AGENDA

Strategy and Operations Committee Meeting

I hereby give notice that a Meeting of the Strategy and Operations Committee will be held on:

Date:	**Thursday, 5 December 2019**
Time:	**9.30am**
Location:	**Council Chamber Ground Floor, 175 Rimu Road Paraparaumu**

James Jefferson

Group Manager Place and Space

Kapiti Coast District Council

Notice is hereby given that a meeting of the Strategy and Operations Committee will be held in the Council Chamber, Ground Floor, 175 Rimu Road, Paraparaumu, on Thursday 5 December 2019, 9.30am.

Strategy and Operations Committee Members

Cr James Cootes	Chair
Cr Gwynn Compton	Deputy
Mayor K Gurunathan	Member
Cr Janet Holborow	Member
Cr Angela Buswell	Member
Cr Jackie Elliott	Member
Cr Martin Halliday	Member
Cr Sophie Handford	Member
Cr Jocelyn Prvanov	Member
Cr Robert McCann	Member
Cr Bernie Randall	Member

Order Of Business

1 WELCOME

2 COUNCIL BLESSING

"As we deliberate on the issues before us, we trust that we will reflect positively on the communities we serve. Let us all seek to be effective and just, so that with courage, vision and energy, we provide positive leadership in a spirit of harmony and compassion."

I a mātou e whiriwhiri ana i ngā take kei mua i ō mātou aroaro, e pono ana mātou ka kaha tonu ki te whakapau mahara huapai mō ngā hapori e mahi nei mātou. Me kaha hoki mātou katoa kia whaihua, kia tōtika tā mātou mahi, ā, mā te māia, te tiro whakamua me te hihiri ka taea te arahi i roto i te kotahitanga me te aroha.

3 APOLOGIES

4 DECLARATIONS OF INTEREST RELATING TO ITEMS ON THE AGENDA

Notification from Elected Members of:

4.1 – any interests that may create a conflict with their role as an elected member relating to the items of business for this meeting, and

4.2 – any interests in items in which they have a direct or indirect pecuniary interest as provided for in the Local Authorities (Members' Interests) Act 1968

5 PUBLIC SPEAKING TIME FOR ITEMS RELATING TO THE AGENDA

6 MEMBERS' BUSINESS

(a) Public Speaking Time Responses

(b) Leave of Absence

(c) Matters of an Urgent Nature (advice to be provided to the Chair prior to the commencement of the meeting)

7 UPDATES

Nil

8 REPORTS

8.1 THE 2009 BEACH BYLAW REVIEW PROJECT

Author: **Brandy Griffin, Senior Policy Advisor**

Authoriser: **Mark de Haast, Group Manager**

PURPOSE OF REPORT

1 This report provides the Committee with a progress update of the 2009 Beach Bylaw Review Project.

DELEGATION

2 Section B1 of the Governance Structure and Delegations for the 2019-2022 Triennium states that the Strategy and Operations Committee is responsible for the development and review of strategies, plans, policies, and bylaws.

BACKGROUND

3 The Beach Bylaw Review is on the Council-approved Policy Work Programme, and commenced in February 2019.

4 Bylaw reviews are generally carried out in three phases:

4.1 Phase 1 includes:

4.1.1 pre-consultation engagement, data collection, and analysis;

4.1.2 the identification of issues and options; and

4.1.3 the development of proposed revisions to the existing bylaw.

4.2 Phase 2 includes the development of a draft Bylaw and public consultation on any proposed revisions, carried out in accordance with the LGA 2002 requirements for special consultative procedures.

4.3 Phase 3 involves the analysis of written and oral submissions, leading to a final draft of the revised bylaw, which is then presented to Council for final consideration and adoption.

5 This progress update provides information on the data collection and analysis that has been undertaken to date, and the proposed approach and timeframes for the remainder of the review.

DISCUSSION

Phase 1: pre-consultation data collection and analysis

6 The pre-consultation phase seeks to identify issues with the existing Bylaw to be considered in the review.

7 To date, Council Officers have completed the following:

7.1 Analysis of service requests, emails, and other correspondence that Council received in relation to the existing Beach Bylaw from January 2017 to December 2018;

7.2 Analysis of beach patrol data from the summer of 2016/17 to the present;

7.3 Initiated a legal review to better understand several aspects of the Bylaw, particularly in relation to legislative requirements and jurisdiction of other government agencies;

7.4 Completed a review of other coastal Councils to understand how they address similar issues; and

7.5 Carried out some initial discussions with New Zealand Police and Greater Wellington Regional Council (GWRC) to discuss jurisdiction and implementation.

8 Table 1 below lists the key issues that were identified from the review of Council's service requests. Service requests from 1 January 2019 to 31 October 2019 are currently being analysed.

Table 1: Issues raised in service requests, January 2017 to December 2018

Issue	Number of service requests	Percentage of total*
Vehicles on beaches - concerns about pedestrian safety and/or harm to the natural environment 45 (59%) of these were in the area between the Kapiti Boating Club and the Waikanae Boating Club.	76	72%
Beach access areas - improvements requested for beach access ways, parking, signage, and boat ramps	31	30%
Horses on beaches - some callers raising complaints about the presence of horses on the beach, while others wanted to see improvements to facilitate horse riding on the beaches	8	8%
Total number of service requests	105	-

* Note: percentages add to more than 100% because some service requests included more than one issue.

9 During the summer beach patrols, Officers collected information on 281 cars and spoke to 173 drivers (62%). Of the 173 drivers, most were not familiar with the rules for cars on beaches. Common non-compliant activities included: watching the surf, fishing, surfing (further north), parking (without a disability permit or boat launch), dog walking, and freedom camping. For those that identified where they were from, 47% were from Kāpiti, 31% were from the wider Greater Wellington region, 12% were from Horowhenua and Manawatu, and 10% were from elsewhere in New Zealand. Table 2 below lists the locations where the beach patrol data was collected.

Table 2: Beach patrol data (2016 to the present)

Location	Number of cars (n=281)	Percentage of total
Ōtaki	21	8%
Te Horo	18	7%
Waikanae (North of boating club)	16	6%
Raumati	10	3%
Paraparaumu (Boating club to WSR)	216	76%

10 The reviews of emails and other correspondence, as well as discussions across Council and with the New Zealand Police and GWRC, suggest that other issues requiring further consideration in this review will include:

10.1 Promoting safety around the use of kontiki longline fishing systems;

10.2 Protection of sensitive sites;

10.3 Permitting for special events; and

10.4 Implementation and enforcement.

11 Data collection and analysis will continue throughout the review, primarily in response to any new issues that become identified that require further information.

Next steps for early engagement

12 It is important that early engagement occurs with our iwi partners, key stakeholders, and members of the public before a draft Bylaw is developed.

13 Council Officers have worked with the Iwi Relationships Team to seek advice and guidance from each of the three iwi on how they would like to work with us on this project.

14 As for engagement with the community and key stakeholders, a detailed engagement plan has been developed.

15 Table 3 below provides a general overview of the engagement planned.

Table 3: Planned engagement and timeframes

Type of engagement	Target Timeframes
Meetings with iwi partners	
Iwi partners	To be determined.
Meetings with key stakeholders	
Governance partners (e.g., GWRC, MPI, DOC, Police)	November to December 2019, with the understanding that some discussions will carry over into the new year depending on the number of meetings required and/or stakeholder availability
Emergency responders	
Residents' associations	
Community Boards	
Special topic interest and/or advisory groups (KEAG, CWB, OPC, etc)	
Boating clubs	
Commercial operators and other businesses	
Environmental groups	
Recreation groups	
Mass communications + ongoing meetings with key stakeholders	
On-line survey (4 weeks), with widespread advertising and promotion	13 Jan – 9 Feb 2020
Information pop-ups (Paraparaumu Beach Market, Waikanae Surf Club, Paekākāriki and Ōtaki)	18 Jan 2020 (Sat) 25 Jan 2020 (Sat)
Beach walks	19 Jan 2020 (Sun) 26 Jan 2020 (Sun)
Facilitated workshops in Ōtaki, Waikanae, Paraparaumu, and Paekākāriki (4x)	February 2020 (exact dates TBD)

Phases 2 and 3

16 The information collected during Phase 1 will be used to develop a draft 2019 Bylaw and Statement of Proposal that will be released for public consultation in accordance with the LGA 2002 requirements for special consultative procedures.

17 During this formal consultation period (Phase 2), some public drop-ins will be held to ensure the public has had sufficient opportunity to provide feedback and hearings will be held to ensure that submitters are given an opportunity to speak to their submissions. More information on the public drop-in sessions and hearings will be provided when the draft 2019 Bylaw and Statement of Proposal are presented to Council.

18 The information collected from the formal consultation period will then be considered and will input into a final draft 2019 Bylaw, which will be presented to Council for final consideration and adoption (Phase 3).

19 The proposed timeframes for Phases 2 and 3 are outlined in Table 4 below.

Table 4: Tentative timeframes for the Beach Bylaw review for Phases 2 and 3

Action	Target Dates[1]
Briefing to Council, with a focus on the initial results of the early engagement phase and next steps	27 February 2020
Briefing to Council on the development of the Draft Bylaw and Statement of Proposal	26 March 2020
Council approves special consultative procedure on Draft 2020 Bylaw and Statement of Proposal to Council	28 May 2020
Special consultative procedure, including discussions with Community Boards and public drop-in(s)	8 June to 5 July 2020
Hearings	30 July 2020
Report to Council for adoption of Beach Bylaw 2020	23 September 2020

[1] These dates are tentative. The nature of the feedback received during Phase 1 will impact the proposed timeframes.

CONSIDERATIONS

Policy considerations

20 There are no policy considerations in addition to those outlined in this report.

Legal considerations

21 The current Beach Bylaw was adopted on 7 May 2009. In accordance with s159 of the Local Government Act 2002 (LGA 2002), the Bylaw was due to be reviewed by 7 May 2019.

22 Because the review was not completed by 7 May 2019, s160A of the LGA 2002 has come into effect which states the Bylaw will be revoked automatically if the review is not completed by 7 May 2021.

Financial considerations

23 This review will be carried out within existing budgets.

Tāngata whenua considerations

24 It is important that we work with our iwi partners on this review, and we have been in contact with each of the three iwi to learn how they would like to participate in this project.

Strategic considerations

25 *Toitū Kāpiti* includes aspirations for strong, safe communities and a thriving environment. The Beach Bylaw assists in the attainment of these aspirations because it seeks to enhance the safety of the public on the beach, while also protecting the beach natural environment.

SIGNIFICANCE AND ENGAGEMENT

Significance policy

26 In accordance with the LGA 2002, a special consultative procedure will be required for this Bylaw review.

Consultation already undertaken

27 Conversations have started with New Zealand Police, GWRC, DOC, MPI, and emergency responders.

RECOMMENDATIONS

It is recommended that the Strategy & Operations Committee note this progress update on the 2009 Beach Bylaw Review Project.

APPENDICES

Nil

8.2 2018-2021 POLICY WORK PROGRAMME UPDATE

Author: Brandy Griffin, Senior Policy Advisor

Authoriser: Mark de Haast, Group Manager

PURPOSE OF REPORT

1 This report provides the Committee with a progress update on the 2018-2021 Policy Work Programme (PWP), and requires Committee approval of proposed changes to the PWP.

DELEGATION

2 The Committee has delegation to consider this matter under Section B.1 of Governance Structure & Delegations 2019-2022 Triennium, which states that a key responsibility of this Committee will include "Setting and approving the policy and strategy work programme."

BACKGROUND

3 On 31 January 2019, the Strategy and Policy Committee, a Committee of the previous term, approved the Council's PWP from 1 July 2018 to 30 June 2021.

4 At its meeting on 5 September 2019, the Strategy and Policy Committee considered a PWP progress update, approved revised timeframes to five existing policy projects, and approved two new policy projects (i.e. Market Support Policy and Gifting of Vested Assets Policy).

5 This progress update to the PWP reports on projects that:

5.1 have been completed;

5.2 are in process with no known concerns;

5.3 are in process with some delays;

5.4 are currently on hold; and

5.5 are proposed as new additions to the PWP.

DISCUSSION

Completed projects

6 Since 1 July 2018, 13 projects on the PWP have been completed (see Table 1 below, and those that are marked as blue in Appendix 1 to this report).

Table 1: Completed projects

Project		Completion date
1.	Annual Report 2017/18	27 September 2018
2.	Alcohol in Public Places Bylaw	6 December 2018
3.	Trade Waste Bylaw Review	24 January 2019
4.	CEMARS	31 January 2019
5.	Dog Bylaw and Policy Review	14 March 2019
6.	Class 4 Gambling and TAB Venue Gambling Policy Reviews	11 April 2019
7.	Annual Plan 2019-20	23 May 2019
8.	Speed Limit Review	13 June 2019
9.	Film Friendly Policy & Screen Wellington MoU	5 September 2019
10.	Annual Report 2018/19	26 September 2019
11.	Housing & Business Development Capacity Assessment (HBA)	8 November 2019
12.	On-going NPS UDC quarterly reports	Five quarters ending 31 August 2018, 30 November 2018, 28 February 2019, 31 May 2019, and 31 August 2019
13.	On-going quarterly activity reports	Six quarters ending 30 June 2018, 30 September 2018, 31 December 2018, 31 March 2019, 30 June 2019, and 30 September 2019

Projects currently in process with no known concerns

7 There are currently 26 policy projects in process, with no known concerns (see those marked as green and yellow in Appendix 1 to this report).

Projects currently in process with some delays

8 There are four policy projects in process that are experiencing some delays (see Table 2 below, and those marked as amber in Appendix 1 to this report).

Table 2: Projects in process, with some delays

Project	Current status	Impact on completion date
Development Management Strategy Review	Commencement of this review was delayed because it was dependent on the completion of the HBA. The HBA report for the Wellington Region has now been publicly released, and a project plan is currently being developed for the Development Management Strategy Review.	No change
Welfare Plan	The Kāpiti Plan has been drafted, but will not be finalised until the Wellington Regional Welfare Plan has been completed.	The expected completion date for the Wellington Regional Welfare Plan is March 2020.
Environmental Monitoring Strategy	The Research & Policy team is reviewing the existing Strategy in order to recommend next steps on this project.	No change

Regional Waste Management and Minimisation Plan (RWMMP) Local Outcomes Plan	The Plan has been drafted, but will not be completed until the Mayoral Waste Minimisation Taskforce completes its report to Council recommending the prioritisation of the waste minimisation actions under the RWMMP.	The Taskforce will present a report to Council on 12 December 2019.

Projects on hold

9 There are three policy projects that are currently on hold (see Table 3 below, and those marked as pink in Appendix 1 to this report).

9.1 Two policy projects are on hold while discussions occur with iwi; and

9.2 One policy project is on hold awaiting the outcome of the Housing Programme Assessment.

Table 3: Projects that are on hold

Project	Status	Reason for hold
Biosolids Strategy	A considerable amount of work has been undertaken over the last two years through the Lower North Island Collective Biosolids Strategy Study, which received significant MfE funding.	The management of waste in our District (and, in particular, the impact on land and water) is of significant interest to tāngata whenua, and will be progressed when capacity within iwi allows.
Joint Iwi Management Plan	This is a project that Te Whakaminenga o Kāpiti (TWOK) requested. There has been no active conversation with iwi on this plan in 2019. Te Ātiawa Ki Whakarongotai published their Kaitiakitanga Plan in June 2019.	The Iwi Partnerships Team will discuss this item with TWOK to determine whether there is still an appetite to develop this Plan.
Older Persons' Housing Policy Review	Internally, responsibility for this work is to be determined as well as its relationship to the wider housing programme.	This project is on hold, awaiting the outcome of the Housing Programme Assessment.

New policy projects proposed for approval

10 Since the last PWP progress update, two additional policy projects have been identified (see those marked as yellow in Appendix 1 to this report):

10.1 the Regional Land Transport Plan; and

10.2 the Library Strategy.

Regional Land Transport Plan

11 Regional land transport plans (RLTPs) are six year plans that document the regions' land transport objectives, policies, and measures as well as providing a statement of transport priorities for the region. The plans incorporate programmes of regional land transport activities, including those activities proposed for inclusion in the National Land Transport Programme. They are reviewed after three years.

12 The review of the Wellington RLTP is in progress, and it was recently determined that the RLTP should be moved from the 'list of submissions in process for regional government' to the PWP in order to reflect the workload associated with its development.

13 The RLTP commenced in January 2019, with an expected completion date of June 2021.

The Library Strategy

14 The Library Strategy is also in progress, having commenced in October 2019 with an expected completion date of August 2020.

15 The Library Strategy will identify possible future library services across the District, reflecting the increased 'social investment' approach that accompanies the reintroduction of the four well-beings into the Local Government Act.

CONSIDERATIONS

Policy considerations

16 There are no policy considerations in addition to those already outlined in this report.

Legal considerations

17 Legal Counsel has reviewed and confirmed the timeframes for the review of all policies and bylaws.

18 Section 159 of the Local Government Act 2002 (LGA02) requires bylaws to be reviewed within ten years. The Beach Bylaw 2009 was adopted on 7 May 2009 and was due for review by 7 May 2019; however, section 160A of the LGA02 provides that a bylaw is revoked if it has not been reviewed within two years of the date on which the bylaw should have been reviewed. Thus, the Beach Bylaw remains valid and legally binding until 7 May 2021. Council is focussed on ensuring this bylaw is fully reviewed and a new bylaw is adopted within this timeframe.

Financial considerations

19 There are no financial considerations arising from this report.

Tāngata whenua considerations

20 This report will be presented to Te Whakaminenga o Kāpiti at their next meeting in February 2020.

21 As the implementation of the PWP is carried out, planning is undertaken to ensure that individual policy projects are created in partnership with tāngata whenua.

SIGNIFICANCE AND ENGAGEMENT

Significance policy

22 While some individual policy projects will have a medium to high level of significance, this progress report on the overall PWP has a low level of significance under Council's Significance and Engagement Policy.

Other Considerations

23 The Beach Bylaw Review is currently in process with no known concerns, but the discussions with governance partners (i.e. Greater Wellington and New Zealand Police) about jurisdiction are ongoing, so the completion date for this project has been amended from June 2020 to September 2020 to ensure sufficient time for these discussions.

24 The Traffic Bylaw Review is currently in process with no known concerns, but the Sustainable Transport Strategy Review is a priority, so the completion date for this project has been amended from June 2020 to September 2020 to ensure sufficient time.

25 The PDP Variation 2 – Waikanae Beach is in process, but it has taken the Court some time to issue a decision on the application for immediate legal effect. This will delay the completion of the variation. Whereas the current PWP indicated that this variation would be completed by February 2020, the completion date for this project has been amended to July 2020 to account for the time taken by the Court to issue a decision.

26 The Open Space Strategy Review is currently in process with no known concerns. Consultation was tentatively scheduled for March 2020, but will now be April 2020 to allow sufficient time to develop the draft strategy. The completion date will be June 2020, and the PWP has been updated to reflect this.

27 The Land Audit is currently in process with no known concerns. The expected completion date for this project was March 2020 but, since this is a sizeable piece of work, June 2020 is considered to be more likely, and this will have flow on effects for the Property Strategy and Encroachment Policy. The PWP has been updated to reflect this.

28 When the PWP was approved in January 2019, it was thought that the CEMARS review (Certified Emissions Measurement and Reduction Scheme) occurred once every 3 years. It is now understood that there is a 3-yearly plan, accompanied by a yearly audit so the PWP has been updated to reflect this detail.

29 The Waste Levy Allocation Policy is not required until the grant application period opens in June 2020. The timeframe for the Waste Levy Allocation Policy Review has been updated so the review will commence once the update from central government on available funding has been received (estimated in February 2020) and be completed by June 2020.

RECOMMENDATIONS

30 It is recommended that the Strategy & Operations Committee note the projects on the PWP that:

30.1 have been completed;

30.2 are in process with no known concerns;

30.3 are in process with some delays; and

30.4 are currently on hold.

31 It is recommended that the Strategy & Operations Committee approve the following proposed amendments to the 2018-2021 Policy Work Programme:

31.1 Review of the Regional Land Transport Strategy be added, with the understanding that the project commenced in January 2019 and has an expected completion date of June 2021; and

31.2 Review of the Library Strategy be added, with the understanding that the project commenced in October 2019 and has an expected completion date of August 2020.

32 It is recommended that the Strategy & Operations Committee note the following updates to the 2018-2021 Policy Work Programme:

32.1 The Beach Bylaw Review expected completion date is September 2020;

32.2 The Traffic Bylaw Review expected completion date is September 2020;

32.3 The PDP Variation 2 – Waikanae Beach expected completion date is July 2020;

32.4 The Open Space Strategy Review expected completion date is June 2020;

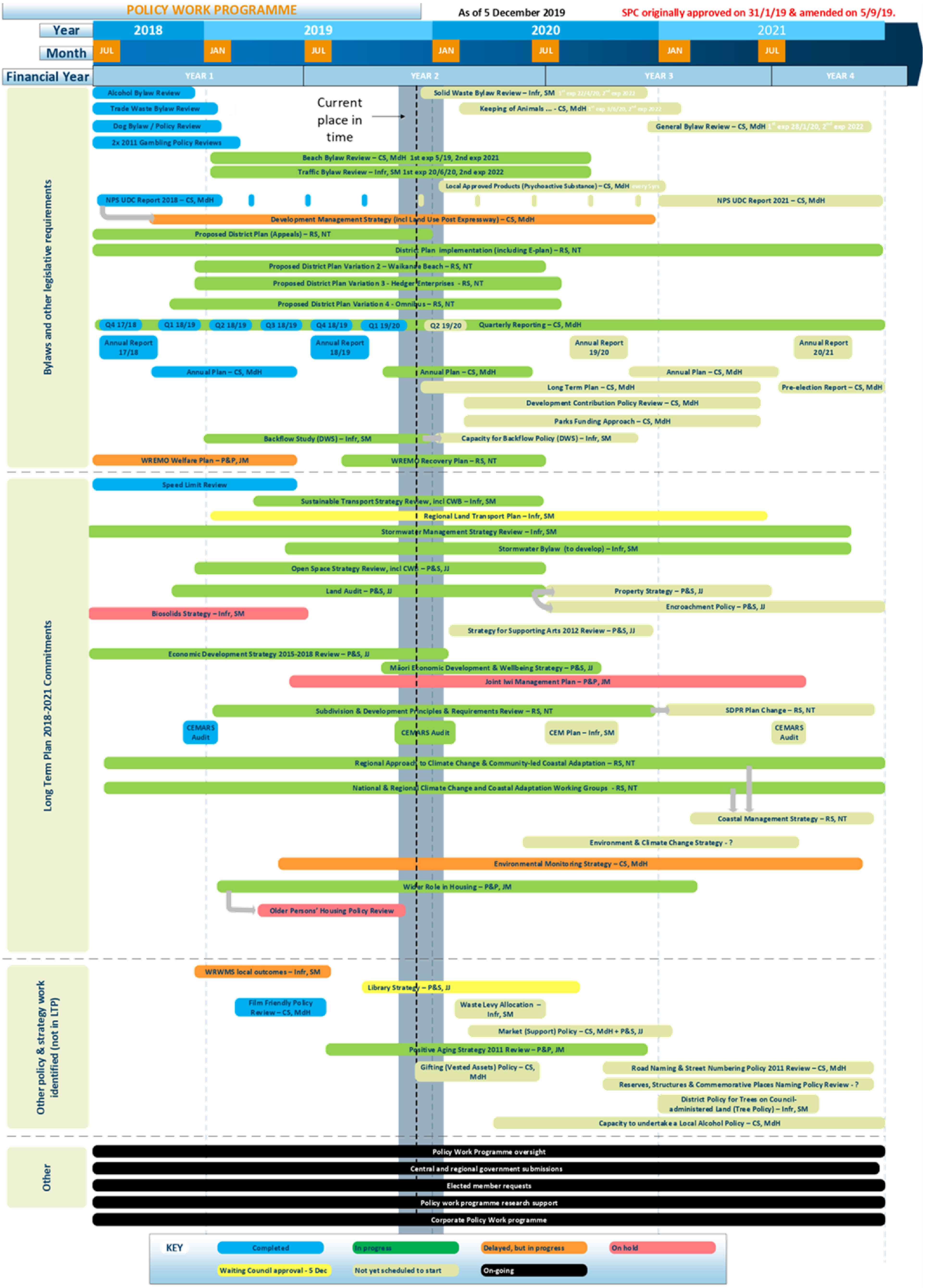
32.5 The Land Audit expected completion date is June 2020;

32.6 CEMARS (Certified Emissions Measurement and Reduction Scheme) is comprised of a 3-yearly plan, accompanied by a yearly audit; and

32.7 The Waste Levy Allocation Policy is expected to commence in February 2020 and be completed by June 2020.

APPENDICES

1. Council Cross Policy Work Program ⇩


POLICY WORK PROGRAMME
As of 5 December 2019
SPC originally approved on 31/1/19 & amended on 5/9/19.
Year 2018 2019 2020 2021
Month JUL JAN JUL JAN JUL JAN JUL
Financial Year YEAR 1 YEAR 2 YEAR 3 YEAR 4
Current place in time
Bylaws and other legislative requirements
Alcohol Bylaw Review
Trade Waste Bylaw Review
Dog Bylaw / Policy Review
2x 2011 Gambling Policy Reviews
Solid Waste Bylaw Review – Infr, SM
Keeping of Animals ... - CS, MdH
General Bylaw Review – CS, MdH
Beach Bylaw Review – CS, MdH 1st exp 5/19, 2nd exp 2021
Traffic Bylaw Review – Infr, SM 1st exp 20/6/20, 2nd exp 2022
Local Approved Products (Psychoactive Substance) – CS, MdH
NPS UDC Report 2018 – CS, MdH
NPS UDC Report 2021 – CS, MdH
Development Management Strategy (incl Land Use Post Expressway) – CS, MdH
Proposed District Plan (Appeals) – RS, NT
District Plan implementation (including E-plan) – RS, NT
Proposed District Plan Variation 2 – Waikanae Beach – RS, NT
Proposed District Plan Variation 3 - Hedger Enterprises - RS, NT
Proposed District Plan Variation 4 - Omnibus – RS, NT
Q4 17/18
Q1 18/19
Q2 18/19
Q3 18/19
Q4 18/19
Q1 19/20
Q2 19/20
Quarterly Reporting – CS, MdH
Annual Report 17/18
Annual Report 18/19
Annual Report 19/20
Annual Report 20/21
Annual Plan – CS, MdH
Annual Plan – CS, MdH
Annual Plan – CS, MdH
Long Term Plan – CS, MdH
Pre-election Report – CS, MdH
Development Contribution Policy Review – CS, MdH
Parks Funding Approach – CS, MdH
Backflow Study (DWS) – Infr, SM
Capacity for Backflow Policy (DWS) – Infr, SM
WREMO Welfare Plan – P&P, JM
WREMO Recovery Plan – RS, NT
Long Term Plan 2018-2021 Commitments
Speed Limit Review
Sustainable Transport Strategy Review, incl CWB – Infr, SM
Regional Land Transport Plan – Infr, SM
Stormwater Management Strategy Review – Infr, SM
Stormwater Bylaw (to develop) – Infr, SM
Open Space Strategy Review, incl CWB – P&S, JJ
Land Audit – P&S, JJ
Property Strategy – P&S, JJ
Encroachment Policy – P&S, JJ
Biosolids Strategy – Infr, SM
Strategy for Supporting Arts 2012 Review – P&S, JJ
Economic Development Strategy 2015-2018 Review – P&S, JJ
Māori Economic Development & Wellbeing Strategy – P&S, JJ
Joint Iwi Management Plan – P&P, JM
Subdivision & Development Principles & Requirements Review – RS, NT
SDPR Plan Change – RS, NT
CEMARS Audit
CEMARS Audit
CEM Plan – Infr, SM
CEMARS Audit
Regional Approach to Climate Change & Community-led Coastal Adaptation – RS, NT
National & Regional Climate Change and Coastal Adaptation Working Groups - RS, NT
Coastal Management Strategy – RS, NT
Environment & Climate Change Strategy - ?
Environmental Monitoring Strategy – CS, MdH
Wider Role in Housing – P&P, JM
Older Persons' Housing Policy Review
Other policy & strategy work identified (not in LTP)
WRWMS local outcomes – Infr, SM
Library Strategy – P&S, JJ
Film Friendly Policy Review – CS, MdH
Waste Levy Allocation – Infr, SM
Market (Support) Policy – CS, MdH + P&S, JJ
Positive Aging Strategy 2011 Review – P&P, JM
Gifting (Vested Assets) Policy – CS, MdH
Road Naming & Street Numbering Policy 2011 Review – CS, MdH
Reserves, Structures & Commemorative Places Naming Policy Review - ?
District Policy for Trees on Council-administered Land (Tree Policy) – Infr, SM
Capacity to undertake a Local Alcohol Policy – CS, MdH
Other
Policy Work Programme oversight
Central and regional government submissions
Elected member requests
Policy work programme research support
Corporate Policy Work programme
KEY
Completed
In progress
Delayed, but in progress
On hold
Waiting Council approval - 5 Dec
Not yet scheduled to start
On-going

8.3 NPS-UDC QUARTERLY MONITORING REPORT WITH ANNUAL UPDATE

Author: Hamish McGillivray, Senior Policy Advisor

Authoriser: Mark de Haast, Group Manager

PURPOSE OF REPORT

1 To provide the Committee with a National Policy Statement on Urban Development Capacity (NPS-UDC) quarterly monitoring report from 1 June to 31 August 2019, including an annual update from 1 July 2018 to 30 June 2019.

