(a) The public conduct of the part of the meeting would be likely to result in the disclosure of information for which good reason for withholding exists under section 7.

That representatives from Aon Insurance be in attendance because of their specialist knowledge of the matter.

AND FURTHER

That following hearing from Aon Insurance representatives, the meeting moves into open session.

PROCEDURAL

REPORTS

1 Apologies

2 Public Participation

Notification to speak is required by 12 noon on the day of the meeting. Further information is available on www.horowhenua.govt.nz or by phoning 06 366 0999.

See over the page for further information on Public Participation.

3 Late Items

To consider, and if thought fit, to pass a resolution to permit the Council to consider any further items which do not appear on the Agenda of this meeting and/or the meeting to be held with the public excluded.
Such resolution is required to be made pursuant to Section 46A(7) of the Local Government Official Information and Meetings Act 1987, and the Chairperson must advise:

(i) The reason why the item was not on the Agenda, and
(ii) The reason why the discussion of this item cannot be delayed until a subsequent meeting.

4 Declarations of Interest

Members are reminded of their obligation to declare any conflicts of interest they might have in respect of the items on this Agenda.

5 Confirmation of Minutes

5.1 Meeting Open & In Committee Minutes Finance, Audit & Risk Subcommittee, 14 February 2018

6 Announcements

Public Participation (further information):

The ability to speak at Council and Community Board meetings provides the opportunity for members of the public to express their opinions/views to Elected Members as they relate to the agenda item to be considered by the meeting.

Speakers may (within the time allotted and through the Chairperson) ask Elected Members questions as they relate to the agenda item to be considered by the meeting, however that right does not naturally extend to question Council Officers or to take the opportunity to address the public audience be that in the gallery itself or via the livestreaming. Council Officers are available to offer advice too and answer questions from Elected Members when the meeting is formally considering the agenda item i.e. on completion of Public Participation.

Meeting protocols

1. All speakers shall address the Chair and Elected Members, not other members of the public be that in the gallery itself or via livestreaming.

2. A meeting is not a forum for complaints about Council staff or Council contractors. Those issues should be addressed direct to the CEO and not at a Council, Community Board or Committee meeting.

3. Elected members may address the speaker with questions or for clarification on an item, but when the topic is discussed Members shall address the Chair.

4. All persons present must show respect and courtesy to those who are speaking and not interrupt nor speak out of turn.

5. Any person asked more than once to be quiet will be asked to leave the meeting.

Council's Options for Insuring Below-ground Infrastructural Assets

File No.: 18/144

1. Purpose

To evaluate the options for insuring Council's infrastructural assets for damage relating to a natural disaster.

2. Executive Summary

2.1 Horowhenua District Council is a member of the Local Authority Protection Programme (LAPP) Fund to protect $270m underground 3 waters assets from disasters like the Christchurch and Kaikoura earthquakes. It is set up as a charitable trust whereby members contribute to a fund that, along with reinsurance cover, will pay for the re-establishment of assets following a major event. The issue has been, since the Christchurch event, that the fund has faced financial pressure and competition from the private insurance market. Members have been leaving to the point that it is timely to review Council's continued involvement with LAPP.

3. Recommendation

3.1 That Report 18/144 Council's Options for Insuring Below-ground Infrastructural Assets be received.

3.2 That this matter or decision be recognised as not significant in terms of s76 of the Local Government Act 2002.

3.3 That the Finance, Audit & Risk Subcommittee recommends to Council to give notice of potential withdrawal from LAPP by 30 April 2018, reserving a decision until it becomes clear about what the LAPP Trustees will do regarding the future Insurance product.

3.4 That the Finance, Audit & Risk Subcommittee recommends that Council delegates the final decision on the withdrawal from LAPP to the Finance, Audit and Risk subcommittee at its meeting of 18 April 2018.

4. Background/Previous Council Decision

4.1 LAPP was set up in 1993 by most of the 70 odd local government entities at the time, to establish a fund for the reinstatement of loss or damage of, what was at the time, generally uninsurable local government infrastructural assets.

4.2 Only those authorities that are contributing to the fund are eligible for distributions in the event of loss or damage.

4.3 The fund was built up over successive years through contributions from a large membership base of most of the local government sector entities including cities like Christchurch and Wellington.

4.4 The fund was exhausted by one major event, the Christchurch Earthquake. This has meant the Trust has had to rebuild the fund to enable it to cover a future event. It was able to do so but not to the extent it had previously as many members had left the Trust. It also shifted its focus to disaster cover only which meant that the normal losses for minor events needed to be insured through the normal materials damage insurance. It also began to look at the divergent risk profiles of the member councils whereby it began to levy higher contributions from those Council's with a higher risks. Hence, the Wellington Region group of councils exiting the fund.

4.5 It has again been tested with the Kaikoura event but not to the same extent as Christchurch, as the trust believe that they will not need to call on reinsurers to cover the level of loss or damage cause by that event.

4.6 As at 30 June 2017 the Trust had 21 members (down from 32 in 2016). The membership is mainly rural and provincial councils but including the likes of Invercargill City, Palmerston North City, Hastings District, New Plymouth District, amongst others. Christchurch City remained a member however, although contributing to the rebuild of the fund was ineligible to receive any further distributions from the fund. However, Christchurch has now also withdrawn.

4.7 In our region Rangitikei, Manawatu have withdrawn while, Horowhenua and Palmerston North remain as members as at 30 June 2017. A total of 9 Councils have withdrawn. The reason for the district councils in our region leaving appears to be a steep increase in contributions relating to the risk associated with volcanic ash from mounts Ruapehu and/or Taranaki volcanic eruptions.

4.8 Therefore the following councils have withdrawn since 30 June 2016; Christchurch City, Environment Southland, Grey District, Manawatu District, Nelson City, Rangitikei District, Tasman District, Waitomo District, Whangarei District.

4.9 The private sector Insurers have been active in the disaster insurance market and were offering competitive insurance products through, in our case, the MW LASS insurance buying group.

4.10 The issue is the financial risk associated with the financial viability and ability of the LAPP fund to cover future events with an ever reducing membership base and therefore size of fund. This will become especially important if and when central government changes its current policy of funding 60% of any losses to one where it will only cover losses for major events if at all. This means that Councils will need to cover 100% of their assets except in exceptional circumstances where the disaster event is regional or national in its significance.

4.11 The subcommittee received a report in June 2018 on this subject and decided to review membership of LAPP before the 1 May 2018 withdrawal notice deadline.

5. Discussion

5.1 Since its inception in 1993, the Council has been a member of LAPP.

5.2 The LAPP was set up in response to the offer from the Government to pay 60% (down from 100%) of the costs for repairing or replacing below ground infrastructure owned by councils damaged by natural disasters.

5.3 The mutual fund covers the first loss so is most likely to be called on, first $10-20M.

5.4 Central government will only provide their 60% following a major catastrophe provided that the local authority can demonstrate it can meet the remaining 40% through:

- proper maintenance;
- the provision of reserve funds;
- effective insurance, and/or
- participation in a mutual assistance scheme with other local authorities.

5.5 Government via Treasury has signalled the establishment of a Local Government Risk Management Agency and that the 60/40 split is under review. The Government's intent is to only cover catastrophic events with lessor events to be covered 100% by local government Insurance. However, the decision to move in this direction seems to have stalled through the election and may be picked up by the new government in 2018.

5.6 Although Central Government has put the establishment of a Risk Agency on hold LGNZ's view is that it has highlighted the need for the agency.

5.7 Council can, at this stage, exit from membership of the fund for the 2018/19 financial year. Through Council giving notice of intention to exit before 1 May 2018 with a final decision to exit by 31 May to actually withdraw from the LAPP Fund.

5.8 The LAPP contribution for 2017/18 financial year was $127,821.65, an increase of 11% on 2016/17. The reason for the increase has been given as rising reinsurance costs following the Hurunui-Kaikoura earthquake coupled with the removal of a 10% discount from last year that was funded from LAPP's investment income. This investment income is now needed to rebuild the fund.

5.9 Reinsurance for 2018/19 has been increased to cover 3 events from the previous 2 events. The levels of the events are for a $50m, $90m and $100m (at 100%) and can be used in any order.

5.10 For Council to derive a distribution the claims threshold must be $1m but once that threshold is reached the claim deductible will be $400k. The claim threshold is the amount of damage which must be reached before a member can make a LAPP claim, and the deductible is the amount the member pays towards the claim once the threshold has been reached.

5.11 LAPP contributions are made up of reinsurance premiums as well as fund contributions; however the relative amounts are not disclosed. This makes it difficult to compare with a straight insurance option that is only for insurance premium with no fund contribution.

5.12 There are many pros and cons related to both membership in LAPP against the private sector insurance offer.

5.13 While the membership in LAPP may have reduced, members cannot take their share of the fund with them so the remaining fund is shared around fewer remaining members, thus increasing their share of the fund. The question remains unanswered is whether that level of funding is enough to cover the insurance needs of those members and does the fund have the financial ability to pay out on any claims and replenish the fund after the payout. The current fund is estimated to be in the order of $16m.

5.14 Some benefits that the LAPP fund has given members in the past are:

- Faster turn-around for claims. Christchurch saw considerable delay in payment for the Private sector reinsurers (5 Years) creating a cash flow problem.
- Trustees are all local government people sympathetic to local government issues, they know the sector and are focused solely on the sector, they have a track record of helping

councils in considering claims that are not “technically” covered by straight insurance. For instance, the three councils affected by the Hurunui-Kaikoura earthquake were given $1m each upfront before filing a claim. This would have helped their respective cash-flows considerably.

- LAPP is a charitable trust and is not for profit.
- LAPP did have 32 members; the high risk Wellington group of councils are no longer members.
- Christchurch City and Waimakariri District were members contributing with no ability to receive a distribution. Current membership details are unknown at this point in time.
- LAPP offers a risk profiling services to tailor needs to individual Council assets and risks which are now more focused on risk setting members premiums.
- LAPP meets the recovery costs after damage;
    - Demolition
    - Higher demand surge labour and material costs
    - Extra costs in reinstatement.
    - Will pay (in addition to the “sum insured”) temporary emergency repair costs and emergency response costs.

5.15 The private sector alternative would likely see;

a. A lower premium $26k, from the contribution which also includes an element of fund build–up
b. Lower excess/deductible $250k against $400k for LAPP
c. Higher programme limit $125m against $120m For LAPP
d. Full reinstatement as opposed to the two $90m and $50m reinstatements from LAPP
e. An additional option for a separate excess layer of a further $175m as a separate cover if our maximum probable loss is in excess of the primary layer of $125m
f. The elements covered by the insurance need to be researched to compare with LAPP additional recovery costs.

5.16 To summarise, the private insurance option is 21% cheaper, has a lower excess and a higher limit, it also provides with both contract and claims certainty. Aon (the MW LASS Insurance Broker) believe that this option will be more stable in the long term simply because the larger global insurance market is better able to withstand and absorb losses than a smaller local mutual fund – especially in a natural hazard prone country. This programme has 38 other councils (now including 6 out of the 7 MW LASS councils).

4.17 The MW Lass private sector insurance product will not be reviewed until 1 November 2018, as it was set for a two year period in 2016

4.18 It is now doubtful if the current membership is large enough to sustain the replenishment of the fund if a major disaster were to occur. Craig Stobo, the LGFA board chair and member of the Government working party on the Risk Agency establishment, has publicly stated, at the recent risk seminar, that LAPP is indeed in this situation. LAPP will need to either liquidate or change to a full Insurance model.

4.19 The LAPP trustees will have to, in my opinion, change the model away from a mutual fund. We ‘own’ a 21st share of $16m, which if we leave prematurely, we will lose. I have invited representatives of AON, our insurance brokers to the meeting who will aid us in our decision making, public excluded, in order to safe guard any sensitive commercial negotiations.

4.20 <u>Options</u>

Option 1 is to remain in LAPP

Option 2 is to give notice of potential withdrawal by 30 April, reserving a decision until clear about what the LAPP trustees will do. Final decision needs to be made by 31 May, with a FAR committee on 18 May. Council would need to delegate this decision to the subcommittee at its meeting of 18 April.

Option 3 is to give notice of full withdrawal before 30 April but at the latest 31 May.

4.21 Risk assessment

RESIDUAL
8.0
MEDIUM

INHERENT
16.0

R00072

FINANCIAL, LEGAL, SERVICE DELIVERY

Failure of insurance coverage for below ground infrastructure

Recognition that the value of the existing mutual fund (LAPP) is dwindling due to claims from various natural disasters and that the existing trustees are unlikely to continue the fund as currently set up resulting in a risk to the insurance coverage of below ground infrastructure.

OWNER: **Portfolio Managers**

LIKELIHOOD: **Very Likely**
CONSEQUENCE: **Major**
CONTROL EFFECTIVENESS: **Moderate**

Attachments

No.	Title	Page
A	LAPP membership list 2017-18	15
B	LAPP membership certificate 2017/18	16

<u>Confirmation of statutory compliance</u>

In accordance with section 76 of the Local Government Act 2002, this report is approved as:

a. containing sufficient information about the options and their benefits and costs, bearing in mind the significance of the decisions; and,
b. is based on adequate knowledge about, and adequate consideration of, the views and preferences of affected and interested parties bearing in mind the significance of the decision.

Signatories

Author(s)	Doug Law **Chief Financial Officer**	

Approved by	David Clapperton **Chief Executive**	DM Clapperton.

LAPP Membership for the 2017-18 Year

The current LAPP members for the 2017-18 year is set out below:

Ashburton District Council

Carterton District Council

Gore District Council

Hastings District Council

Hauraki District Council

Horowhenua District Council

Hurunui District Council

Invercargill City Council

Kaikoura District Council

Marlborough District Council

Masterton District Council

New Plymouth District Council

Palmerston North City Council

South Taranaki District Council

South Wairarapa District Council

Stratford District Council

Timaru District Council

Waimakariri District Council

Waimate District Council

Wairoa District Council

Waitaki District Council

MEMBERSHIP CERTIFICATE

MEMBER	PERIOD OF PROTECTION
Horowhenua District Council	1 July 2017 to 1 July 2018 at 4:00pm

COVERAGE DETAILS

Assets & Values Protected:	$270,267,186 as per the schedule representing the optimised replacement cost
Annual Contribution Levy:	$127,821.65
Percentage Protected:	40%
Claim Threshold:	$1,000,000
Deductible any one Loss Event:	$400,000
Limit:	Three covers (the highest being $120,000,000) @ 40% any one event in total, subject to sections of self-funding

Additional Cover:

- Demolition and debris removal for replacement
- Higher labour and material costs
- Extra costs of reinstatement
- Professional fees
- Site access costs
- Claims administration and additional staff costs
- Demand and surge inflation
- Contingencies

FUND REINSURANCE DETAILS

The LAPP Fund is reinsured by reinsurance companies all with a credit rating of A- or higher.

SIGNED FOR LAPP ____________ **DATE** 1 July 2017

LAPP CONTACT DETAILS

Jane Brown – Legal Officer, Civic Financial Services Ltd
04 978 1268 jane.brown@civicfs.co.nz

LAPP
Local Authority Protection Programme

PO Box 5521, Wellington 6140, www.lappfund.co.nz

Health & Safety - Quarterly Report

File No.: 18/108

1. Purpose

To provide an update to Elected Members on health and safety matters at Horowhenua District Council for the previous four months.

2. Recommendation

2.1 That Report 18/108 Health & Safety - Quarterly Report be received.

2.2 That this matter or decision be recognised as not significant in terms of s76 of the Local Government Act 2002.

3. Issues for Consideration

As included in the H&S report for the September to November quarter.

Attachments

No.	Title	Page
A	H & S Quarterly Report - 1 December 2017 to 28 February 2018	19

Confirmation of statutory compliance

In accordance with section 76 of the Local Government Act 2002, this report is approved as:

a. containing sufficient information about the options and their benefits and costs, bearing in mind the significance of the decisions; and,
b. is based on adequate knowledge about, and adequate consideration of, the views and preferences of affected and interested parties bearing in mind the significance of the decision.