2 The full monitoring report is attached as Appendix 1 to this report.

DELEGATION

3 The Strategy and Operations Committee has the authority to consider this matter under section B.1 of the Governance structure and delegations 2019-2022.

BACKGROUND

4 The (NPS – UDC was introduced in 2016 and requires Council to assess housing and business demand and capacity across the district. It also requires Council to undertake quarterly monitoring and reporting of a range of market indicators published by the Ministry of Housing and Urban Development (HUD).

5 The first quarterly report was completed in September 2017 with subsequent reports repeated each quarter (December, March and June). The first report in September 2017 provided context and commentary of the current and future make-up of the district and some of the challenges and pressures that presents, particularly the affordability of housing.

6 Subsequently, an annual update has been provided each September to provide more in depth analysis across the last year, with the other 'interim' quarterly reports, focussing more on changes to key indicators between quarters.

7 Previous monitoring reports are available on our 'Urban development capacity' webpage at https://www.kapiticoast.govt.nz/our-district/the-kapiti-coast/urban-development-capacity/.

8 The following monitoring report provides an update and analysis of changes across the housing and development market for the last quarter, from 1 June 2019 – 31 August 2019, as well as analysis and comparison across the last year. The report draws from data presented in the Ministry of Housing and Urban Development Urban Development Dashboard, Statistics New Zealand and building and resource consent data.

POINTS OF INTEREST

9 Key points of interest from this report include:

- Average sales prices continue to rise – now at a high of $595,000 for Kāpiti, increasing $54,000 from June 2018 to June 2019.
- Latest affordability data sees a slight improvement for Kāpiti, but levels of affordability to buy and rent remain higher (worse) than regional and national levels.
- Applications for the social housing register continue to increase – up by 28 applicants from June 2018 to June 2019.
- A recent assessment by the Council has determined that Kāpiti currently requires housing needs for an additional 205 persons over and above the district's current housing registrations.

- NPS-UDC monitoring has been used to inform the recently published Wellington Housing and Business Development Capacity Assessment (HBA). This has identified that the district has sufficient development capacity available to meet its short and medium term housing needs, but falls short of meeting long-term needs over the next 30 years. Sufficient development capacity does however exist to meet business needs across next 30 years.

CONSIDERATIONS

Policy considerations

10 The HBA is required to be completed every three years, with the next one due by the end of December 2021.

11 Both the NPS-UDC monitoring and the HBA will be used to inform the review of the Development Management Strategy. The Development Management Strategy establishes the development and settlement patterns for the Kāpiti Coast district and informs the approach to development management under the Proposed District Plan. The Strategy was last updated in 2007. Work is currently underway to scope the process to review the Development Management Strategy, which is currently expected to be undertaken across the next 12-18 months

12 Some early Census 2018 data has recently started to be released, but full datasets are not expected to be available until mid-2020. Key statistics will be included in monitoring reports as they become available, with next year's annual update able to provide updated data and context across the full set of Census 2018 data.

Legal considerations

13 Appendix 1 to this report meets the NPS-UDC 2016 requirements to monitor and publish monitoring results.

Financial considerations

14 There are no financial considerations arising from this report.

Tāngata whenua considerations

15 We have not engaged directly with iwi on this report. Te Whakaminenga o Kāpiti will be provided an update on the findings at their next meeting in February 2020.

Strategic considerations

16 *Toitū Kāpiti* reflects aspirations for a vibrant and thriving Kāpiti, with strong and safe communities that are connected to our natural environment. Monitoring under the NPS-UDC supports Council to adapt and respond to evidence about urban development, market activity and the social, economic, cultural and environmental wellbeing of people and communities and future generations, in a timely way.

SIGNIFICANCE AND ENGAGEMENT

Significance policy

17 This matter has a low level of significance under Council's Significance and Engagement Policy.

Publicity

18 This monitoring report will be published on the Council's 'Urban Development' webpage alongside previous reports and the recently completed HBA. An email will also be distributed to a list of stakeholders who have expressed an interest in the reports and to receive future updates.

RECOMMENDATIONS

19 Note the contents of the NPS-UDC quarterly monitoring report for the period 1 June to 31 August 2019, including the annual update from 1 July 2018 to 30 June 2019, as attached as Appendix 1 to this report.

APPENDICES

1. NPS-UDC Quarterly monitoring report including annual update September 2019 ⇩

National policy statement on urban development capacity

Kāpiti Coast District Council Quarterly Monitoring Report – including annual update

September 2019

Kāpiti Coast
DISTRICT COUNCIL
Me Huri Whakamuri, Ka Titiro Whakamua

Contents

EXECUTIVE SUMMARY

The following monitoring report provides an update and analysis of changes across the housing and development market from 1 June 2019 – 31 August 2019 as well as analysis and comparison across the last year (1 July 2018 to 30 June 2019). The report draws from data presented in the Ministry of Housing and Urban Development Urban Development Dashboard, Statistics New Zealand and building and resource consent data.

Key point of interest from this report include:

- Average sales prices continue to rise – now at a high of $595,000 for Kāpiti, increasing $54,000 from June 2018 to June 2019.
- Latest affordability data sees a slight improvement for Kāpiti, but levels of affordability to buy and rent remain higher (worse) than regional and national levels.
- Applications for the social housing register continue to increase – up by 28 applicants from June 2018 to June 2019.
- A recent assessment by the Council has determined that Kāpiti currently requires housing needs for an additional 205 persons over and above the district's current housing registrations.
- The recent Housing and Business Assessment (HBA) identified that the District has sufficient development capacity available to meet its short and medium term housing needs, but falls short of meeting long-term needs over the next 30 years. Sufficient development capacity does however exist to meet business needs across next 30 years.

A snapshot of indicator activity for the 1 June 2019 – 31 August 2019 period is summarised below. Apart from consent information, market indicators were last updated in September 2019, with most datasets updating data to the end of June 2019, unless stated otherwise.

Indicator	Movement from last quarter	Context
Building consent applications issued	Increase (by 10)	148 consents issued with a total value of $33,865,584
Resource consent applications issued	Decrease (by 8)	72 consents issued - 60 residential - 12 non-residential - Indicating a potential net increase of 85 to dwelling stock
Dwelling stock (number of dwellings)	Increasing	Baseline increased from 22,017 to 22,022 from 31/03/2019 to 30/06/2019.
House sales	Decreasing	Last quarter's sales figures have been revised up to 311 (from 268) with sales dropping to 281 at the end of 30/06/2019.
Dwellings sale volume as percentage of stock	Decreasing	After a recent high of 1.814% over the period to 31/12/2018 the ratio of sales to volume has fallen to 1.28% as at 30/06/2019.
House values	Increasing	The median value of house sales continues to rise, with the previous quarter revised up to $580,000 (from $563,500) and climbing again to $595,000 as at 30/06/2019.
HAM Buy: share of first home buyer households with below-average income after housing costs	Decreasing (improving)	Latest data sees affordability to buy improve as it declines from the recent peak of 0.76 in June 2018 back to 0.73 as at 31/12/2018.
Nominal mean rent	Increasing	After a slight drop from $426 to $424 per week from 31/12/2018 to 31/03/2019, mean rent has again continued to increase, up to $435 per week as at 30/06/2019.
HAM Rent: share of renting households with below-average income after housing costs	Decreasing (Improving)	Latest data sees affordability of renting improve, falling from 0.64 at the end of 2017 to 0.62 at 31/12/2018.
Land value as percentage of capital value	*No update provided in latest dashboard*	*Maintaining 47% (as of 30/09/2017)*
Average land value of a dwelling	*No update provided in latest dashboard*	*$264,067 (as of 30/09/2017) increasing since 2014*

National Policy Statement on Urban Development Capacity

Kāpiti Coast District Council – Annual Monitoring Report September 2019

INTRODUCTION

Kāpiti Coast District Council published its first quarterly monitoring report implementing the National Policy Statement on Urban Development Capacity (NPS UDC) in September 2017.

The first report provided important context surrounding growth in the district. This included historic and future population growth, the make-up of communities, development activity and pressures affecting the district, such as housing affordability.

This context is important to help establish and understand the current and changing demands for housing and business land across the district, both now and into the future. This is particularly important as we see impacts of recent changes to the economy and housing markets impacting Kāpiti, as local house prices increase, without corresponding changes in incomes. This presents a particular challenge and pressure for the district.

This report provides an update on the activity across the period from 1 June 2019 to 31 August 2019, as well as coverage of key changes across the last year, being from 1 July 2018 to 30 June 2019

Regular monitoring supports Council to better understand and develop an assessment of development capacity in the district. It also establishes a fit-for-purpose evidence base for Council's decision-making on infrastructure investment and the future release of land to meet development needs.

Previous monitoring reports are available at: www.kapiticoast.govt.nz/Our-District/The-Kapiti-Coast/urban-development-capacity.

CONTEXT FOR GROWTH AND DEVELOPMENT ON THE KAPITI COAST

Growth, housing, and business headlines for Kāpiti

Most population and housing statistics below are based on data and projections drawing from the 2013 Census, which remains the most up-to-date data source for many areas of analysis. Some early Census 2018 data has been recently released and is included below. More detailed data is expected to be released over the next six months. Once available, analysis and population forecasts will be updated and included in the next annual report.

Growth

- *Statistics New Zealand figures from the 2018 Census (as of October 2019) indicate Kāpiti's usually resident population increased from 49,104 to 53,673 from 2013 to 2018 (an increase of 4,569). The annual average rate of growth across this period is 1.8% which is higher than the annual average rate of 0.9% forecast in the current population forecasts[1]. The most recent Estimated Resident Population from Statistics NZ estimates that the population is 56,000 as of 30 June 2019.*
- Kāpiti is expecting growth – an additional 12,985 people by 2043.
- Growth will occur across all age groups, with families set to increase alongside a significant growth in the population of persons over 50 years of age.

[1] Population Forecasts will be updated to reflect final 2018 Census data by mid-2020.

- Migration has a strong impact on Kāpiti – from within the Wellington region, and also from international migrants who settle in Kāpiti.
- Proximity to Wellington for work and access to lifestyle are key factors in people's locational choices to Kāpiti.
- Key transport projects are set to increase accessibility for Kāpiti.

Housing

- *The latest Census figures (as of October 2019) see the total number of occupied and unoccupied dwellings increase from 23,550 to 24,798 from 2013 to 2018. The total number of occupied dwellings has increased from 20,619 to 21,906 during this period and the number of unoccupied dwellings has fallen from 2,931 to 2,892 during this period. The average annual rate of growth across this period is 1.0%, with the total number of occupied dwellings increasing by 1.2% per annum and the total number of unoccupied dwellings decreasing by 0.3% per annum.*
- Forecast growth anticipates an additional 5,484 dwellings across the district.
- Additional housing is expected to be spread across the district's town centers with a particular focus in and around Paraparaumu and in Waikanae, where more than 2,000 additional dwellings are expected.
- Households for couples without dependents and lone person households are expected to increase, making up 66.6% of Kāpiti households by 2043.
- Current dwelling stock is predominately three-bedroom dwellings (69.3%) with numbers of two (23%) and one-bedroom dwellings (4%) much lower than elsewhere in the Wellington region.
- Kāpiti has higher levels of separate housing and lower levels of medium and high density housing than both the Wellington Region and national averages.
- Housing sale prices are increasing and at an all-time high. The average sale price has increased from $175,000 in June 2007 to the current average of $595,000 and increased $54,000 across the last 12 months from June 2018 to June 2019.
- In contrast, at the last census in 2013, 23.1% of households are low income in Kāpiti with the annual median personal income of $26,900 and annual mean household income of $53,300, both below the national medians of $28,500 and $63,800 respectively.
- The home ownership rate is high at nearly 70%, with just over 20% of households renting, 1.8% of which are renting social housing.
- Approximately 30% of households in Ōtaki, Ōtaki Beach, and Paekākāriki are renting.
- Non-private housing (in particular retirement homes) is expected to further increase in the future.
- Kāpiti has a higher proportion of unoccupied private dwellings than the Wellington region, concentrated in Waikanae Beach, Peka Peka, Te Horo, and Ōtaki Beach areas.

Public Housing

- The Social Housing Register for Kāpiti has 93 eligible applicants as of June 2019. While this has dropped by 17 since March 2019, the overall number of applicants has increased by 28 across the last 12-month period (June 2018 toJune 2019). 52% of current applicants have been matched to a one-bedroom home, 30% of applicants have been matched to a two-bedroom home and the remaining 18% of applicants have been matched to three to four-bedroom homes.
- Kāinga Ora Homes and Communities (now incorporating Housing New Zealand) currently own 209 properties for public housing in the Kāpiti district. Over the next three years, Kāinga Ora plans to deliver an additional 13 dwellings and is consistent with the Central Government's Public Housing Plan that has identified 40 dwellings to be delivered in the district. The delivery for the balance of the 27 dwellings in the

district is yet to be determined by either Kāinga Ora or Community Housing Providers.

- Council has identified through the engagement with the district's housing sector that the hidden demand for public housing in Kāpiti is estimated at 205 persons. Included with the 93 eligible applicants on the Social Housing Register for the June quarter, the total demand for public housing in the district is currently approximately 300 persons.

Business

The following information provides an update on the local business market[2]. We expect to be able to provide further context following the full release of Census 2018 data.

- Over the year to March 2018, there were 17,380 filled jobs on the Kāpiti Coast, an increase of 539 jobs from 2017. These additional jobs equate to a 3.2% per annum lift in employment, which was just above the national average growth of 3.0%per annum over the period
- In 2018, construction was the largest industry in the area, with 2,788 filled jobs (16%). Health care and social assistance was second, with 2,302 (13.2%), followed by retail trade (2,195) (12.6%), professional, scientific and technical services (1,649) (9.5%) and education and training (1,522) (8.8%) industries.
- Over the last ten years, employment in Kāpiti Coast has increased by around 1,900 filled jobs. The largest contributor to this growth was the health care and social assistance industry, where around 810 (42%) of these additional jobs were created. The second largest contributor to employment growth over the last decade was the professional, scientific and technical services industry, which added around 460 jobs.
- The Kāpiti Coast has a high proportion of workers who are self-employed. In 2018, Infometrics estimates that just over 28% of the local workforce were self-employed. This high self-employment rate compares to nearly 17% of the national workforce being self-employed. This work highlighted that the construction industry and professional, scientific and technical services industry had high rates of self-employment.
- Kāpiti Coast's labour market remains strong, with both the unemployment and 'Not in Education, Employment or Training' (NEET) rate falling over the last year. With the number of filled jobs increasing, and unemployment heading lower, more people are in the workforce and earning. However, lower unemployment is also increasing pressure on businesses to recruit workers.
- While the NEET rate has fallen, it still stands at around 15%, above the national average of 12% for the March 2019 year.
- Commuters working outside the district have a higher average household income than those living and working in the district. Kāpiti also has a higher proportion of superannuation and investment income compared to many other places in New Zealand.
- Information on the Gross Domestic Product (GDP) by industry is also important when understanding industry in Kapiti. The top GDP industries in Kapiti include manufacturing 9.9% ($163M), Professional, Scientific and Technical Services 9.7% (160M), Health Care and Social Assistance 9.6% (159M), Rental, Hiring and Real Estate Services 9.4% ($155M) Construction 9.20% ($152M).
- Over the year to March 2018, an additional 69 businesses were recorded on the Kāpiti Coast, compared to 2017. This equates to growth of 1.3%pa, which was above the national average of 0.7%pa.

[2] Drawing from Infometrics data

Growth pressures – current and future

- Demand for housing is pushing up house prices and rent, which is likely to further affect the affordability for many current residents, particularly those on fixed or lower incomes.
- The proportion of retired residents will increase, potentially creating further pressures on people's ability to pay and Council's ability to provide future levels of services.
- Recent demand for public housing has been increasing – increasing affordability issues could impact this even further.
- There is a gap between the current provision of three-bedroom dwellings and the future need for more one and two-bedroom dwellings – with an absence of affordable housing and medium and high-density housing.
- Completion of Transmission Gully and the Peka-Peka to Ōtaki Expressway is expected to further lift residential and business demand in the District.
- Older population growth for Kāpiti presents both opportunities and challenges for the local economy. Additional employment will be needed to support expected growth in services to the older age group. The current gap in younger workers could mean that it is difficult to maintain the area's local current workforce levels in light of the current population demographic.
- The professional, scientific and technical services industry has a particular concentration in Kapiti making it a potentially attractive destination for Wellington region based organisations' looking to spread risk and build resilience into their business operations.

Update on the housing and business development capacity assessment

Over the past two years, Kāpiti Coast District Council has been working with Wellington City Council, Upper Hutt City Council, Hutt City Council and Porirua City Council to complete an assessment of housing and business capacity across Wellington's medium growth area.

Prepared under the National Policy Statement on Urban Development Capacity, the assessment identifies the future demand for residential and business land anticipated in Kāpiti and compares this against the current capacity for development under the Proposed District Plan. The assessment has been completed and the regional report was recently published on the Council's website.

The assessment identifies whether there is sufficient land and development capacity available to meet future housing and business needs. This includes buffers of an additional 20% demand for short and medium term (3 and 10-year period) and 15% over the long-term (30-year period). As well as identifying the amount of development capacity available, the assessment also identifies the extent to which land is feasible to develop and serviced, or planned to be serviced, by infrastructure.

Key findings from the assessment include:

- Kāpiti has sufficient residential development capacity at the district level to meet forecast demand for housing over the short term (3 years from 2017 to 2020) and medium term (7 years from 2020 to 2027), but insufficient capacity to meet demand across the full long-term period (20 years from 2027 to 2047).

- The district has sufficient development capacity across its business land (including development of vacant land and infill and redevelopment of existing sites) to meet projected demand for business floorspace from 2017 to 2047.

- Overall, the assessment of Council's infrastructure networks found that current and future planned upgrades and extensions will provide sufficient capacity to meet anticipated growth across the district. This includes the ability to increase capacity of networks in existing urban areas or extend networks to service new areas of future greenfield development.

- The assessment identified that preferences for standalone housing and greenfield development was a factor affecting the development of relatively riskier medium density developments in the district. The need for further work was identified to understand the extent to which this and other factors are affecting opportunities for intensification and medium density development around the district centres in Paraparaumu and other town centre areas.

Next Steps

The preparation of the housing and business development capacity assessment (HBA) has provided a baseline of information that will assist the council with its on-going discussions with the development community. Ongoing monitoring will also continue to grow council's understanding of local development markets and the factors that shape when and how development occurs across Kāpiti.

In response to the HBA, the council intends to undertake further work to understand the impacts of feasibility across Kāpiti. This work will also help support the review of the Development Management Strategy, which establishes the principles behind development and growth across the District.

The HBA and review of the Development Management Strategy will also support work to explore Council's role in influencing housing issues in the district and work to develop a long term Regional Growth Framework for the Region.

GROWTH TRENDS

Building consent numbers are up from the last quarter while resource consent numbers have dropped slightly. Annual activity is similar to the previous year, and while below levels of activity in 2016/17, is continuing an upward trend across the last five years.

Building consents[3]

Data on building consents helps identify development activity across the district. Between 1 June 2019 and 31 August 2019, 148 consents related to new buildings and alterations to buildings were issued. This is up from last quarter's 138, with small change in the number of new builds dropping from 53 to 51 and alterations increasing from 65 to 76. The total value of work has also subsequently increased from $30,921,065 to $33,865,584.

Overall, activity for the 1 June – 31 August quarter has increased from 2017/18, but is still below levels reported in the 2016/17 annual report, as shown in the following table:

Reporting Year	Number of building Consents	Value of work	Average new build consent value	Average alteration or addition value
2018/19	148	$33,865,584	$456,798	$101,603

[3] Note: Applications for garages, fireplaces, fences, retaining walls, outbuildings, conservatories, swimming and spa pools, and other construction (e.g. signs and pergolas) are excluded from this analysis of building consents.

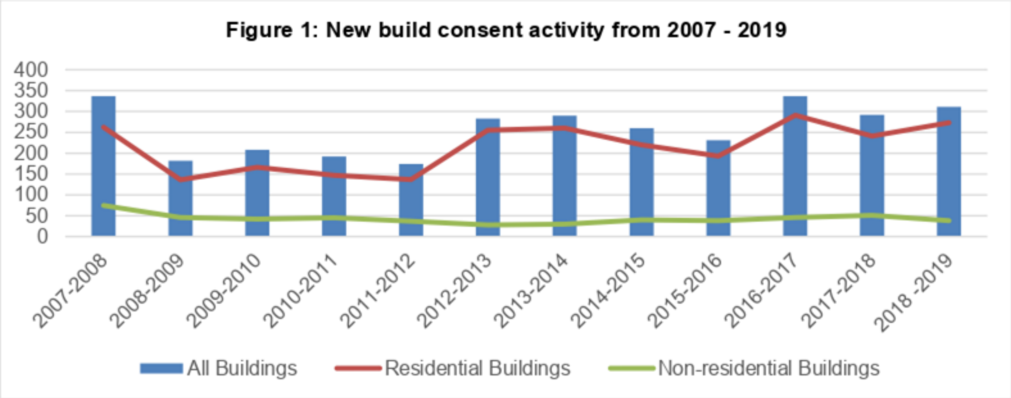
2017/18	131	$24,671,786	$386,285	$68,948
2016/17	193	$48,644,150	$369,329	$73,810

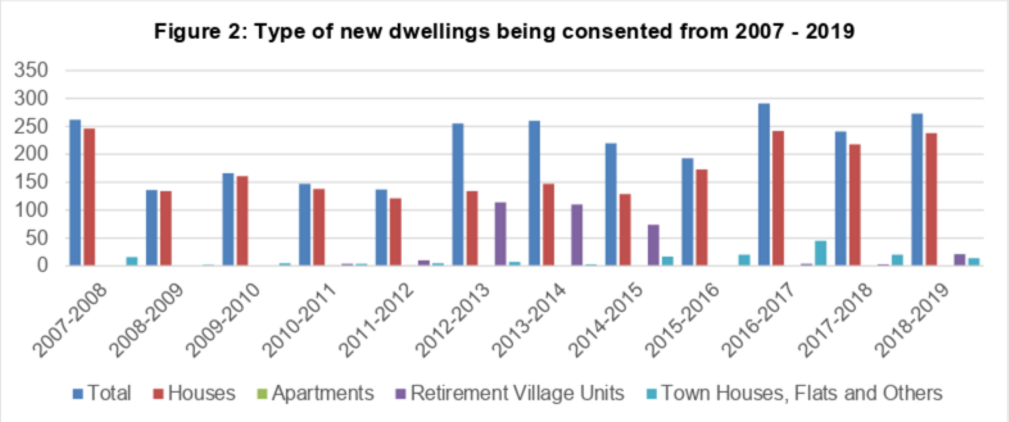
Looking at averages also identifies an increase in the average value of both new build and alterations work.

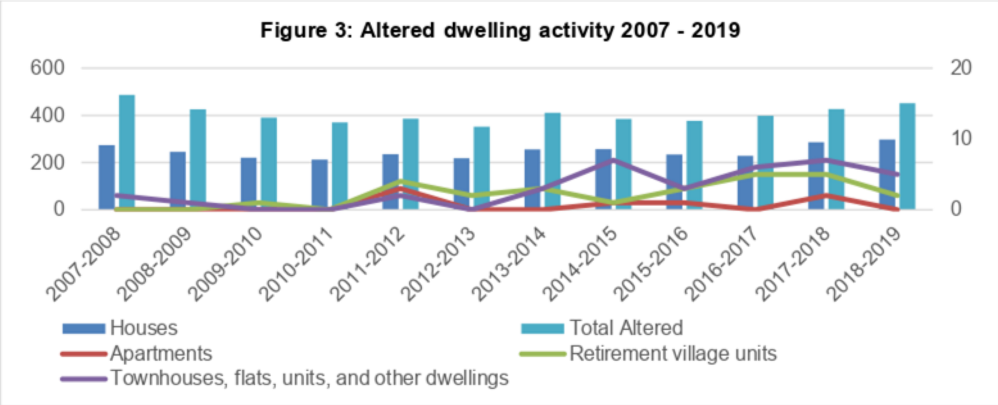
Further detail on the number and type of consents issued for the 1 June 2019 and 31 August 2019 period can be found in appendix 1 to this report.

Figure 1 below compares Statistics New Zealand data for new buildings consented by Kāpiti Coast District Council over the last year (July 2018 – June 2019) compared to activity across the previous 11 years from 2007. While overall numbers from 2018/19 are down from a peak in 2016/17, they maintain a steady increase of activity for the last five years and further back to the Global Financial Crisis of 2008. Figure 2 highlights that new build dwellings remain dominated by separate houses, with a small numbers of townhouses starting to emerge over the last five years.

Figure 3 also shows a recent increase in consents for residential alterations. This increase may be attributable to people's decision to upgrade their existing house due to increased value. Ongoing monitoring of long-term data will help better understand any associations between levels of alterations and market conditions.







Resource consents[4]

Between 1 June 2019 and 31 August 2018, Council issued 72 resource consents. This included 44 land use consents, 17 subdivision consents, and 11 resource consents for deemed permitted activities that involved a boundary activity[5]. Overall, 60 of the consents issued related to residential activities with analysis of applications identifying a potential to yield 85 net additional dwellings. 21 of these relate to the extension of an age care facility. 22 of the applications (with a potential yield of 29 dwellings) are located in the wider Waikanae area, with others spread across the district.

During this period, 12 non-residential resource consents were issued. This included commercial retail space, earthworks related to the expressway work at Ōtaki, forestry activity, signage and construction of a telecommunications facility.