Signatories

Author(s)	Jill Dallinger **Acting People & Capability Manager**	

Approved by	Sharon Grant **Group Manager - Community Services**	Grant

Horowhenua DISTRICT COUNCIL

HDC Health & Safety Quarterly Report 01/12/2017—28/02/2018

1. Progress — Lead Indicator (green = completed, Yellow = u/way, Orange = to commence)

Task	Due Date	Progress	Comment
Draft Strategic Charter & plan	30/11/2017		Reported to LT 27/02/2018—Progress
Draft Annual H&S Objectives	30/12/2017		Reported to LT 27/02/2018—Progress to HSC march 2018
Self Assessment WSMP Based	30/11/2017		Internal Assessment completed & reported to MWLASS
Electronics Communication Policy	30/10/217		Adopted 11/10/2017 - process for email quarantine in response to abuse of staff through email.
HDC MW LASS WSMP Assessment	31/12/2017		Completed 12/12/2017—Results to be used as a comparable within MWLASS
Asbestos ACM Planning	04/04/2018		Initial survey assessments completed , more complex sur vey assessments u/w
Review - Emergency procedures	31/12/2017		Flip Chart review complete for Civic building, Aquatics and Libraries u/w.
Review - Contractor management process	31/03/2018		Policy developed, process updated to align with legislation requirements. HSC & LT review late March 2018 following MW LASS direction.
H&S Training Register	31/12/2017		Trial underway to assess functionality - review progress April 2018
H&S System Assessment MW LASS	31/12/2017		MWLASS seeking approval to go out for tender
H&S Intranet Review	28/02/2018		Initial set up framework completed framework . Continue to build 2018
Site Security Risk Assessments	28/02/2018		Security Assessment reports received for Civic , Te Takare, Te Awahou and Levin Aquatics.– recommendations under review by Managers & LT
Review - Risk/hazard management processes	31/03/2018		10 Significant hazard registers drafted and with TM's for review using risk ,matrix assessment scoring. HDC critical risks to be confirmed from this process.
H & S Audits	31/03/2018		Review of HDC Audit processes underway
Review - H & S Policy	30/04/2018		To be commenced
Review - H & S Manual	30/04/2018		Underway as per H&S Intranet Development.—ongoing
Incident/Accident/Near Miss Reporting review	31/03/2018		Internal systems review underway and Ongoing as per continuous improvement but final outcome will be impacted on by the System Review underway MW LASS

2. Training — Lead Indicator

Training Activity	Completed/ Due	Attended
First Aid	Feb 2018	18
H&S Rep Stage 1	Feb 2018	13
Fire Warden Training	Mar 2018	In progress
H&S Inductions	Dec—Feb	17
Lifeguard I&S Inductions	Feb 2018	7
Lifeguard Training debrief	Feb 2018	All staff
H&S Rep Stage 1 (Off Site)	Feb 2018	2
Crisis Resilience Training	Mar 2018	In progress

3. Notifiable Events - Lag Indicator

Employee Category	Total
Notifiable Injury—resulted in:	0
Notifiable Incidents	0
Serious Harm	0
Fatalities	0
Third Party	0
Employee	0

4. Risk Management — Lead

Action	Site/Type	Detail
Evacuation Drills	Te Takare Civic Aquatics Levin Foxton Pool	22/02/2018 27/02/2018 05/12/2017 05/12/2017
Drug & Alcohol Tests	Pre- Employment Post Critical Incident Reasonable Grounds	9 /9 All Negatives Nil Nil
Internal Audits	Process under review	
Contractor Audits	TM Site Inspections	5 non conformance directives—resolved
H&S Approved Contractors	Process under review	

5. Wellness — Lead Indicator

Initiative	Outcome
EAP Services (hours)	3 hrs/3 months
Workstation Assessments	3 Assessments—minor improvements
Wellbeing Week Project Plan	Plan underway

6. Quick Updates—Lead Indicator

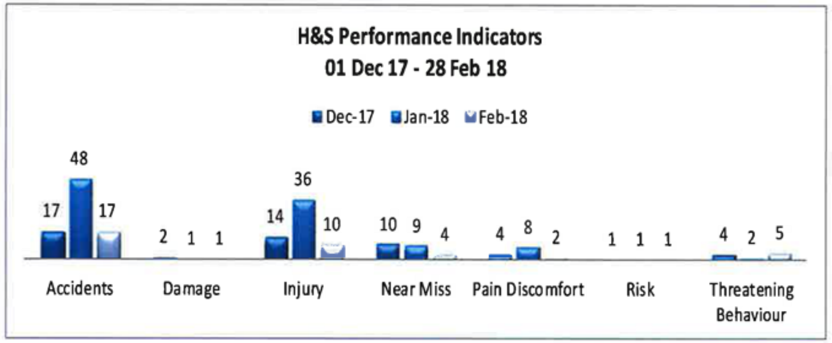
H & S Planning 2018—The draft strategic and Annual Plans set out the foundation vision for how HDC intends to progress Health and Safety beginning with the high level oversight by HDC Elected Members as per their specific obligations set out in the Health & Safety at Work Act 2015. Running alongside this is the Health and Safety Organisational plan, this details the "how" HDC will achieve the strategic vision. The Leadership Team reviewed this document on 27/02/2018 with a recommendation that a high level briefing be provided to clarify the process of H&S Governance. Briefing scheduled for 4 April. .

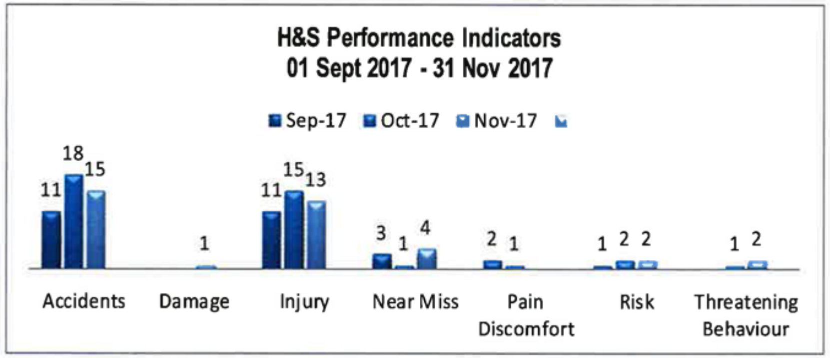
H&S Framework— Consolidation of Council's H&S framework has begun with the introduction of a H&S intranet base which ensures information to staff is current and relevant, training for H&S representatives to ensure role purpose and clarification is understood, and a review of induction processes to ensure individual risk is actively managed.

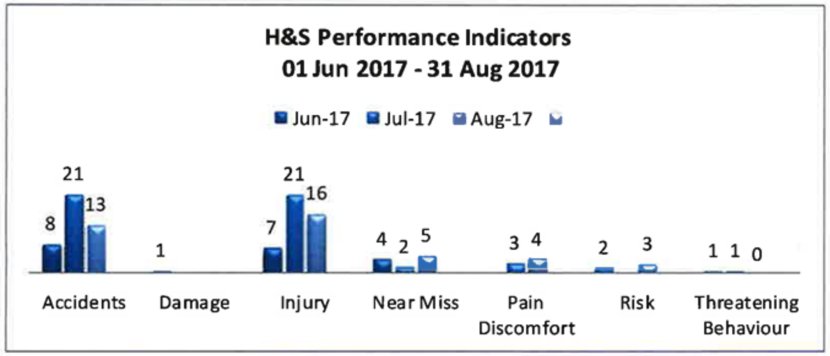
Asbestos Survey Management — Desk top study completed of 149 assets resulting in asset grouping of 88 sites. Site inspections underway on 73 sites /120 buildings and full management surveys completed on 32 buildings across 27 sites. Summary identifies sites on rating of 1—5 , 1 being immediate priority for sampling assessments based on initial survey. Priority assessment sampling now underway. Management plans will be implemented as per outcomes of all assessments.

Risk/ Hazard Management - Peoplesafe remains the repository for all risk related reporting. Analysis of Risk has been furthered with the development of 10 Significant Site specific Risk registers outlining only those risks considered significant and that are unlikely to change as identified in the lodgment process. Each risk will have a matrix applied pre control and post control with specific direction on the process that applies in the management of that risk. Registers will be communicated and available to all staff via the intranet. The 10 highest rated risks from these registers will then become Council's critical risks and will be placed on a Critical risk register.

7. Health and Safety Performance Indicators 01 Dec 2017—28 Feb 2018 (Lag Indicators)







Health and Safety Performance Indicators—Comparison

* Incident reporting for this quarter remains consistent with that of the same period last year . Third party reported incidents make up the bulk of the reporting data increases which coincides with the Christmas holiday period and increased usage of community facilities over that time primarily within the-aquatics and community sites.
* Nil notifiable events recorded this quarter.
* A positive indicator is occurring in the area of Near Miss reporting and whilst not significant it is evidence of improvement. This data becomes essential when developing controls to manage risk. Near Miss education and reporting campaigns remain a focus of the health and safety committee and will continue to be a focus for the 2018 year. Positive near miss reporting is expected to decrease the incident reporting statistics overall.
* Reporting of threatening behavior has increased this quarter, again not necessarily because of an increase in actual incidents but more as a result of staff education, clarity in both role expectations and clearer reporting parameters. Work continues in the area of security for all persons entering a Council site to ensure council is meeting compliance requirements and developing best practice strategies for continuous improvement

8. Strategic Reporting for 2018

MW LASS are actively researching appropriate systems that can provide HDC with the detailed incident reporting data it requires . HDC is seeking to report to this Committee data detailing:

* Lost time injury frequency rates - LTIFR
* Average lost time rates - ALTR
* Total Injury frequency rates - TIFR

* 4 April 2018—Council Briefing to EM's on H&S Governance requirements along with a proposed draft charter and strategic plan.

Infrastructure Projects Update

File No.: 18/131

1. Purpose

To provide the Finance, Audit &Risk Subcommittee with an update on projects being undertaken by the Infrastructure Projects team.

2. Recommendation

2.1 That Report 18/131 Infrastructure Projects Update be received.

2.2 That this matter or decision be recognised as not significant in terms of s76 of the Local Government Act 2002.

3. Background/Previous Council Decisions

Information is provided in the attached reports.

4. Issues for Consideration

There are no issues for consideration.

Attachments

No.	Title	Page
A	Water Reticulation Renewals 2017/18	22
B	Wastewater Reticulation Renewals 2017/18	29
C	Foxton New Reservoir	33
D	Foxton Wastewater Treatment Ponds - Desludge	38
E	NE Levin Upgrade	40

Confirmation of statutory compliance

In accordance with section 76 of the Local Government Act 2002, this report is approved as:

a. containing sufficient information about the options and their benefits and costs, bearing in mind the significance of the decisions; and,
b. is based on adequate knowledge about, and adequate consideration of, the views and preferences of affected and interested parties bearing in mind the significance of the decision.

Signatories

Author(s)	Gerry O'Neill **Projects Manager**	Gerard O'Neill

Approved by	Gallo Saidy **Group Manager - Infrastructure Services**	
	Dan Gerrard **Alliance Manager**	

To: Finance, Audit & Risk Committee CC: Gallo Saidy – Group Manager Infrastructure Services Project Manager: Gerry O'Neill Engineer Representative: Thushantha Heenkenda	PROJECT STATUS REPORT #4 as of 28 FEBRUARY 2018 WATER RETICULATION RENEWALS 2017/18 PROJECT PHASE : CONSTRUCTION	Overall Project Status OS
Project Manager Satisfaction Index (1 poor, 10 excellent)		9

OS On Schedule
NI Not progressing as scheduled but no impact on deliverables
OT Off Track
C Completed
NS Not Started

PROJECT OBJECTIVES AND STATUS

Project Summary

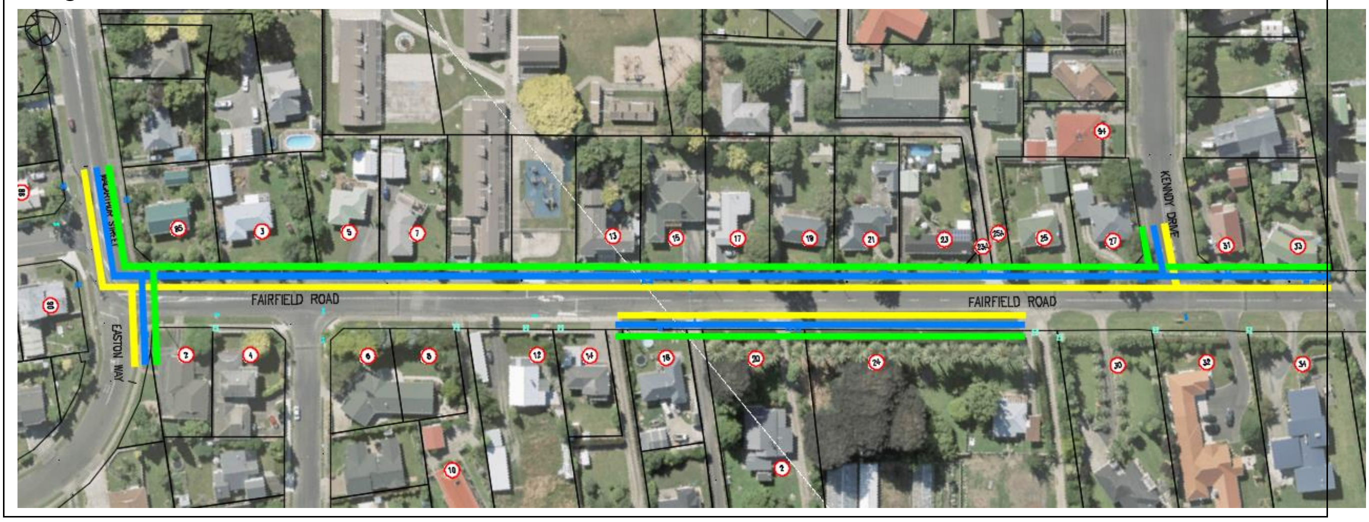
This project is to renew and increase the capacity of the existing water main in Levin in 3 stages.

Stage 1 Fairfield Road - From MacArthur Street to Kennedy Drive. The project includes laying approximately 436m of 200mm diameter PE pipe and 45m of 150mm diameter PE pipe. The project includes approximately 170m of rider main with a total of 19 service connections.

Stage 2 Weraroa Road - From Kawiu Road to York Street. This stage includes laying approximately 400m of 150mm diameter PE pipe and transferring 25 service connections.

Stage 3 Weraroa Road - From York Street to Mako Mako Road. This stage include laying of approximately 1600m of 150mm PE pipe, 150m of 100mm PE pipe and 100m of 63mm diameter PE pipe and transferring 90 service connections.

Stage 1 - Fairfield Road



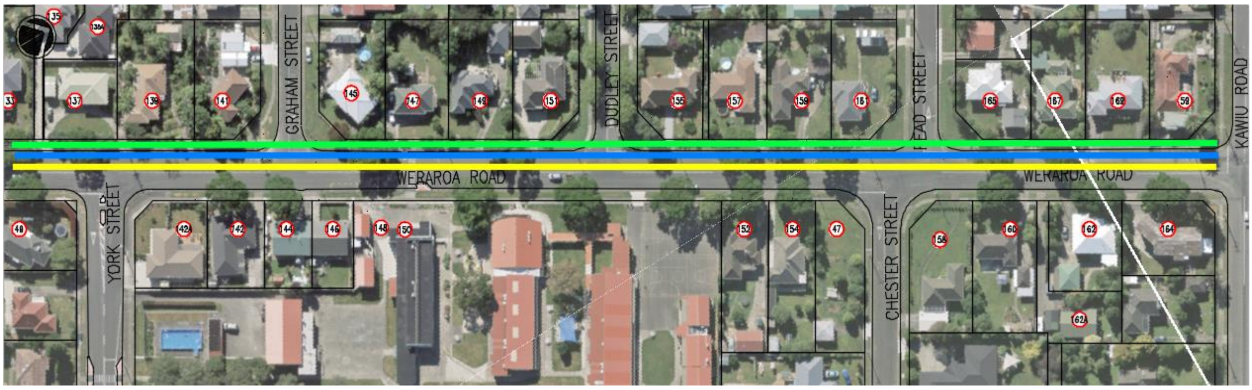
<u>Legends</u>

Planned Work

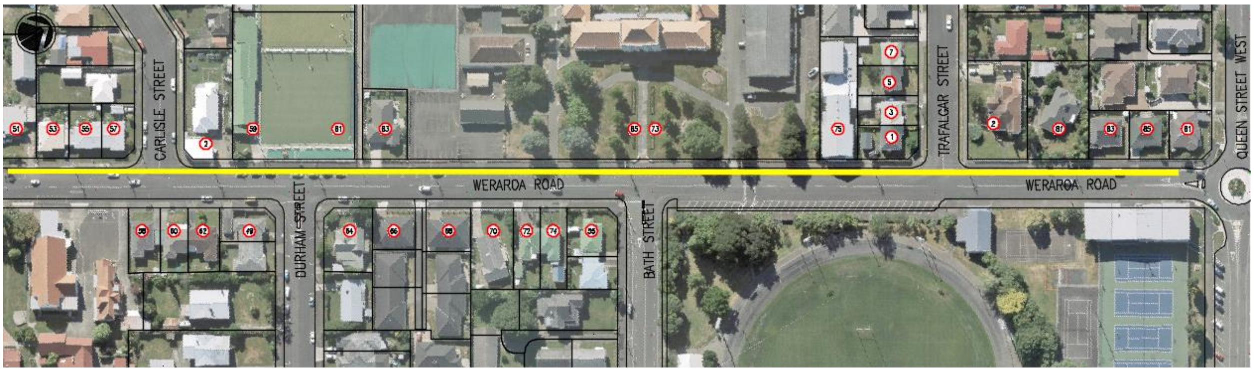
Laying Completed

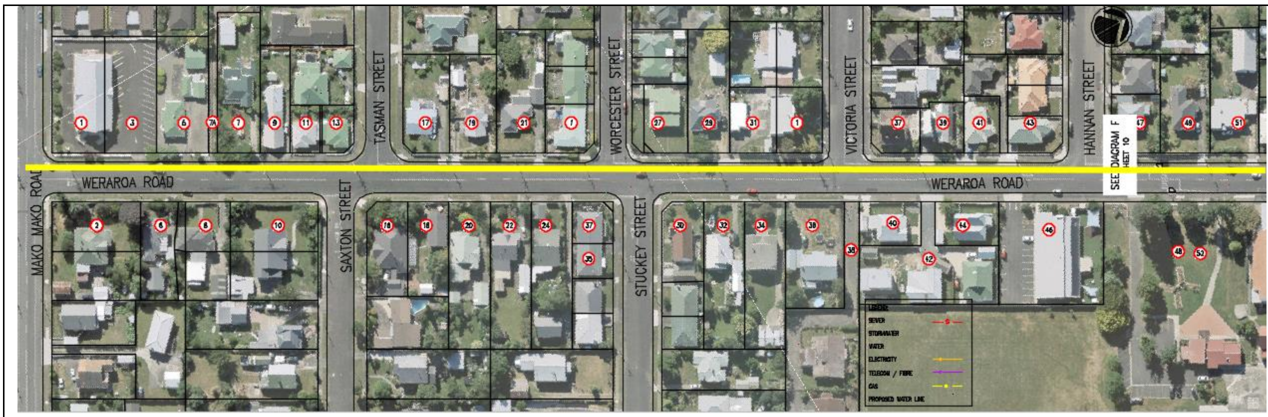
Line tested and commissioned

Stage 2- Weraroa Road – From Kawiu Rd to York Street



Stage 3 – Weraroa Road – York Street to Mako Mako Road





Construction is being undertaken by the Horowhenua Alliance and is due to be completed by 30 June 2017.

The Engineers Estimate for this project is $ 1,536,130.00 which is split as follows:

- Construction component: $ 1,406,130.00 (inclusive of contingency amount $95,000).
- Project management: $ 130,000.00 (including miscellaneous costs for surveys, newspaper ads etc.)

General

This project consists of renewing the water main on part of Fairfield Road and the full length of Weraroa Road. The initial scope only included part of the water main in Weraroa Road as the available budget was unlikely[1] to be sufficient to renew the water main along the whole road. Our preference is to renew all of the water main in Weraroa Road at the one time as this will minimise establishment costs (leaving more money available to renew pipes).

Due to the expanded scope of this project, it is possible that the costs for completing these works may exceed the funds available in the Annual Plan for this financial year ($1,118,490). We have identified some possible options for addressing this matter if the budget looks insufficient towards the end of the year.

1. Only renew the pipe we have budget for and pay the additional re-establishment costs to complete the works next year.
2. If the contractor is still working on site at the end of June, we can continue the work into the new financial year using next year's budget (avoiding re-establishment costs). This will be dependent on project timing.
3. We could potentially seek permission to bring some of next year's funds into the current financial year, as in effect we are undertaking some of next year's renewals in advance.

At the time of writing this report the following works had been completed:

- All the works on Fairfield Road under Stage 1 has been completed and commissioned.
- All the works under Stage 2 (between Kawiu Rd and York Street of 400m) has been completed and commissioned.