Consent information also revealed three applications of cross leases being subdivided to convert to fee simple titles, three houses being replaced, and two new minor flats. Similar to the increase in building consent alterations, these activities provide an indication of the market and the extent to which the increase in value supports opportunities for improving or further investment into a property.

Figure 4 shows that overall numbers of resource consents issued for 2018/19 are fractionally below that for 2017/18, but is showing a sustained increase from the 2008 – 2012 period following the global financial crisis. Monthly numbers from the recent year are relatively consistent with those for the previous year.

[4] Quarterly resource consent activity excludes applications that varies or changes consent conditions or outline plans, which are included in wider Resource Management Act monitoring.
[5] Resource Management Act 1991, Sections 87BA, 87BB.

Figure 4: Land use and subdivision consents issued 2007-2019

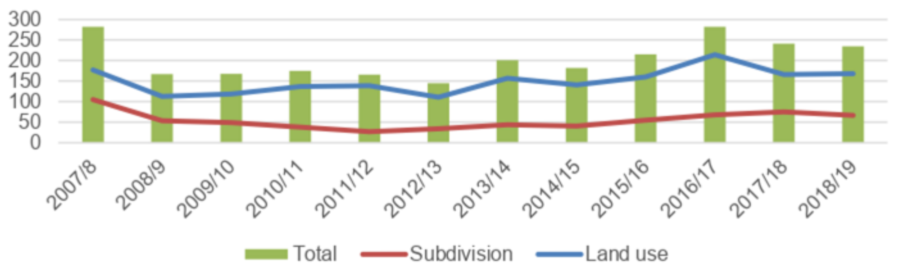


Figure 5: Potential net housing additions

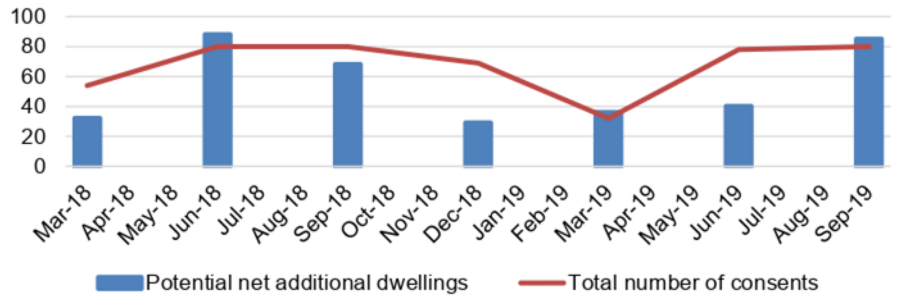


Figure 5 provides an indication of potential net additional dwellings. As not all residential development requires a resource consent, monitoring this measure helps provide one measure of development capacity coming through the system. Building consents data then provides more certainty around the actual construction of new dwellings. Following the completion of the HBA, future work will focus on developing the links across resource consent and building consent data to provide an understanding of the development capacity within the system at any point in time.

A table of residential and non-residential resource consents for the last quarter and comparisons to the same period last year can be found in Appendix 1 to this report..

MARKET INDICATORS

The following section provides an update of market indicator information published on the Urban Development Dashboard[6]. Market indicators were last updated in September 2019 with most information updated to the end of June 2019.

The previous trend has continued this quarter where house sales have continued to reduce while the average value of houses sold in Kāpiti has continued to increase to $595,000.

[6] The Dashboard is being transferred from the Ministry of Business, Innovation, and Employment to the new Ministry of Housing and Urban Development and is co-hosted with the Ministry for the Environment at https://mbienz.shinyapps.io/urban-development-capacity/#help-ts

New housing and sales

Number of dwellings sold and sale prices

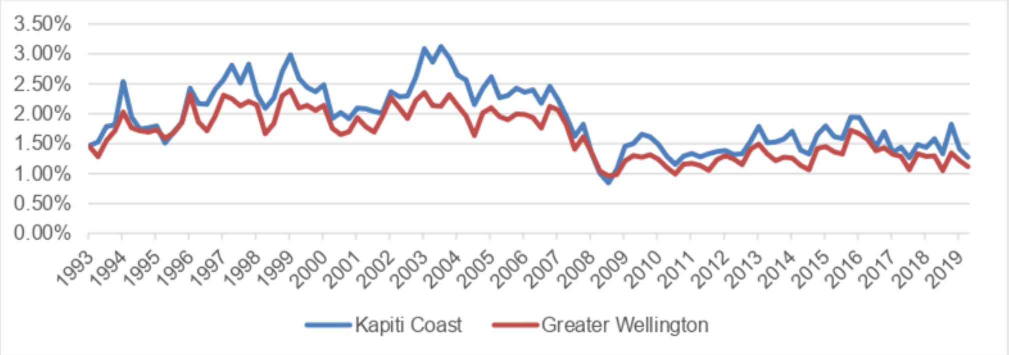
The average dwelling sales price indicator reports the prices of residential dwellings sold each quarter (in nominal terms, not adjusted for inflation, size or quality of dwellings). The average dwelling sales price (actual) in Kāpiti has increased from $115,856 in 1993 to $595,000 in 2019, despite being relatively flat from 2007 to 2015.

The number of dwellings sold per annum has dropped from a high of over 500 dwellings in 2003, falling sharply during 2007 and 2008 following the Global Financial Crisis (GFC). Activity has steadily increased since 2009 through to 2016, whereby another period of decline has occurred to date.

Both trends in house prices and sales show a level of correlation between activities. Comparing the trends shows that house sales started to increase again post GFC and were looking to reach towards previous high levels. However, from 2016 we can see a sharp increase in house value and a sharp fall-off of house sales. Some of this drop in sales activity is a likely result of prices increases making housing unattainable for many, particularly first time home buyers in the area, removing that activity from the market.

These trends for Kāpiti reflect similarly across the Wellington region, albeit at a lesser scale of sales numbers and house values.

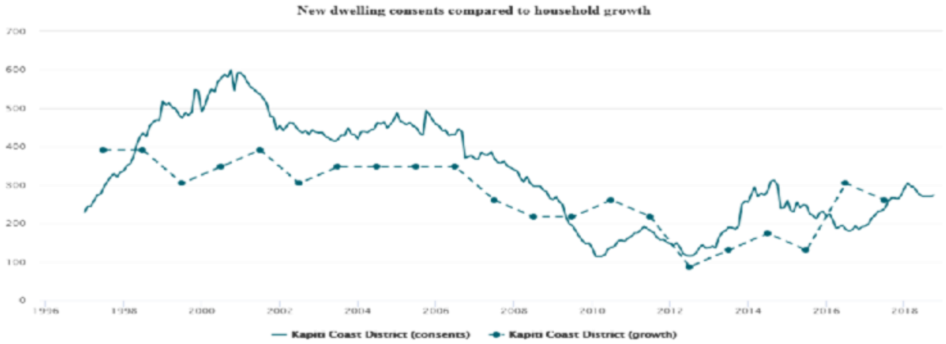
Residential sales volumes as percentage of total residential stock



This indicator measures the quantity of all dwellings being bought and sold relative to the total stock. It is a measure of activity in the local housing market.

Similar to the previous indicators, 1996 – 2006 saw high levels of proportional sales to stock activity which has since dropped by around 1%. This shows that many more sales of stock were occurring that has since dropped off. This corresponds with the GFC and then subsequent increases in house prices.

New dwelling consents compared to household growth



This indicator approximates the demand for, and supply of, new dwellings. It measures changes in demand and how responsive supply is.

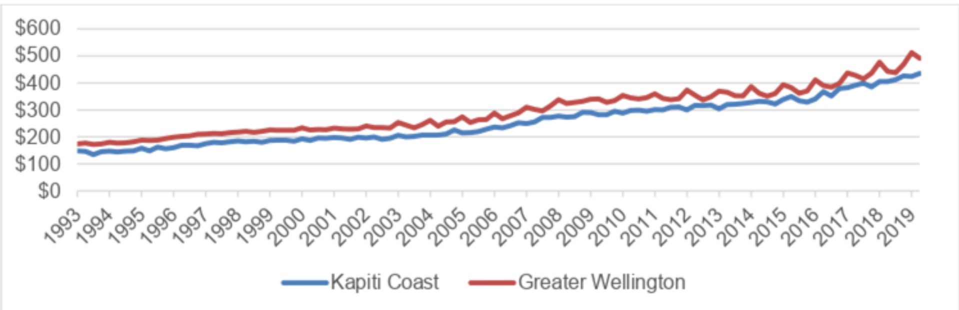
The number of new dwelling building consents is lagged by six months (presented as a 12 month rolling average), to account for the time taken from consenting to completion. It is not adjusted for non-completions, or for demolitions. It is used as a proxy for supply.

The most recent resident population, divided by the local average housing size, is used as a proxy for demand. Both sets of data are sourced from Statistics New Zealand.

The data indicates that between 1998 and 2008 there was a sustained period and trend of consent numbers remaining higher than population growth levels. However, this changes post GFC, where consent activity drops off but continues to respond following peaks in population growth from 2012. This suggests that more recent activity shows a level of responsiveness between consent and population growth in Kāpiti. Given limited historic data, we cannot determine whether the high levels of consenting activity from 1996 to 2008 were similarly responding to lower levels of activity and high growth.

Rentals

Mean rent data



This indicator reflects nominal mean rents as reported in new rental bonds lodged with MBIE. The mean used is a geometric mean. The reason for using this mean is that rents cluster around round numbers, and tend to plateau for months at a time (spiking up by say \$10 or \$20 at a time). This makes analysis of time series difficult, and using the geometric mean is a way of removing this clustering effect.

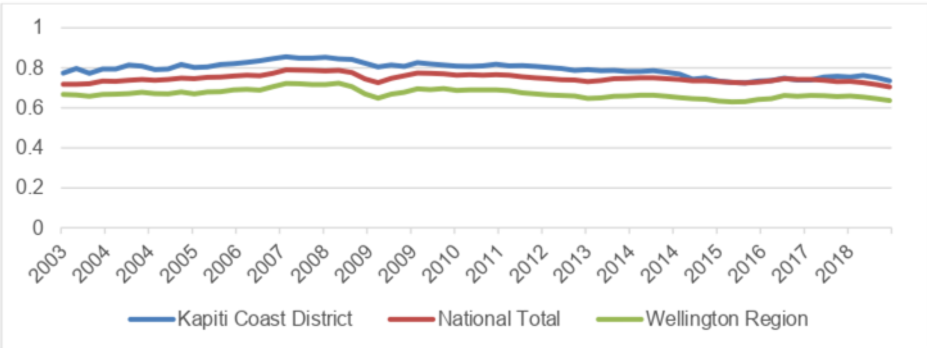
Prices are presented in nominal terms; they have not been adjusted for general price inflation. The data is for private bonds only and so excludes social housing.

Mean rent changes from \$148 in 1993 to \$435 as at the end of June 2019. Rental rates continue to increase to historic highs. This increase in weekly rental rates reflects similar trends experienced by the wider Wellington Region, but at a lower level. This identifies similar pressure on the demand and availability of rentals across the district and Region.

Over the last 12-month period mean rent has increased from \$391 in June 2018 to \$435 at the end of June 2019. This is a \$44 increase, with the average annual increase of \$15.30 across the last 10 years.

The ratio of dwelling sales prices to rental prices is also at an all-time high peaking at 26.3 as at the end of June 2019. The high and sustained ratio figure suggests that there is on-going pressure and difficulty for people to transition into ownership due to the higher sales prices of housing in the area.

HAM Buy: Affordability for a first home buyer household



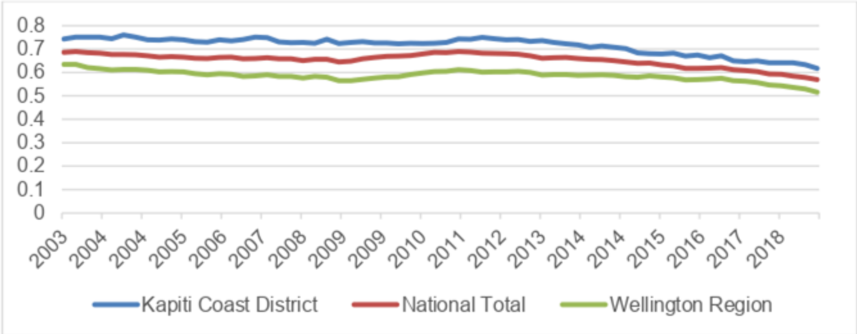
The Housing Affordability Measure (HAM) measures trends in housing affordability for the first home buyer household.

For potential home-owning households, HAM Buy calculates what their residual income would be after housing costs if they were to buy a modest first home in the area in which they currently live. Affordability is affected by dwelling prices, mortgage interest rates and the incomes of rental households.

Average income is determined using the average New Zealand household, both homeowners and renters, nation-wide, in June 2013. A higher number on the chart indicates more households are below the average and therefore have a lower level of affordability.

Affordability for housing is consistently higher (worse) in Kāpiti than both the national and regional average. The dynamics between increasing prices of housing coupled with lower medium income levels are likely contributors to the higher impact of affordability on Kāpiti.

HAM Rent: Affordability of renting households



The Housing Affordability Measure (HAM) measures trends in housing affordability for the renting household.

For renting households, HAM Rent calculates what their residual income would be after housing costs.

Average income is determined using the average New Zealand household, both homeowners and renters, nation-wide, in June 2013. A higher number on the chart indicates more households are below the average and have a lower level of affordability.

Similar to HAM Buy, affordability to rent in Kāpiti is higher (worse) than both the national and regional average and has been relatively static from 2003 to 2019. This has a slight improvement from 2013 to 2018.

Appendix One: Building and resource consents

Table 1: Comparison of building consents, by type, for the current quarter and the same period last year

Application type	1 June 2019 – 31-Aug-19 (Quarter)		1 June 2018 – 31-Aug-18	
	Number	Value $	Number	Value $
New (& prebuilt) House, Unit, Bach, Crib	51	23,296,701	49	18,927,976
New Flat(s) added to existing dwelling	2	24,7000	1	90,000
New Flat(s) added to existing bldg other	1	90,000	0	0
New Showrooms	1	15,000	0	0
New Offices	1	5,000	0	0
New Warehouses	1	250,000	0	0
New Farm Buildings - Other	1	35,000	3	173,000
New Other Buildings	2	1,430,000	0	0
Dwellings - Alterations & additions	76	7,721,883	62	4,274,810
Dwelling with flats - Alterations & addi	5	540,000	0	0
Resited Houses	2	110,000	5	354,000
Hospitals - Alterations & additions	0	0	1	60,000
Education Bldgs - alterations & addition	0	0	2	290,000
Shops, restaurants - Alterations & addit	3	115,000	1	10,000

Warehouses - alterations & additions	0	0	1	18,000
Factories - alterations & additions	0	0	2	214,000
Farm Buildings - alterations & additions	0	0	1	30,000
Other Buildings - alterations & addition	1	5,000	2	70,000
Total	**148**	**33,865,584**	**131**	**24,671,786**

Note: applications for garages, fireplaces, fences, retaining walls, outbuildings, conservatories, swimming and spa pools, and other construction (e.g. signs and pergolas) have been deliberately excluded.
Source: Kāpiti Coast District Council building consent data.

Table 2: Comparison of resource consents for the current quarter and the same period last year

Location	1 June 2018 – 31 August 2018	1 June 2017 – 31 August 2017
	Number	Number
Maungakotukutuku	2	4
Ōtaki	11	7
Ōtaki Forks	2	0
Paekākāriki	1	4
Paraparaumu (Central, North Beach, and South Beach & Otaihanga)	15	11
Peka Peka (Te Horo and Kaitawa)	4	3
Raumati Beach and Raumati South	3	13
Waikanae	22	20
Other	0	
Residential (total)	**60**	**62**
Maungakotukutuku	3	0
Ōtaki	4	4
Ōtaki Forks	0	0
Paekākāriki	0	0
Paraparaumu (Central, North Beach, and South Beach)	2	2
Peka Peka (Te Horo and Kaitawa)	0	1
Raumati Beach and Raumati South	1	2
Waikanae	2	0
Non-residential (total)	**12**	**9**

Source: Kāpiti Coast District Council resource consent data.

8.4 THE LOCAL GOVERNMENT FUNDING AGENCY 2018/19 ANNUAL REPORT

Author: **Jacinta Straker, Chief Financial Officer**

Authoriser: **Mark de Haast, Group Manager**

PURPOSE OF REPORT

1 The purpose of this report is to update the Strategy and Operations Committee on the Local Government Funding Agency (LGFA) 2018/19 Annual Report.

DELEGATION

2 While noting that this report is for information, the Strategy and Operations Committee, with its broad role of financial management, including risk mitigation, has the delegation to consider this report.

BACKGROUND

3 The LGFA was established in December 2011 to provide long-dated borrowing, certainty of access to markets and to reduce the borrowing costs for the local government sector. On 30 November 2012, the Council became a Principal Shareholding Local Authority in the LGFA.

4 The LGFA issues bonds to wholesale and retail investors and on-lends the funds raised to participating local authorities with borrowing needs. The quality of the LFGA's credit rating, and the liquidity created by issuing homogenous local authority paper, ensures that participating councils can raise funds on better terms than if they were issuing in their own name.

5 The LGFA meets the Local Government Act (LGA) 2002 definition of a Council Controlled Organisation (CCO) as one or more local authorities have the right, directly or indirectly, to appoint 50% or more of the directors.

6 As a shareholder in a CCO, the Council must regularly undertake performance monitoring of that organisation to evaluate its contribution to the achievement of the Council's desired outcomes.

ISSUES AND OPTIONS

LGFA performance for the 2017/18 year

7 LGFA recorded a profit of $11.2 million for 2018/19. While this is significantly ahead of the budgeted $10.9 million profit it is less than the $11.8 million profit recorded in 2017/18. Total interest income in 2018/19 was 5.3% higher than in 2017/18 however total interest expense was 5.7% higher than 2017/18.

8 In addition, the 2018/19 issuance, on-lending and other operating expenses were 5.5% higher than the previous year. While the percentage variances between the two years are relatively minor, the overall impact is a profit that is $600,000 less than the previous year and derived from a higher total income.

9 The LGFA asserts that its lower profitability was due to the lower interest rates which resulted in lower income for its liquid assets portfolio, and councils refinancing previously higher margin loans and replacing them with lower margin loans.

10 The LGFA continues to grow, both in terms of its balance sheet with total loans to councils reaching $9.31 billion at 30 June 2019 (2018: $7.98 billion) and participating councils growing from 56 to 64 during the year.

11 Auckland Council is the LGFA's largest borrower ($2.4 billion), followed by Christchurch City Council ($1.7 billion). As at 30 June 2019, Kāpiti Coast District Council ranked as the 7th largest borrower with $210.8 million in gross borrowings. Net borrowings, taking account of

cash, borrower notes and term deposits to prefund borrowings was $147.6 million as at 30 June 2019.

12 The LGFA has a number of primary objectives including making longer-term borrowings available, offering flexible lending and enhancing the certainty of access to debt markets. The table below shows the LGFA's results against its key performance:

2018-19 performance targets	Target	Result for 12-month period to 30 June 2019	Outcome
The average margin above LGFA's cost of funds charged to the highest rated Participating Local Authorities for the period	<= 0.10%	0.101% (0.10% for long-term and 0.106% for short-term)	✗ Due to increase in short-term lending where the margin includes LGFA cost of borrowing.
LGFA's annual issuance and operating expenses (excluding AIL) for the period	<= $5.67 million	$5.85 million	✗ Due to additional NZX listing and legal fees associated with larger than forecast bond issuance and council lending.
Total lending to Participating Local Authorities	>= $8.105 billion	$9.262 billion	✔
LGFA will demonstrate the savings to council borrowers on a relative basis to other sources of financing.	Improvement since prior year end relative to borrowing by councils directly. Council borrowing spreads as at June 2018: 2019 maturity 11 bps 2021 maturity 19 bps 2025 maturity 10 bps	 2019: 2019 maturity n/a 2021 maturity 9 bps 2025 maturity 7 bps	✗ Due to a lack of single name issuance by councils and record issuance of LGFA bonds, these factors have created a supply-demand balance and reduced savings to councils.

13 As can be seen, the LGFA has only achieved one of its four key performance targets. It's likely that the most important performance measure for all the LGFA's borrowers is providing annual interest costs to Participating Local Authorities (PALs) on a competitive basis compared to other sources of finance.

14 There was also a compliance breach during the year when one of the council borrowers exceeded the concentration risk control measure of its total borrowings from the LGFA not exceeding the greater of, $100 million or 33%, of its total borrowings in a 12-month period. The breach arose through the council using 100% short-term borrowings which was not picked up by the LGFA management processes which had been set up to manage long-term borrowings. The situation was quickly addressed and the LGFA processes updated to incorporate the increasing uptake of short-term borrowing by councils.

15 The LGFA undoubtedly provides savings to councils and seeks to incorporate comprehensive risk and financial management systems into its operations. The compliance breach and the lower than perhaps expected profit are not significant concerns but they do highlight the importance of the Council's ongoing monitoring of the organisation.

16 The LGFA estimates that as at 30 June 2019, it was saving AA-rated councils between 7 and 9 basis points (bps) depending upon the term of the maturity. The Kāpiti Coast District Council has recently received an upgraded Standard and Poor's credit rating of AA. Based on the Council's LGFA loans of 210.8 million as at June 2019, a 7bps saving equates to around $147,000 per year.

17 From the perspective of the Kāpiti Coast District Council, the LGFA has provided borrowing with interest rates and lending terms that have enabled the Council to meet its financial objectives and to stay within its financial targets.

18 The full LGFA 2018/19 Annual Report is attached as Appendix 1.

CONSIDERATIONS

Policy considerations

19 In accordance with the LGA 2002, the Council must provide information on all of its CCOs in its Long Term Plan (LTP). Accordingly, the Council's 2018-38 LTP contains information on the LGFA, including key performance targets and other performance metrics

Legal considerations

20 There are no legal considerations arising from the matters in this report.

Financial considerations

21 Council is one of 31 local authority shareholders of the LGFA and has an obligation in respect of uncalled capital of $100,000.

22 At 30 June 2019, the LGFA had borrowings totalling $9.612 billion (2018: $8.272 billion).

23 Council considers the risk of the LGFA defaulting on repayment of interest or capital to be very low on the basis that:

(a) The only circumstance where LGFA would default on its debt is the event where a council defaulted on a loan obligation that exceeded LGFA's available liquidity assets. As at 30 June 2019, this would need to be a single council default event that exceeded the sum of:

- cash and deposits of $192.4 million,
- LGFA borrower notes of $154.2 million,
- LGFA credit facility of $700 million, and
- uncalled share capital of $20 million from LGFA shareholders.

(b) In the event of an LGFA default, the call on the guarantee is made on the Council's proportion of their share of the underlying rate base.

24 In the event of a default exceeding the LGFA's available liquid assets, the council would be called for 1.1% of the overall call (less than the council's 2.2% of LGFA's loan assets).

Tāngata whenua considerations

25 There are no Tāngata whenua considerations.

Strategic considerations

26 The prudent use of the LGFA for all the Council's borrowing requirements contributes to the key 10-year outcome of improved financial position against financial constraints by allowing the Council to achieve lower interest rate costs.

SIGNIFICANCE AND ENGAGEMENT

Significance policy

27 The prudent use of the LGFA for all the Council's borrowing requirements contributes to the key 10-year outcome of improved financial position against financial constraints by allowing the Council to achieve lower interest rate costs

Consultation already undertaken

28 There is no need to consult on the matters discussed in this report.

Engagement planning

29 An engagement plan is not needed for this report to be considered.

Publicity

30 There are no publicity considerations.

RECOMMENDATIONS

31 That the Strategy and Operations Committee notes the performance of the Local Government Funding Agency as set out in its 2018/19 Annual Report, attached as Appendix 1 to this report.

APPENDICES

1. LGFA Annual Report ⇩

Meeting the financing needs of New Zealand councils

Mā te huruhuru ka rere te manu

Annual report

30 June 2019

LGFA

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

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

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

Contents
Ihirangi

About us
Ko ngāi mātou

Establishment

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

Incorporated on 1 December 2011 under the Companies Act 1993.

Enabled by Local Government Borrowing Act 2011

Council-controlled organisation under the Local Government Act 2002.

Ownership

20 million of which remain **uncalled.**

20%
New Zealand Government

80%
30 councils

Share ownership is restricted to New Zealand Government or councils.

Guarantee structure

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

LGFA is not guaranteed by the New Zealand Government.