[1] The Engineers estimate was based on costs from similar past projects. We are anticipating the Alliance will complete these works for a lower price allowing more pipe to be laid.

- 150m of pipe on Weraroa Road (between York Street and Duke Street) has been laid under Stage 3.

Complaints/Concerns Received During Reporting Period

Nil

Financial

Description	Expenditure	Budget	Available	% Spent
Construction cost	$ 675,501.22	$ 1,311,130.00	$ 635,628.78	51.52
Project Management Cost	$ 76,878.00	$ 130,000.00	$ 53,122.00	59.14
Contingency sum	$ -	$ 95,000.00	$ 95,000.00	-
Total	$ 752,379.22	$ 1,536,130.00	$ 783,750.78	48.98

Note: Project Management Costs include preconstruction, design and planning costs.

Variations to Date

There are no current variations.

Open Risks

There are no project risks rated as High or Extreme in accordance to Horowhenua District Council's Risk Management Policy, November 2017.

Open Issues

There are currently no open issues.

Milestones

Key Milestone / Deliverable	Due Date	Status	% Planned (based on total length of main)	% Complete (based on total length of main)	Progress
Project Planning & Design	**Start date:** 23 Jul 2017 **End date:** 16 Aug 2017	C	100%	100%	Completed.
Fairfield Road 200mm main -436m 150mm main- 45 m	**Start**: 11 Sep 2017 **End:** 7 Nov 2017	C	100%	100%	Completed.
Fairfield Road 100mm rider main - 120m 50 mm rider main - 50m	**Start:** 8 Nov 2017 **End:** 30 Nov 2017	C	100%	100%	Completed
Weraroa Road pipe laying from Kawiu Road to York Street 400m	**Start:** 15 Nov 2017 **End:** 31 Jan 2018	C	100%	100%	Completed
Weraroa Road pipe laying from York Street to Mako Mako Road 1600m	**Start:** 1 Feb 2018 **Estimated End:** 30 Jun 2018	OS	10%	10%	

To: Finance, Audit & Risk Committee CC: Gallo Saidy – Group Manager Infrastructure Services Project Manager: Gerry O’Neill Engineers Representative: Ronaldo Serrano	PROJECT STATUS REPORT #3 AS OF 28 February 2018 WASTEWATER MAIN RETICULATION RENEWALS 2017/18 PROJECT PHASE : CONSTRUCTION	Overall Project Status NI
Project Manager Satisfaction Index (1 poor, 10 excellent)		8

OS On Schedule
NI Not progressing as scheduled but no impact on deliverables
OT Off Track
C Completed
NS Not Started

PROJECT OBJECTIVES AND STATUS

Project Summary

This project is to renew approximately 930m of 150mm diameter sewer main and 500m of 100mm sewer laterals including fittings. The renewals of mains are in the following areas in Levin:

- Bartholomew Road
  - Section 1

  - Section 2

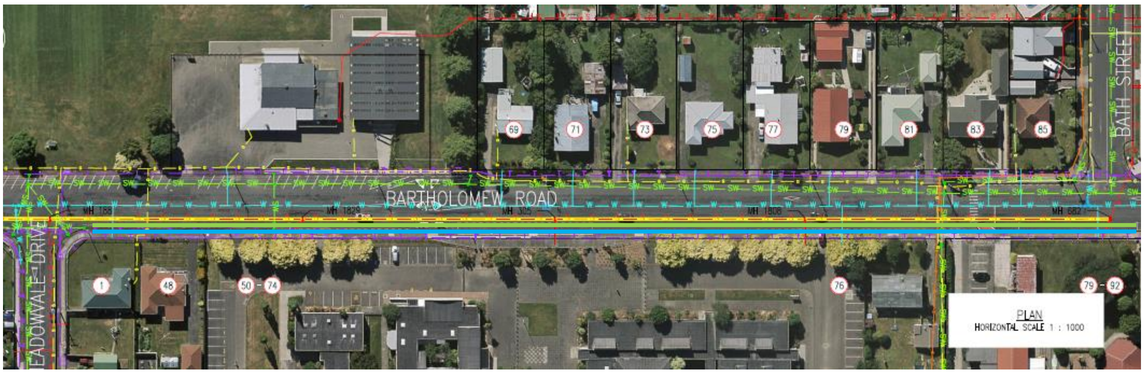
Legends

Planned

Laid and tested

Commissioned

- Section 3



- Winchester Street

The total budget for this project was $585,550.00 which is split as follows:

- Construction component: $ 535,550.00 (inclusive of contingency)
- Project management: $ 50,000.00 (HDC staff costs plus miscellaneous costs for surveys, newspaper ads etc.)

The majority of the works is being undertaken with trenchless methodology which will involve some open pits to allow the pipes to be pulled through. Open trench is being used to connect the laterals to the new sewer main.

General

Horowhenua Alliance has completed the Sections 2 and 3 (see above) along Bartholomew Road (670m laid out of 710m). 64m out of 220m along Winchester Street has also been laid.

Financial

Description	Expenditure	Contract Price	Available	% Spent
Construction cost	$ 326,042.85	$ 485,550.00	$ 159,507.15	67.15
Project Management Cost	$ 21,871.30	$ 50,000.00	$ 28,128.70	43.74
Contingency sum	$ -	$ 50,000.00	$ 50,000.00	-
Total	$ 347,914.15	$ 585,550.00	$ 237,635.85	59.42

Open Risks

There are no project risks rated as High or Extreme in accordance to Horowhenua District Council's Risk Management Policy, November 2017.

Open Issues

There are currently no open issue

Milestones

Key Milestone / Deliverable	Due Date	Status	% Planned (based on total length of main)	% Complete (based on total length of main)	Progress
Project Planning with Contractor	Start date: 1 Sep 2017 End date: 27 Oct 2017	C	100%	100%	Complete.
Bartholomew Road Sewer main 710m	Start: 30 Oct 2017 Estimated End: 2 Feb 2018 Revised End: 30 Mar 2018	NI	100%	94%	670m out of 710m main sewer line
Winchester Street Sewer main 220m	Estimated Start: 5 Feb 2018 Estimated End: 23 Feb 2018 Revised End: 31 Apr 2018	NI	100%	29%	64m out of 220m main sewer line was completed in Oct 2017. The scheduled completion date will be revised due to unforeseen intermittent weather conditions.

Construction Progress Photos during Lateral Renewals

To: Finance, Audit & Risk Committee CC: Gallo Saidy – Group Manager Infrastructure Services Project Manager: Gerry O'Neill Engineer Representative: Thushantha Heenkenda	PROJECT STATUS REPORT #4 as of 28 FEBRUARY 2017 FOXTON NEW RESERVOIR PROJECT PHASE : DESIGN & CONSTRUCTION	Overall Project Status NI
Project Manager Satisfaction Index (1 poor, 10 excellent)		7

OS On Schedule | NI Not progressing as scheduled but no impact on deliverables | OT Off Track | C Completed | NS Not Started

PROJECT OBJECTIVES AND STATUS

Project Summary

This project is to install a new 500m3 water tank at Foxton Seaview Garden to increase the drinking water storage capacity in Foxton, to meet the community's needs and to provide resilience in the event of an earthquake, unscheduled maintenance or power cut.

Foundation base preparation work for reservoir construction

Reliant Solutions is supplying the tank. The original expected completion date was 31 March 2018; however, this has been changed to 30 June 2018. The contractor reallocated their resources while Council were seeking permission from the Department of Conservation through the Public Works Act; and we now are waiting for this other work to be completed before the resources can be freed up.

A total budget of $430,000 has been set aside for this project. This includes $130,000 for the tank that was paid for last financial year.

General

Progress to date:

- The tank has been delivered to the site ready for construction.
- Relevant stakeholders have been consulted including the Foxton Community Board, Iwi and the Department of Conservation.
- A Public Works Act consent been granted by the Department of Conservation to set aside part of the Foxton Recreational Reserve to construct a water reservoir.
- Preliminary soil investigations have been undertaken and a report provided to Reliant Solutions to assist with the reservoir design.
- Preliminary designs for the pipework have been prepared and worked through with the site operators.
- Earthwork completed for reservoir foundation.

There are a number of costs associated with this project including pipework, pumps and valves to connect the reservoir to the water treatment plant, fencing, plantings, constructing a retaining wall, site preparation, relocating services, as well as construction and project management.

Complaints/Concerns Received During Reporting Period

Nil

Financial

Description	Expenditure	Contract Price	Available	% Spent
Construction cost	$ 215,612.98	$ 370,000.00	$ 154,387.02	$ 58.27
Project Management Cost	$ 24,553.00	$ 35,000.00	$ 10,447.00	$ 70.15
Contingency sum	$ -	$ 25,000.00	$ 25,000.00	$ -
Total	$ 240,165.98	$ 430,000.00	$ 189,834.02	$ 55.85

Note: Project Management Costs include costs for HDC staff and Downers. Contract Price includes cost of reservoir.

Variations to Date

There are no current variations.

Open Risks

There are no project risks rated as High or Extreme in accordance to Horowhenua District Council's Risk Management Policy, November 2017.

Open Issues

There are no open issues

Key Milestone / Deliverable	Due Date	Status	% Complete	Progress
Site selection and legal matters	**End date** 31 Aug 2017	C	100%	Completed
Tank order and supply	**End** 31 Mar 2017	C	100%	Completed
Relocating existing service lines	**End** 30 Nov 2017	C	100%	Completed
Design of pipe line, Electrical and SCADA	**Estimated:** 30 Nov 2017 **Revised:** 30 June 2018	OS	80%	
Earthwork and retaining wall	**Estimated:** 30 Nov 2017 **Revised:** 30 Jun 2018	OS	95%	
Reservoir construction	**Estimated:** 31 Jan 2017 **Revised:** 30 Apr 2018	NS	0%	
Pipework and Electrical Installation	**Estimated:** 28 Feb 2017 **Revised:** 30 Jun 2018	NS	0%	
Landscaping and Fence	**Estimated:** 21 Mar 2017 **Revised:** 30 Jun 2018	NS	0%	
Screen planting	**Estimated:** 31 Mar 2017 **Revised:** 30 Jun 2018	NS	0%	

To: Finance, Audit & Risk Committee CC: Gallo Saidy – Group Manager Infrastructure Services Project Manager: Gerry O'Neill Engineers Representative : Garth Flores	PROJECT STATUS REPORT #2 AS OF 2 MARCH 2018 CONTRACT HA17-01 FOXTON WASTEWATER TREATMENT PLANT DESLUDGING PROJECT PHASE: PROCUREMENT	Overall Project Status NI
Project Manager Satisfaction Index (1 poor, 10 excellent)		7

OS	On Schedule	NI	Not progressing as scheduled but no impact on deliverables	OT	Off Track
C	Completed	NS	Not Started		

PROJECT OBJECTIVES AND STATUS

- **Purpose**

The purpose of this report is to update the Finance, Audit & Risk Committee on the progress on the Foxton Wastewater Treatment Plant (FWWTP) desludging.

- **Background**

FWWTP is a series of 3 ponds. The first pond – the primary pond, was constructed in the 1970's and was last desludged about 25 years ago. The 2 secondary ponds were constructed in the mid 1990's. The accumulation of sludge reduces the volume of the pond available for treatment, reducing the hydraulic retention time, and will eventually impact the FWWTP effectiveness to treat wastewater. It is now time to desludge the ponds to ensure that the plant continues to perform satisfactorily. HDC have instructed the Horowhenua Alliance (HA) to desludge the ponds and install a new stepscreen at the ponds. The HA must also increase the height of the waveband around the ponds.

- **Progress up to 2 March 2018**

  - **Jan 2018:** HA awarded the Contract to CW Glasgow Limited.

    CW Glasgow's offer was based on importing a new dredge from Europe, which was expected to arrive in New Zealand mid-April 2018. The dredge that they were going to buy was sold between the time the Contract was awarded and the time they put in the order to buy the dredge. As an alternative, CW Glasgow have proposed increasing the shifts their existing dredge is working down in Clutha District. This will result in the dredge becoming available in mid-May to commence with desludging at Foxton. This has delayed the start date of the actual desludging by about a month.

  - **Feb 2018:** HA sized a new step-screen for the inlet and proceeded with the procurement of this piece of equipment.
  - **Feb 2018:** HA commenced with detail design of the FWWTP waveband which will increase the storage capacity in the ponds to accommodate additional inflow into the ponds during the winter months.

- **Key actions to progress this project over the next month**
  - Commence with Portion 1 – survey and design part of the work.

Key Milestone / Deliverable	Completion Date	Status	% Complete	Progress
Investigation and Concept Design	Estimated: Sep 2017 Actual: Oct 2017	C	**100%**	Completed.
Procure Desludging Sub-Contractor	Estimated: Nov 2017 Actual: Jan 2018	C	**100%**	Completed.
Separable Portion 1 – Survey and Design	Estimated: Jan 2018 Revised: Mar 2018	NI	**0%**	Not started.
Separable Portion 2 – Physical desludging	Estimated: Apr 2018 Revised: July 2018	NI	**0%**	Not started.
Project complete	Estimated: June 2021 Revised: Aug 2018	NI	**0%**	Not started.
Step screen design and order	Estimated: Feb 2017 Actual: Feb 2018	C	**100%**	Completed.
Steps delivery	Estimated: Jul 2018 Revised: Jul 2018	NS	**0%**	Not started.
Step screen installation	Estimated: Jul 2018 Revised: Jul 2018	NS	**0 %**	Not started.
Waveband design	Estimated: Mar 2018 Revised: Mar 2018	OS	**10 %**	HA Engineers are still investigating suitable design alternatives.
Waveband installation	Estimated: Aug 2018 Revised: Aug 2018	NS	**0 %**	Not started.

Expenditure on the project

In the 2017/2018 Annual Plan, HDC allocated $450 000.00 towards the project under Work Order 8890.

Description	Expenditure	Contract Price	Available	% Spent
Main desludging Contract	$ 0.00	$ 399,240.00	$ 399,240.00	0%
New step screen	$ 0.00	$ 59,000.00	$ 59,000.00	0%
Total	**$ 0.00**	**$ 458,240.00**	**$ 458,240.00**	**0%**

Whilst the above total is more than the available $450 000.00 for this financial year, not all the above funds will be spent in the 2017/18 financial year.

Project Risks

There are no project risks rated as High or Extreme in accordance to Horowhenua District Council's Risk Management Policy, November 2017.

Open Issues

The delay in the dredging unit by one month is a minor issue which impacts on the timing of the project but has no significant cost implication.

To: Finance, Audit & Risk Committee CC: Gallo Saidy – Group Manager Infrastructure Services Project Manager: Garth Flores Engineers Representative : Ronaldo Serrano	PROJECT STATUS REPORT AS OF 1 MARCH 2018 CONTRACT 901/2016/62 NORTH-EAST QUADRANT LEVIN PROJECT PHASE: PLANNING & CONSTRUCTION	Overall Project Status OT
Project Manager Satisfaction Index (1 poor, 10 excellent)		7

OS On Schedule | NI Not progressing as scheduled but no impact on deliverables | OT Off Track

C Completed | NS Not Started

PROJECT OBJECTIVES AND STATUS

- **Purpose**

The purpose of this report is to update the Finance, Audit & Risk Committee on the progress to date on the North-East (NE) Levin Quadrant Stormwater Upgrade project.

- **Significant milestones achieved during the reporting period include:**
  - Contractor continuing roadworks along Fairfield Road and has installed the first section of kerb and channel.
  - Contractor continuing to install manholes and laterals on the new sewer line
  - The new Kennedy Pumpstation was commissioned in the first week of February 2018 and passed a heavy rain event 2 days later with flying colours (see Figure 1 and 2 for more information).
  - HDC engineers continue to liaise with developers to include services connections where possible prior to finishing the roadworks.

- **Work to be completed under the Higgins contract:**
  - Complete concrete apron and tidy up work around Kennedy Park pumpstation.
  - Complete Okarito pumpstation.
  - Install new stormwater sumps in Kennedy Drive.
  - Finish 750 mm crossing at the corner of Roslyn and Fairfield.
  - Continue with Fairfield Road refurbishment.
  - Completion of manholes on new gravity sewer main.
  - Optimising the operation of Kennedy Pumpstation.

- **Work to be completed for consenting purposes:**
  - Submit additional information to augment the consent application for Attenuation Ponds.
  - Install flow measuring device at the stormwater outlet of Fairfield Road.

- **Project Concerns**
  - Approximately 133 mm of rain fell during February 2018, the historic average for February is 68 m.
  - The surrounding community has had to endure the “mess” of a construction site for the last 12 months.

Project value add:

- Working with Horizons Regional Council to install a measuring device at the stormwater outlet.

Kennedy Park Pumpstation and Rising Main Upgrades

Key Milestone / Deliverable	Completion Date	Status	% Complete	Progress
Investigation and Concept Design	Estimated: Aug 2016 Actual: Aug 2016	C	**100%**	Completed.
Tender Review and Evaluation	Estimated: Jan 2017 Actual: Jan 2017	C	**100%**	Completed.
Supply of Pumps	Estimated: Sep 2016 Actual: Sep 2016	C	**100%**	Completed.
Pumpstation Retrofitting	Estimated: Nov 2017 Revised: Mar 2018	OT	**97%**	Kennedy – 99 % Okarito – 95 %
Rising Main Installation	Estimated: May 2017 Actual: May 2017	C	**100%**	Completed.
Road Reinstatement	Estimated: Dec 2017 Revised: Mar 2018	OT	**98%**	Fairfield Intersection and paved areas at pumpstations to be completed.

Fairfield Road Stormwater Pipeline

Key Milestone / Deliverable	Completion Date	Status	% Complete	Progress
Investigation and Concept Design	Estimated: Aug 2016 Actual: Aug 2016	C	**100%**	Completed.
Tender Review and Evaluation	Estimated: Jan 2017 Actual: Jan 2017	C	**100%**	Completed.
New Pipeline	Estimated: May 2017 Actual: Jul 2017	C	**100%**	Completed.
Rehabilitate Fairfield Road – Kerb and Channel	Estimated: April 2018 Revised: Jun 2018	OT	**20%**	Work is ongoing.
Rehabilitate Fairfield Road – Roadworks	Estimated: April 2018 Revised: Jun 2018	OT	**10%**	Work is ongoing.
Rehabilitate Fairfield Road –Shared pathway	Estimated: May 2018 Revised: Jul 2018	OT	**5%**	Work is ongoing.

Koputaroa Stream Improvements

Key Milestone / Deliverable	Due Date	Status	% Complete	Progress
Investigation and Concept Design	Estimated: Feb 2017 Actual: Feb 2017	C	**100%**	Completed.
Consultation process	Estimated: Oct 2017 Revised: N/A	NI	**95%**	HDC is awaiting the submission of the cultural impact assessment from Raukawa. This will be included as an Annexure to the consent application.
Consenting Process	Estimated: Nov 2017 Revised: Jul 2018	OT	**75%**	Liaising with Horizons Regional Council to answer questions that arise from the consenting process.
Construction / Implementation of mitigation measures	Estimated: Apr 2018 Revised: Apr 2019	OT	**0%**	The mitigation measures will be implemented as per consent conditions. Some works may need to water for the drier summer months prior to the actual work commencing.

Footnotes:

- ***Estimated***: was initially estimated completion date of the task at the commencement of the project / contract.
- ***Actual***: was the date the task was actually completed.
- ***Revised***: were tasks are Off Track, the Revised is the revised completion date.

Expenditure on the project

Description	Expenditure	Contract Price	Available	% Spent
KSB Pumps	$39,366.60	$44,564.00	$5,197.40	88%
Assmuss Pipes	$53,782.55	$52,727.99	-$1,054.56	102%
Kennedy/FF Pipelines	$2,359,892.10	$2,743,632.14	$383,740.04	86%
Stream improvements	$-	$250,000.00	$250,000.00	0%
Contingency	$-	$150,000.00	$150,000.00	0%
Total	**$2,453,041.25**	**$3,240,924.13**	**$787,882.88**	**76%**

Project Risks

Risk No.	Date Raised	Risk Area	Title and Description	Owner	Details of Risk (include level and description of the likelihood and consequences)	Likelihood score	Consequence score	Priority	Treatment (to change likelihood and consequence)	Residual Likelihood score	Residual Consequence score	Residual Risk	Due Date	History of all activities [date of latest activity first] and cross reference to all other key documents
NEL - 005	3-Nov-17	Service Delivery	Consenting delays	Gerry	If affected parties object to the consent application, there is a risk the consent process may be drawn out.	5 - Almost Certain	3 - Moderate	Significant (S)	HDC completed hydrological modelling which confirmed there will be less than minor negative impacts if the stormwater is attenuated upstream of SH57. HDC officers have been in ongoing consultation with iwi, farmers and HRC to determine what the expected conditions will be for the consent to be granted. One farmer has indicated he is likely to object.	4 - Very Likely	3 - Moderate	Significant (S)	30-Jun-18	**29 Jan 2018** - Risk transferred onto new template.

Risks NEL-001 to NEL-004 and NEL – 007 are low or moderate and thus are not included in this report. Next risk is NEL – 008.

Project Issues

Issue No.	Date Raised	Raised by	Title	Description	Owner	Status	Priority	Action	Impact Date	Decision and / or Outcome	Date Closed
1	5-Mar-18	Garth	Failure to complete works in timely manner	Some sections of the public have lost confidence in Council's ability to complete the work in a timely manner	Gerry	Open	Medium	5 March 2018 - HDC Officers will meet with Higgins to confirm what measures can be taken to successfully expedite the project	12-Mar-18	Pending	Pending

Next issue is issue number 2.

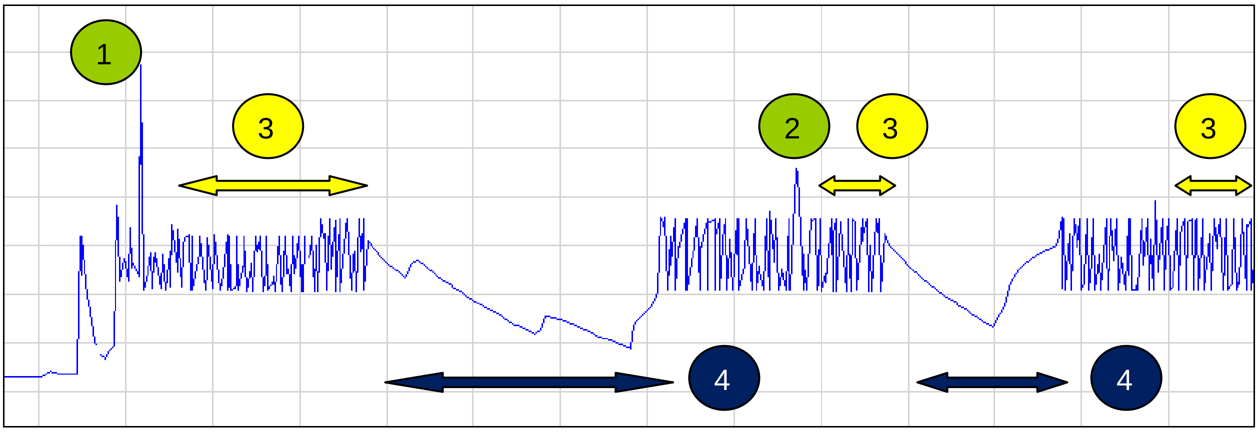


Figure 1 Screenshot of pump wetwell levels over time

Notes on what

1: Flood peak on Sunday 11 February 2018 (heavy rain could be attributed to ex tropical cyclone Fehi).

2: Flood peak on Thursday 22 February 2018 (heavy rain could be attributed to ex tropical cyclone Gita).

3. Post rainfall event: groundwater still infiltrates the network and gets pumped away.

4. Level in wet well slowly drops as water soaks into the ground and pumps are not operating.

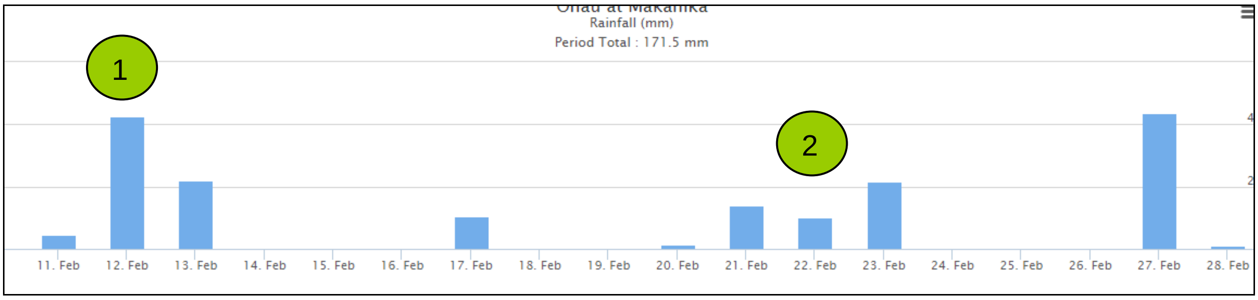


Figure 2 Rainfall for the same period as in Figure 1.

Figure 3 Okarito pumpstation - connection to rising main.

Figure 4 Fairfield Road rehabilitation (looking towards Fairfield School from the northern end).

Figure 5 Okarito pumpstation - concrete apron still to be installed.

Risk Management Update

File No.: 18/149

1. Purpose

Provide an update on progress and milestone achievements since adoption of the Horowhenua District Council Risk Policy Version 1.9.

2. Recommendation

2.1 That Report 18/149 Risk Management Update be received.

2.2 That this matter or decision be recognised as not significant in terms of s76 of the Local Government Act 2002.

3. Background/Previous Council Decisions

For several years risk registers have been developed across Horowhenua District Council (HDC) projects, departments and groups using spreadsheets but there has been limited ability to easily integrate these into an organisation wide register.

Since adoption of the HDC Risk Policy, work has been undertaken to convert the existing risk registers using the assessment principles outlined in the policy.

The Horowhenua Alliance team agreed to take a lead in this process and as such all Alliance project risk registers now reflect the risk policy. The Finance Audit and Risk Subcommittee were presented with reports at the last subcommittee meeting identifying where there is a higher level of uncertainty of achieving the desired outcome (e.g. the significant risk of consenting delays due to objections). This will continue to occur going forward.

4. Issues for Consideration

In addition to that outlined above, progress has been made as follows:

- Establishment and meetings of an internal risk management committee representing all operational areas of HDC.
- Training for operational staff on the risk policy.
- Conversion of the existing excel summated risk register to reflect the principles outlined in the risk policy.
- Inclusion of the 5 key risk areas in operational monthly reporting templates for each HDC department.
- Identification, pilot trial and purchase of an electronic risk management system (Promapp Risk Module) which allows for the integration of risk registers across HDC.
    - These risk registers are able to be organised around the 5 risk areas identified by Council - strategic, financial, legal, service delivery and reputation.
    - The treatment or control of these risks forms part of the system and an effectiveness level is agreed with the risk owner.
    - As a result the risk is converted from its inherent level calculated from the likelihood x its consequence to its residual (or mitigated) level and prioritised as red, amber or green.
    - The completion of risk identification across all areas of HDC will result in an organisation wide risk register.

    - The system will issue reminder emails to ensure that the control is and will remain effective. If there is no response the system will eventually contact the risk owner to ensure that there is no change to the level of the risk.
- Hierarchy design of the risk system to allow for implementation across HDC.
- Risk Management identification across HDC Groups. A number of teams have commenced this process already and the remaining teams are planned to occur.
- The Alliance project team routinely identify, mitigate, monitor and report risks in compliance with the risk policy.
- The Customer & Regulatory Services Lead Team has identified the risks to compliance, enforcement, customer experience, customer enablement and the earthquake prone building project to create a risk register which includes the likelihood and consequence of the risks and the treatment which will assist in their mitigation. As a result changes to process have been developed to assist in risk mitigation. Examples include:
    - Training the Customer Experience Team (front of house and call centre operations) in risk management principles to ensure that these frontline staff are able to recognise and escalate risks appropriately.
    - Immediate creation of customer requests (CRMS) and their allocation to the appropriate activity managers following customer contact (previously CRMs were created in groups at quiet periods.
    - Escalation process implemented for repeat or urgent customer contacts.
    - Development of an analytical tool for CRMs to identify and forecast cyclical and pressure issues as well as repeat CRMs which need to be investigated for possible process changes.
- The Earthquake-prone Building Project identified a number of risks prior to consultation and mitigation was sufficient to allow for progression of the project.
- During a recent audit of CDEM at HDC it was identified that a recent risk assessment of the EOC was unable to be evidenced. As a result risk identification was undertaken, a risk register created and several inherent risks have been identified which require planning to reduce the current inherent risk status.
- Reporting of Health & Safety issues has been discussed at the internal Risk Management Committee, particularly in respect of the integration of contractor reporting. It is likely that reporting of Health & Safety issues will continue to be reported separately to the Finance Audit and Risk Subcommittee whilst being incorporated into the overall HDC Risk profile.
- The LTP project team have developed a risk register which is currently being converted to the Promapp System.

Risk Management at HDC is a journey and one which has started positively on the foundation of a clear and explicit risk policy and framework.

Operationally it is vital that risk identification continues, as well as the reporting of risk through briefings and reports to elected members.

HDC’s Risk Management System is designed to do more than just identify the risk. The system also quantifies the risk and predicts the impact of the risk on the project. The outcome is therefore a risk that is either acceptable or unacceptable according to the Risk Appetite set by Council.

Continuous risk management will:

- Ensure that any HIGH or EXTREME risks are aggressively managed, and that all risks are effectively managed;

- Provide management at all levels with the information required to make informed decisions.

Attachments

There are no attachments for this report.

<u>Confirmation of statutory compliance</u>

In accordance with section 76 of the Local Government Act 2002, this report is approved as:

a. containing sufficient information about the options and their benefits and costs, bearing in mind the significance of the decisions; and,
b. is based on adequate knowledge about, and adequate consideration of, the views and preferences of affected and interested parties bearing in mind the significance of the decision.

Signatories

Author(s)	Nicki Brady **Group Manager - Customer & Regulatory Services**	

Approved by	Nicki Brady **Group Manager - Customer & Regulatory Services**	

File No.: 18/145

Electric Vehicle Charging Stations Opportunity

1. Purpose

To seek Council interest and support for Council to take part in a combined funding bid to the Energy Efficiency and Conservation Authority (**EECA**) Low Emission Vehicles Contestable Fund (**LEVCF**). A successful bid will enable the installation of Electric Vehicle (**EV**) charging infrastructure in the Horowhenua district. This involves:

- partnering in this proposal with Kapiti Coast District Council and Electra; and
- a combined bid, with 70% (or more) of the cost of the charging infrastructure to be met by EECA and Electra.

2. Executive Summary

2.1 Council Officers have been approached with an opportunity to join Kapiti Coast District Council (**KCDC**) and Electra to make a joint application to EECA for funding to install EV charging stations in the Electra region.

2.2 Council Officers seek moral and financial support from Councillors to proceed with a funding application. Due to the application timeframes, this matter could not be left for Council's next ordinary meeting.

3. Recommendation

3.1 That Report 18/145 Electric Vehicle Charging Stations Opportunity be received.

3.2 That this decision is recognised as not significant in terms of S76 of the Local Government Act

3.3 That Horowhenua District Council makes a joint application to the Energy Efficiency and Conservation Authority (EECA) for funding to install Electric Vehicle charging stations in the Horowhenua District.

3.4 That the car park of the Shannon Railway Station may be utilised for the installation of up to four Electric Vehicle charging stations (subject to a grant being approved by EECA).

3.5 That Wharf Street, Foxton may be utilised for the installation of up to four Electric Vehicle charging stations (subject to a grant being approved by EECA).

3.6 That Council contributes $60,000 towards the installation of Electric Vehicle charging stations in Foxton and Shannon.

4. Background / Previous Council Decisions

4.1 At present there are no EV charging stations in the Horowhenua District. Council has been approached to join KCDC and Electra to join their bid to the LEVCF with a view to installing fast charging stations in Foxton and Shannon (Levin has an EECA co-funded charger being installed later this year). Officers have identified two sites as being preferable, these are Wharf Street, Foxton (where ducting has been installed) and the Shannon Railway Station car park (as this is on the main State Highway and is Council land).

4.2 Whilst Council has made no decisions regarding EV infrastructure, Council's Long Term Plan 2015-2025 promotes the community outcome of 'a sustainable environment'.

4.3 Submissions to the LEVCF close on 11 April 2018. For that reason, this report has been brought to the FAR Subcommittee rather than an ordinary meeting of Council (which is next scheduled for 18 April 2018). Resolutions passed by the FAR Subcommittee will need to be ratified at Council's next ordinary meeting.

5. Discussion

5.1 EV uptake in New Zealand is increasing with the number of EVs in New Zealand more than doubling each year. The New Zealand Transport Authority (**NZTA**) has a stated aim of having 64,000 EVs by 2021.

5.2 EVs have no exhaust and do not produce emissions as a bi-product of combustion. Combined with an electrical network that is supplied with 80% renewable energy, the energy to power EVs is environmentally friendly, produced nationally and is inexpensive. Further, 72-94% of the energy used to power an electric car is used to move it down the road; whereas only 12-30% of the energy from the fuel put in a petrol vehicle is used to move it down the road.

5.3 The LEVCF offers up to 50% funding towards projects that encourage innovation and investment that will accelerate the uptake of electric and other low-emission vehicles in New Zealand. EECA is seeking projects that improve the availability of charging and to fill key gaps in the charging network, and specifically encourages partnerships between councils and lines companies outside major cities to apply for funding.

5.4 Entering into a partnership with Electra and neighbouring councils provides us with an affordable and timely opportunity to install EV charging stations at key locations in the district.

5.5 Installing EV charging infrastructure in Horowhenua will fill the gap in current infrastructure, this will reduce 'range anxiety' for EV drivers and encourage EV uptake with both national and local benefits.

5.6 Having EV charging stations in Foxton and Shannon will encourage EV drivers to stop and contribute to the local economy. This will assist in making these towns a destination, having EV charging stations adjacent to Te Awahou Nieuwe Stroom is considered to be complimentary being both modern and encouraging visitors to stop in Foxton.

5.7 It is proposed that 'fast chargers' are installed. These will generally see a vehicle obtain a range of 100km within 30 minutes. This compares to a 'slow charger' which fully charges a vehicle overnight with 'medium chargers' being in the 4 hour range for a full charge.

Installation, maintenance and ownership

5.8 The proposal presented to Council is for Electra to install the charging stations and take responsibility for ensuring sufficient electricity is available in the network, and that all equipment is installed and fitted to necessary electrical, safety, and other relevant regulations. Council will be responsible in contributing financial amounts as per this report and to support necessary approvals and consents for licensing the charging stations to be installed on public land.

5.9 Electra will take responsibility for the ongoing maintenance and up-keep of the charging stations. A nation-wide supplier, ChargeNet NZ, will manage billing and electricity use by charging customers a fee for use in a consistent manner that is utilised across the country at other charging stations. Ongoing electricity and maintenance costs will **not** be the responsibility of Council, other than the upkeep of existing road reserves or road surfaces that may surround charging stations.

5.10 A full project and installation plan will follow which will include appropriate processes to seek agreement from local community boards to designate car parks as ‘EV only’.

6. Options

Option 1: Offer funding up to $60,000

The proposal put forward would see the following contributions:

Site	Charger type	HDC (30%)	Electra (30%)	EECA (40%)
Wharf Street	2 x Fast	$30,000	$30,000	$40,000
Shannon Railway	2 x Fast	$30,000	$30,000	$40,000

This proposal is preferred as it matches the proposal put forward by other partners and would see fast chargers installed.

Option 2: Offer reduced funding of $X

This option would see Council support the proposal but offer a reduced financial contribution. Council could set the amount it is willing to fund and the proposal could be amended to suit. This could see another partner pay a higher share of the cost, a reduction in the number of chargers to be installed, installation of slower charges and/or abandonment of the proposal for Horowhenua at this time.

Option 3: Offer no funding but provide moral support

This option would see Council confirming its desire for EV charging stations to be installed in the district with a commitment to assisting relevant parties where possible (for example, licensing road reserve for the purpose of installing chargers). This option is considered to be the least attractive for EECA (less no moral support being provided).

6.1 Cost

Option	Cost
1 – Offer $60,000 contribution	$60,000 plus Officer time liaising with relevant parties and preparing necessary approvals/licences. Officer time estimated at a maximum of 20 hours – time savings are achieved due to the proposal being drafted by another Council.
2 – Offer reduced contribution	Cost dependent on Council resolution. Officer time estimated at a maximum of 30 hours (additional time required to liaise with relevant parties due to reduced contribution)
3 – Moral support only	No cost to Council except Officer time which is estimated at a maximum of 20 hours if the project proceeds and Council approval/licences required.

6.1.1 Rate Impact

No impact – funding can be achieved through existing cash reserves.