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

Credit rating

as at 30 June 2019

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

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

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

Face value of bonds on issue

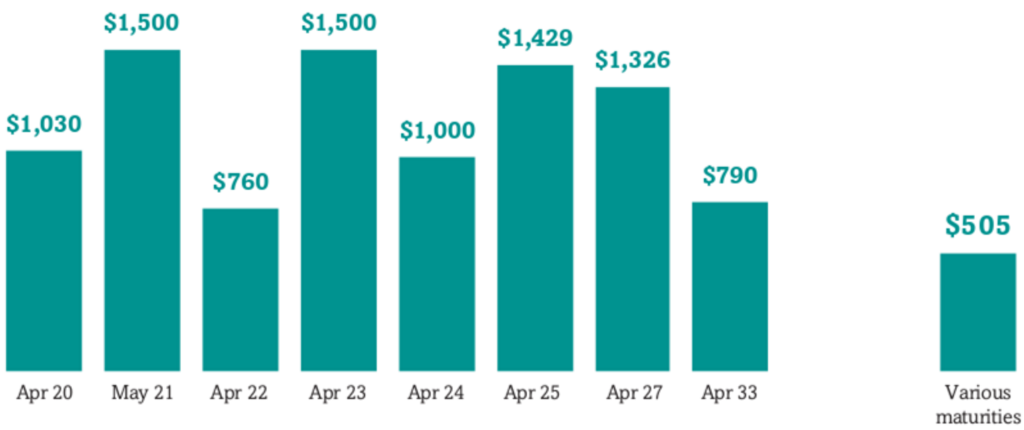
as at 30 June 2019 (NZ$ million)

$9,335 million

Bills on issue

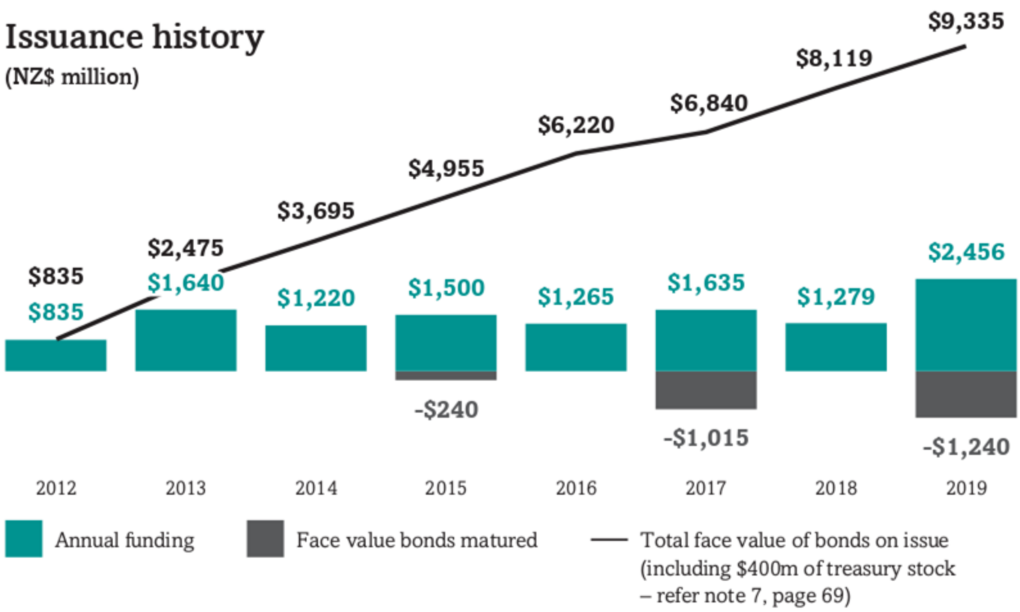
as at 30 June 2019 (NZ$ million)

$505 million



Issuance history

(NZ$ million)



Governance overview

20%
Shareholding
New Zealand Government

80%
Shareholding
30 councils

31 Shareholders

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

Shareholders' Council
Page 27

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

Review and report performance of LGFA and the Board;

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

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

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

LGFA Board
Page 17-26

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

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

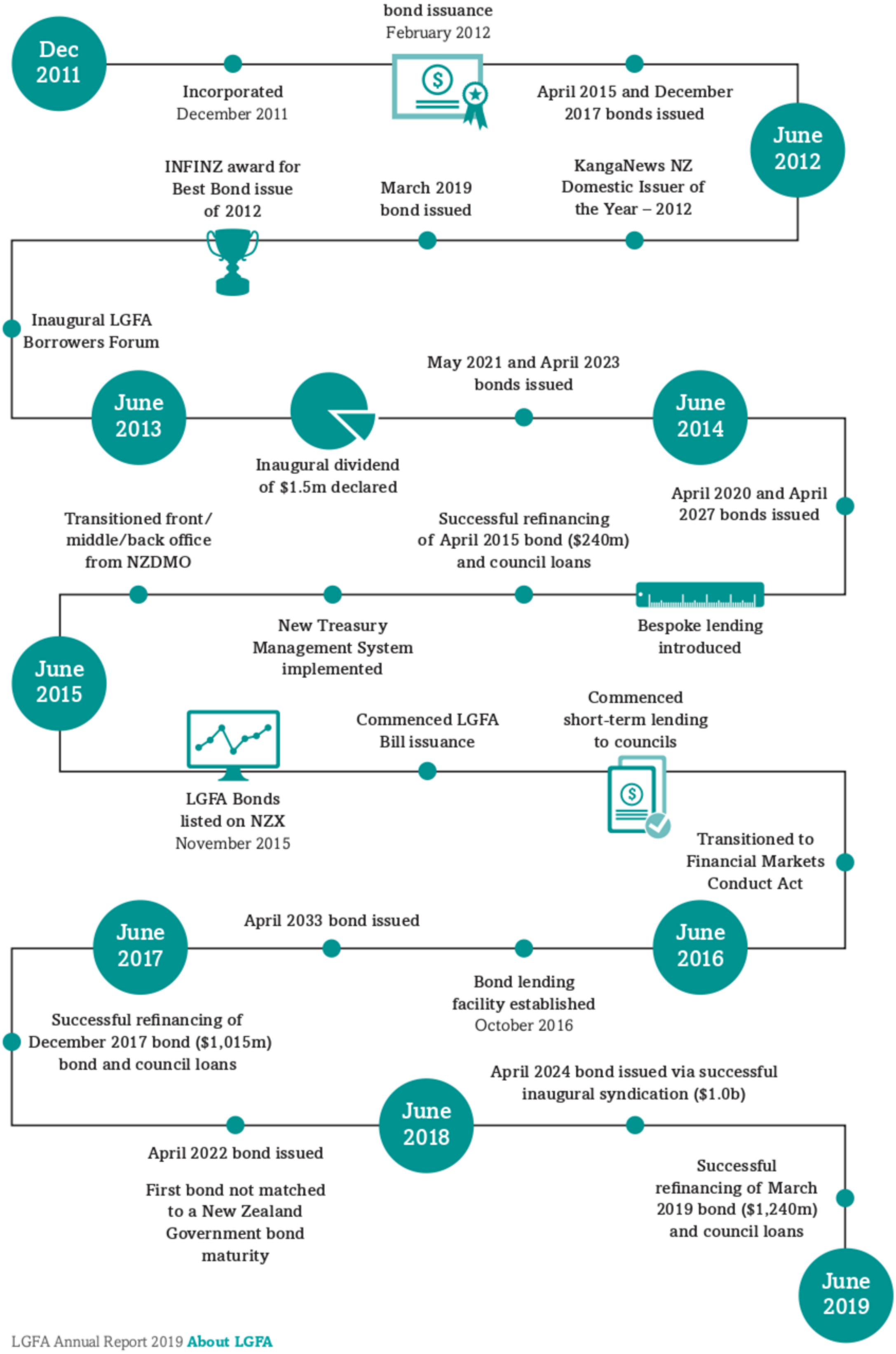
The Board comprises **five independent** and **one non-independent** directors appointed by shareholders.

Bonds listed on NZX Debt Market

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

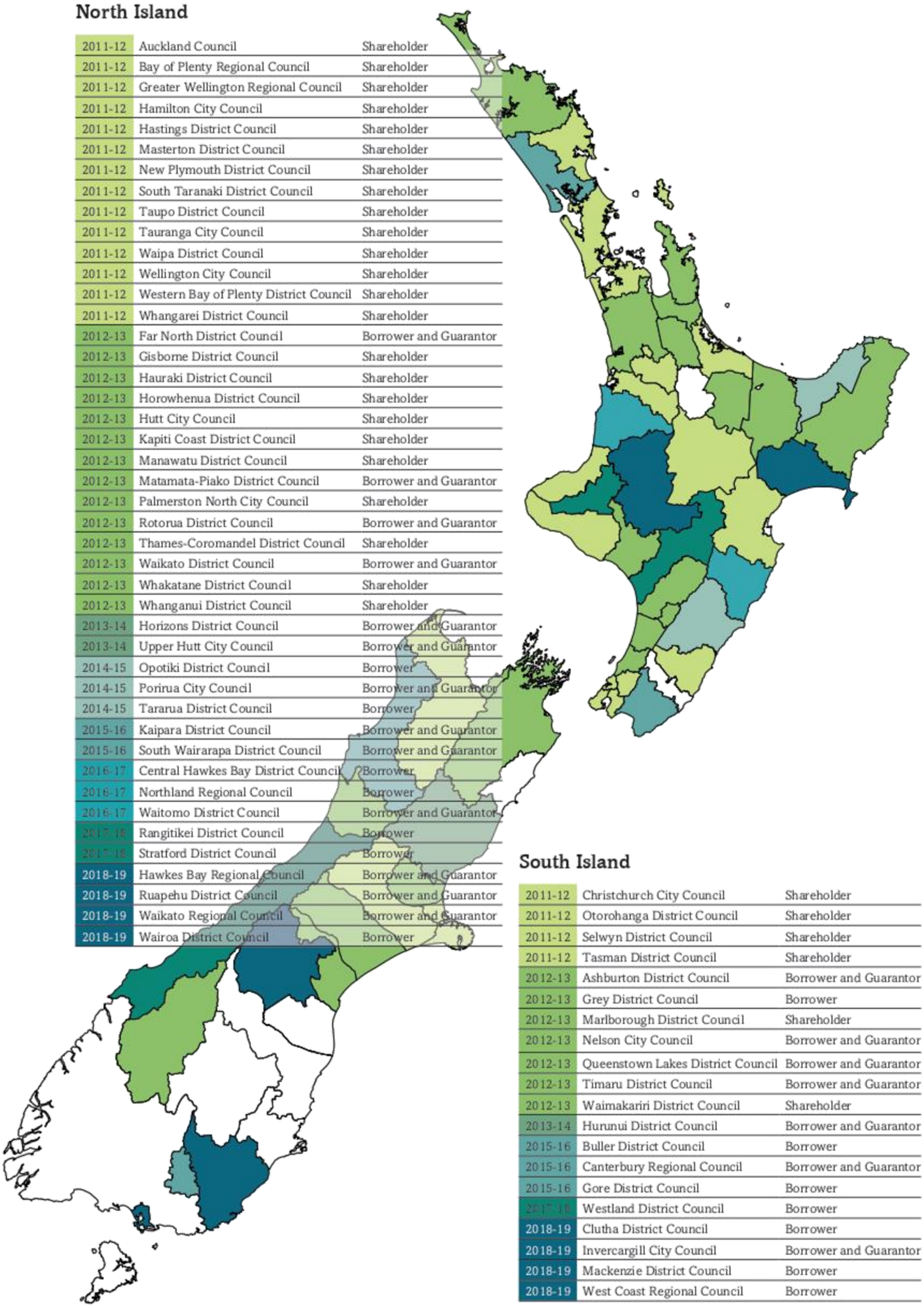
Supervised by independent trustee

Our history



LGFA Annual Report 2019 **About LGFA** 7

LGFA's 64 participating councils by year of joining



North Island

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

South Island

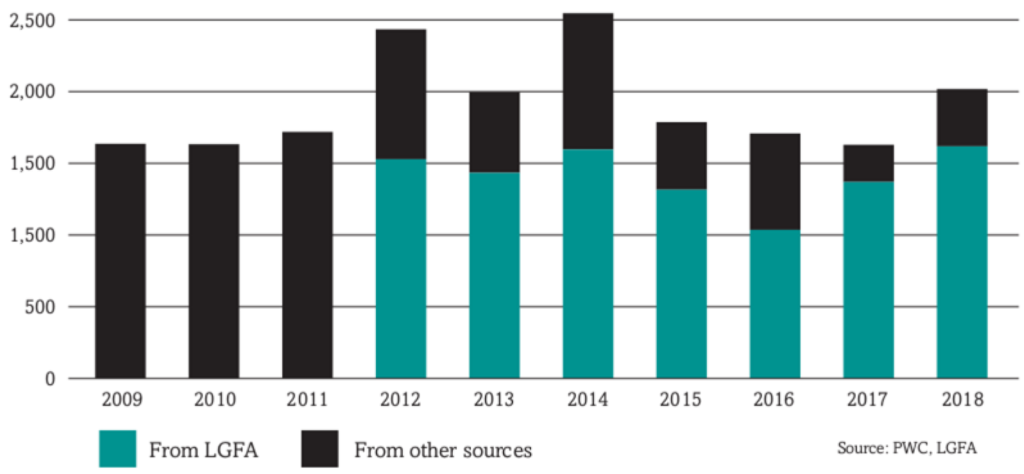
2011-12	Christchurch City Council	Shareholder
2011-12	Otorohanga District Council	Shareholder
2011-12	Selwyn District Council	Shareholder
2011-12	Tasman District Council	Shareholder
2012-13	Ashburton District Council	Borrower and Guarantor
2012-13	Grey District Council	Borrower
2012-13	Marlborough District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

Participating councils

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

Councils' borrowing

All councils (NZ$ million) calendar year



New member Councils

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

Clutha District Council

Hawkes Bay Regional Council

Invercargill City Council

Mackenzie District Council

Ruapehu District Council

Waikato Regional Council

Wairoa District Council

West Coast Regional Council

Message from the Chair

He karere mai i te Toihau

For the year ended 30 June 2019

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

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

Craig Stobo, Chair LGFA Board

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

Strong financial and operational performance

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

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

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

Investor relations

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

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

Borrowing activity

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

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

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

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

Lending to the sector

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

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

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

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

The sector outlook and impact on LGFA

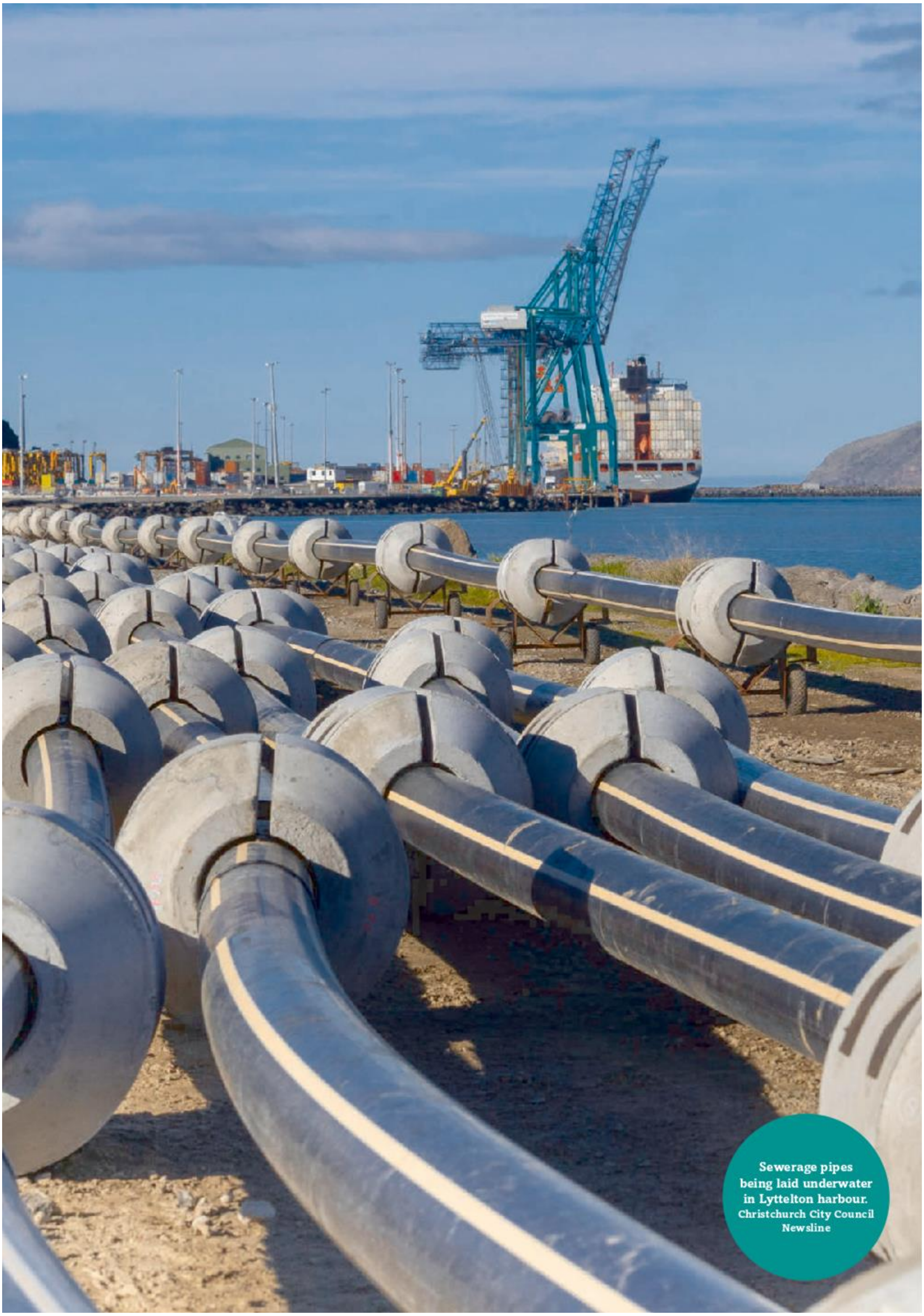
The success of LGFA over the past six years has been in part due to its ability to evolve and adapt to meet the needs of the local government sector. This has been apparent with the introduction of short-term lending, bespoke lending and the introduction of long-dated bond maturities allowing councils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

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

Acknowledgments

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

Craig Stobo
Chair, LGFA Board



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

Performance highlights
Putanga mahi matua

Bonds issued over the financial year

$2.456 billion

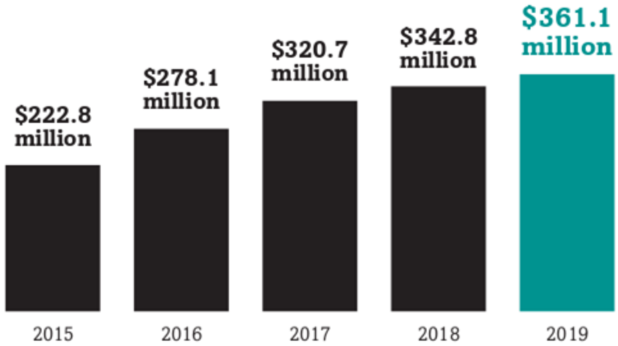
Lending to councils over the financial year

$2.446 billion

Total interest income

$361.1 million

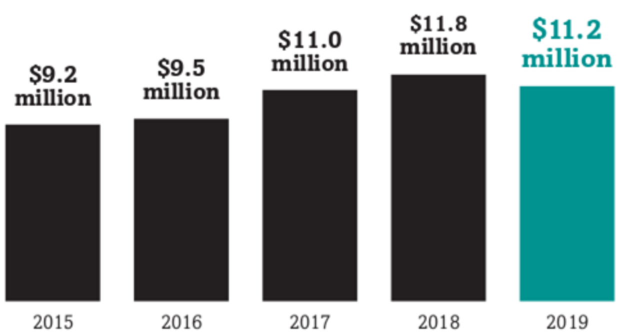
▲ **5.3%** increase over the 2017-18 financial year



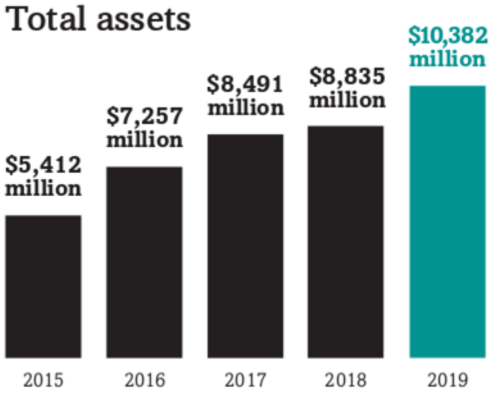
Net operating profit

$11.2 million

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



Total assets



Liquidity as at 30 June 2019

Cash
$56m

Marketable securities
$256m

Deposits
$136m

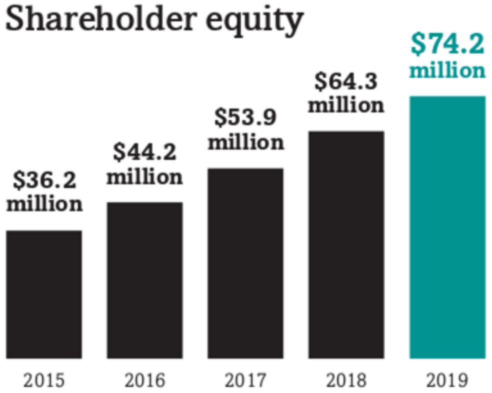
Government committed liquidity facility
$700m

Shareholder funds 30 June 2019

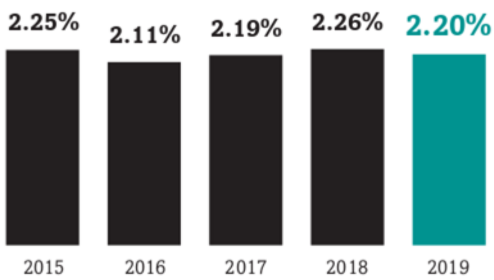
Fully paid shares
$25m

Retained earnings
$49m

Shareholder equity



Shareholder funds and borrower notes / total assets



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

Corporate governance
Ārahitanga ā-rangatōpū

NZX Corporate Governance Best Practice Code

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

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

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

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

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

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

Principle 1
Code of ethical behaviour

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

Code of Ethics

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

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

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

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

Protected Disclosures and Whistle Blowing

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

Financial Products Trading Policy

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

Principle 2
Board composition and performance

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

LGFA Board Charter

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

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

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

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

Board composition

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

The directors of LGFA as at 30 June 2019:

Craig Stobo
Independent Chair

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

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

John Avery
Independent Director

LLB, C.F.Inst.D

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

Philip Cory-Wright

Independent Director

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

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

Linda Robertson

Independent Director

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

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

Mike Timmer

Non-Independent Director

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

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

Anthony Quirk

Independent Director

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

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

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

Nomination of Directors

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

Retirement and re-election of Directors

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

Director tenure

As at 30 June 2019

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

Meetings of the Board

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

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

Board performance review

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

Director training

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

Diversity

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

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

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

Gender diversity of directors

2019
Female 1, Male 5

2018
Female 1, Male 5

Gender diversity of employees

2019
Female 2, Male 5

2018
Female 2, Male 4

Indemnities and insurance

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

Principle 3
Board committees

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

Audit and Risk Committee

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

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

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

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

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

Principle 4
Reporting and disclosure

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

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

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

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

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

Principle 5
Remuneration

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

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

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

Approved Director annual fee breakdown

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

Director remuneration

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

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

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

Chief Executive remuneration

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

Staff remuneration

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

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

Principle 6
Risk management

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

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

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

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

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

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

Internal audit

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

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

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

Health and safety

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

Principle 7
Auditors

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

External audit

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

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

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

Principle 8
Shareholder rights and relations

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

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

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

Foundation documents

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

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

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

LGFA Shareholders' Council

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

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

Members of the Shareholders' Council as at 30 June 2019

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

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

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

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

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

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

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

Craig Stobo
Chair, LGFA Board

LGFA staff assisted BNZ staff with planting of Kauri trees in the Coromandel region in June 2019. The planting commemorated BNZ's association with the Kauri 2000 Trust and the issue of LGFA's first syndicated bonds. BNZ was the Arranger to the issue.

Kauri 2000 evolved out of a project to mark the start of the new millennium with a goal to plant 2000 kauri. To date the Trust has planted over 50,000 kauri on the Coromandel Peninsula and continues to plant kauri throughout the Coromandel. The Kauri 2000 Trust is a non-profit charitable trust, established in 2000 and registered in New Zealand under the Charities Act 2005.

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

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

The Thames-Coromandel District Council

THAMES COROMANDEL DISTRICT COUNCIL

Clean green travel

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

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

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

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

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

Hamilton City Council

Better Lighting, safer communities

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

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

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

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

Hamilton City Council
Te kaunihera o Kirikiriroa

Treasury risk Management
Whakahaeretanga ā-mōrearea

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

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

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

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

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

Liquidity risk

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

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

Interest rate risk / market risk

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

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

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

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

Counterparty credit risk

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

Counterparty credit risk is managed through:

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

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

Foreign currency risk

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

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

Operational risk

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

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

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

Lending risk

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

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

All Local Authorities that borrow from LGFA:

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

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

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

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

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

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

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

Performance against objectives
Tutukinga mahi ki ōna whāinga

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

Performance against primary objectives

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

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

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

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

2018-19 performance objectives

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

Primary objectives

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

Additional objectives

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

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

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

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

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

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

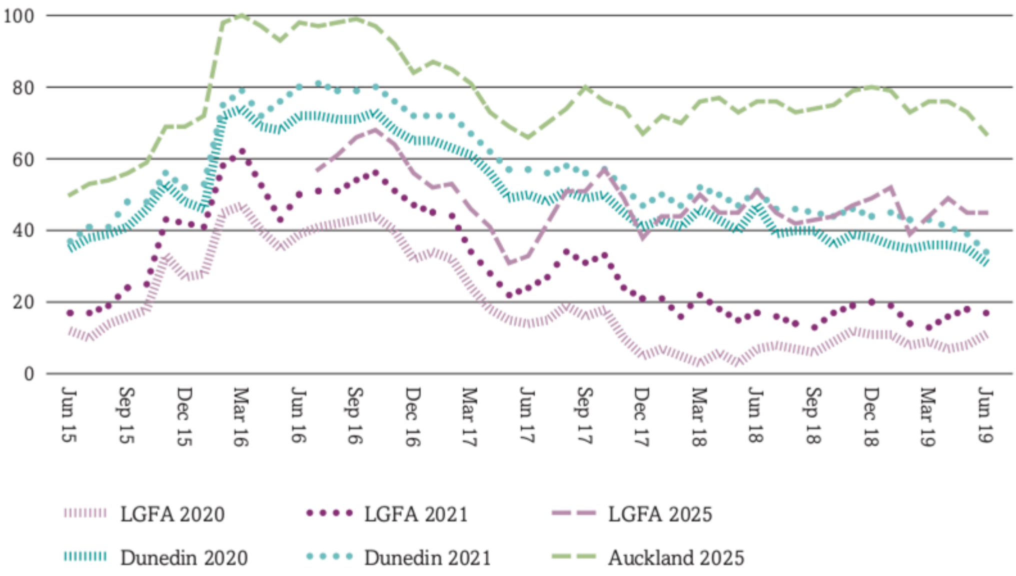
Some of the movement is due to the changes in the spread between swap rates and NZ Government Bond (NZGB) yields as over the same period LGFA spreads to NZGB have narrowed for all maturities.