6.2 Community Wellbeing

It is noted the proposal would essentially see Council subsidizing a private enterprise. However, under the Local Government Act 2002, local authorities are responsible for meeting the current and future needs of their communities, including infrastructure that is efficient, effective and future focused. Under the Resource Management Act 1991 local authorities are responsible for promoting the sustainable management of natural and physical resources. Further, the proposal is consistent with the following Community Outcomes in Council's Long Term Plan 2015-2025:

A healthy local economy and a District that is growing

- We have a shared respect for both economic development and environmental protection.
- We provide opportunities for people of all ages and at all phases of life to enjoy a standard of living within our District that is economically sustainable and affordable.
- We recognise the importance of population growth and actively promote the District as a destination.
- Our facilities and infrastructure services are planned and developed to meet future demand.

A sustainable environment

- We sustainably manage our environment so it can be enjoyed by future generations.
- Waste reduction, recycling, energy conservation and efficiency are promoted as part of how we all live.

Safe, resilient and healthy communities

- We have reliable, efficient and well planned infrastructure and services.

Positive leadership and effective partnerships

- Our leaders consult with, and understand their communities and work for the good of all.
- We provide strong leadership in planning for the District's future.

6.3 Consenting Issues

Any consenting issues will be addressed during project plan stage.

6.4 LTP Integration

This matter is not considered in the 2015-25 LTP. Community Outcome factors have been addressed under 6.2 Community Wellbeing.

7. Consultation

No consultation has occurred. This proposal has only recently been raised with Council and insufficient time exists for meaningful consultation to take place prior to a decision being required.

8. Legal Considerations

Any legal issues will be addressed during the project plan stage.

9. Financial Considerations

This matter can be funded through existing cash reserves.

10. Other Considerations

Nil.

11. Next Steps

Confirm decision with partner organisations; begin project planning.

12. Supporting Information

Strategic Fit/Strategic Outcome: Refer 6.2 Community Wellbeing.
Decision Making: Decision will need to be ratified at the next ordinary meeting of Council.
Consistency with Existing Policy: No inconsistencies with existing policies.
Funding: Funding to be met from existing cash reserves. It is noted this is an unbudgeted expense.

Risk Area	**Risk Identified**	**Impact**	**Likelihood**	**Risk Assessment (Low to Extreme)**	**Managed how**
Strategic					
Financial	Funds spent and project fails	**3**	**1**	**Low**	Partnership with organisations which specialise in this area and have a proven track record. Provision made in licence agreements.
Service Delivery					
Legal	Failure to adhere to relevant legislation	**2**	**1**	**Low**	Identify legal requirements during project planning stage.
Reputational					

Confirmation of statutory compliance

In accordance with section 76 of the Local Government Act 2002, this report is approved as:

a. containing sufficient information about the options and their benefits and costs, bearing in mind the significance of the decisions; and,

b. is based on adequate knowledge about, and adequate consideration of, the views and preferences of affected and interested parties bearing in mind the significance

of the decision.

13. Appendices

There are no appendices for this report

Author(s)	Sam Wood **Legal Counsel**	

Approved by	David Clapperton **Chief Executive**	

Eight Month Report 1 July 2017 - 28 February 2018

File No.: 18/138

1. Purpose

To present to the Finance, Audit & Risk Subcommittee the financial report for the seven months to 28 February 2018.

2. Recommendation

2.1 That Report 18/138 Eight Month Report 1 July 2017 - 28 February 2018 be received.

2.2 That this matter or decision be recognised as not significant in terms of s76 of the Local Government Act 2002.

3. Issues for Consideration

As included in the **attached** report.

Attachments

No.	Title	Page
A	Financial Report February 2018	60

Confirmation of statutory compliance

In accordance with section 76 of the Local Government Act 2002, this report is approved as:

a. containing sufficient information about the options and their benefits and costs, bearing in mind the significance of the decisions; and,
b. is based on adequate knowledge about, and adequate consideration of, the views and preferences of affected and interested parties bearing in mind the significance of the decision.

Signatories

Author(s)	Doug Law **Chief Financial Officer**	

Approved by	David Clapperton **Chief Executive**	

Horowhenua
DISTRICT COUNCIL

Eight Month Report

1 July 2017 – 28 February 2018

Executive Summary

A. Trends and Activity of Interest

1. Resource Consenting
    - 122 consents have been lodged as at 28 February 2018, compared to 132 at the same time last year.
    - 51 subdivision consents approved as at 28 February 2018, compared to 57 at the same time last year.
    - 38 consents have reached 223 stage and 26 have reached 224 stage as at 28 February 2018.
    - Approved subdivisions have resulted in the creation of 100 new allotments as at 28 February 2018.
2. Building Consents
    - Value of consents issued as at 28 February 2018 is $60,946,698 compared to $57,917,737 for the same period last year.
    - 426 consents issued as at 28 February 2018, compared to 409 for the same period last year.
    - 145 new dwelling consents at 28 February 2018 against 134 for the same period in the 2016/2017 year.
    - 447 building consents were lodged as at 28 February 2018 compared to 418 for the same period in the 2016/17 year.

Both Resource Consent and Building Consent numbers and the level of enquiries have shown an increase this month compared to January 2018.

B. Financial Performance

Capital Expenditure is below budget by $6.47m. The main areas of underspending are;

Wastewater;

Foxton Wastewater treatment Plant *$787k*

Waiting for Environment Court decision expected in March 2018. If granted this project will go ahead this financial year.

Foxton Waste water pond desludge *$401k*

Contract awarded. Work about to begin.

Levin treatment plant renewals *$1.019m*

Partly for Pot Consent, tree harvesting, progressing slowly

Stormwater

NE Levin improvements *$913k*

Some of the funds are for raisingTavistock Road, Buckley Road Pump station improvements and work on the attenuation ponds on the Coley, Sue and Palmer properties. These works are dependent on resource consent being issued.

Development planning Foxton Beach *$156k*

District Wide Improvement works *$131k*

Queen Street drain extension. Pipes have been ordered and contractors asked to price up works.

Roading

	Annual Current Budget	YTD Current Budget	YTD Actuals	YTD Variance
2212 - Sealed Road Resurfacing	1,000,000	985,000	479,569	505,431
2214 - Sealed Road Pavement Rehabilitation	2,057,484	1,759,000	740,851	1,018,149
Total	**3,057,484**	**2,744,000**	**1,220,420**	**1,523,580**

Both Resurfacing and Rehabilitation are running behind due to resourcing issues experienced by the Contractor.

Some projects are now going to be done by the Alliance to alleviate some of the workload.

It is planned, weather permitting, that all work will be completed by the end of the financial year.

Operational Expenditure

Council has achieved a loss of $418,000 as at 28 February 2018 against a budgeted surplus of $1,319,000.

This is analysed as follows;

	Annual Plan	Actual	Variance
	YTD	YTD	YTD
	Feb-18	Feb-18	2018
	$000	$000	$000
Revenue			
Rates Revenue	24,623	24,652	29
Grants & Subsidies	6,159	3,969	(2,190)
Finance Income	47	4	(43)
Fees, charges,	3,253	3,581	328
Other Revenue	2,386	3,221	835
Development Contributions		126	126
Gain Disposal of Assets	120	214	94
Vested Assets		96	96
Total Income	**36,588**	**35,863**	**(725)**
Expenditure			
Employee Benefit Expenses	8,719	8,486	(233)
Finance costs	2,130	1,839	(291)
Depreciation and Amortisation	7,736	9,345	1,609
Other Expenses	14,807	14,749	(58)
Loss on disposal of assets	1,877	1,862	(15)
Total Expenses	**35,269**	**36,281**	**1,012**
Operating surplus (deficit) before taxation	**1,319**	**(418)**	**(1,737)**

The following variances are evident

- Fees and charges has pensioner housing rental $343K that was not budgeted for due to sale, which occurred 25 August 2017.
- Subsidies and grants are under budget $2.2m;
    - Roading $ 751k
    - Community Centres $1,449
        - $1m of the budget was for the Iwi and Dutch museum fit-outs This was initially recognised in the budget as council income. However, as the fit-out asset is not a Council asset the grant was received on behalf of the partners and not Council Income .
        - $500k was in the budget for 2017/18 but was actually recognised last financial year (2017/18) as an accrual.
- Other revenue is over budget reflecting the income generated by the Alliance covering the Operations and Projects team overhead costs ($1,023K YTD). This will continue and grow due to the change in operations from when the budgets were formulated.
- Employee benefit expenditure is under budget due to vacant positions that were budgeted for periods between resignations and filling positions. This is quite common as the budgets assume that all positions are filled all of the time.
- Finance costs are below budget by $291K reflecting the lower interest rates on loans; 3.94% against the Annual Plan assumption of 4.75%
- Depreciation expense is $1,609K higher than budget due to the revaluations of assets last year that were not reflected in the Annual Plan budgets. This trend will continue for the rest of the year.

Rates rebates applications continue to be steady. 1,799 applications totalling $988,508 processed to the end of February 2018 (Last year at this time 1,833 applications totalling $1,000,103).

Doug Law
Chief Financial Officer
21 March 2018

Operational Summary

Total revenue	Total expenditure	Total surplus/(deficit)
$35.86m is 2% less than the total budget of $36.59m	$36.28m is 3% more than the total budget of $35.27m	($0.42m) is 132% less than the total budget of 1.32m

SUSTAINABILITY

Rates to operating revenue **66%**

Rates revenue	$23.53m
Operating revenue	$35.43m

66% of operating revenue is derived from rates revenue. Rates revenue excludes penalties, water supply by meter and is gross of remissions. Operating revenue excludes vested assets, development contributions, asset revaluation gains and gains on derivatives.

Balance budget ratio **98%**

Operating revenue	$35.43m
Operating expenditure	$36.28m

Operating revenue should be equal or more than operating expenditure. Operating revenue excludes vested assets, development contributions, asset revaluation gains and gains on derivatives. Operating expenditure includes deprecation and excludes loss on derivatives, landfill liability and loss on asset revaluations. Year to date revenue is 98% of operating expenditure.

Essential services ratio **108%**

Capital expenditure	$8.44m
Depreciation	$7.84m

Capital expenditure should be equal or more than depreciation for essential services, for year to date capex is 108% of depreciation. Essential Services are Water Supply, Wastewater, Stormwater and Roading.

Net Debt to total projected revenue **139%**

Total net borrowing	$73.42m
Total projected operating revenue	$52.89m

With net borrowing of $73.42m we are still under the set limit of 175% of operting revenue. Total net borrowing is external borrowling less cash at bank.

Interest to rates revenue (LGFA Cov.) **8%**

Net Interest	$1.80m
Rates revenue	$23.53m

8% of rates revenue is paid in interest. Our set limit is 25% of rates revenue. Net interest is interest paid less interest received. Rates revenue excludes penalties, water supply by meter and gross of remissions.

Interest to operating revenue (LGFA Cov.) **5%**

Net Interest	$1.80m
Operating revenue	$35.43m

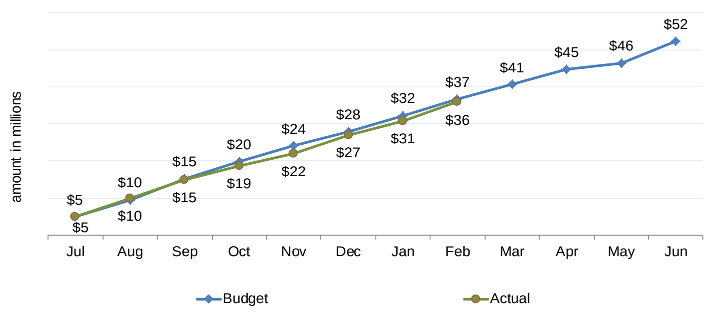
5% of operating revenue is paid in interest. Our set limit is 20% of operating revenue. Net interest is interest paid less interest received.

Available financial accommodation to external indebtedness (LGFA Cov.) **114%**

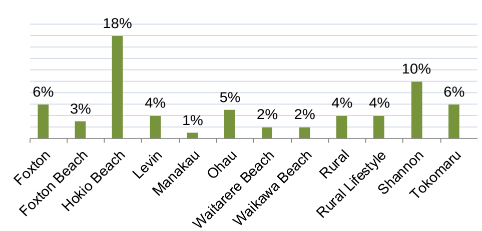
Net debt	$73.42m
Undrawn committed facilities	$10.00m

The committed bank facility enables us to borrow up to 114% of our current external debt immediately. The LGFA covenant minimum is 110%.

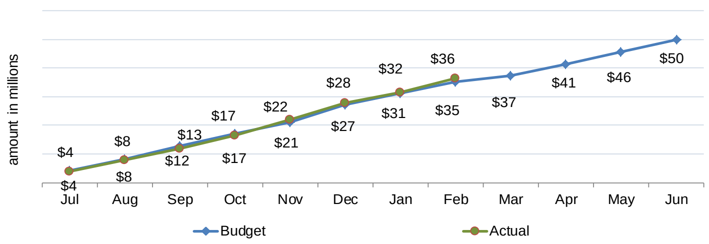
Total Revenue $m



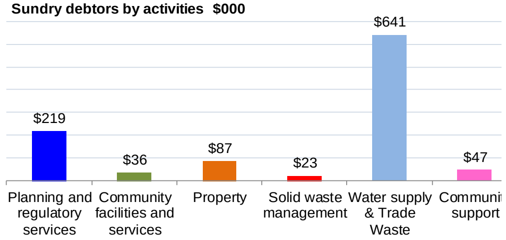
Rates debtors % with arrears



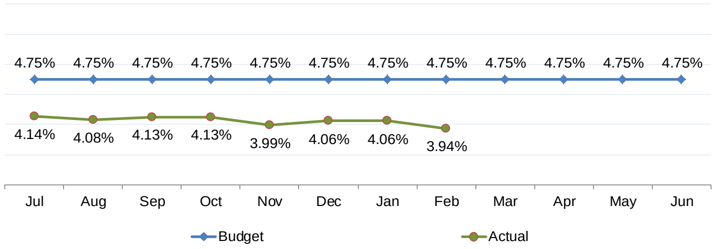
Total Expenditure $m



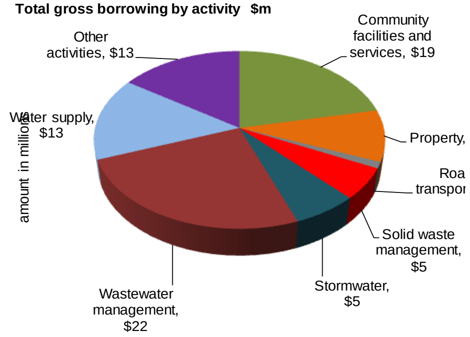
Sundry debtors by activities $000



Interest rate movement



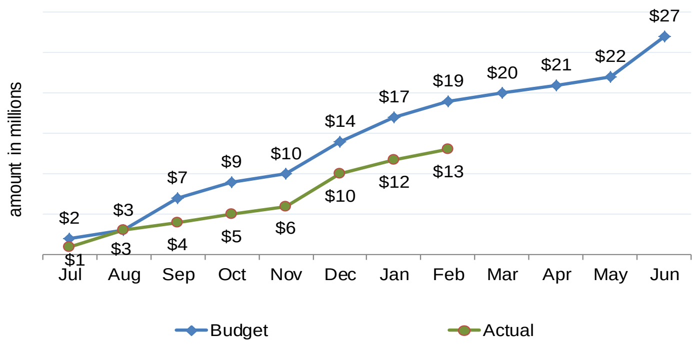
Total gross borrowing by activity $m



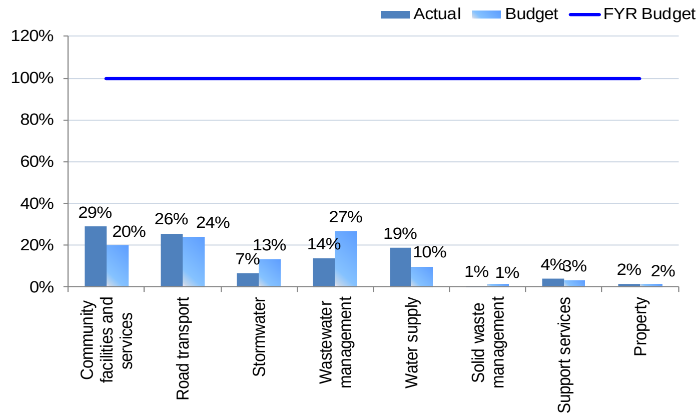
Capital

To meet growth	To improve service	To replace
$1.32m	$5.31m	$6.40m
is 55% less than the YTD budget of $2.95m	is 24% less than the TD budget of $7.01	is 32% less than the total budget of $9.54

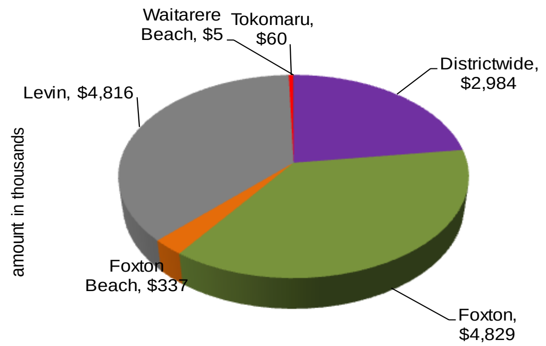
Total Capital Expenditure



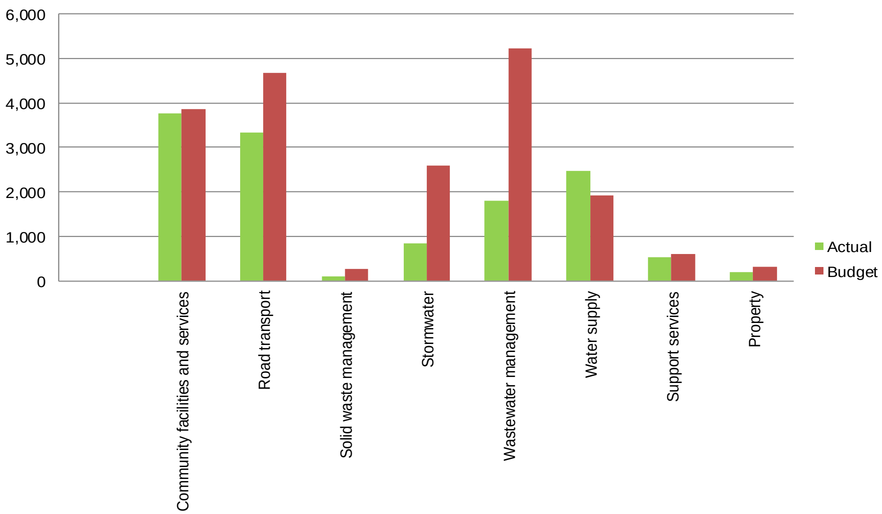
Capital Expenditure By Activity % Percentage



District View - Capital Expenditure $000



Capital Expenditure By Activity $000



APPENDIX

Asset maintenance contract	General contract works, repairs, planned and unplanned maintenance, materials and consumables, cleaning and hygiene, inspections and reporting.
Finance cost	Interest on borrowings and interest on swaps.
Gains	Fair value revaluation gain and gain on sale.
General grants	Grants given to various organisations and individuals like Creative NZ, neighbourhood support, beach wardens, community development and youth scholarships.
Grants and subsidies	Grants and subsidies received from government and other organisations for roading, library, community hubs, cemetaries and acquatic centres.
Infringements and fines	Parking tickets, Prosecutions on WOFs and unregistered vehicles.
Employee benefits	Salaries and wages, training costs, FBT and ACC levies, superannuation, and staff recognition.
Other expenses	Printing, publication, postage, stationery, advertising, food and catering, photocopying, internet and communication and any other office expenses.
Professional services	Consultants, contractors, membership fees, legal fees, lab services, audit fees or any other professional services charges.
Regulatory revenue	Planning fees, building fees, animal fees, liquor fees and health fees.
Rendering of services	Commissions, car income, and any other income received for rendering services.
Rental income	Rent from Halls, residential and commercial properties, grazing land, reserves and other lease income.
Targeted rates	Rates for roading, waste management, representation and governance, stormwater, wastewater, water by meter and water supply.
User charges	Revenue received from addmission, shop sale, Cemetery fees, trade waste, utility connection, events and exhibitions.
Utilities	Water use, electricity and gas charges

Statement of Intent - LGFA

File No.: 18/134

1. Purpose

This report introduces the Local Government Funding Agency (LGFA) Statement of Corporate Intent (SOI).

2. Recommendation

2.1 That Report 18/134 Statement of Intent - LGFA be received.

2.2 That this matter or decision be recognised as not significant in terms of s76 of the Local Government Act 2002.

2.3 That the Finance, Audit & Risk Subcommittee receives the LGFA SOI on behalf of Horowhenua District Council.

3. Background/Previous Council Decisions

Each year the LGFA is required to issue to shareholder councils an SOI before 31 March of each year setting out its intentions and expectations for the 2018/19 financial year.

The LGFA is a council-controlled organisation (CCO) under the Local Government Act 2002 and has to furnish this SOI in compliance with s64.

The Shareholders' Council (SC) met to discuss the deliverables and priorities it wished the Board to consider in the coming year.

The Shareholders Council's Letter of Expectation and the Board's response are **attached**. Together they demonstrate a desire to take a largely 'status quo' approach, while ensuring maintenance of overall credit quality. The Council has also asked the Board to take a proactive role in the development of any alternative funding options for the sector. Council has also asked them to review their succession plan.

4. Issues for Consideration

As this is a business as usual SOI there are no real issues to consider other than the Local Government loans that are due to mature in March 2019, April 2020 and May 2021.

Council has $12m of the March 2019, $5m of the April 2020, and $19m of the May 2021 loans. The first and last of these repayments will need to be managed so that Council lowers its exposure, and that of LGFA, to the risk of refinancing large amounts on a single day. This may involve prefunding in the months prior to the maturity dates.

Attachments

No.	Title	Page
A	LGFA Shareholders Council letter of expectation	70
B	LGFA response to Shareholders Council	72
C	LGFA letter re SOI	74
D	LGFA 2018/19 SOI	76

Confirmation of statutory compliance

In accordance with section 76 of the Local Government Act 2002, this report is approved as:

a. containing sufficient information about the options and their benefits and costs, bearing in mind the significance of the decisions; and,
b. is based on adequate knowledge about, and adequate consideration of, the views and preferences of affected and interested parties bearing in mind the significance of the decision.

Signatories

Author(s)	Doug Law **Chief Financial Officer**	

Approved by	David Clapperton **Chief Executive**	DM Clapperton.

NEW ZEALAND
LOCAL GOVERNMENT
FUNDING AGENCY

12 February 2018

Craig Stobo
Chair
New Zealand Local Government Funding Agency Ltd
P O Box 5704
Wellington 6145

Dear Craig,

Shareholder Expectations and the Statement of Intent 2018/19

I am writing to set out the Shareholders' Council's (the Council's) expectations of the New Zealand Local Government Funding Agency Ltd (LGFA) for consideration in the LGFA's business planning for the upcoming year and the development of its 2018/19 Statement of Intent (SOI).

The Council acknowledges the LGFA's active role over the past year in seeking to coordinate a sector response to government infrastructure initiatives. We urge the LGFA to continue to seek to influence government decision-making for the benefit of the sector.

The Council also acknowledges the successful refinancing of the December 2017 bond. The careful planning and work of the LGFA ensured this occurred smoothly, and provides a template for the March 2019 refinancing.

The Council values the positive and open working relationship with the LGFA. The timely provision of information, and a 'no surprises' approach by both parties, helps ensure the relationship remains productive.

Governance

It is important that the LGFA continues to build on its board and management strengths, and works closely with the Council to ensure the board membership maintains an optimum mix of expertise and experience. We expect the LGFA to maintain a focus on longer term succession planning, particularly with regard to the role of Chair and ensuring that there is appropriate senior experience working in or with central government amongst the Board's membership.

Constancy of objectives and intentions

It is the Council's expectation that the company's objectives and operating intentions, as set out in the 2017/18 SOI, will continue to be reflected in the 2018/19 SOI. The SOI is the ideal opportunity for the LGFA to reaffirm its:

- commitment to providing a range of borrowing products and services;
- focus on lowering the cost of local government borrowing;
- strategy for maintaining a high-quality asset book;
- proactive risk management approach; and
- intention to return a dividend to shareholders.

NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY LIMITED
AUCKLAND Level 12, West Plaza Tower, Corner Albert and Customs 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

Performance indicators

Performance indicators should provide a robust, meaningful performance overview for key stakeholders. The Council asks that the LGFA's performance indicators and targets are reviewed to confirm that they are providing the most effective performance picture.

Treasury policy

It is the Council's enduring expectation that the LGFA will continue to take the appropriate steps to ensure that it understands each borrower's headroom, and the overall sector's financial position. The LGFA's Lending Policies and Foundation Policies, as detailed in the company's Treasury Policy, should appropriately reflect the sector's position.

The Council asks that the LGFA considers examining the way in which debt covenants are calculated, to see whether it would be appropriate to have the LGFA methodology more closely aligned with the calculations used by credit agencies.

Financial and general reporting

The current SOI contains brief financial forecast information. The Council continues to appreciate the LGFA providing more detailed financial and operational information in the quarterly reports. It is important that this information continues to be provided in 2018/19.

The Council notes the importance of shareholders receiving full and early disclosure from the LGFA of company policy breaches by Participating Local Authorities. It is crucial that all shareholders are informed as soon as possible after an event has occurred, given their potential liability.

Delivery of draft 2018/19 SOI

The Council would welcome a discussion on the content of this letter and the LGFA's views on its priorities for 2018/19. We look forward to receiving the company's draft SOI as early as possible, to allow us to engage with shareholders in a meaningful fashion. The Council will respond with feedback as promptly as possible, and prior to the statutory deadline of 1 May 2018, in order that the company is in a position to deliver its final SOI by 30 June 2018.

It was a pleasure to attend the 2017 Annual General Meeting, and recognise the significant achievements of the LGFA over the last year. Please do not hesitate to contact me if you have any queries or comments.

Yours sincerely

Alan Adcock
Chair, LGFA Shareholders' Council
cc. Mark Butcher, Chief Executive LGFA

NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY LIMITED
AUCKLAND Level 12, West Plaza Tower, Corner Albert and Customs Street
WELLINGTON Level 8, City Chambers, 142 Featherston Street
PO Box 5704, Lambton Quay, Wellington 6145 | PH +64 4 974 6530 | www.lgfa.co.nz

NEW ZEALAND
LOCAL GOVERNMENT
FUNDING AGENCY

22 February 2018

Alan Adcock
Chairman
LGFA Shareholders Council

Dear Alan,

LGFA DRAFT STATEMENT OF INTENT 2018/19

Thank you for the letter of expectations from the Shareholders Council outlining suggestions that the LGFA Board and management should consider when drafting the 2018/19 Statement of Intent ("SOI").

We have considered and are pleased to respond to the Shareholders Councils views and comments in the following order as outlined in your letter

1. LGFA will continue to assist the sector where possible in engaging with Central Government to coordinate a sector wide response to government infrastructure initiatives. It has been a focus area for LGFA over the past year and we look forward to working with our council members and the new Government in the coming years. As we outlined previously, LGFA also has a responsibility to protect the interests of councils as LGFA guarantors and to retain the confidence of investors.
2. The refinancing of the loans by councils maturing on 15th December 2017 and related refinancing of the 15th December 2017 LGFA bonds was successfully managed but we remain aware that we have a similar refinancing challenge in each of the next three years. Given the frequency of these events and the possibly volatile times ahead for markets, this is recognised as a key risk and the LGFA board is receiving regular updates from management on progress on managing these issues.
3. LGFA management and directors also value and appreciate the open relationship with the Shareholders Council and will meet the information requirements of the Shareholders Council in a timely manner. It is important to have open dialogue and communication with stakeholders so please continue to provide feedback through the board chair, directors and management.
4. We have undertaken a board review in the previous year and have added a new independent director to the board. We will focus on succession planning and ensuring we have the right skillset around the board table.
5. We agree with your comments regarding the continuing of objectives and operating intentions and these are reflected in the Draft 2018/19 SOI. There are no proposed changes to either the objectives or performance objectives (despite the difficulty of achieving some of the current performance objectives in the current year).

NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY LIMITED
AUCKLAND Level 12, West Plaza Tower, Corner Albert and Customs 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

6. Treasury Policy – we closely monitor the credit position of each council borrower and make councils aware of our preference for headroom under the financial covenants. We intend to present at the Shareholders-Borrowers Day on our approach to financial covenants and group vs parent treatment. This will also include comparing LGFA methodology to that of the credit rating agencies.
7. We will continue to provide financial information to the Shareholders Council and in the Quarterly Reports that go beyond the SOI requirements provided we do not breach our commercial, strategic or regulatory requirements.
8. We will promptly advise the Shareholders Council, shareholders and guarantors of any actual or potential breach by a Participating Local Authority.

Thank you for providing us with the Letter of Expectations and we have taken your comments and suggestions on board when drafting the 2018/19 SOI.

The LGFA Board and management are confident that we can continue to deliver value to the sector and appreciate the support of and interaction with yourself and the Shareholders Council. We look forward to working together to continue the strong performance and success of the company for the benefit of the Participating Local Authority members.

Regards

Craig Stobo
Chairman

NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY LIMITED
AUCKLAND Level 12, West Plaza Tower, Corner Albert and Customs Street
WELLINGTON Level 8, City Chambers, 142 Featherston Street
PO Box 5704, Lambton Quay, Wellington 6145 | PH +64 4 974 6530 | www.lgfa.co.nz

NEW ZEALAND
LOCAL GOVERNMENT
FUNDING AGENCY

22 February 2018

Dear Shareholder

Draft Statement of Intent 2018/19

Please find attached a copy of the Draft Statement of Intent ("SOI") for the 2018/19 year[1].

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

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

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

For our shareholders we are focused on:

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

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

- Profitability is forecast to remain strong with projections for Net Operating Gain of $10.81 million, $10.44 million and $14.08 million for the next three years as controllable expenses remain close to previous year budgets but net interest income grows. However, we remain cautious in placing too much emphasis on the Year Three (2020/21) forecast given that over the next three years, $3.79 billion of our LGFA bonds and $3.336 billion of council loans mature. Assumptions regarding timing of refinancing and interest rates have a meaningful impact on financial projections.

- Net interest income is expected to increase over the next three years as we hold additional liquid assets to manage the LGFA bond maturities. We would also expect councils to refinance their loans prior to maturity and depending upon the timing, this is slightly positive for LGFA.

- We have reduced our forecast for Local Government loans outstanding as at June 2019 to $8.020 billion and to $8.261 billion as at June 2020 (from $8.188 billion and $8.391 billion in the previous SOI). This reflects uncertainty regarding the impact on LGFA lending if councils

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

NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY LIMITED
AUCKLAND Level 12, West Plaza Tower, Corner Albert and Customs Street
WELLINGTON Level 8, City Chambers, 142 Featherston Street
PO Box 5704, Lambton Quay, Wellington 6145 | PH +64 4 974 6530 | www.lgfa.co.nz

substitute LGFA borrowing for funding from the Housing Infrastructure Fund facility and other Central Government initiatives. Councils have also yet to release their Draft Long Term Plans and provide indications of future borrowing intentions.

- We have made no changes to the on-lending margins given the base lending margin now averages 10 bps (0.10%). Any further reductions in the base margin is unlikely as we need to ensure we have sufficient capital to match the growth in the balance sheet. LGFA on-lending margins are the narrowest when compared with our international peers.

- Compared to the previous SOI, issuance and on-lending costs excluding Approved Issuer Levy ("AIL") are forecast to be similar to the forecast in each of the 2018/19 and 2019/20 financial years.

- The SOI performance targets are the same as the targets in the previous SOI as we believe these reflect the optimal means to assess our performance against our key objectives.

- As noted above, there is some timing uncertainty within the SOI forecast relating to Local Government loans and LGFA bonds outstanding as we need to project both the repayment amount and repayment timing of the Local Government loans that are due to mature in March 2019, April 2020 and May 2021. Decisions made by our council members regarding early refinancing will have a phasing impact across all three years in the SOI forecast.

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

Yours sincerely

Mark Butcher
Chief Executive

NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY LIMITED
AUCKLAND Level 12, West Plaza Tower, Corner Albert and Customs 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

Draft Statement of Intent 2018/19

1. Introduction

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

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

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

2. Nature and scope of activities

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

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

In lending to Participating Local Authorities, LGFA will:

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

3. Objectives

Principal Objectives

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

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

Primary Objectives

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

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

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

- LGFA will review each Participating Local Authority's financial position, its financial headroom under LGFA policies and endeavour to visit each Participating Local Authority on an annual basis;
- LGFA will analyse finances at the Council group level where appropriate;
- LGFA will review its debt covenant methodology and assessment of council financial position at group vs parent. LGFA will present its findings to councils at the LGFA Shareholder-Borrower Day, including a comparison of LGFA methodology to that of the credit rating agencies;
- LGFA will work closely with the Department of Internal Affairs (DIA), Office of the Auditor General (OAG) and Local Government New Zealand (LGNZ) on sector and individual council issues; and
- LGFA will take a proactive role to enhance the financial strength and depth of the local government debt market.

Additional objectives

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

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

4. Financial forecasts

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

FINANCIAL YEAR ($M)

Comprehensive income	**Jun-19**	**Jun-20**	**Jun-21**
Interest income	239.11	241.42	254.38
Interest expense	220.64	223.71	232.86
Net Interest income	**18.46**	**17.71**	**21.53**
Issuance and on-lending costs	2.44	2.47	2.50
Approved Issuer Levy	2.07	1.56	1.61
Operating expenses	3.14	3.24	3.33
Issuance and operating expenses	**7.65**	**7.27**	**7.44**
P&L	**10.81**	**10.44**	**14.08**

Financial position ($m)	**Jun-19**	**Jun-20**	**Jun-21**
Capital	25.00	25.00	25.00
Retained earnings	48.30	57.42	70.10
Total equity	73.30	82.42	95.10
Shareholder funds + borrower notes / Total assets	2.40%	2.49%	2.64%
Dividend provision	1.33	1.40	1.45
Total assets (nominal)	8,170.25	8,414.20	8,447.97
Total LG loans - short term (nominal)	325.00	325.00	325.00
Total LG loans (nominal)	7,695.00	7,936.50	7,972.50
Total bills (nominal)	370.00	370.00	370.00
Total bonds (nominal) ex tsy stock	7,699.00	7,839.00	7,829.00
Total borrower notes (nominal)	123.12	126.98	127.56

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

5. Performance targets

LGFA has the following performance targets:

.

- The average margin above LGFA's cost of funds charged to the highest rated Participating Local Authorities for the period to:

  - 30 June 2019 will be no more than 0.10%.
  - 30 June 2020 will be no more than 0.10%.
  - 30 June 2021 will be no more than 0.10%.

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

- LGFA's annual issuance and operating expenses (excluding AIL) for the period to:

  - 30 June 2019 will be less than $5.58 million.
  - 30 June 2020 will be less than $ 5.71 million.
  - 30 June 2021 will be less than $5.83 million.

- Total lending to Participating Local Authorities[1] at:

  - 30 June 2019 will be at least $8,020 million.
  - 30 June 2020 will be at least $8,261 million.
  - 30 June 2021 will be at least $8,297 million.

- Savings on borrowing costs for council borrowers:

  - LGFA will demonstrate the savings to council borrowers on a relative basis to other sources of financing. This will be measured by maintaining or improving the prevailing secondary market spread between LGFA bonds and those bonds of a similar maturity issued by (i) registered banks and (ii) Auckland Council and Dunedin Council as a proxy for single name issuance of council financing.

6. Dividend policy

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

[1] Subject to the forecasting uncertainty noted previously

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

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

7. Governance

Board

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

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

The Board's approach to governance is to adopt best practice[2] with respect to:

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

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

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

Shareholders' Council

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

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

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

8. Information to be provided to Shareholders

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

Annual Report

The LGFA's balance date is 30 June.

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

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

Half Yearly Report

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

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

Quarterly Report

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

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

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

Statement of Intent

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

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

Shareholder Meetings

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

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

9. Acquisition/divestment policy

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

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

10. Activities for which compensation is sought from Shareholders

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

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

11. Commercial value of Shareholder's investment

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

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

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

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

12. Accounting policies

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

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

ATTACHMENT: Statement of accounting policies

a. Reporting Entity

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

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

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

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

b. Statement of Compliance

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

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

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

c. Basis of Preparation

Measurement base

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

The financial statements are prepared on an accrual basis.

Functional and presentation currency

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

Foreign currency conversions

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

Changes in accounting policies

There have been no changes in accounting policies.

Early adoption standards and interpretations

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

Standards not yet adopted

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

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

d. Financial instruments

Financial assets

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

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

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

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

Financial liabilities

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

Derivatives

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

Fair value hedge

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

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

e. Other assets

Property, plant and equipment (PPE)

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

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

Intangible Assets

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

f) Other liabilities

Employee entitlements

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

g) Revenue and expenses

Revenue

Interest income

Interest income is accrued using the effective interest rate method.