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

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

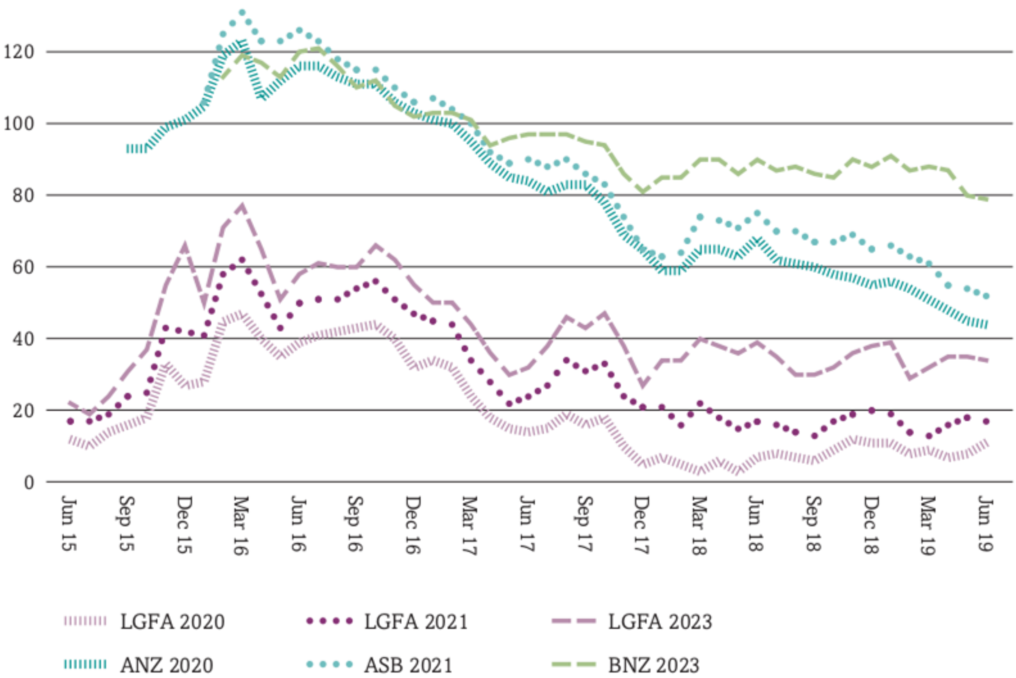
LGFA continues to provide savings in borrowing cost for councils relative to other sources of borrowing. LGFA compares secondary market spreads on its bonds to those of Auckland Council and Dunedin City Treasury (as a proxy for councils borrowing in their own name) and a mix of banks (as a proxy for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

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



Source: Bloomberg, LGFA

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



Source: Bloomberg, LGFA

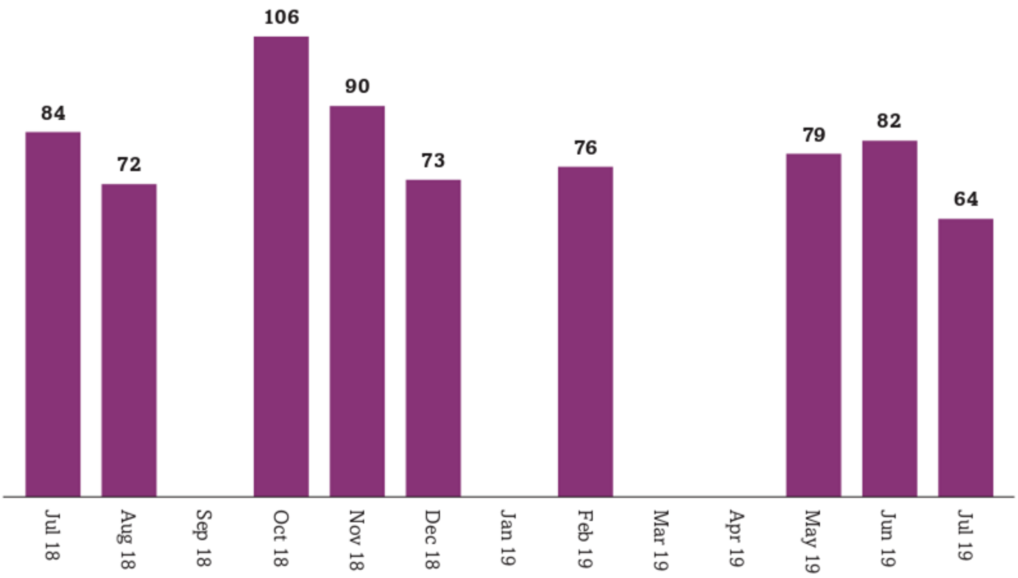
From the table below, based upon secondary market spread as at 30 June 2019, LGFA saved AA-rated councils an estimated 7 bps to 9 bps depending upon the term of maturity. This compares to savings of between 10 bps and 21 bps a year ago. The savings are less than a year ago due to (i) the relative size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

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

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

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

Average total months to maturity – on-lending to councils



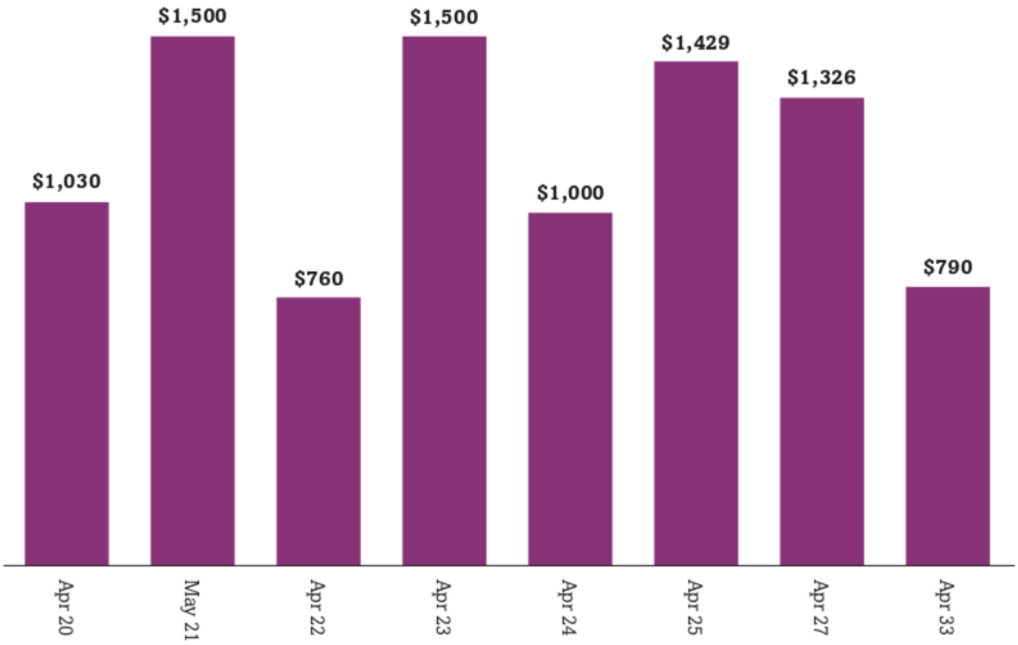
While LGFA provides councils with the ability to borrow from LGFA for terms from one month to 14 years, it is up to the councils to determine their preferred term of borrowing.

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

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

LGFA bonds on issue (NZ$ million)

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



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

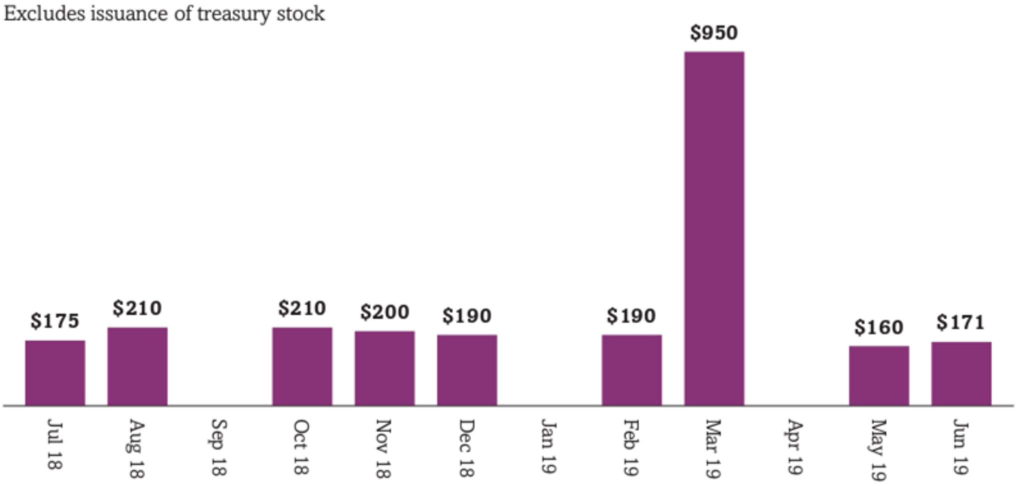
LGFA listed its bonds on the NZX Debt Market in November 2015 and this has led to greater awareness and participation in LGFA bonds by domestic retail and offshore investors. Average turnover on the NZX Debt Market since listing has been $11 million per month or 8% of the total turnover of the NZX Debt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

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

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

LGFA bond issuance by tender (NZ$ million)

Excludes issuance of treasury stock



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

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

* $1.0 billion issued via syndication.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Performance against additional objectives

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

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

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

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

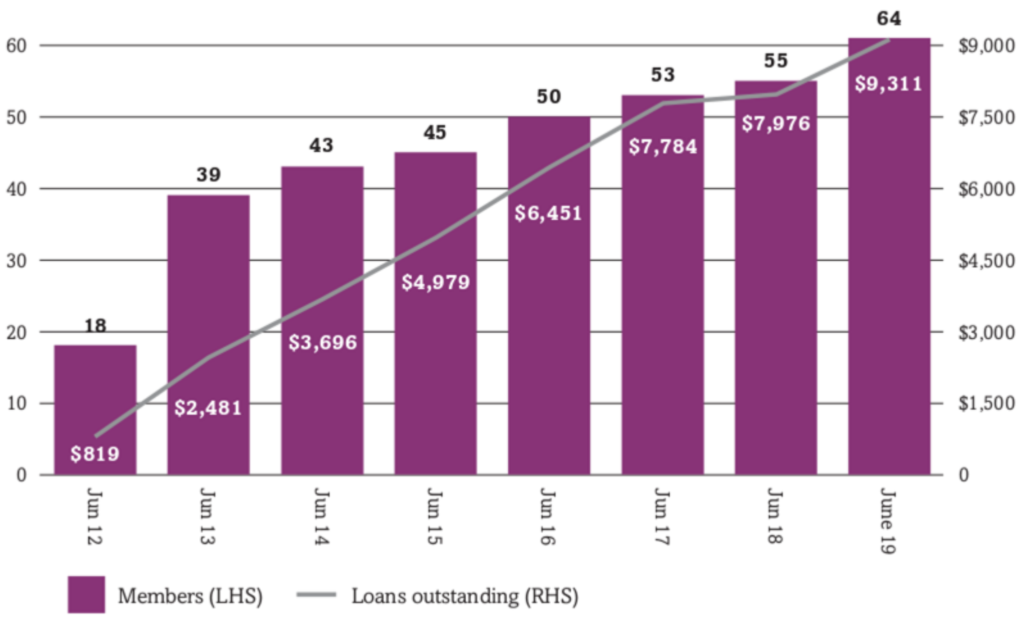
The impact from the current low interest rate environment is that LGFA has a lower cost of funds. While council borrowers benefit from lower borrowing costs, the dividend payment calculated on the above guidance is lower than it would otherwise be in an environment of higher interest rates.

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

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

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

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



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

LGFA council members and LGFA loans outstanding

Source: PwC, LGFA

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Performance targets

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

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

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

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

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

Financial statements
Taukī pūtea

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

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

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

For and on behalf of the Board of Directors

Craig Stobo
Chair, LGFA Board
30 August 2019

Linda Robertson
Chair, Audit and Risk Committee
30 August 2019

Statement of comprehensive income

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

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

Statement of changes in equity

For the year ended 30 June 2019 in $000s

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

Statement of financial position

As at 30 June 2019 in $000s

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

Statement of cash flows

For the year ended 30 June 2019 in $000s

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

1 Statement of accounting policies

a. Reporting entity

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

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

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

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

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

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

b. Statement of compliance

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

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

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

c. Basis of preparation

Measurement base

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

The financial statements are prepared on an accrual basis.

Functional and presentation currency

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

Foreign currency conversions

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

Changes in accounting policies

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

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

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

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

Hedge accounting

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

Impairment

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

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

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

Methodology to determine expected credit losses

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

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

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

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

Early adoption standards and interpretations

LGFA has not early adopted any standards.

New standards adopted

NZ IFRS 15. Revenue from Contracts with Customers.

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

Standards not yet adopted

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

NZ IFRS 16 Leases

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

Change in presentation. Statement of financial position

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

d. Financial instruments

Financial assets

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

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

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

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

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

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

Financial liabilities

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

Derivatives

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

Fair value hedge

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

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

e. Other assets

Property, plant and equipment (PPE)

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

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

Intangible Assets

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

f. Other liabilities

Employee entitlements

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

g. Revenue and expenses

Revenue

Interest income

Interest income is accrued using the effective interest rate method.

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

Expenses

Expenses are recognised in the period to which they relate.

Interest expense

Interest expense is accrued using the effective interest rate method.

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

Income tax

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

Goods and services tax

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

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

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

Commitments and contingencies are disclosed exclusive of GST.

h. Lease payments

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

i. Segment reporting

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

j. Judgements and estimations

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

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

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

2 Analysis of financial assets and financial liabilities

a. Categories of financial instruments

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

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

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

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

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

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

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

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

Marketable securities and bonds

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

Deposits

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

Loans to local government

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

Borrower notes

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

Fair value of financial assets and financial liabilities

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

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

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

b. Financial risk management

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

Market risk

Market risk is the risk that changes in market prices will affect LGFA's income or value of financial instruments. The most significant market risk which LGFA is exposed to is interest rate risk. LGFA has no significant exposure to foreign exchange risk.

Interest rate risk

Interest rate risk is the risk that future cash flows or the fair value of financial instruments will decrease because of a change in market interest rates. LGFA is exposed to interest rate risk through its interest-bearing financial assets and liabilities.

Interest rate risk is managed using Value at Risk (VaR) and Partial Differential Hedge (PDH) limits to mitigate the potential change in value of the balance sheet due to changes in interest rates. PDH risk measures the sensitivity of a portfolio to a one basis point change in underlying interest rates, whereas VaR measures the expected loss for a given period with a given confidence.

The table below indicates the earliest period in which the interest-bearing financial instruments reprice.

As at 30 June 2019 in $000s	Face value	Less than 6 months	6 months - 1 year	1-2 years	2-5 years	Over 5 years
Financial assets						
Cash and bank Balances	56,198	56,198	-	-	-	-
Marketable securities	253,972	203,850	40,122	10,000	-	-
Deposits	135,000	55,000	80,000	-	-	-
Loans to local government	9,262,858	8,030,980	16,520	452,700	284,700	477,958
Financial liabilities						
Bills	(505,000)	(480,000)	(25,000)	-	-	-
Bond repurchases	(24,604)	(24,604)	-	-	-	-
Derivatives	-	(7,715,000)	938,750	1,027,500	2,828,750	2,920,000
Bonds	(8,935,000)	-	(980,000)	(1,450,000)	(3,110,000)	(3,395,000)
Borrower notes	(142,027)	(122,333)	(248)	(7,243)	(4,555)	(7,647)
Total	**101,398**	**4,091**	**70,144**	**32,957**	**(1,105)**	**(4,689)**

As at 30 June 2018 in $000s	Face value	Less than 6 months	6 months - 1 year	1-2 years	2-5 years	Over 5 years
Financial assets						
Cash and bank Balances	50,281	50,281	-	-	-	-
Marketable securities	226,593	152,196	26,897	27,500	20,000	-
Deposits	199,000	130,000	69,000	-	-	-
Loans to local government	7,927,441	6,709,699	300,500	12,500	568,000	336,742
Financial liabilities						
Bills	(475,000)	(475,000)	-	-	-	-
Bond repurchases						
Derivatives	-	(6,454,200)	936,200	938,750	2,516,250	2,063,000
Bonds	(7,719,000)	-	(1,240,000)	(980,000)	(3,119,000)	(2,380,000)
Borrower notes	(123,062)	(103,690)	(4,696)	(200)	(9,088)	(5,388)
Total	**86,253**	**9,286**	**87,901**	**(1,450)**	**(23,838)**	**14,354**

Interest rate sensitivity

Changes in interest rates impact the fair value of fixed rate assets and liabilities, cash flows on floating rate assets and liabilities, and the fair value and cash flows of interest rate swaps. A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) profit or loss and equity by the amounts shown in the following table. This analysis assumes that all other variables remain constant.

For the period ending 30 June in $000s	2019		2018	
	100 bps increase $000s	100 bps decrease $000s	100 bps increase $000s	100 bps decrease $000s
Fair value sensitivity analysis				
Fixed rate assets	-	-	-	-
Fixed rate liabilities	(369,387)	376,054	276,613	(281,357)
Derivative financial instruments	369,387	(376,054)	(276,613)	281,357
	-	-	-	-
Cash flow sensitivity analysis				
Variable rate assets	76,708	(76,708)	64,806	(64,806)
Variable rate liabilities	(1,227)	1,227	(1,037)	1,037
Derivative financial instruments	(79,320)	79,320	(66,432)	66,432
	(3,839)	**3,839**	**(2,663)**	**2,663**

Credit risk

Credit risk is the risk of financial loss if a counterparty to a financial instrument fails to meet its contractual obligations. LGFA is exposed to credit risk through its lending and investing activities.

Credit risk associated with lending activities is managed by requiring local authorities that borrow from LGFA to meet specific credit lending criteria and to provide security against the borrowing. The LGFA's credit risk framework restricts credit exposures to specific counterparties.

Credit risk associated with investing activities, excluding on-lending, is managed by only investing with New Zealand Government Agencies or counter-parties that meet a minimum credit rating of A (Standard & Poor's equivalent). The LGFA's credit risk framework limits concentrations of credit risk for any single counterparty.

Exposure to credit risk

LGFA monitors the concentration of credit risk by the type of counterparty. The carrying value and maximum exposure to credit risk at the reporting date, before taking account of collateral or other credit enhancements, for significant counterparty types are shown in the table below.

As at 30 June 2019 in $000s	NZ government agencies	NZ local authorities	NZ registered banks	Other counter-parties	Total carrying value
Financial assets					
Cash and bank balances	55,679	-	520	-	56,198
Trade and other receivables	-	-	-	-	-
Marketable securities	40,962	48,668	135,397	30,488	255,715
Deposits	-	-	136,216	-	136,216
Derivatives	609,632	-	-	-	609,632
Loans to local government	-	9,310,617	-	-	9,310,617
	706,273	**9,359,285**	**272,333**	**30,488**	**10,368,378**

As at 30 June 2018 in $000s	NZ government agencies	NZ local authorities	NZ registered banks	Other counter-parties	Total carrying value
Financial assets					
Cash and bank balances	49,773	-	508	-	50,281
Trade and other receivables	-	-	-	-	-
Marketable securities	60,988	43,807	109,544	17,081	231,420
Deposits	-	-	201,114	-	201,114
Derivatives	321,085	-	-	-	321,085
Loans to local government	-	7,975,728	-	-	7,975,728
	431,846	**8,019,535**	**311,166**	**17,081**	**8,779,628**

Collateral and credit enhancements

LGFA holds collateral against borrowings from local authorities in the form of debenture securities and guarantees.

Credit quality of financial assets

All financial assets are neither past due nor impaired. The carrying value of the financial assets is expected to be recoverable.

Liquidity risk

Liquidity risk is the risk that LGFA will encounter difficulty in meeting the obligations of its financial liabilities. LGFA manages liquidity risk by holding cash and a portfolio of liquid assets to meet obligations when they fall due. LGFA is required by policy to maintain sufficient liquidity (comprising a committed liquidity facility and holdings of cash and liquid investments) to meet all operating and funding commitments over a rolling 12-month period.

The Treasury (New Zealand Debt Management) provides a committed liquidity facility that LGFA can draw upon to meet any exceptional and temporary liquidity shortfall. As at 30 June 2019, the undrawn committed liquidity facility was $700 million (2018: $600 million).

Contractual cash flows of financial instruments.

The contractual cash flows associated with financial assets and liabilities are shown in the table below.

As at 30 June 2019 in $000s	On demand	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total contractual cash flows	Total carrying value
Financial assets							
Cash and bank balances	56,198	-	-	-	-	56,198	56,198
Trade and other receivables							
Marketable securities	-	127,363	52,615	80,815	-	260,793	255,715
Deposits	-	-	138,543	-	-	138,543	136,216
Loans to local government	-	279,328	936,604	5,556,479	3,583,112	10,355,524	9,310,617
Financial liabilities							
Payables and provisions	(563)	-	-	-	-	(563)	(563)
Bills	-	(330,000)	(175,000)	-	-	(505,000)	(503,225)
Bond repurchases	-	(24,628)	-	-	-	(24,628)	(24,625)
Bonds	-	-	(1,338,293)	(5,495,770)	(3,838,283)	(10,672,345)	(9,612,394)
Borrower notes	-	(332)	(10,820)	(92,580)	(65,981)	(169,713)	(154,168)
Derivatives	-	(42,732)	183,130	358,542	154,427	653,366	609,632
	55,635	**8,998**	**(213,220)**	**407,487**	**(166,724)**	**92,176**	**73,403**

As at 30 June 2018 in $000s	On demand	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total contractual cash flows	Total carrying value
Financial assets							
Cash and bank balances	50,281	-	-	-	-	50,281	50,281
Trade and other receivables	-	-	-	-	-	-	-
Marketable securities	-	114,836	59,305	61,268	-	235,409	231,420
Deposits	-	50,880	152,905	-	-	203,786	201,114
Loans to local government	-	236,487	1,460,213	4,447,506	2,859,147	9,003,353	7,975,728
Financial liabilities							
Payables and provisions	(444)	-	-	-	-	(444)	(444)
Bills	-	(375,000)	(100,000)	-	-	(475,000)	(473,421)
Bond repurchases	-	(6,184)	-	-	-	(6,184)	(6,183)
Bonds	-	(31,000)	(1,558,213)	(4,981,825)	(2,747,625)	(9,318,663)	(7,878,765)
Borrower notes	-	-	(23,639)	(74,147)	(52,889)	(150,675)	(135,108)
Derivatives	-	(15,961)	152,202	333,394	106,640	576,275	321,085
	49,837	**(25,942)**	**142,774**	**(213,803)**	**165,273**	**118,138**	**285,707**

c. Hedge accounting

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

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

For the year ended ended 30 June in $000s	2019 Gain/(loss)	2018 Gain/(loss)
Hedging instruments – interest rate swaps	312,996	58,487
Hedged items attributable to the hedged risk – fixed rate bonds	(312,996)	(58,487)
Ineffectiveness recognised in profit or loss from fair value hedges	-	-

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

d. Offsetting

NZ IAS 32: Financial Instruments Presentation allows financial assets and liabilities to be offset only when there is a current legally enforceable right to set off the amounts and there is an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously. LGFA does not offset any amounts. The amounts subject to an enforceable master netting arrangement or similar agreement that are not offset in the statement of financial position are detailed in the table below.

As at 30 June 2019 in $000s	Derivative assets	Derivative liabilities
Gross amounts	622,559	12,926
Amounts offset	-	-
Carrying amounts	622,559	12,926
Amounts that don't qualify for offsetting	-	-
Financial assets and liabilities	(12,926)	(12,926)
Collateral	-	-
Net Amount	**609,633**	**-**

As at 30 June 2018 in $000s	Derivative assets	Derivative liabilities
Gross amounts	375,371	54,286
Amounts offset	-	-
Carrying amounts	375,371	54,286
Amounts that don't qualify for offsetting	-	-
Financial assets and liabilities	(54,286)	(54,286)
Collateral	-	-
Net Amount	**321,085**	**-**

3 Issuance and on-lending expenses

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

For the year ended 30 June in $000s	2019	2018
NZDM facility fee	644	706
NZX	455	333
Rating agency fees	596	575
Legal fees for issuance	493	233
Regulatory, registry, other fees	147	106
Trustee fees	100	100
Approved issuer levy[1]	1,708	1,975
Information Services	144	154
	4,287	**4,182**

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

4 Operating expenses

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

For the year ended 30 June in $000s	2019	2018
Consultants	205	188
Directors fees	377	377
Insurance	65	60
Legal fees	84	88
Other expenses	796	743
Auditors' remuneration		
Statutory audit	96	87
Advisory services	-	-
Personnel	1,648	1,418
Recruitment	-	20
	3,271	**2,981**

5 Loans to local government

As at 30 June in $000s	2019 Short-term loans	2019 Loans	2018 Short-term loans	2018 Loans
Ashburton District Council	10,025	27,465	5,015	25,603
Auckland Council	-	2,422,898	-	2,101,357
Bay of Plenty Regional Council	90,974	50,631	-	-
Buller District Council	-	20,013	-	20,014
Canterbury Regional Council	6,006	32,108	-	30,103
Central Hawkes Bay District Council	-	2,027	-	2,027
Christchurch City Council	27,110	1,721,759	85,273	1,573,566
Clutha District Council	-	5,020	-	-
Far North District Council	-	40,149	-	40,130
Gisborne District Council	5,982	42,819	-	37,275
Gore District Council	6,011	13,059	6,014	11,064
Greater Wellington Regional Council	-	401,676	-	306,302
Grey District Council	4,978	15,305	-	20,446
Hamilton City Council	-	356,737	-	366,483
Hastings District Council	-	105,985	1,957	75,280
Hauraki District Council	-	38,192	-	38,156
Hawkes Bay Regional Council	-	2,509	-	-
Horizons Regional Council	-	35,182	-	20,035
Horowhenua District Council	11,006	85,780	6,008	72,868
Hurunui District Council	-	32,140	-	23,098
Hutt City Council	-	179,746	4,996	152,802
Invercargill City Council	25,093	30,095	-	-
Kaipara District Council	999	44,189	4,925	40,174
Kapiti Coast District Council	-	210,804	-	205,754
Manawatu District Council	-	68,229	-	61,180
Marlborough District Council	26,545	73,252	17,297	63,237
Masterton District Council	-	50,248	-	52,234
Matamata-Piako District Council	2,546	21,597	-	27,599
Nelson City Council	-	65,264	-	60,239
New Plymouth District Council	-	99,535	-	74,324
Northland Regional Council	-	9,728	-	8,634
Opotiki District Council	-	5,125	-	5,163
Otorohanga District Council	-	3,048	-	6,120
Palmerston North City Council	10,024	104,439	10,028	82,317

5 Loans to local government (cont)

As at 30 June in $000s	2019 Short-term loans	2019 Loans	2018 Short-term loans	2018 Loans
Porirua City Council	-	86,894	-	61,754
Queenstown Lakes District Council	20,076	85,644	10,096	75,954
Rangitikei District Council	-	3,013	-	-
Rotorua District Council	2,817	180,186	-	150,266
Ruapehu District Council	3,027	13,070	-	-
Selwyn District Council	5,097	10,053	-	15,021
South Taranaki District Council	-	80,383	-	62,278
South Wairarapa District Council	-	20,023	-	17,629
Stratford District Council	1,003	13,570	-	4,513
Tararua District Council	4,020	21,104	2,011	15,064
Tasman District Council	25,380	127,172	10,007	109,006
Taupo District Council	-	115,452	-	125,430
Tauranga City Council	9,963	432,609	-	362,308
Thames-Coromandel District Council	-	51,244	-	45,175
Timaru District Council	17,568	67,313	12,524	67,331
Upper Hutt City Council	4,975	38,174	4,976	31,638
Waikato District Council	-	80,400	-	80,382
Waikato Regional Council	-	22,120	-	-
Waimakariri District Council	10,010	135,872	20,024	105,818
Waipa District Council	-	15,013	-	13,016
Wairoa District Council	1,514	3,519	-	-
Waitomo District Council	10,055	30,093	10,066	25,086
Wellington City Council	-	533,151	-	395,384
West Coast Regional Council	1,985	5,608	-	-
Western Bay Of Plenty District Council	-	90,478	-	105,426
Westland District Council	-	18,688	2,998	14,361
Whakatane District Council	5,008	57,298	6,011	48,220
Whanganui District Council	-	73,408	5,005	73,367
Whangarei District Council	9,976	122,543	9,971	132,516
	359,771	**8,950,846**	**235,202**	**7,740,526**

As at 30 June 2019, $428.2 million of loans to local government are due to mature within 12 months. This comprises all short-term loans and $68.4 million of loans.

6 Bills on issue

As at 30 June 2019 in $000's	Face value	Unamortised premium	Accrued interest	Total
4 July 2019	25,000	-	(4)	24,996
10 July 2019	85,000	-	(41)	84,959
17 July 2019	25,000	-	(23)	24,977
29 July 2019	25,000	-	(35)	24,965
5 August 2019	25,000	-	(48)	24,952
14 August 2019	50,000	-	(109)	49,891
23 August 2019	45,000	-	(117)	44,883
11 September 2019	50,000	-	(174)	49,826
4 October 2019	25,000	-	(124)	24,876
9 October 2019	25,000	-	(125)	24,875
7 November 2019	25,000	-	(168)	24,832
13 November 2019	25,000	-	(159)	24,841
4 December 2019	25,000	-	(203)	24,797
11 December 2019	25,000	-	(180)	24,820
22 January 2020	25,000	-	(266)	24,734
	505,000	**-**	**(1,775)**	**503,225**

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

7 Bonds on issue

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

As at 30 June 2019 in $000's	Face Value	Unamortised premium	Accrued interest	Fair value hedge adjustment	Total
15 April 2020	980,000	(2,674)	6,185		
15 May 2021	1,450,000	40,569	11,111		
14 April 2022	710,000	5,876	4,161		
15 April 2023	1,450,000	56,972	16,778		
15 April 2024	950,000	(3,895)	4,497		
15 April 2025	1,379,000	(38,648)	7,978		
15 April 2027	1,276,000	51,179	12,080		
14 April 2033	740,000	(35,533)	5,520		
Total	**8,935,000**	**73,848**	**68,311**	**535,236**	**9,612,394**

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

8 Borrower notes

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

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

9 Treasury stock and bond repurchase transactions

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

LGFA makes these treasury stock bonds available to banks authorised as its tender counterparties to borrow under short-term repurchase transactions.

The objective of the bond lending facility is to assist with improving secondary market liquidity in LGFA bonds. Bonds lent to counterparties are disclosed as a separate stock lending liability on the face of the statement of financial position.

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

As at 30 June 2019, bond repurchase transactions comprised:

		30 June 2019 Bond repurchase trades	30 June 2018 Bond repurchase trades
15 March 2019	5% coupon	-	1,035
15 April 2020	3% coupon	-	4,076
15 May 2021	6% coupon	-	-
14 April 2022	2.75% coupon	15,535	-
15 April 2023	5.5% coupon	-	-
15 April 2024	2.25% coupon	-	-
15 April 2025	2.75% coupon	-	-
15 April 2027	4.5% coupon	5,837	1,072
14 April 2033	3.5% coupon	3,252	-
		24,625	**6,183**

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

For the year ended 30 June in $000s		2019	2018
Net profit/(loss) for the period		11,201	11,802
Cash applied to loans to local government	11	(1,330,360)	(191,878)
Non-cash adjustments			
Amortisation and depreciation		(3,579)	1,082
Working capital movements			
Net change in trade debtors and receivables		62	(9)
Net change in prepayments		(9)	(17)
Net change in accruals		(66)	(28)
Net Cash From Operating Activities		(1,322,752)	(179,048)

11 2018/19 Bond issuance and loans advanced

During the 12-months ended 30 June 2019, the gross nominal value of bonds issued and loans advanced were significantly higher than prior years:

Bonds issued: $2,456m (2018: $1,229m)

Loans advanced: $2.446m ($2018 1,088m)

12 Share Capital

As at 30 June 2019, LGFA had 45 million ordinary shares on issue, 20 million of which remain uncalled.

All ordinary shares rank equally with one vote attached to each ordinary share. Ordinary shares have a face value of $1 per share.

Shareholder information

Registered holders of equity securities as at 30 June	2019		2018	
New Zealand Government	5,000,000	11.1%	5,000,000	11.1%
Auckland Council	3,731,960	8.3%	3,731,960	8.3%
Christchurch City Council	3,731,960	8.3%	3,731,960	8.3%
Hamilton City Council	3,731,960	8.3%	3,731,960	8.3%
Bay of Plenty Regional Council	3,731,958	8.3%	3,731,958	8.3%
Greater Wellington Regional Council	3,731,958	8.3%	3,731,958	8.3%
Tasman District Council	3,731,958	8.3%	3,731,958	8.3%
Tauranga City Council	3,731,958	8.3%	3,731,958	8.3%
Wellington City Council	3,731,958	8.3%	3,731,958	8.3%
Western Bay of Plenty District Council	3,731,958	8.3%	3,731,958	8.3%
Whangarei District Council	1,492,784	3.3%	1,492,784	3.3%
Hastings District Council	746,392	1.7%	746,392	1.7%
Marlborough District Council	400,000	0.9%	400,000	0.9%
Selwyn District Council	373,196	0.8%	373,196	0.8%
Gisborne District Council	200,000	0.4%	200,000	0.4%
Hauraki District Council	200,000	0.4%	200,000	0.4%
Horowhenua District Council	200,000	0.4%	200,000	0.4%
Hutt City Council	200,000	0.4%	200,000	0.4%
Kapiti Coast District Council	200,000	0.4%	200,000	0.4%
Manawatu District Council	200,000	0.4%	200,000	0.4%
Masterton District Council	200,000	0.4%	200,000	0.4%
New Plymouth District Council	200,000	0.4%	200,000	0.4%
Otorohanga District Council	200,000	0.4%	200,000	0.4%
Palmerston North District Council	200,000	0.4%	200,000	0.4%
South Taranaki District Council	200,000	0.4%	200,000	0.4%
Taupo District Council	200,000	0.4%	200,000	0.4%
Thames - Coromandel District Council	200,000	0.4%	200,000	0.4%
Waimakariri District Council	200,000	0.4%	200,000	0.4%
Waipa District Council	200,000	0.4%	200,000	0.4%
Whakatane District Council	200,000	0.4%	200,000	0.4%
Whanganui District Council	200,000	0.4%	200,000	0.4%
	45,000,000	**100%**	**45,000,000**	**100%**

Capital management

LGFA's capital is equity, which comprises share capital and retained earnings. The objective of managing LGFA's equity is to ensure LGFA achieves its goals and objectives for which it has been established, whilst remaining a going concern.

Dividend

LGFA paid a dividend of $1,285,000 on 7 September 2018, being $0.0514 per paid up share (2018: $1,390,000 on 20 September 2017, being $0.0556 per paid up share).

13 Operating Leases

	2019	2018
Less than one year	108,728	121,533
Between one and five years	119,094	262,770
Total non-cancellable operating leases	**227,823**	**384,303**

14 Other assets

As at 30 June in $000s	2019	2018
Property, plant and equipment	-	-
Intangible assets[1]	457	609
Total other assets	**457**	**609**

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

15 Capital commitments

As at 30 June 2019, there are no capital commitments.

16 Contingencies

There are no contingent liabilities at balance date.

17 Related parties

Identity of related parties

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

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

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

Related party transactions

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

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

The Treasury (New Zealand Debt Management) provides LGFA with a committed credit facility and is LGFA's derivatives counterparty.

Transactions with key management personnel:

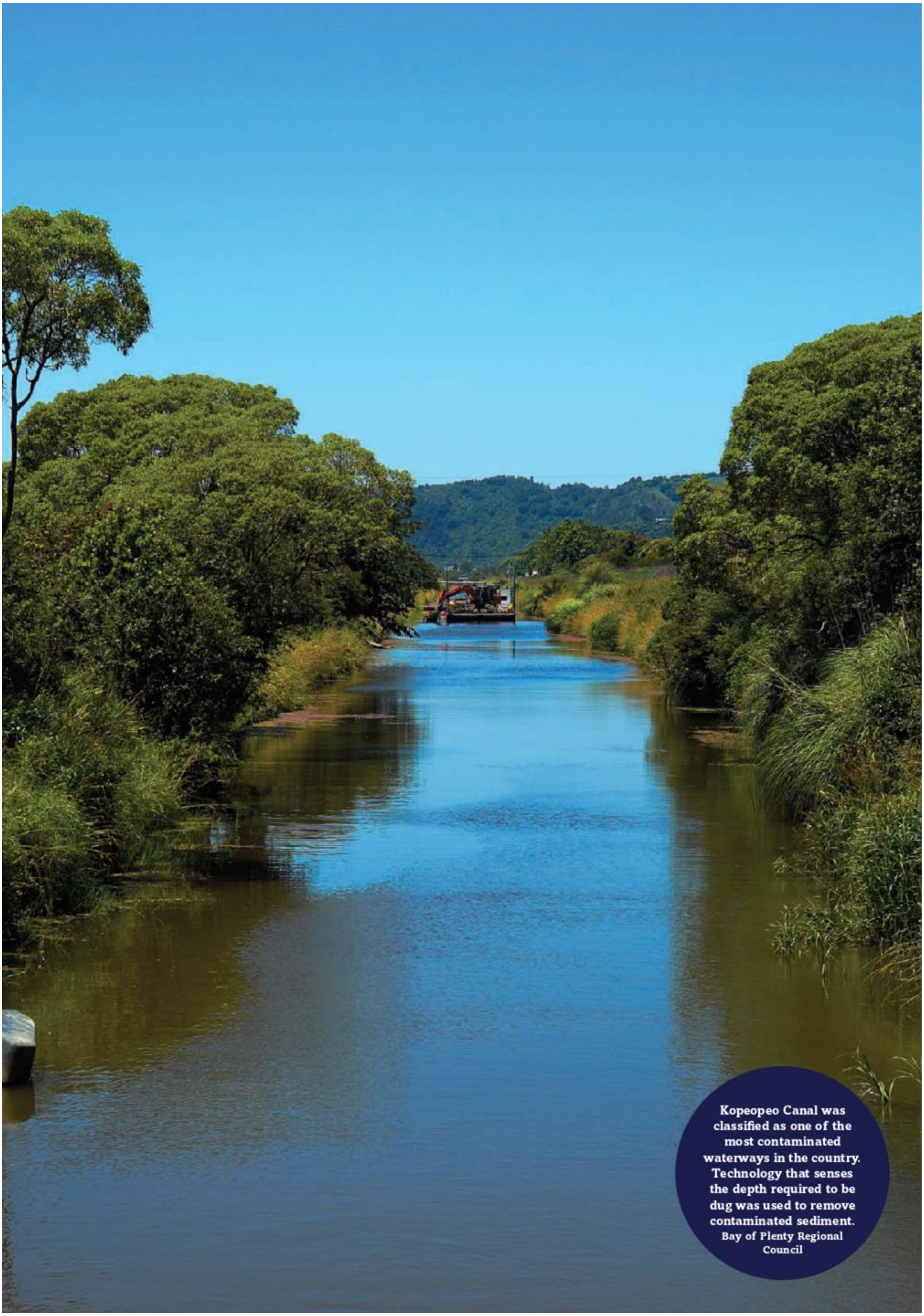
Salaries $904,300 (2018: $849,969)

Fees paid to directors are disclosed in operating expenses in Note 4.

18 Subsequent events

Subsequent to balance date, LGFA has issued $670 million in bonds through one tender and a syndication.

Subsequent to balance date, on 27 August 2019, the Directors of LGFA declared a dividend of $1,155,000 ($0.0462 per paid up share).


Kopeopeo Canal was classified as one of the most contaminated waterways in the country. Technology that senses the depth required to be dug was used to remove contaminated sediment.
Bay of Plenty Regional Council

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INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY LIMITED'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2019

The Auditor-General is the auditor of New Zealand Local Government Funding Agency Limited (the company). The Auditor-General has appointed me, Brent Manning, using the staff and resources of KPMG, to carry out the audit of the financial statements and performance information of the company on his behalf.

Opinion

We have audited:

- the financial statements of the company on pages 49 to 72, that comprise the statement of financial position as at 30 June 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the company on pages 36 to 47.

In our opinion:

- the financial statements of the company on pages 49 to 72:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2019; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Accepted Accounting Practic (NZ GAAP) and they comply with New Zealand Equivalents to Internationl Financial Reporting Standards and International Financial Reporting Standards (IFRS); and
- the performance information of the company on pages 36 to 47 presents fairly, in all material respects, the company's actual performance compared against the performance targets and other measures by which performance was judged in relation to the company's objectives for the year ended 30 June 2019.

Our audit was completed on 30 August 2019. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of

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misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at $74 million determined with reference to a benchmark of company Total Assets. We chose the benchmark because, in our view, this is a key measure of the company's performance. In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of a reasonably knowledgeable person ('qualitative' materiality).

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the readers as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements.

The key audit matter	How the matter was addressed in our audit
Existence and impairment of loans	
Refer to Note 5 to the Financial Statements. The loans LGFA has provided to local government make up over 90% of total assets. The loans are recognised at amortised cost and the nature of the counterparties is such that we do not consider these loans to be at high risk of significant misstatement. However, based on their materiality, and the judgement involved in assessing the credit worthiness of counterparties they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.	Our audit procedures included: - understanding the processes in place to assess borrowers and to record loan transactions. This included evaluating the control environment in place at LGFA. - agreeing the 30 June 2019 loan balances to eternal confirmations received from NZ Clear. - assessing the borrowers' compliance with financial covenants. We did not identify any material differences in relation to the existence or impairment of loans.
Application of hedge accounting	
Refer to Note 2 of the Financial Statements. LGFA enters into derivatives (interest rate swaps) to manage interest rate risk related to issuing fixed rate bonds. Fair value hedge accounting is applied where specific requirements are met around documentation of the hedge relationship and the relationship is demonstrated as being an effective hedge. Hedge accounting is complex, particularly in the area of whether the requirements (both initial and ongoing) for its application are met. Should the requirements for hedge accounting not be met, LGFA could experience significant volatility in the Statement of Comprehensive Income from changes in the fair value of the derivatives. Due to the size of the derivative positions and the complexity of hedge accounting we consider this to be a key audit matter.	Our audit procedures included: - agreeing the terms of the derivatives to the confirmation provided by the derivative counterparty. - using our treasury valuation specialists we independently recalculated the fair value of all of the derivatives recorded by LGFA. - ensuring the hedge documentation supporting the application of hedge accounting was in accordance with relevant accounting standards. - determining that management's hedge effectiveness calculations were correctly performed using appropriate source information. We did not identify any material differences in relation to the application of hedge accounting.

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Responsibilities of the Board of Directors for the financial statements and the performance information

The Board of Directors is responsible on behalf of the company for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for preparing the performance information for the company.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board of Directors is responsible on behalf of the company for assessing the company's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Board of Directors intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Local Government Act 2002 and the Financial Markets Conduct Act 2013.

Responsibilities of the auditor for the audit of the financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the performance information.

For the budget information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to the company's statement of intent.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We evaluate the appropriateness of the reported performance information within the company's framework for reporting its performance.

KPMG

- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 4 to 35, but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the company in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1(Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with, or interests in, the company.

Brent Manning
KPMG
On behalf of the Auditor-General
Wellington, New Zealand

Greater Wellington Regional Council's vehicle purchasing policy prioritises electric vehicles. EVs keep staff connected around the region while lowering the Council's carbon emissions.

Other disclosures
Whākitanga

Waivers from NZX Limited (NZX)

LGFA's fixed rate bonds are quoted on the NZX Debt Market (LGFA Bonds). NZX has granted LGFA a number of waivers from the NZX Listing Rules dated 1 October 2017.

Waiver from Rule 5.2.3

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

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

a. LGFA clearly and prominently disclose the waiver, its conditions and its implications in its annual reports and in each profile or Offering Document for the LGFA Bonds;

b. LGFA will disclose market liquidity as a risk in each offering document (excluding any offering document referred to in paragraph (f) of the definition of "Offering Document" under NZX Listing Rule 1.6.1) for the LGFA Bonds; and

c. the nature of LGFA's business and operations do not materially change from its business and operations as at the date of the waiver decision.

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

Effective from 1 July 2019, LGFA ceased to rely on this waiver as a result of its transition to the revised NZX Listing Rules dated 1 January 2019 (Revised Rules). The equivalent rules in the Revised Rules are not applicable to LGFA as an issuer of debt securities.

Waiver from Rule 6.3.2

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

Effective from 1 July 2019, LGFA ceased to rely on this waiver as a result of its transition to the Revised Rules. The equivalent rule in the Revised Rules is not applicable to LGFA as an issuer of debt securities.

Donations

No donations were made by LGFA during the year ended 30 June 2019.

Net Tangible Assets

Net tangible assets per $1,000 of listed bonds as at 30 June 2019 is $7.95 (2018: $7.92).

Earnings per security

Earnings per security as at 30 June 2019 is $1.20 (2018: $1.45).

Amount per security of final dividends

Not applicable

Spread of Quoted Security holders

Holding range	Holder count	Holder Count %	Holding Quantity	Holding Quantity %
10,000 to 49,999	380	45.89	9,819,000	0.11
50,000 to 99,999	152	18.36	10,781,000	0.12
100,000 to 499,999	184	22.22	37,648,000	0.4
500,000 to 999,999	38	4.59	26,090,000	0.28
1,000,000 to 9,999,999,999,999	74	8.94	9,250,662,000	99.1
Total	**828**	**100**	**9,335,000,000**	**100.01**

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

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

Appendix: Sustainability
Tāpiritanga

GRI Index

As part of LGFA's commitment on improving non-financial disclosures in relation to social responsibility and sustainability, LGFA has chosen to incorporate Global Reporting Initiative (GRI) standards when preparing this annual report.

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

The GRI index below shows where in this report information can be found about the indicators that are relevant to LGFA's business operations.

Disclosure title		Reference/Disclosure
102-1.	Name of the organisation	Page 4
102-2.	Activities, brands, products and services	Pages 4-9
102-3.	Location of headquarters	Page 81
102-4.	Location of operations	Page 81
102-5.	Ownership and legal form	Pages 4,53
102-6.	Markets served	Pages 4-6, 11-12, 36-47 New Zealand
102-7.	Scale of the organisation	Pages 4-9, 14-15, 22,51
102-8.	Information on employees and other workers	Pg 24,79
102-9.	Supply chain	Pages 4-9
102-10.	Significant changes to the organisation and its supply chain	None.
102-11.	Precautionary Principle or approach	N/A
102-12.	External initiatives	Pg 16
102-13.	Membership of Associations	Financial Service Providers Register
102-14.	Statement from senior decision-maker	Pages 11-12, 28
102-16.	Values, principles, standards, and norms of behavior	Pages 16-17, 25
102-40.	List of stakeholder groups	Not reported, to be disclosed in 2020 Annual Report
102-41.	Collective bargaining agreements	None
102-42.	Identifying and selecting stakeholders	Not reported, to be disclosed in 2020 Annual Report
102-43.	Approach to stakeholder engagement	Not reported, to be disclosed in 2020 Annual Report
102-44.	Key topics and concerns raised	Not reported, to be disclosed in 2020 Annual Report
102-45.	Entities included in the consolidated financial statements	Page 49
102-46.	Defining report content and topic Boundaries	Not reported, to be disclosed in 2020 Annual Report
102-47.	List of material topics	Not reported, to be disclosed in 2020 Annual Report

102-48. Restatements of information	None.
102-49. Changes in reporting	N/A (first year of reporting).
102-50. Reporting period	1 July 2018 to 30 June 2019.
102-51. Date of most recent report	2019 Annual Report.
102-52. Reporting cycle	Annual.
102-53. Contact point for questions regarding the report	lgfa@lgfa.co.nz
102-54. Claims of reporting in accordance with the GRI Standards	Not currently compliant.
102-55. GRI content index	Page 80
102-56. External assurance	None.
Topic disclosures	Reference/Disclosure
Diversity and equal opportunity	
103. Disclosure on management approach	Page 22
405-1. Diversity of governance bodies and employees	Page 22
Occupational health and safety	
103. Disclosure on management approach	Page 25

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

www.lgfa.co.nz

8.5 CONFIRMATION OF THE COUNCIL'S VOTE AT THE LOCAL GOVERNMENT FUNDING AGENCY'S 2019 ANNUAL GENERAL MEETING

Author: Jacinta Straker, Chief Financial Officer

Authoriser: Mark de Haast, Group Manager

PURPOSE OF REPORT

1 The purpose of this report is to provide the Strategy and Operations Committee with the Agenda for the recently held Annual General Meeting (AGM) of the Local Government Funding Agency (LGFA) and to confirm the Council's vote for each agenda item.

DELEGATION

2 While noting that this report is for information, the Strategy and Operations Committee, with its broad role of financial management, including risk mitigation, has the delegation to consider this report.

BACKGROUND

3 On 30 November 2012, the Council became a Principal Shareholding Local Authority in the LGFA. The LGFA was incorporated on 1 December 2011 with the primary objective of optimising the debt funding terms and conditions for Participating Local Authorities. This includes providing savings in annual interest costs, making longer-term borrowings available and enhancing the certainty of access to debt markets.

4 The LGFA issues bonds to wholesale and retail investors and on-lends the funds raised to participating local authorities with borrowing needs. The quality of the LFGA's credit rating, and the liquidity created by issuing homogenous local authority paper, ensures that participating councils can raise funds on better terms than if they were issuing in their own name.

5 The LGFA meets the Local Government Act 2002 (the Act) definition of a Council Controlled Organisation (CCO) as one or more local authorities have the right, directly or indirectly, to appoint 50% or more of the directors.

6 The LGFA recently held its AGM on 21 November 2019 in Wellington and the Agenda items included:

- election of directors to the LGFA Board;
- election of Nominating Local Authorities (NLA) to the Shareholders' Council;
- approval of directors' fees; and
- approval of proposed changes to the Foundation Policy and to the Shareholders Agreement to increase the Treasury Policy limits and to allow the LGFA to lend directly to CCOs.

ISSUES AND OPTIONS

Election of directors

7 The LGFA Shareholders Agreement requires the Board to comprise five independent directors and one non-independent director. Currently, the five independent directors are John Avery, Philip Cory-Wright, Anthony Quirk, Linda Robertson and Craig Stobo and the non-independent director is Mike Timmer.

8 Independent directors are defined in the Shareholders' Agreement as a director "who is not an employee of any shareholder, employee of a CCO owned (in whole or in part) by any shareholder or a councillor of any Local Authority which is a shareholder and was not such an employee or councillor at any time in the five years prior to the time that person's

appointment as a director. For the avoidance of doubt, a director (or former director) of a CCO shall not by virtue of this reason alone be precluded from being an independent director."

9 The Shareholders' Agreement sets out that one of the independent directors and the non-independent director must retire by rotation each year. If they wish, they can offer themselves for re-election.

10 Accordingly, this year Linda Robertson retires by rotation and offers herself for re-election as an independent director and Mike Timmer retires by rotation and offers himself for re-election as a non-independent director.

11 Both Linda Robertson and Mike Timmer have the support of the Shareholders' Council and the LGFA Board to continue as directors of LGFA.

Officers' Recommendation

12 Officers find no reason to vote against the candidates standing for re-election as directors on the LGFA Board, for the following reasons:

- the effective performance to date of the LGFA; and
- the skills and experience of the nominated directors.

Election of Nominating Local Authorities to the Shareholders' Council

13 A Principal Shareholder may be appointed or removed as a nominator of membership to the Shareholders' Council. Each NLA may appoint or remove one member of the Shareholders' Council.

14 Each member appointed by a NLA must be an employee or councillor of that NLA. In addition, the New Zealand Government (for so long as it is a Shareholder) may appoint or remove one other member of the Shareholders' Council.

15 The Shareholders' Council comprises between five and 10 members with the current members being the Crown and nine Council members. The current NLAs are:

- Auckland Council;
- Bay of Plenty Regional Council;
- Christchurch City Council;
- Hamilton City Council;
- Tasman District Council;
- Tauranga City Council;
- Wellington City Council;
- Western Bay of Plenty District Council, and
- Whangarei District Council.

16 The Shareholders Agreement requires two NLA members to retire by rotation each year. If they wish, they can offer themselves for re-election.

17 Accordingly, this year Auckland Council and Western Bay of Plenty District Council will retire and seek re-election.

18 Since the LGFA was established in 2011, the local authority membership of the Shareholders' Council has come almost entirely from the 'tight nine' group of councils that promoted and steered the establishment of the LGFA, plus the Bay of Plenty Regional Council, which was also a foundation member. These members also have the largest shareholdings in the LGFA.

19 At last year's AGM, Council Officers recommended voting for the candidates standing for re-election however Officers also recommended that the matter of 'refreshing' the composition of the Shareholders' Council also be raised with the LGFA and the Shareholders' Council.

20 The reasons for seeking to refresh the Shareholders Council composition are:

- because all LGFA shareholders regularly transact with the LGFA and having a greater shareholding (as a result of being a foundation member) does not mean that a council is any better placed to assess the governance or operations of an organisation than other councils with smaller shareholdings;
- other councils, for example, those undertaking more business with the LGFA are as well if not better placed to be considered as NLA appointments. Using the value of loans held at 30 June 2019 as a proxy for the amount of business done with the LGFA, officer's analysis suggests that the Greater Wellington Regional Council, Kāpiti Coast District Council, Rotorua District Council and Hutt City Council are worthy of consideration to become NLAs;
- to facilitate greater representation from the regions given that the majority of the current members of the Shareholders' Council are large metropolitan councils, whose views may not reflect those of their more provincial counterparts; and
- the continued uninterrupted membership of the Shareholders' Council might lead to 'staleness' of the existing membership. The introduction of a 'fresh pair of eyes' from outside can bring new ideas, greater inclusiveness and ultimately more assurance for all members

Officers' Recommendation

21 Officers recommend the re-election of the retiring NLAs - Auckland Council and Western Bay of Plenty District Council - while continuing to engage with the LGFA, the Shareholders Council and other shareholders to consider refreshment of the Shareholder Council composition.

Approval of director fee increases

22 The LGFA has proposed the following increases with effect from 1 July 2019:

(a) increasing the board chair's fees from $97,000 to $102,000 per year;

(b) increasing audit and risk committee members' fees from $55,000 to $59,000 per year;

(c) increasing the audit and risk committee chair's fee from $60,000 to $63,000 per year; and

(d) increasing all other directors' fees from $55,000 to $57,000.

23 A review of the fees from 2016 shows that approving the proposed increases would result in all four positions receiving an average 7-8% increase over each of the last three years.

24 While there are no specific concerns with the LGFA's performance, further fees increases are difficult to agree with. The continued increase of the fees from the already very reasonable levels is at odds with the Council's current context of fiscal restraint, an approach likely shared by many of the LGFA's other borrowers.

Officers' Recommendation

25 Officers recommend that none of the proposed fee increases be approved.

Changes to the LGFA Foundation Policy and Shareholders Agreement

26 All shareholder councils must comply with the 'Foundation Policies' outlined in the Shareholders Agreement. Any changes to the Foundation Policies and the Shareholders Agreement are effected by way of an Ordinary Resolution of the shareholders.

27 There are two proposed changes to the Foundation Policy requiring shareholder approval by Ordinary Resolution:

i. an increase in Treasury Policy limits due to the increased size of the LGFA's balance sheet; and

ii. putting in place direct lending to CCOs.

28 There are some minor changes to the Shareholders Agreement to reflect the potential lending to CCOs, which also requires shareholder approval by Ordinary Resolution:

Increase in Treasury Policy limits

29 The LGFA's business has both grown and changed over the last few years and since it was established in 2011. The total assets have grown from $3.92 billion in 2014 to $10.38 billion in 2019 and the liquid assets portfolio has grown from $101.7 million in 2014 to $448.1 million in 2019. The liquid assets portfolio was 4.3% of total assets in 2019, compared to 2.6% in 2014. This significant change reflects the increased bespoke and short-term lending that the LGFA is now providing for councils, and which subsequently requires some increases to the LGFA's Treasury Policy limits.

30 The proposed changes are shown in the table below, along with the rationale for the changes.

Current	Proposed change	Rationale for change
Category 2 Assets Maximum individual counterparty limit of $200 million. Maximum of 80% of assets. Maximum term of 3 years.	**Category 2 Assets** Maximum individual counterparty limit of $300 million. Maximum 80% of assets. Maximum term of 3 years.	The increase in the LGFA balance sheet, the amount of bespoke lending outside of the regular tender schedule and increased short term lending requires a larger Liquid Asset Portfolio. Individual category volume limits need to be increased to reflect the increasing size of the Liquid Asset Portfolio.
Category 3 Assets Maximum individual counterparty limits of $125 million (AA-) and $150 million (AA and AA+). Maximum of 80% of assets rated "AA-" or better. Maximum term of 3 years.	**Category 3 Assets** Maximum individual counterparty limits increased to $200 million for AA-, AA and AA+. Maximum of 80% allocation to assets rated "AA-" or better. Maximum term of 3 years.	The increase in the LGFA balance sheet, the amount of bespoke lending outside of the regular tender schedule and increased short term lending requires a larger Liquid Asset Portfolio. Individual category volume limits need to be increased to reflect the increasing size of the Liquid Asset Portfolio. The four major NZ banks are rated AA- so counterparty limits need to be adjusted to reflect their relative size.