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

Expenses

Expenses are recognised in the period to which they relate.

Interest expense

Interest expense is accrued using the effective interest rate method.

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

Income tax

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

Goods and services tax

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

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

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

Commitments and contingencies are disclosed exclusive of GST.

h. Lease payments

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

i. Segment reporting

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

j. Judgements and estimations

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

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

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

LGFA Half Year Report December 2017

File No.: 18/141

1. Purpose

The purpose of this report is to introduce the Local Government Funding Agency (LGFA) half year report and the Shareholders Council 2nd quarter monitoring report.

2. Recommendation

2.1 That Report 14/270 LGFA Half Year Report December 2017 be received.

2.2 That this matter or decision be recognised as not significant in terms of s76 of the Local Government Act 2002.

3. Background/Previous Council Decisions

As Council is a shareholder in the LGFA it receives quarterly reports on performance of the LGFA against the SOI (Statement of Corporate Intent) for the 2017/18 year.

4. Issues for Consideration:

Focusing of report gives a synopsis of the performance of LGFA. The main points are;

1. Two tender rounds were conducted during the quarter.
2. LGFA has maintained its AA+ credit rating, the same as the government.
3. The report shows report in note 5 shows which and how much each council has borrowed from LGFA while note 13 discloses the share capital. Note that this shows $100k called and $100 uncalled shares owned by HDC.
4. LGFA is in a strong financial position with performance in line with the 2017/18 statement of Intent.
5. LGFA does return a small dividend to shareholders but is set up primarily to lower costs of borrowing for the sector not to return a dividend.

Attachments

No.	Title	Page
A	LGFA December half year report 2017	91

<u>Confirmation of statutory compliance</u>

In accordance with section 76 of the Local Government Act 2002, this report is approved as:

a. containing sufficient information about the options and their benefits and costs, bearing in mind the significance of the decisions; and,

b. is based on adequate knowledge about, and adequate consideration of, the views and preferences of affected and interested parties bearing in mind the significance of the decision.

Signatories

Author(s)	Doug Law **Chief Financial Officer**	

Approved by	David Clapperton **Chief Executive**	DM Clapperton.

LGFA

NEW ZEALAND
LOCAL GOVERNMENT
FUNDING AGENCY

HALF YEAR REPORT

31 DECEMBER 2017

Contents

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

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

CHAIR'S REPORT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

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

Craig Stobo, Chair LGFA Board

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

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

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

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

2. **Borrowing activity**

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

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

3. **Lending to the sector**

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

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

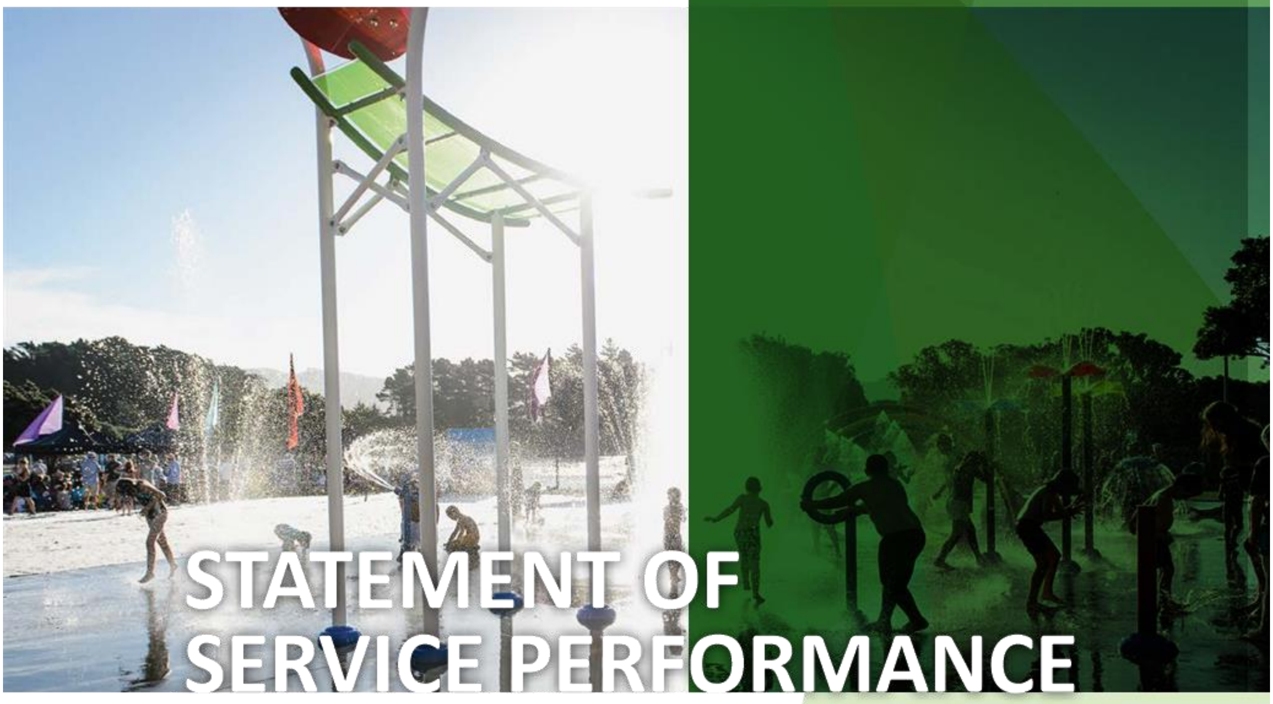
Chair's report

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

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

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

Craig Stobo
Chair, LGFA Board



STATEMENT OF SERVICE PERFORMANCE

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

Statement of service performance

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

1 2017-18 PERFORMANCE OBJECTIVES

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

Primary objectives

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

Additional objectives

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

Statement of service performance

1 PERFORMANCE AGAINST PRIMARY OBJECTIVES

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

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

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

LGFA aims to minimise its issuance margin over swap rates to provide cost-effective funding to councils. The LGFA margin to swap will depend upon many factors including the relative demand and supply of high grade bonds, general credit market conditions, performance of New Zealand Government bonds and swap rates, investor perceptions of LGFA and the issuance volume and tenor of LGFA bonds. Given that LGFA tends to match fund its on-lending to councils, i.e. tends to issue bonds in similar tenors and volumes as its on-lending, then LGFA only has influence over investor perception amongst the above factors that determine LGFA spreads to swap. There will be periods within the interest rate and credit market cycles when LGFA bonds will outperform its benchmarks (spread narrowing) and there will be periods of time when LGFA bonds underperform (spread widening).

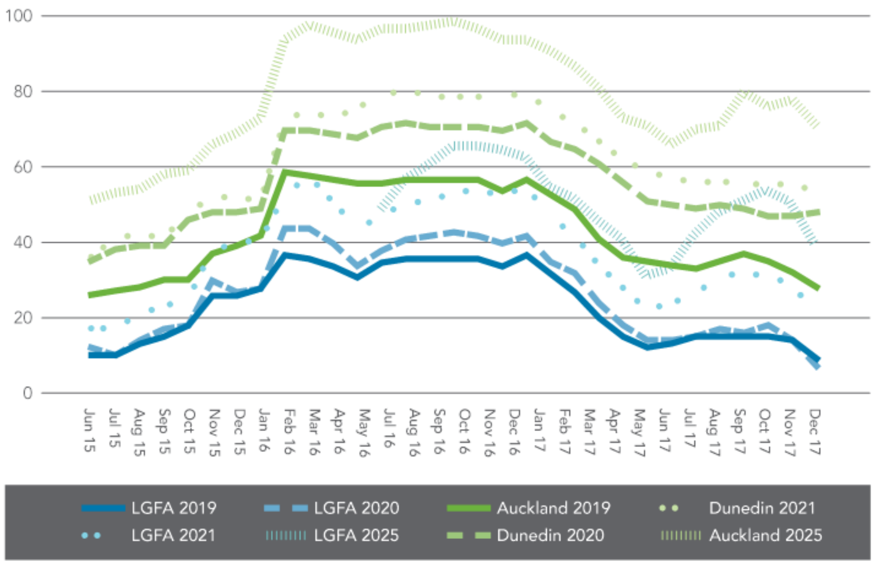
Our estimated annual savings to councils based upon the secondary market levels at 31 December 2017 of LGFA bonds compared to NZD domestic bonds issued by Auckland and Dunedin councils is between 10 basis points (bps) and 22 bps depending upon the term of borrowing. While borrowing spreads for all borrowers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

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

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

Statement of service performance

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

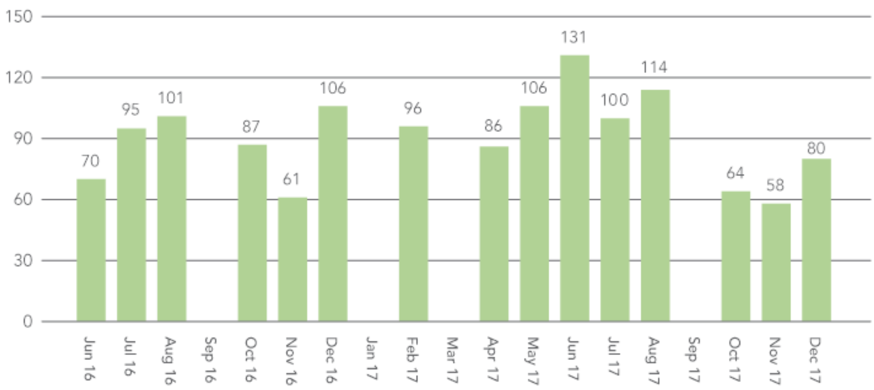


ii. **Making longer-term borrowings available to Participating Local Authorities**

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

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

Last 15 tenders to 31 December 2017



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

Statement of service performance

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

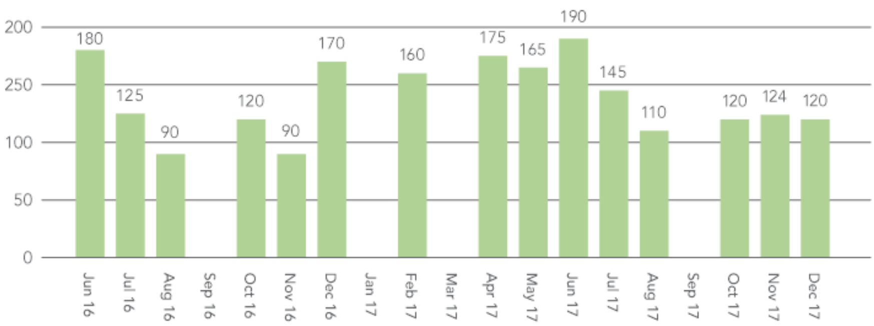
LGFA began issuing 3-month and 6-month LGFA Bills and commenced short-dated (less than one year) lending to councils in late 2015. LGFA has short-term loans to 25 councils of $332 million outstanding as at 31 December 2017.

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

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

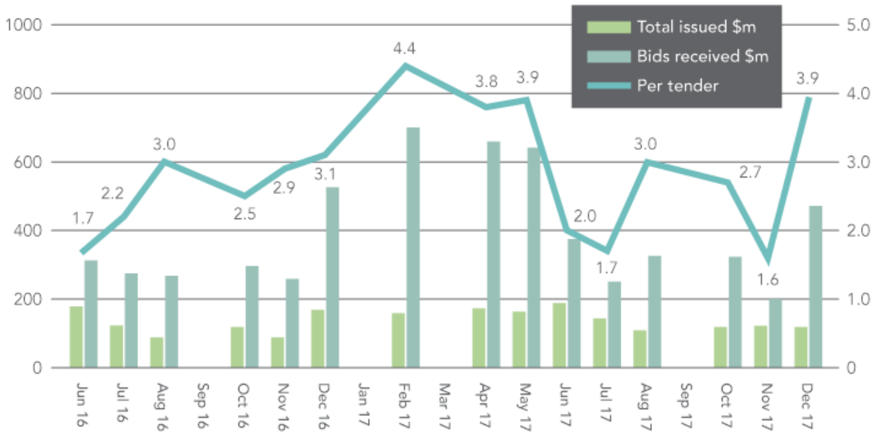
LGFA bond issuance by tender ($ million)

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



Tender bid/offer summary

Last 15 tenders to 31 December 2017



Statement of service performance

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2 PERFORMANCE AGAINST ADDITIONAL OBJECTIVES

In addition to the two primary performance objectives, LGFA has eight performance objectives which complement the primary objectives. This section sets out LGFA's performance for the six-months ended 31 December 2017 against the additional objectives set out in the 2017-18 Statement of Intent.

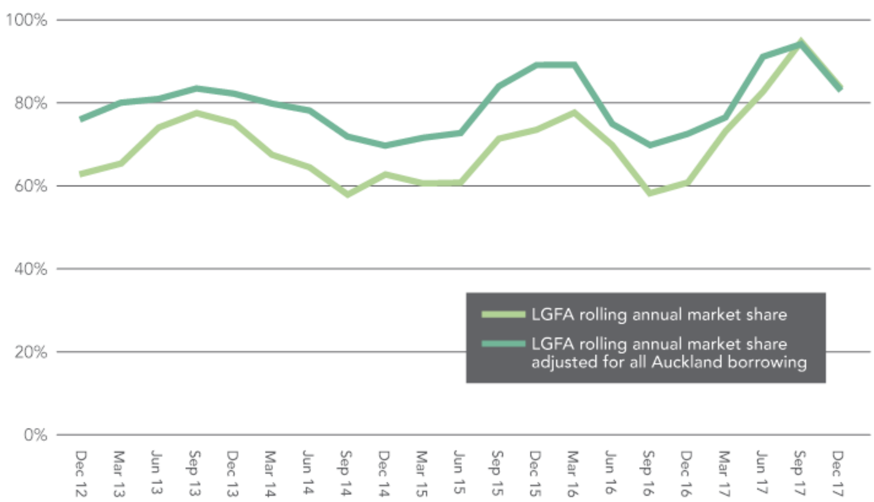
2.1 Operate with a view to making a profit sufficient to pay a dividend in accordance with its stated Dividend Policy set out in section 6 of the SOI

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

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

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

LGFA Market Share – rolling one-year average



Source PwC

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

Statement of service performance

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

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

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

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

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

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

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

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

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

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

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

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

Statement of service performance

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

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

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

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

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

FINANCIAL STATEMENTS

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

Contents

Directors' declaration

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

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

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

For and on behalf of the Board of Directors

C. Stobo, Director
28 February 2018

L. Robertson, Director
28 February 2018

Statement of comprehensive income

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

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

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

Statement of changes in equity

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

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

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

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

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

Statement of financial position

As at 31 December 2017 in $000s

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

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

Statement of cash flows

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

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

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

Notes to the financial statements (unaudited)

1 Statement of accounting policies

A. REPORTING ENTITY

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

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

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

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

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

B. STATEMENT OF COMPLIANCE

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

C. BASIS OF PREPARATION

Accounting judgments, estimates and assumptions

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

Measurement base

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

The financial statements are prepared on an accrual basis.

Functional and presentation currency

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

Foreign currency conversions

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

Changes in accounting policies

There have been no changes in accounting policies.

Early adoption standards and interpretations

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

Standards not yet adopted

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

Notes to the financial statements (unaudited)

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

D. FINANCIAL INSTRUMENTS

Financial assets

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

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

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

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

Financial liabilities

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

Derivatives

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

Fair value hedge

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

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

E. OTHER ASSETS

Property, plant and equipment (PPE)

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

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

Intangible Assets

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

F. OTHER LIABILITIES

Employee entitlements

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

Notes to the financial statements (unaudited)

G. REVENUE AND EXPENSES

Revenue

Interest income

Interest income is accrued using the effective interest rate method.

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

Expenses

Expenses are recognised in the period to which they relate.

Interest expense

Interest expense is accrued using the effective interest rate method.

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

Income tax

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

Goods and services tax

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

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

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

Commitments and contingencies are disclosed exclusive of GST.