Current	Proposed change	Rationale for change
Category 4 Assets Maximum individual counterparty limit of $125 million for a NZ Registered Bank. Maximum individual counterparty limit of $30 million for other issuers. Minimum credit rating for assets of “A1" short term rating and "A" long term rating. Maximum term of 1 year.	**Category 4 Assets** NZ Registered Bank Maximum individual counterparty limit of $200 million for a NZ Registered Bank. Maximum of 60% allocation to NZ Registered Bank assets rated “A+ “. Maximum term of 3 years.	The addition of limits for NZ Registered Banks allows for the possibility that the credit ratings of the Australasian parents of the NZ Registered Banks could be downgraded. If this should occur, then the credit ratings of the NZ subsidiaries would also be downgraded. Given the systemic importance of the NZ Registered Banks and RBNZ supervision we are comfortable holding their assets in the Liquid Asset Portfolio. The maximum term is to be extended to 3 years to ensure consistency with the maximum term for NZ Registered Banks with a credit rating of AA- or better.
	Category 5 Assets Other Issuers Maximum individual counterparty limit of $50 million for other issuers. Maximum of 10% allocation to Non-NZ Registered Bank assets rated “A+ “. Maximum term of 1 year.	It is preferred to distinguish between NZ Registered Banks and non-bank issuers. Non-bank issuers are not supervised and therefore a lower individual counterparty limit, maximum allocation limit and shorter maximum term are preferred.
Derivative Policy The Company will only enter into derivative transactions with New Zealand Debt Management Office as counterparty.	Unless explicitly approved otherwise by the Board, all derivative transactions must be transacted with New Zealand Debt Management as counterparty.	LGFA has ISDAs in place with three NZ Registered Banks, in case New Zealand Debt Management cannot provide derivatives to LGFA. This is for BCP.
Market Risk The Company's total 12 month forecast portfolio PDH (Partial Differential Hedge) Limit is $40,000. The Company's total portfolio VAR (Value at Risk) daily limit is $400,000.	The Company's total 12 month forecast portfolio PDH (Partial Differential Hedge) Limit is $100,000. The Company's total portfolio VAR daily limit is $1,000,000.	The current size of LGFA's balance sheet exceeds the original forecast and is projected to grow further in the next three years. Hence the need for a larger PDH limit. The larger balance sheet impacts on the size of the 3-month bank bill rate sets. Market volatility has also increased, resulting in an increase in VAR, holding all other variables constant. The LGFA Board will manage the exposure by having a lower limit threshold in the Treasury Policy.

Officers' Recommendation

31 Officers recommend that all of the above Treasury Policy limits be approved to help facilitate the LGFA's increased use of short-term and bespoke lending, to the benefit of its borrowers.

Direct Lending to CCOs

32 Currently the LGFA only lends to the parent council and not to any other related entities. This is not ideal as:

- Several councils borrow funds directly and then on-lend to their CCOs, for example Auckland Council (on-lends to Watercare); Christchurch City Council (on-lends to Christchurch City Holdings Limited); New Plymouth District Council (on-lends to New Plymouth Airport); and Rotorua District Council (on-lends to Rotorua Regional Airport).
- The LGFA cannot currently lend to multiple owned CCOs. While there are currently very few of these entities which have borrowings, they may be established in the future.
- Dunedin City Council (DCC) borrows via its Council Controlled Trading Organisation subsidiary company, Dunedin City Treasury Limited. This is one reason why DCC cannot become a member of LGFA.

33 The LGFA received shareholder approval in November 2018 to proceed with establishing a framework and process for it to lend directly to CCOs; this Council voted in support of that process.

34 The documentation, structure and process for putting CCO lending in place has been influenced by the following:

- LGFA will only lend to CCOs or council-controlled trading organisations ("CCTOs") if:
  - in the case of CCOs, its obligations are guaranteed by its council parent; or
  - in the case of CCTOs, it is supported by uncalled capital within the CCTO;
- All parent council shareholders must be guarantors of LGFA;
- Any CCO/CCTO borrower must be wholly owned, directly or indirectly, by one or more councils and Central Government (if applicable);
- Council shareholder(s) must agree to their CCO/CCTO joining LGFA. All shareholders of the CCO/CCTO must countersign the relevant accession deeds to the Notes Subscription Agreement and the Multi-Issuer Deed;
- CCO/CCTO holds the Borrower Notes, but prior to conversion the Borrower Notes are transferred to the relevant council shareholder(s);
- LGFA Board to approve each CCO/CCTO to join. LGFA to undertake financial and credit analysis of each CCO /CCTO before its accession, with ongoing surveillance. The LGFA's solicitors will review each CCO/CCTO's council shareholders' Debenture Trust Deed and CCO/CCTO security structure as part of the acceptance process by the LGFA Board;
- Bespoke covenants are to be negotiated between LGFA and each CCO/CCTO. LGFA may allow no covenants if LGFA is sufficiently comfortable with the guarantee/uncalled capital structure and the credit quality of the council shareholder(s);
- Annual testing of the CCO/CCTO compliance with financial covenants (if relevant) and reporting as per council membership;
- Credit analysis of the council shareholders and ongoing compliance with LGFA covenants will be undertaken on a parent basis and reported on a parent and consolidated group basis;
- Borrowing process to be as close as possible to the borrowing process for council lending;

- Pricing on CCO/CCTO loans in line with council shareholder borrowing, but set by LGFA;
- Lending to CCO/CCTO by LGFA is expected to be on the same (or better) security terms than their existing banking security;
- Redemption of LGFA loans to CCO/CCTO if the CCO ceases to be a CCO; and
- Reporting to LGFA shareholders on a quarterly basis as to breakdown of CCO/CCTO lending.

Officers' Recommendation

35 Officers support the proposed changes to the Foundation Policy to facilitate lending to CCOs for the following reasons:

- There are some council members who currently borrow and on-lend to their CCO subsidiaries, so establishing lending to CCO will give them the option to streamline the borrowing process and provide more flexibility in how they restructure their borrowings.
- There is no increased risk to the LGFA - all councils must remain compliant with the LGFA covenants and the LGFA has recourse over rates revenue as security. Additionally, where a CCO borrows from the LGFA, the LGFA has the benefit of a parent council uncalled capital or guarantee.
- The LGFA do not feel that credit rating agencies or investors would be concerned with the introduction of lending to CCOs because all councils must remain compliant with the LGFA covenants and the underlying security remains unchanged. Lending to CCOs will also diversify the LGFA lending book and could bring in new council members to the LGFA.
- The proposed changes will not make it easier for councils to borrow more or to avoid a covenant breach because the Board approves testing of a council at the group or parent level.

Changes to the LGFA Foundation Policy and Shareholders Agreement

36 A number of minor amendments have been made to the Shareholders Agreement to reflect the LGFA's proposed ability to be able to lend to CCOs.

37 Officers are supportive of all these changes

CONSIDERATIONS

Policy considerations

38 There are no policy considerations.

Legal considerations

39 The Council's voting intentions were clearly set out on the Proxy Form delivered to the LGFA prior to the AGM and attached as Appendix 1.

40 The LGFA received notice from the Council, authorising the proxy to vote on its behalf not later than 48 hours before the start of the AGM, which was 2pm on Wednesday, 21 November 2019.

Financial considerations

41 There are no financial considerations in addition to those already discussed within this report.

Tāngata whenua considerations

42 There are no issues requiring specific consideration by Tāngata whenua.

Strategic considerations

43 The prudent use of the LGFA for all the Council's borrowing requirements contributes to the key 10-year outcome of improved financial position against financial constraints by allowing the Council to achieve lower interest rate costs.

SIGNIFICANCE AND ENGAGEMENT

Significance policy

44 This matter has a low level of significance under the Council's Significance and Engagement Policy.

Consultation already undertaken

45 No consultation has been undertaken in the development of this report.

Engagement planning

46 An engagement plan is not needed for this report to be considered.

Publicity

47 There are no publicity considerations.

RECOMMENDATIONS

50 That the Strategy and Operations Committee:

i. receives the report, including the proposed changes to the Local Government Funding Agency Foundation Policy and Shareholders Agreement, attached as Appendices 2 and 3 to the report; and

ii. recommends that the Strategy and Operations Committee:

a) notes that the Chief Executive authorised Jacinta Straker (Chief Financial Officer) to vote on behalf of the Council, at the Local Government Funding Agency's 2019 Annual General Meeting to be held on 21 November 2019, in accordance with the Council's votes on recommendations (aa) to (jj) inclusive, noting Committee recommendations in bold;

or, if Council officers were unable to attend the Annual General Meeting:

b) notes that the Chief Executive authorised Mark Butcher (Chief Executive Officer, LGFA) as the Council's proxy to vote on behalf of the Council, at the Local Government Funding Agency's 2019 Annual General Meeting to be held on 21 November 2019, in accordance with the Council's votes on recommendations (aa) to (jj) inclusive, noting Committee recommendations in bold:

(aa) re-elect Linda Robertson as an independent director of the LGFA - (**For**/Against); and

(bb) re-elect Michael Timmer as non-independent director of the LGFA - (**For**/Against); and

(cc) re-elect Auckland Council as a Nominating Local Authority - (**For**/Against); and

(dd) re-elect Western Bay of Plenty District Council as a Nominating Local Authority - (**For**/Against);

(ee) With effect from 1 July 2019, approve an increase in fees payable for the director acting as chairman of the board of directors of $5,000 per annum, from $97,000 per annum to $102,000 per annum - (For/**Against**);

(ff) With effect from 1 July 2019, approve an increase in fees payable for each of the other directors acting as members of the audit and risk committee, an increase of $4,000 per annum, from $55,000 per annum to $59,000 per annum - (For/**Against**);

(gg) With effect from 1 July 2019, approve an increase in fees payable for the director acting as chairman of the audit and risk committee of $3,000 per annum, from $60,000 per annum to $63,000 per annum - (For/**Against**);

(hh) With effect from 1 July 2019, approve an increase in fees payable for each of the other directors of $2,000 per annum, from $55,000 per annum to $57,000 per annum - (For/**Against**);

(ii) approve, the amendments to the Foundation Policy of the LGFA - (**For**/Against); and

(jj) approve, the amendments to the Shareholders Agreement of the LGFA - (**For**/Against).

iii authorises officers to continue to engage with the LGFA, the Shareholders' Council and other shareholders on the matter of refreshing the composition of the Shareholders' Council.

APPENDICES

1. AGM Proxy Form ⇩
2. Updated Foundation Policies ⇩
3. Updated Shareholders' Agreement ⇩

Appendix 1

NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY LIMITED

PROXY FORM

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

I/~~We~~ Wayne Maxwell

of Kapiti Coast District Council (KCDC)

being a shareholder of New Zealand Local Government Funding Agency Limited ("**Company**") appoint Jacinta Straker

of KCDC or failing him/her Mark Butcher

of LGFA as ~~my~~/our proxy to vote for ~~me~~/us at the annual meeting of the Company to be held on 21 November 2019 and at any adjournment thereof.

If you wish to direct the proxy how to vote, please indicate with a ☒ in the appropriate box below. If the proxy can vote as he or she thinks fit, please indicate with a ☒ in the following box:

		For	Against
1(a)	To re-elect **Linda Robertson** as an Independent Director of the Company	☒	☐
1(b)	To re-elect **Michael Timmer** as a non-Independent Director of the Company	☒	☐
2.	To re-elect **Auckland Council** as a Nominating Local Authority	☒	☐
3.	To re-elect **Western Bay of Plenty District Council** as a Nominating Local Authority	☒	☐
4.	To approve the following increases in director fees payable		
	(a) With effect from 1 July 2019 the director acting as chairman of the board of directors of $5,000 per annum, from $97,000 per annum to $102,000 per annum	☐	☒
	(b) With effect from 1 July 2019, each of the other directors acting as members of the audit and risk committee, an increase of $4,000 per annum, from $55,000 per annum to $59,000 per annum	☐	☒
	(c) With effect from 1 July 2019, the director acting as chairman of the audit and risk committee of $3,000 per annum, from $60,000 per annum to $63,000 per annum.	☐	☒
	(d) With effect from 1 July 2019, each of the other directors an increase of $2000 per annum, from $55,000 per annum to $57,000 per annum	☐	☒
5.	To approve the changes to the foundation policies of the Company	☒	☐
6.	To approve the changes to the Shareholders Agreement	☒	☐

(Please refer to the notice of meeting for details of the resolutions)

Wayne Maxwell

Signature of Shareholder

Dated: 14 November 2019

Notes:

1. If you wish you may appoint as your proxy the chairperson of the meeting.

2. If you are a body corporate, this proxy form must be signed on behalf of the body corporate by a person acting under the body corporate's express or implied authority.

3. For this proxy form to be valid, you must complete it and produce it to the Company at least 48 hours before the time for holding the meeting. You can produce it to the Company by delivering it to **Level 8, City Chambers, 142 Featherston Street, Wellington 6145. It must be received at least 48 hours before the time for holding the meeting.**

4. If this proxy form has been signed under a power of attorney, a copy of the power of attorney (unless already deposited with the Company) and a signed certificate of non-revocation of the power of attorney must be produced to the Company with this proxy form.

5. If you return this form without directing the proxy how to vote on any particular matter, the proxy can vote how he or she thinks fit if authorised by you in this proxy form by ticking the appropriate box. Otherwise, the proxy will be deemed to have abstained from voting on that matter.

6. Capitalised terms in this proxy form have the meanings given to them in the shareholders' agreement dated 7 December 2011 (as amended from time to time) between the Company and its shareholders.

Appendix 2

Foundation Policies
(Clause 5.1 of the Shareholders' Agreement)

All foundation policies may be reviewed annually by Principal Shareholders at the annual meeting of Shareholders. Any alteration requires approval pursuant to clause 5.1.

Credit Risk

Lending Policy

All Local Authorities that borrow from the Company will:

- Provide debenture security in relation to their borrowing from the Company and related obligations, and (if relevant), equity commitment liabilities to the Company and (if relevant) guarantee liabilities to a security trustee approved for the Company's creditors.
- Issue securities (bonds / FRNs / CP) to the Company and/or enter into facility arrangements with the Company.
- Comply with their own internal borrowing policies.
- Comply with the financial covenants outlined in the following table, provided that:
    - Unrated Local Authorities or Local Authorities with a long-term credit rating lower than 'A' equivalent can have bespoke financial covenants that exceed the:
        - Lending policy covenants outlined in the following table with the approval of the Board;
        - Foundation policy covenants outlined in the following table with the approval of an Ordinary Resolution.
    - Local Authorities with a long-term credit rating of 'A' equivalent or higher will not be required to comply with the lending policy covenants in the following table, and can have bespoke financial covenants that exceed the foundation policy covenants outlined in the following table with the approval of an Ordinary Resolution.
    - Any Board or Ordinary Resolution approval of bespoke financial covenants will only be provided after a robust credit analysis and any approval must also include bespoke reporting and monitoring arrangements.
- If the principal amount of a Local Authority's borrowings, or the Company's commitment under a facility agreement with a Local Authority, is at any time greater than NZD 20 million, be a party to a deed of guarantee and an equity commitment deed (in each case in a form set by the Company).

Financial covenant	Lending policy covenants	Foundation policy covenants
Net Debt / Total Revenue	<175%	<250%
Net Interest / Total Revenue	<20%	<20%
Net Interest / Annual Rates Income	<25%	<30%
Liquidity	>110%	>110%

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Total Revenue is defined as cash earnings from rates, grants and subsidies, user charges, interest, dividends, financial and other revenue and excludes non government capital contributions (e.g. developer contributions and vested assets).
Net debt is defined as total debt less liquid financial assets and investments.
Liquidity is defined as external debt plus committed loan facilities plus liquid investments divided by external debt.
Net Interest is defined as the amount equal to all interest and financing costs less interest income for the relevant period.
Annual Rates Income is defined as the amount equal to the total revenue from any funding mechanism authorised by the Local Government (Rating) Act 2002 together with any revenue received from other local authorities for services provided (and for which the other local authorities rate).

Financial covenants are measured on Council only basis and not consolidated group basis, unless requested by a Local Authority and approved by the Board.

During the initial three years of operation the Auckland Council will be limited to a maximum of 60% of the Company's total Local Authority (including CCOs (as defined below)) assets. After three years Auckland Council will be limited to a maximum of 40% of the Company's total Local Authority (including CCO) assets.

No more than the greater of NZD 100 million or 33% of a Local Authority's or CCO's (as defined below) borrowings from the Company will mature in any 12 month period.

Subject to implementation of any amendments or other actions considered necessary, advisable or expedient by the Board and the approval of the Board in relation to the relevant CCO (as defined below) (which may be a Council-Controlled Trading Organisation), an approved CCO may borrow from the Company provided that:

- The CCO is a "council-controlled organisation" as defined in section 6 of the Local Government Act 2002, where the CCO is a company in which equity securities carrying at least 51% or more of the voting rights at a meeting of the shareholders of the CCO are held or controlled, directly or indirectly, by one or more Local Authorities (respectively, a "CCO" and each such Local Authority being a "CCO Shareholder");
- Each CCO Shareholder provides a guarantee in respect of the CCO in favour of the Company and/or there is sufficient uncalled capital in respect of the CCO to meet the financial obligations of the CCO;
- Each CCO Shareholder provides equity commitment liabilities to the Company, guarantees liabilities to a security trustee approved for the Company's creditors, and provides debenture security for its equity commitments to the Company and guarantee liabilities to the security trustee;
- Each CCO Shareholder complies with Lending policy financial covenants, Foundation policy financial covenants or other financial covenants required by the Board (if any);
- The CCO complies with any covenants required by the Board; and
- If required by the Board, the CCO will grant security in favour of the Company (which may be subject to any intercreditor arrangements acceptable to the Board).

Where the Company agrees to provide funding to the CCO, it must within 90 days of receiving annual financial covenant reporting from a CCO Shareholder (in its capacity as a borrower) report to the Shareholders' Council, holders of ordinary shares in the Company and any Local Authority guarantors of the Company's liabilities as to whether that CCO Shareholder has complied with its financial covenants on an individual and consolidated group basis.

Notwithstanding the definition of "CCO" set out above, the Board may not approve a CCO to borrow from the Company unless 100% of the equity securities carrying voting rights at a meeting of shareholders of the CCO are held or controlled, directly or indirectly, by one or more Local Authorities and the Crown (if applicable).

Cash and Liquid Investment Policy

The Company will only invest in NZD senior debt securities, money market deposits and registered certificates of deposits within the counterparty limits outlined in the following table.

New Zealand Local Authority and CCO securities are excluded from the Company's cash and liquidity portfolio.

Counterparty[1]	S & P Credit Rating or equivalent (Short-term / long-term)[2]	Maximum % Limit (Total Cash + Liquid Assets)	Minimum % Limit (Total Cash + Liquid Assets)	Maximum New Zealand Dollar counterparty Limit (millions)[3]	Maximum term (years)[4]
Category 1: NZ Government or RBNZ[5]	N/A	100%	20%	Unlimited	No longer than the longest dated LGFA maturity on issue
Category 2	A1+ / AAA	80%	N/A	300	3
Category 3	A1+: A1 / AA+	80%	N/A	200	3
	A1+: A1 / AA	80%	N/A	200	3
	A1+: A1 / AA-	80%	N/A	200	3
Category 4	A1: /A+, NZ Registered Bank	60%	N/A	200	3
Category 5	A1: /A+ Other Issuers	10%	N/A	50	1

The maximum individual counterparty limit (excluding the NZ Government) cannot be greater than 100% of Accessible Capital. Accessible Capital is defined as issued and paid capital plus retained earnings plus issued and unpaid capital plus outstanding borrower notes.

Derivative Policy

Unless explicitly approved otherwise by the Board, all derivative transactions must be transacted with New Zealand Debt Management as counterparty.

Market Risk

The Company's total 12 month forecast portfolio PDH (Partial Differential Hedge) Limit is $100,000[6].

The Company's total portfolio Value at Risk (VaR) daily limit is $1,000,000[7].

Foreign exchange risk policy

[1] Category 2, 3, 4 and 5 counterparties do not include the RBNZ or the NZ Government.

[2] Short term rating applies for all securities with a maturity date of 365 days or less.

[3] If the counterparty credit rating is downgraded below the allowed limit, LGFA has 30 days to sell the security.

[4] Maximum term applies from the date of settlement.

[5] At least 20% of the portfolio must be held at the RBNZ or invested in NZ Government securities.

[6] PDH risk measures the sensitivity of a portfolio to a one basis point change in underlying interest rates. For example a PDH of $100,000 means that the portfolio value will fall by $100,000 for a one basis point fall in interest rates.

[7] VaR measures expected loss for a given period with a given confidence. For example, 95% confidence, daily VaR of $1,000,000 means that it is expected that the portfolio will lose $1,000,000 on 5% of days. i.e. 1 day in 20 the portfolio value will decrease by $1,000,000.

The Company will take no foreign exchange risk.

Operational Risk

Unless explicitly approved otherwise by the Board, the Company will outsource the following functions to New Zealand Debt Management as follows:

- Hedging – New Zealand Debt Management is the LGFA interest rate swap counterparty.

Dividend policy

The policy is to pay a dividend that provides an annual rate of return to Shareholders equal to the Company's cost of funds plus 2.00% over the medium term, recognising that, to assist in the start-up period, the initial expectation is for no dividend for the part period to 30 June 2012, and for a dividend equal to 50% of the target dividend in the two periods to 30 June 2014 to be paid. Thereafter, the intention is to pay at least the full target dividend until the target dividend return is achieved as measured from commencement, including consideration of the time value of money at the target annual rate of return.

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

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Appendix 3

Amended SHA, as at 25.09.19

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Shareholders' Agreement

PARTIES

Auckland Council, Bay of Plenty Regional Council, Christchurch City Council, Gisborne District Council, Hamilton City Council, Hastings District Council, Hauraki District Council, Horowhenua District Council, Hutt City Council, Kāpiti Coast District Council, Manawatu District Council, Marlborough District Council, Masterton District Council, New Plymouth District Council, Otorohanga District Council, Palmerston North City Council, Selwyn District Council, South Taranaki District Council, Tasman District Council, Taupo District Council, Tauranga City Council, Thames-Coromandel District Council, Wanganui District Council, Waimakariri District Council, Waipa District Council, Wellington City Council, Wellington Regional Council, Western Bay of Plenty District Council, Whakatane District Council, Whangarei District Council and Her Majesty The Queen in Right of New Zealand acting by and through the Minister of Local Government and the Minister Of Finance

each a **Shareholder**

New Zealand Local Government Funding Agency Limited

Company

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CONTENTS

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AGREEMENT dated 7 December 2011 (as amended on 16 November 2012 and 19 November 2013 and amended and restated on 4 June 2015 and **[●]** 2019)

PARTIES

Auckland Council, Bay of Plenty Regional Council, Christchurch City Council, Gisborne District Council, Hamilton City Council, Hastings District Council, Hauraki District Council, Horowhenua District Council, Hutt City Council, Kāpiti Coast District Council, Manawatu District Council, Marlborough District Council, Masterton District Council, New Plymouth District Council, Otorohanga District Council, Palmerston North City Council, Selwyn District Council, South Taranaki District Council, Tasman District Council, Taupo District Council, Tauranga City Council, Thames-Coromandel District Council, Wanganui District Council, Waimakariri District Council, Waipa District Council, Wellington City Council, Wellington Regional Council, Western Bay of Plenty District Council, Whakatane District Council, Whangarei District Council and Her Majesty The Queen in Right of New Zealand acting by and through the Minister of Local Government and the Minister of Finance

(each a "**Shareholder**")

New Zealand Local Government Funding Agency Limited

("**Company**")

INTRODUCTION

A. The Shareholders are shareholders in the Company.

B. The Shareholders and Company have agreed to enter into this agreement.

AGREEMENT

1. INTERPRETATION

1.1 **Definitions**: In this agreement, unless the context otherwise requires:

"**Acceptance Date**" has the meaning in clause 10.3.

"**Accession Deed**" means a deed in the form set out in schedule 4, or such other form as is approved by the Board.

"**Auditor**" means the Auditor-General (or any nominee of the Auditor-General).

"**Authorisation**" means an authorisation, consent, declaration, exemption, notarisation or waiver, however it is described.

"**Bill Rate**" means:

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(a) in respect of any rate of interest to be calculated pursuant to this agreement the mid or "FRA" rate for 90 day bank accepted bills (expressed as a percentage) as quoted on Reuters page BKBM (or any successor page) at or about 10.45 am on the first Business Day of the period in respect of which such rate of interest is to be calculated, and thereafter at intervals of 90 days from that Business Day; or

(b) if the rate cannot be determined pursuant to paragraph (a) above, the rate determined by the Board in its absolute discretion as a reasonable estimate of the Company's cost of funds on that date.

"**Board**" means the board of directors of the Company.

"**Borrowed Money Indebtedness**" has the meaning given in the Multi-issuer Deed.

"**Borrower Notes**" means notes issued by the Company to Participating Borrowers pursuant to a notes subscription agreement dated on or about the date of this agreement.

"**Business Day**" means a day (other than a Saturday, Sunday or public holiday) on which registered banks are open for business in Christchurch, Wellington and Auckland.

"**Buyer**" has the meaning in clause 10.4.

"**CCO**" means a council-controlled organisation as defined in section 6 of the Local Government Act.

"**CCO Shareholder**" means, in relation to a Participating CCO, a person that holds or controls (directly or indirectly) any equity securities of that CCO.

"**Companies Act**" means the Companies Act 1993.

"**Constitution**" means the constitution of the Company.

"**Defaulting Shareholder**" has the meaning given in clause 13.1.

"**Director**" means a director of the Company.

"**Event of Default**" in respect of a Shareholder means an event specified in schedule 5.

"**Event of Review**" has the meaning given in the Multi-issuer Deed.

"**Fair Value**" in respect of Shares means the fair market value of those Shares determined in accordance with clause 1.3.

"**First Opening**" means the initial subscription for, and issue of, Shares in the Company, other than any Shares issued on incorporation of the Company, which shall occur on or about the date of this agreement.

"**Guarantor**" means a guarantor of the obligations of the Company pursuant to a deed of guarantee and indemnity dated on or about the date of this agreement.

"**Guarantor's Equity Commitment**" means the agreement of a Guarantor to subscribe for Redeemable Shares in certain circumstances and being in, or substantially in, the same form for each Guarantor.

"**Incoming Principal Shareholder**" means a Local Authority which is to acquire Ordinary Shares as part of the Second Opening.

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"**Independent Director**" means a Director who is not an employee of any Shareholder, employee of a CCO owned (in whole or in part) by any Shareholder, or a councillor of any Local Authority which is a Shareholder, and was not such an employee or councillor at any time in the five years prior to the time of that person's appointment as a Director. For the avoidance of doubt, a director (or former director) of a CCO (that is not a Participating CCO) shall not, by virtue of this reason alone, be precluded from being an Independent Director.

"**Local Authority**" has the meaning in section 5 of the Local Government Act.

"**Local Government Act**" means the Local Government Act 2002.

"**Multi-issuer Deed**" means the deed entered into on or about the date of this agreement between the Company and the Local Authorities named therein.

"**New Zealand Debt Management Office**" means Her Majesty the Queen in right of New Zealand acting by and through the New Zealand Debt Management Office.

"**New Zealand Government**" means Her Majesty the Queen in right of New Zealand acting by and through the Minister of Local Government and the Minister of Finance, as (and for so long as it is) a Principal Shareholder.

"**Nominating Local Authority**" has the meaning given at clause 4.3.

"**Non-Pro Rata Sell-Down Shareholder**" has the meaning given in clause 8.3.

"**Ordinary Resolution**" means a resolution that is approved by a simple majority of the votes of those Shareholders entitled to vote and voting on the question (and which shall include any resolution signed in accordance with section 122 of the Companies Act).

"**Ordinary Share**" means an ordinary share in the Company.

"**Participating Borrower**" means a Participating Local Authority or a Participating CCO.

"**Participating CCO**" means a CCO that has entered into one or more arrangements to be provided debt funding by the Company.