H. LEASE PAYMENTS

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

I. SEGMENT REPORTING

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

J. JUDGEMENTS AND ESTIMATIONS

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

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

Notes to the financial statements (unaudited)

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

2 Hedge accounting

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

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

in $000s	Gain/(loss) Unaudited six months ended 31 December 2017	Gain/(loss) Unaudited six months ended 31 December 2016
Hedging instruments – interest rate swaps	202,007	134,733
Hedged items attributable to the hedged risk – fixed rate bonds	(202,007)	(134,733)
Ineffectiveness recognised in profit or loss from fair value hedges	-	-

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

3 Issuance and on-lending expenses

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

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

Notes to the financial statements (unaudited)

4 Operating expenses

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

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

Notes to the financial statements (unaudited)

5 Loans to local government

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

Notes to the financial statements (unaudited)

6 Bills on issue

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

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

Notes to the financial statements (unaudited)

7 Bonds on issue

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

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

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

8 Borrower notes

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

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

Notes to the financial statements (unaudited)

9 Treasury stock and bond repurchase transactions

Periodically, LGFA subscribes for LGFA bonds as part of its tender process and holds these bonds as treasury stock. LGFA bonds held by LGFA as treasury stock are derecognised at the time of issue and no liability is recognised in the statement of financial position. As at 31 December 2017, treasury stock had been issued in the following maturities (in $000s):

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

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

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

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

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

Notes to the financial statements (unaudited)

10 Other assets

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

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

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

12 LGFA December 2017 bond maturity

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

13 Share capital

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

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

Notes to the financial statements (unaudited)

in $000s	31 December 2017		30 June 2017	
New Zealand Government	5,000,000	11.1%	5,000,000	11.1%
Auckland Council	3,731,960	8.3%	3,731,960	8.3%
Christchurch City Council	3,731,960	8.3%	3,731,960	8.3%
Hamilton City Council	3,731,960	8.3%	3,731,960	8.3%
Bay of Plenty Regional Council	3,731,958	8.3%	3,731,958	8.3%
Greater Wellington Regional Council	3,731,958	8.3%	3,731,958	8.3%
Tasman District Council	3,731,958	8.3%	3,731,958	8.3%
Tauranga City Council	3,731,958	8.3%	3,731,958	8.3%
Wellington City Council	3,731,958	8.3%	3,731,958	8.3%
Western Bay of Plenty District Council	3,731,958	8.3%	3,731,958	8.3%
Whangarei District Council	1,492,784	3.3%	1,492,784	3.3%
Hastings District Council	746,392	1.7%	746,392	1.7%
Marlborough District Council	400,000	0.9%	400,000	0.9%
Selwyn District Council	373,196	0.8%	373,196	0.8%
Gisborne District Council	200,000	0.4%	200,000	0.4%
Hauraki District Council	200,000	0.4%	200,000	0.4%
Horowhenua District Council	200,000	0.4%	200,000	0.4%
Hutt City Council	200,000	0.4%	200,000	0.4%
Kapiti Coast District Council	200,000	0.4%	200,000	0.4%
Manawatu District Council	200,000	0.4%	200,000	0.4%
Masterton District Council	200,000	0.4%	200,000	0.4%
New Plymouth District Council	200,000	0.4%	200,000	0.4%
Otorohanga District Council	200,000	0.4%	200,000	0.4%
Palmerston North District Council	200,000	0.4%	200,000	0.4%
South Taranaki District Council	200,000	0.4%	200,000	0.4%
Taupo District Council	200,000	0.4%	200,000	0.4%
Thames-Coromandel District Council	200,000	0.4%	200,000	0.4%
Waimakariri District Council	200,000	0.4%	200,000	0.4%
Waipa District Council	200,000	0.4%	200,000	0.4%
Whakatane District Council	200,000	0.4%	200,000	0.4%
Whanganui District Council	200,000	0.4%	200,000	0.4%
	45,000,000	**100%**	**45,000,000**	**100%**

14 Related parties

Identity of related parties

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

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

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

Related party transactions

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

15 Subsequent events

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

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

Other disclosures

Credit Rating

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

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

Waivers from NZX Limited (NZX)

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

Waiver from Rule 5.2.3

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

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

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

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

Waiver from Rule 6.3.2

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

Net Tangible Assets

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

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

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

Directory

Postal address

PO Box 5704
Lambton Quay
Wellington 6145

Street address

WELLINGTON

Level 8
City Chambers
142 Featherston Street
Wellington 6011

AUCKLAND

Level 12
West Plaza Tower
Corner Albert and Custom Street
Auckland 1010

Office hours

Monday through Friday, 09.00-17.30 hrs

Except Public Holidays

Phone

+64 4 974 6530

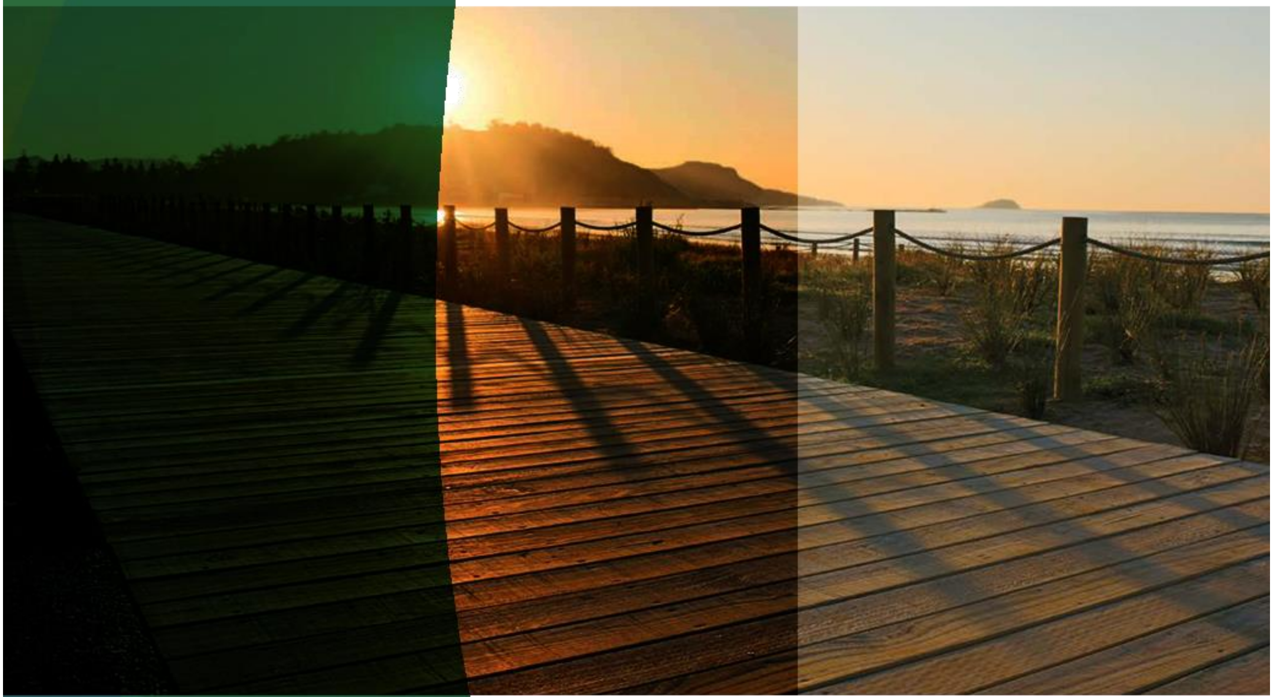
Personnel e-mail addresses

firstname.lastname@lgfa.co.nz

Website

lgfa.co.nz

Follow us twitter.com/nzlgfa



LGFA

NEW ZEALAND
LOCAL GOVERNMENT
FUNDING AGENCY

Monitoring Report - Issues Identified during the 30 June 2017 Audit

File No.: 18/151

1. Purpose

To present to the Finance, Audit & Risk Subcommittee the Monitoring Report covering issues identified during the 30 June 2017 Audit.

2. Recommendation

2.1 That Report 18/151 Monitoring Report - Issues Identified during the 30 June 2017 Audit be received.

2.2 That this matter or decision be recognised as not significant in terms of s76 of the Local Government Act 2002.

Attachments

No.	Title	Page
A	FARS Audit Monitoring Report for the year ended 30 June 2017	129

Confirmation of statutory compliance

In accordance with section 76 of the Local Government Act 2002, this report is approved as:

a. containing sufficient information about the options and their benefits and costs, bearing in mind the significance of the decisions; and,
b. is based on adequate knowledge about, and adequate consideration of, the views and preferences of affected and interested parties bearing in mind the significance of the decision.

Signatories

Author(s)	Mark Lester **Group Manager - Corporate Services**	M.T. Lester

Approved by	Mark Lester **Group Manager - Corporate Services**	M.T. Lester

FINANCE, AUDIT & RISK SUBCOMMITTEE

Monitoring Report – Issues identified during the 30 June 2017 Audit

- Complete [blue light]
- In progress [green light]:
- Off track but mitigation in place [orange light]
- Off track/outstanding [red light]:

Ref	Recommendation	Urgent	Necessary	Beneficial	Status	Officer Comment
2.1.2	Performance management reporting Continue to review the effectiveness of the collection and reporting of data.		✓		In progress (green)	Staff are setting up a team of SSP reporters within Council to refine the LTP SSP's and meet at least quarterly to review the effectiveness of the collection and reporting of these SSP's
2.2.1	Review of Land and Buildings Fixed Asset Register Review the listing of land and buildings to be valued before submitting the information to the valuers to ensure all the assets owned by the District Council are valued and only District Council-owned assets are valued. Identify all those land and buildings classified as Infrastructure Assets and should revalue those assets along with the other Infrastructure assets at 1 July.		✓		In progress (green)	Will move land and building assets out of infrastructure assets.
2.2.2	Revaluation of PPE Ensure there is a clear reconciliation between the revalued assets back to the valuation information; Develop a clear process to document adjustments to the valuation information; and Reassess the useful lives of Infrastructure assets on a		✓		In progress (green)	Will ensure the reconciliation is clearer when the next revaluation is done in 3 years' time. Useful lives are now assessed as part of the infrastructure revaluation process.

	regular basis to ensure the lives are in line with the assets' condition.					
3.2	Quality Assurance and delivery of information to enable an efficient audit process Continue to enhance the approach and quality review processes around the final audit and ensure there is sufficient resourcing and support to meet the agreed annual audit timetable.		✓			Will meet with audit to ascertain what the issue was in regards to quality of information provided and will resolve how to best resolve it.
5.1	Segregation of duties in expenditure process Review and enhance the purchase order controls in the expenditure system to require purchases orders to be approved on a one up basis.		✓			We are investigating implementing a review step in the purchase order process that will satisfy the one up approval request from Audit.
5.2	Conflict of Interest Policy Develop procedures for each type of Conflict of Interest identified in the policy regarding handling of breaches and the mitigations of these.		✓			Will try to complete changes before 30 June 2018.
5.3	Creditor Masterfile Change Review Ensure that there is adequate independent review over the creditors Masterfile changes. This review should be evidenced by way of a signature and date. Review current processes to ensure there is adequate supporting information to verify that new creditors, and changes are bona fide. Implement a regular review process to remove redundant creditors..			✓		Council acknowledges this is an important internal control. Council believes there is an independent review of creditor Masterfile changes. All Masterfile changes for the 2017/18 year have been reviewed, signed and dated. Council has a process for approval of new creditors. Bank account changes require a bank deposit slip or independent confirmation. Finance have in their 2017/18 business plan to review the creditors Masterfile and remove duplicate and redundant creditors.

Status of previous recommendations

Recommendation	Current Status	Priority: Necessary	Priority: Status	Management's Proposed action
Segregation of duties in expenditure process Review and enhance the purchase order controls in the expenditure system to require purchases orders to be approved on a one up basis. Develop a user friendly report that highlights self-approved purchase orders/invoices to allow for a specific review of these transactions prior to payment.	In Progress A report has been developed. Refer to 5.1 for an update on the finding	✓	Green	Refer to 5.1
Creditor master file review Complete an independent review over the creditor master file changes made year to date as soon as possible to provide assurance to management that changes made were bona fide. Reinstate the monthly review of the creditor master file, evidenced by way of a signature and date prior to each creditor payment run.	Outstanding We noted during our interim audit that the review performed is not independent and the date of review is not recorded. Best practice is that an independent review is performed prior to each pay run's completion to prevent rather than detect fraudulent transactions from occurring. Ref to 5.3	✓	Red	Refer to 5.3
Reporting of unplanned and deferred maintenance Report planned unplanned and deferred maintenance on a regular basis to Council to allow monitoring and action as required.	In Progress Although maintenance is reported to the District Council as part of the monthly management accounts, there is no evidence	✓	Green	All planned and unplanned maintenance is done when the need arises. We do not consider there is any deferred maintenance. Unplanned maintenance is budgeted for. All maintenance issues are used to inform the review of

	that unplanned and deferred maintenance are being reported as a specific item on the Council meeting Agenda.			the various relevant Asset management plans.
Keeping the interest register up to date Remind elected members and other key management personnel to update the interest register on a regular basis.	In Progress During our testing we identified several interests held by councillors which were not declared and recorded in the interests register. We confirmed these interests had not transacted with the District Council but we urge the councillors to continue to declare and record an interest they may have and keep the interest register up to date	✓	🟢	The interest register for Councillors and senior staff has been updated.
Risk management Council formally endorse the risk policy and review its current risk management framework/processes for appropriateness.	In Progress We understand that the District Council is currently in the process of updating its overall risk management framework, policy and procedures	✓	🟢	The Risk Framework was updated and the Risk Policy v1.9 was adopted by Council in November 2017. Copies of the policy and framework have been provided to Audit.
Project management improvements Formalise the methodology for managing projects and ensure there is a planned approach to post implementation review in place.	Outstanding	✓	🔴	Management agrees that this is an area where the District Council could look to improve through implementation of an organisation-wide approach to project management principles and methodology. Council is participating in a shared training initiative with Manawatu District Council to provide opportunities for staff to complete project management theory and practical training. 5 Horowhenua District Council staff have successfully completed project management certification through this training initiative. Parallel to this process a number of templates have been established across the spectrum of project management to provide staff with a toolkit to utilise and

				this will continue to evolve over time.
Procurement Strategy and Policy Align the current Procurement Strategy and Policy with best practice, with a view to having an integrated policy that can be used by the entire organisation.	In Progress There is currently a Procurement and Purchasing Manual in progress. We understand that the District Council is aware of the audit recommendations and there is an intention of incorporating these in the upcoming manual.	✓	🟢	The procurement policy version 2.0 was adopted in 2017 and will be due for annual review April 2018. The guidelines, processes and intranet toolkit were all updated as part of this process and have been provided to Audit.
Conflicts of interest policy Review and update the Conflicts of Interest policy to reflect best practice in the sector. We recommend: • Policy to be reviewed and endorsed by EMT; and The policy includes a clearer mechanism on how breaches are handled or on what the consequences are for non-compliance.	In Progress During the interim testing we confirmed that the policy has been updated. Through our review we made further recommendations. Refer to 5.2.	✓	🟢	Refer to 5.2
Legislative compliance Council to look at mechanisms to actively monitor compliance with legislative requirements.	Outstanding The District Council continues to utilise informal process to monitor and report on its compliance with laws and regulations	✓	🔴	This will be reviewed by Council officers to find the best solution. Currently under investigation.
Collectability of rates debtors Implement a robust process to identify and monitor rates which are no longer legally collectable under the Local Government (Rating) Act 2002, and write them off.	In Progress Although a report was prepared to identify uncollectable debt, during the audit we noted that not all uncollected debt was provided for. Management only provided for 85%, which is more than the 75% provided for last year. The 15% balance was included in the schedule of unrecorded	✓	🟢	The provision will be increased to 100% in the 2017/18 year.

	misstatements.			
Contract management Council to endorse an integrated policy for organisation-wide use. PPE additions - missing contract documentations Retain all contract information and ensure it is appropriately filed and archived to enable monitoring of key KPIs and contract conditions. All contracts should be appropriately approved and payments approved in line with delegated authority.	In Progress See Management comments to the right. We did not identify missing contracts this year.	✓ ✓		Agree that this is an area where Council could look to improve through implementation of an organisation wide policy and procedures. This will be factored into HDC's work programme for the 2017/2018 year. In the short term, a contract register has been created and populated or all existing contracts and this is reported on monthly. Management agrees that this is an area where the District Council could look to improve through implementation of an organisation-wide policy and procedures. This will be factored into HDC's work programme for the 2017/18 year. In the short term a contract register has been created and populated for all existing contracts and this is reported on monthly. Copies of the reporting have been provided to Audit.
Maintenance of fixed assets WIP schedule/depreciation Monitor WIP balances on a regular basis to ensure that any WIP that should be capitalised is done so. All significant capital additions are depreciated when the asset becomes available for use. As depreciation is only calculated at year end, council should review larger additions to check if depreciation should be recognised earlier.	In Progress Confirmed during the audit that WIP is only monitored and capitalised at year-end.	✓		Agree this is a good idea but unable to do it so far this year due to LTP commitments. Will endeavour to monitor WIP balances on a quarterly basis.
Maintenance of fixed asset register (FAR) Perform a full review of the FAR to ensure valid data is contained in the module. Review accounting policies to ensure depreciation rates appropriate and detailed enough for assets which are commonly	Outstanding Confirmed during the audit that these processes and controls still only take place at year-end. There are still no continuous	✓		Agree this is a good idea but unable to do it so far this year to LTP commitments. Will endeavour to reconcile on a quarterly basis.

added to the schedule. Implement regular reconciliations between the Asset Management Systems maintained by the asset managers and the Fixed Assets Register maintained by the finance team. The reconciliations should be reviewed by an independent person evidenced with a dated signature.	monitoring and updating of the FAR and no formal reconciliation takes place between the FAR and the GL.			
Policy on deposits and bonds Adopt a policy on deposits and bonds and review deposits and bonds held to determine whether those no longer required should be refunded or recognised as revenue.	Outstanding No policy has been adopted. Through our audit we can see that historical balances are being cleared.	✓	🔴	Council will consider whether a policy is necessary. The issue is primarily to ensure that they are cleared in a timely fashion.
Valuation of property, plant and equipment • Ensure quality assurance review is carried out to future in-house revaluations. • Ensure completeness and accuracy of the data contained within the asset management records. • Query assumptions used by external valuers.	In Progress During the audit we confirmed that management obtained the services of experts to assist with the valuation of the PPE. Several recommendations were made regarding the valuation of PPE. Refer to 2.2	✓	🟢	Refer to 2.2
Performance Measure Rules Continue to review the effectiveness of the collection and reporting of data.	In Progress We noted an improvement over the reporting of the performance measure. We made several recommendations regarding the collection of data and reporting of performance measures. Refer to 2.1	✓	🟢	Refer to 2.1
Mobile/PDA policy The Mobile/PDA policy be reviewed in line with OAG guidelines	In Progress The policy has been updated and will be reviewed by our IS auditors	✓	🟢	Council awaits the feedback from your review.

	during the 2017/18 audit.			
Procurement review Implement the improvements identified from the procurement reviews in 2016 and include any policy improvements in the 2017 procurement policy update.	In Progress The audit acknowledged the sound policy, guidance toolkits and training which had been provided to staff as part of the review. Audit NZ has noted further enhancements which the District Council could make and we understand these will be taken on board. To be followed up during the 2017/18 audit.	✓		The procurement policy version 2.0 was adopted in 2017 and will be due for annual review April 2018. The guidelines, processes and intranet toolkit were all updated as part of this process and have been provided to Audit.
Evidence of NZTA claim review We recommend that the reviewer signs and dates the documentation as evidence of their review. During our review of the NZTA claim system we noted that balances are entered into a claim spreadsheet. The spreadsheet automatically calculates the subsidy that the Council will receive. The Roading Services Manager reviews the completed spreadsheet for completeness and accuracy before he prepares the claim. There is no evidence of this review.	Outstanding This issue remains outstanding	✓		This review is in place and evidenced by the officer doing the review and reconciliation to the ledger.

<u>Explanation of priority rating system</u>

Audit's recommendations for improvement and their priority are based on Audit's assessment of how far short Horowhenua District Council is from a standard that is appropriate for the size, nature, and complexity of the business.

Audit has developed the following priority ratings for recommended improvements.

Urgent	Needs to be addressed urgently

Major improvements required	These recommendations relate to a significant deficiency that exposes the District Council to significant risk. Risks could include a material error in the financial statements and the non-financial information; a breach of significant legislation; or the risk of reputational harm
Necessary Improvements are necessary	Address at the earliest reasonable opportunity, generally within 6 months These recommendations relate to deficiencies that need to be addressed to meet expected standards of good practice. These include any control weakness that could undermine the system of internal control or create operational inefficiency
Beneficial Some improvement required	Address, generally within 6 to 12 months These recommendations relate to deficiencies that result in the District Council falling short of best practice. These include weaknesses that do not result in internal controls being undermined or create a risk to operational effectiveness. However, in Audit's view, it is beneficial for management to address these.