"**Participating Local Authority**" means a Local Authority that has entered into one or more arrangements to be provided debt funding by the Company.

"**Policies**" means the policies of the Company relating to the following matters, as the same may be amended or updated by the Board or, where relevant, in accordance with clause 5.1:

(a) dividends;

(b) liquidity;

(c) pricing;

(d) lending;

(e) investing;

(f) borrowing; and

(g) treasury.

For the avoidance of doubt, the dividend policy shall be set out in the Statement of Intent, and the other policies may be set out in such individual documents, or composite documents, as the Board may determine.

"**Principal Shareholders**" means those Shareholders who hold Ordinary Shares (and not just Redeemable Shares).

"**Redeemable Share**" means a redeemable share in the Company having the rights and obligations set out in clause 3.4 of the Constitution.

"**Retained Share Number**" has the meaning given in clause 8.3.

"**Sale Interest**" has the meaning given in clause 10.2.

"**Sale Notice**" has the meaning given in clause 10.2.

"**Second Opening**" means the introduction of Incoming Principal Shareholders, to be effected by way of a transfer of Ordinary Shares held by the then current Principal Shareholders (other than the New Zealand Government), in accordance with clause 8.

"**Securities**" has the meaning given in the Multi-issuer Deed.

"**Sell-Down Shareholder**" has the meaning given in clause 8.2.

"**Seller**" has the meaning given in clause 10.2.

"**Share**" means an Ordinary Share or a Redeemable Share.

"**Shareholder**" means:

(a) any of the parties to this agreement (other than the Company); and

(b) any person which acquires Shares and which has executed an Accession Deed or is deemed to have agreed to be bound by this agreement.

"**Shareholders' Council**" means the members constituting the shareholders' council established pursuant to clause 4.

"**Special Resolution**" means a resolution approved by a majority of 75% or more of the votes of those Shareholders entitled to vote and voting on the question (and which shall include any resolution signed in accordance with section 122 of the Companies Act).

"**Specified Sale Number**" has the meaning given in clause 8.2.

"**Statement of Intent**" means a statement of intent for the Company as contemplated by section 64(1) of the Local Government Act initially in the form adopted by the Board on or prior to the date of this agreement, and as the same may be amended or replaced by the Board or, where relevant, in accordance with clause 5.1.

1.2 **Interpretation**: Unless the context otherwise requires or specifically otherwise stated:

(a) headings are to be ignored;

(b) "including" and similar words do not imply any limitation;

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(c) a reference to a statute or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them (whether before or after the date of this agreement);

(d) any covenant or agreement on the part of two or more persons binds those persons jointly and severally;

(e) reference to a party, person or entity includes:

(i) an individual, partnership, firm, company, body corporate, corporation, association, trust, estate, state, government or any agency thereof, municipal or local authority and any other entity, whether incorporated or not (in each case whether or not having a separate legal personality); and

(ii) an employee, agent, successor, permitted assign, executor, administrator and other representative of such party, person or entity;

(f) a right or power may be exercised from time to time and at any time;

(g) the singular includes plural and vice versa;

(h) one gender includes the other genders;

(i) references to money are to New Zealand dollars;

(j) references to times of day or dates are to New Zealand times and dates;

(k) definitions in the Companies Act have the same meaning in this agreement;

(l) any word or expression cognate with a definition in this agreement has a meaning corresponding or construed to the definition;

(m) reference to a clause, sub-clause, schedule or a party is a reference to that clause, sub-clause, schedule or party in this agreement;

(n) reference to any document includes reference to that document (and, where applicable, any of its provisions) as amended, novated, supplemented, or replaced from time to time;

(o) each schedule and any other attachment forms part of this agreement;

(p) if there is any conflict between this agreement and the Constitution, this agreement shall prevail;

(q) "**security interest**" means:

(i) in respect of any personal property, a security interest (as defined in the Personal Property Securities Act 1999 ("**PPSA**"));

(ii) in respect of any other property or any rights in any other property (in each case to which the PPSA does not apply), any interest which, were the PPSA to apply to that property or those rights, would constitute such a security interest;

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(r) "written" and "in writing" include any means of reproducing words, figures or symbols in a tangible and visible form;

(s) a reference to anything of a particular nature following upon a general statement shall not in any way derogate from, or limit the application of the general statement, unless the particular context requires such derogation or limitation;

(t) reference to "month" or "monthly" means calendar month or calendar monthly; and

(u) a reference to "year" or "yearly" is a reference to a calendar year.

1.3 **Fair Value**: If it is necessary for any purpose of this agreement to determine the fair market value of Shares:

(a) the Company and the relevant Shareholder shall, for a period of five Business Days after one of them gives notice to the other, endeavour to agree on the fair market value of those Shares;

(b) if the Company and the relevant Shareholder do not agree on the fair market value of those Shares within the period of five Business Days referred to in clause 1.3(a), the fair market value shall be determined by an independent valuer agreed upon by the Company and the relevant Shareholder, or failing agreement within five Business Days after the end of that period, appointed on the application of either of them by the president for the time being of the New Zealand Institute of Chartered Accountants or his or her nominee;

(c) the person appointed as valuer under clause 1.3(b) shall:

(i) act as a expert and not as arbitrator;

(ii) determine the fair market value of the Shares as soon as possible, which valuation shall be conclusive;

(d) in determining the fair market value of the Shares, the valuer shall determine the fair market value of all of the Shares in the Company, and shall then determine the fair market value of the Shares in question as the appropriate percentage of the value of all Shares, so that no regard shall be had to the control of the Company, or to any premium for control or discount for lack of control;

(e) the Company and the relevant Shareholder shall promptly and openly make available to the valuer all information in their possession or under their control relating to the Company to enable the valuer to proceed with the valuation on an informed basis as to the financial position, affairs, performance, and prospects of the Company; and

(f) the fees and expenses of the valuer shall be paid by the Company and the relevant Shareholder in equal amounts, or in such other manner as the valuer may determine.

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2. BUSINESS OF COMPANY

2.1 **Business**: The Company shall carry on the business of raising debt funding (both domestically and internationally), and providing debt funding to Local Authorities and CCOs (as defined in the Multi-issuer Deed).

2.2 **No other activity**: The Company shall not engage in any business or activity which is not the business or activity specified in clause 2.1, or considered by the Board to be reasonably related or incidental to or in connection with that business or activity.

2.3 **CCO**: The Company shall at all times be a CCO.

2.4 **Objectives**: In accordance with the Local Government Act, in carrying on its business, the objectives of the Company will be to:

(a) achieve the objectives of the Shareholders (both commercial and non-commercial) as specified in the Statement of Intent;

(b) be a good employer;

(c) 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

(d) conduct its affairs in accordance with sound business practice.

2.5 **Policies**: The business of the Company shall be carried on in accordance with the Policies and Statement of Intent, except as approved under clauses 3.9 and 5.1.

3. BOARD

3.1 **Number of Directors**: The Principal Shareholders shall ensure that:

(a) the number of Directors shall not at any time be more than seven nor less than four; and

(b) no less than a majority of Directors shall be Independent Directors.

3.2 **Appointment by Shareholders**: A person may be appointed or removed as a Director at any time by an Ordinary Resolution. The Directors at the date of this agreement are Paul Joseph Anderson, John Richard Avery, Mark Alan Butcher, Philip Wade Cory-Wright, Abigail Kate Foote and Craig Hamilton Stobo who, subject to the previous sentence and to clause 3.3 below, continue in office and are deemed to have been appointed pursuant to this agreement.

3.3 **Rotation of Directors**: Beginning at, and including, the annual meeting for 2013, two Directors comprising one Director who is an Independent Director and one Director who is not an Independent Director (unless there are only Independent Directors, in which case both shall be Independent Directors) shall retire from office at the annual meeting of the Company in each year. The Directors to retire shall be that Independent Director, and that non-Independent Director, who have been longest in office since their last election (or if there are only Independent Directors, those Independent Directors who have been longest in office since their last election). If two or more relevant Directors were last elected on the same day, the Directors to retire shall (unless they otherwise agree among themselves) be determined by lot. A retiring Director shall be eligible for re-election.

3.4 **Re-election of retiring Director**: A Director retiring by rotation at a meeting shall, if standing for re-election, be deemed to have been re-elected unless:

(a) some other person is elected to fill the vacated office; or

(b) it is resolved not to fill the vacated office; or

(c) a resolution for the re-election of that Director is put to the meeting and lost.

3.5 **Nomination of Directors**: No person may be elected as a Director at a meeting (other than a Director retiring at the meeting) unless, not more than three months nor less than two months before the meeting, that person has been nominated by a Principal Shareholder entitled to attend and vote at the meeting by written notice to the Company and Shareholders' Council accompanied by the consent in writing of that person to the nomination. Notice of every valid nomination of a Director received by the Company before the closing date for nominations shall be sent by the Company to all persons entitled to attend the meeting together with, or as part of, the notice of meeting.

3.6 **Remuneration**: No remuneration or compensation for loss of office may be paid to a Director, and no other benefit may be provided to a Director, unless approved by Ordinary Resolution, provided that from the date of this agreement (unless and until altered with the approval of an Ordinary Resolution) the following fees shall be paid to Directors:

(a) a fee of $75,000 per annum to the Director acting as chairman of the Board, if that Director is an Independent Director;

(b) a fee of $35,000 per annum to each other Director;

(c) a fee of $10,000 per annum to the Director acting as chairman of the audit and risk committee; and

(d) a fee of $7,500 per annum to each other Director appointed as a member of the audit and risk committee.

3.7 **Payment of expenses**: Notwithstanding the provisions of clause 3.6, Directors are entitled to be paid for all reasonable travel, accommodation and other expenses properly incurred by them in attending meetings of the Board, or any committee of the Board, or meetings of Shareholders, or otherwise in connection with the business of the Company.

3.8 **Board meetings**: Board meetings shall be held not less than once in each quarter in each year.

3.9 **Board decisions**: The following decisions of the Company shall be made by a resolution of the Board, and may not be delegated to any other person:

(a) whether to take, and the nature of, any legal, enforcement or other action following the occurrence of an Event of Review;

(b) whether to take, and the nature of, any legal, enforcement or other action (including declaring any Securities to be immediately due and payable) following

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an "Event of Default" (as defined in the Multi-issuer Deed) or a default under clauses 7.6, 7.7, 7.8 or 7.9 of the Multi-issuer Deed;

(c) without limiting clause 5.1, the preparation of a Statement of Intent as and when required by the Local Government Act; and

(d) without limiting clause 5.1, any amendment of, or departure from, the Policies or Statement of Intent.

3.10 **Conflict of Interest**: No Director shall vote on a matter relating to any of the following:

(a) a matter as described in clause 3.9(a) as concerns a Participating Local Authority, if that Director is (or was, at any time in the five years prior to the matter being put to the vote) an employee or councillor of the relevant Participating Local Authority or an employee (which term does not include acting only as a director) of a Participating CCO owned (in whole or in part) by the Participating Local Authority;

(b) a matter as described in clause 3.9(b) as concerns a Participating Local Authority, if that Director is (or was, at any time in the five years prior to the matter being put to the vote) an employee or councillor of the relevant Participating Local Authority or an employee (which term does not include acting only as a director) of a Participating CCO owned (in whole or in part) by the Participating Local Authority;

(c) any amendment of, or departure from, the pricing Policy, if a Director is (or was at any time in the five years prior to the matter being put to vote):

(i) an employee or councillor of a Participating Local Authority; or

(ii) an employee (which term does not include acting only as a director) of a Participating CCO; or

(iii) an employee or councillor of a CCO Shareholder;

(d) a matter as described in clause 3.9(a) as concerns a Participating CCO, if that Director is (or was, at any time in the five years prior to the matter being put to the vote) an employee or councillor of a CCO Shareholder of the relevant Participating CCO or an employee (which term does not include acting only as a director) of the Participating CCO; and

(e) a matter as described in clause 3.9(b) as concerns a Participating CCO, if that Director is (or was, at any time in the five years prior to the matter being put to the vote) an employee or councillor of a CCO Shareholder of the relevant Participating CCO or an employee (which term does not include acting only as a director) of the Participating CCO.

4. SHAREHOLDERS' COUNCIL

4.1 **Establishment**: The Shareholders shall ensure that a Shareholders' Council is established, maintained and operated in accordance with this agreement. The Shareholders' Council shall have no more than ten, and no less than five, members. The initial members of the Shareholders' Council shall be Alan Adcock, Mohan De Mel, Douglas Marshall, Matt Potton, Murray Staite, Mike Timmer, Brian Trott, Matthew Walker and Warwick Hayes (together with any person appointed by the New Zealand Government in accordance with clause 4.4).

4.2 **Role**: The role of the Shareholders' Council shall be to advise Shareholders on certain matters (with Shareholders, and not the Shareholders' Council, to make decisions with respect to those matters). The Shareholders' Council shall:

(a) review the performance of the Company and the Board, and report to Shareholders on these matters on a periodic basis, being no less frequently than every six months;

(b) make recommendations to Shareholders as to the appointment, removal, re-election, replacement and remuneration of Directors. For this purpose, the Shareholders' Council may request information from, and meet with, Directors (or persons nominated for election as Directors);

(c) make recommendations to Shareholders as to any matters which require the approval of Shareholders pursuant to clause 5.1; and

(d) endeavour to ensure that Shareholders are fully informed on matters concerning the Company, and endeavour to co-ordinate Shareholders on decisions required of Shareholders with respect to governance of the Company.

4.3 **Appointment of Nominating Local Authority by Shareholders**: A Principal Shareholder may be appointed or removed as a nominator to the Shareholders' Council ("**Nominating Local Authority**") at any time by an Ordinary Resolution, provided that no more than nine Nominating Local Authorities may be so appointed.

4.4 **Appointment of members of the Shareholders' Council**: Each Nominating Local Authority may appoint one member of the Shareholders' Council, and remove and replace any member so appointed by it, in each case, by notice to the Company. Each member appointed by a Nominating Local Authority must be an employee or councillor of that Nominating Local Authority. In addition, the New Zealand Government (for so long as it is a Shareholder) may appoint one other member of the Shareholders' Council, and remove and replace such other member so appointed by it, in each case, by notice to the Company.

4.5 **Notification and consent**: Each member of the Shareholders' Council appointed by a Nominating Local Authority must give consent in writing to the appointment (which consent shall confirm that the person shall comply with the terms of this agreement as they apply to members of the Shareholders' Council). Notice by a Nominating Local Authority of the appointment of a member and consent from that person to the appointment must be received by the Company before any member may attend a meeting of the Shareholders' Council.

4.6 **Rotation of Nominating Local Authorities**: Beginning at, and including, the annual meeting for 2013, the Shareholders shall ensure that two Nominating Local Authorities shall retire from office at the annual meeting of the Company in each year. The Nominating Local Authorities to retire shall be those who have been longest in office since their last election. If two or more of those Nominating Local Authorities were last elected on the same day, the Nominating Local Authority to retire shall (unless they otherwise agree among themselves) be determined by lot. A retiring Nominating Local Authority shall be eligible for re-election.

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4.7 **Re-election of retiring Nominating Local Authority**: A Nominating Local Authority retiring by rotation at a meeting shall, if standing for re-election, be deemed to have been re-elected unless:

(a) some other Principal Shareholder is elected to fill the vacated office; or

(b) it is resolved not to fill the vacated office; or

(c) a resolution for the re-election of that Nominating Local Authority is put to the meeting and lost.

4.8 **Nomination of Nominating Local Authority**: No Principal Shareholder may be elected as a Nominating Local Authority at a meeting (other than a member retiring at the meeting) unless, not less than one week prior to the notice of that meeting being sent to Shareholders, that Principal Shareholder has notified the Company in writing that it wishes to seek that election. The Company shall give notice that the Principal Shareholder is seeking that election to all persons entitled to attend the meeting together with, or as part of, the notice of meeting.

4.9 **Meetings**: Meetings of the Shareholders' Council shall be held not less than once in each quarter in each year.

4.10 **Quorum**: A quorum for a meeting of the Shareholders' Council shall be a majority of members. No business shall be transacted at a meeting of the Shareholders' Council if a quorum is not present.

4.11 **No remuneration**: No remuneration will be paid to the members of the Shareholders' Council for carrying out their functions as members of the Shareholders' Council.

4.12 **Expenses**: The Company will reimburse the members of the Shareholders' Council for any reasonable expenses incurred in carrying out their functions as members of the Shareholders' Council, including the reasonable fees and expenses of professional advisers engaged by the Shareholders' Council.

4.13 **Information, assistance etc**: The Company and the Shareholders agree that:

(a) the Company, each Director and each Principal Shareholder shall provide the Shareholders' Council with such reasonable information and assistance as is required by the Shareholders' Council to carry out the role set out in clause 4.2;

(b) without limiting clause (a), the Company shall provide the Shareholders' Council with such information and reports as are required by the Statement of Intent;

(c) the Shareholders' Council shall provide to the Company, for distribution to Shareholders, a report of its recommendations concerning any of the matters referred to in clause 4.2(b) and 4.2(c) to be considered by a meeting of Shareholders, and the Company shall distribute that report with the notice of meeting for that meeting (or the written resolution to be signed by Shareholders, as the case may be); and

(d) if requested by the Shareholders' Council, the Company shall distribute a report for the Shareholders' Council as to the matters referred to in clause 4.2(a) and 4.2(d) to Shareholders with reports delivered to Shareholders under clause 12.3(a) or clause 12.3(b).

4.14 **Resignation of a member**: A member of the Shareholders' Council:

(a) may resign by notice in writing to the Company; and

(b) shall be deemed to resign if:

(i) that person is no longer an employee or councillor of the Nominating Local Authority of which the person was an employee or councillor at the time of appointment to the Shareholders' Council; or

(ii) the Principal Shareholder who appointed that member is no longer a Nominating Local Authority.

Where a member of the Shareholders' Council resigns or is deemed to resign under this clause, the Nominating Local Authority of whom that member was an employee or councillor, may appoint a replacement member to the Shareholders' Council in accordance with clause 4.4.

4.15 **Resignation of a Nominating Local Authority**: A Nominating Local Authority:

(a) may resign by notice in writing to the Company; and

(b) shall be deemed to resign if that Nominating Local Authority is no longer a Principal Shareholder.

(c) Where a Nominating Local Authority resigns or is deemed to resign, the member of the Shareholders' Council appointed by that Nominating Local Authority shall be deemed to resign also.

4.16 **Deemed Nominating Local Authorities**: The Principal Shareholders, of whom the members of the Shareholders' Council as at 7 December 2011 were employees or councillors, are each deemed to be a Nominating Local Authority as at the date of the amendment to this agreement to provide for Nominating Local Authorities, and each such Nominating Local Authority is deemed to have an election date of 7 December 2011 for the purposes of clause 4.6. All members of the Shareholders' Council as at the date of the amendment to this agreement to provide for Nominating Local Authorities are deemed to have been appointed in accordance with clauses 4.4 and 4.5 by the Nominating Local Authority of which they are an employee or councillor, or the New Zealand Government (as applicable), at that time.

4.17 **Other**: Except as provided in this agreement, the Shareholders' Council may regulate its own procedure.

5. SHAREHOLDER APPROVAL

5.1 **Restrictions**: Neither the Board nor any Shareholder shall take or permit any action to cause any of the following to occur in respect of the Company unless it is approved by an Ordinary Resolution or, if required by law or in relation to clause 5.1(k), a Special Resolution:

(a) any alteration to, or revocation of, the Constitution;

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(b) any alteration or amendment to this agreement;

(c) subject to clause 5.1(k), any alteration to, or departure by the Company from any of the policies set out in schedule 1, whether such an alteration or departure will occur by way of amendment to, or departure from, a Policy or the Statement of Intent, or by way of the adoption of a new Statement of Intent or a new Policy;

(d) the payment of dividends other than in cash;

(e) **[not used]**

(f) any issue of Shares, securities that are convertible into or exchangeable for Shares, or options to acquire Shares except:

(i) pursuant to the First Opening;

(ii) the issue of Borrower Notes, or the issue of Redeemable Shares on the conversion of any Borrower Notes; and

(iii) the issue of any Redeemable Shares pursuant to a Guarantor's Equity Commitment;

(g) any purchase or other acquisition by the Company of its own Shares and any redemption of Shares (other than of Redeemable Shares in accordance with clause 6.4);

(h) any consolidation, division, or subdivision of Shares;

(i) the giving of any financial assistance for the purpose of, or in connection with, the purchase of Shares, except any financial assistance given for the purpose of, or in connection with:

(i) a Guarantor's Equity Commitment; and

(ii) Borrower Notes, or the conversion of any Borrower Notes; or

(j) the acquisition or subscription of any shares in a body corporate, except as is consistent with the Policy concerning investing by the Company, and except for the formation of a wholly-owned subsidiary of the Company (and any subsequent subscription of shares in such a subsidiary); or

(k) any alteration to, or departure by the Company from, the following policy set out in schedule 1 whether such an alteration or departure will occur by way of amendment to, or departure from, a Policy, or by way of the adoption of a new Policy:

> the Board may not approve a CCO to borrow from the Company unless 100% of the equity securities carrying voting rights at a meeting of shareholders of the CCO are held or controlled, directly or indirectly, by one or more Local Authorities and the Crown (if applicable).

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6. SHARES

6.1 **Classes**: The Company may issue the following classes of Shares only:

(a) Ordinary Shares;

(b) Redeemable Shares, pursuant to a Guarantor's Equity Commitment or the conversion of the Borrower Notes; and

(c) any other class of Shares approved by Shareholders under clause 5.1(f).

6.2 **Shareholders**: Only a Local Authority or the New Zealand Government may be a Shareholder, and no person may become a Shareholder without entering into an Accession Deed (so as to be bound by this agreement) or being deemed to have agreed to be bound by this agreement. No person may become the holder of any Ordinary Shares (other than the New Zealand Government) unless that person is a Guarantor and has entered into a Guarantor's Equity Commitment.

6.3 **Calls**: Calls on any Ordinary Shares which are not fully paid up shall be made at such times, and in such amounts, as determined by the Board, provided that the Board has determined that there is a risk of imminent default by the Company under its Borrowed Money Indebtedness. Any call on Ordinary Shares shall be made proportionately across all Ordinary Shares which are not fully paid up on issue at the time the call is made. Payment of a call shall be made within 10 Business Days of notice of the call being provided to a Shareholder.

6.4 **Redemption**: In the event the Company determines to redeem any Redeemable Shares, any redemption must be effected, if the redemption is required by a Guarantor's Equity Commitment, in accordance with the Guarantor's Equity Commitment and otherwise:

(a) such that the Redeemable Shares are redeemed in the order in which they were issued; and

(b) if Redeemable Shares were issued at the same time, proportionately across the holders of such Redeemable Shares (in accordance with the number of Redeemable Shares held).

6.5 **Additional funding**: A Shareholder shall not have any obligation to contribute any funding to the Company except as expressly set out in this agreement or in any other legally binding documentation entered into between the Company and that Shareholder.

7. FIRST OPENING

7.1 **Initial shareholdings**: Immediately following the First Opening (which shall take place on or about the date of this agreement), each Principal Shareholder as at the date of this agreement (in this clause 7 an "**Original Principal Shareholder**") will hold the number of Shares as set out in schedule 2.

7.2 **Reimbursement**: From the proceeds received pursuant to the First Opening, the Company shall pay to each Local Authority listed in schedule 3 the amount listed alongside its name in that schedule, in reimbursement of payments made by such Original Principal Shareholder

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to New Zealand Local Government Association Inc. ("**NZLGA**") to fund the establishment costs of the Company.

7.3 **Repayment:** The parties acknowledge that the New Zealand Government has made an advance to NZLGA to assist with the funding of the establishment costs of the Company. The Company shall pay to the New Zealand Government an amount of $950,000.00 by way of set off from the amount to be paid by the New Zealand Government to the Company pursuant to the First Opening. Following such payment and notwithstanding the terms of any facility or other agreement between NZLGA and the New Zealand Government, the New Zealand Government shall forgive (in writing) the advance made by it to NZLGA.

7.4 **NZLGA funds:** Following completion of the payments referred to in clauses 7.2 and 7.3, each Original Principal Shareholder shall direct NZLGA (in writing) to pay to the Company all moneys which remain held by NZLGA from payments made to it by that Original Principal Shareholder as referred to in clauses 7.2 and 7.3 (to the extent not required by NZLGA to pay establishment costs).

8. SECOND OPENING

8.1 **Board to determine**: The Board shall determine when, and if, the Second Opening is to occur, and shall provide the then current Shareholders with not less than 25 Business Days' notice of the Second Opening in accordance with clause 8.2.

8.2 **Pro rata sell down**: In the Second Opening, each Principal Shareholder (other than the New Zealand Government) ("**Sell-Down Shareholder**") shall, subject to the following provisions of this clause 8, be required to transfer a number set by the Company of the Ordinary Shares held by the Sell-Down Shareholder to Incoming Principal Shareholders (as directed by the Company) (which number may comprise a number of paid up Ordinary Shares, and a number of Ordinary Shares which are not fully paid up, as set by the Company). The Company shall, subject to the following provisions of this clause 8, set that number for each Sell-Down Shareholder such that:

(a) if the Sell-Down Shareholder holds Ordinary Shares which are not fully paid up, the Ordinary Shares to be transferred are such that, following the transfer, the Sell-Down Shareholder would hold paid up Ordinary Shares, and Ordinary Shares which are not fully paid up, in the same proportion as prior to the transfer;

(b) the proportion of Ordinary Shares to be transferred by each Sell-Down Shareholder shall be the same, other than:

(i) where a Sell-Down Shareholder would, as a result of such a transfer, hold less than 100,000 fully paid Ordinary Shares, in which case the Company shall set the number of Shares for that Sell-Down Shareholder as the maximum number which could be transferred by that Sell-Down Shareholder without the Sell-Down Shareholder thereafter holding less than 100,000 fully paid Ordinary Shares; and

(ii) as considered reasonable by the Company to allow for rounding; and

(c) Auckland Council, Christchurch City Council, Hamilton City Council, Tasman District Council, Tauranga City Council, Wellington City Council, Wellington Regional Council, Western Bay of Plenty District Council and Whangarei District

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Council shall, following that transfer, retain (in aggregate) 51% of all Ordinary Shares, provided that this clause 8.2(c) shall have no application if such Local Authorities did not hold (in aggregate) 51% of all Ordinary Shares immediately prior to the Second Opening.

The Company shall provide each Sell-Down Shareholder with written notice of the number of Ordinary Shares which it (subject to the following provisions of this clause 8) is required to transfer as part of the Second Opening ("**Specified Sale Number**"), and the numbers of paid up Ordinary Shares and Ordinary Shares which are not fully paid up comprised in the Specified Sale Number, not less than 25 Business Days before the date of the Second Opening.

8.3 **Non-pro rata sell down**: If a Sell-Down Shareholder ("**Non-Pro Rata Sell-Down Shareholder**") wishes to sell less than the Specified Sale Number, within five Business Days of receipt of the notice under clause 8.2, the Non-Pro Rata Sell-Down Shareholder shall provide the Company with written notice of the number of Ordinary Shares of the Specified Sale Number that it wishes to retain ("**Retained Share Number**"). Any such notice shall also set out the number of paid up Ordinary Shares, and Ordinary Shares which are not fully paid up, comprised in the Retained Share Number, which numbers must be in the same proportion as they are comprised in the Specified Sale Number (and if they are not, the notice shall be disregarded). If no such written notice is given by a Sell-Down Shareholder, then (subject to the following provisions of this clause 8) such Sell-Down Shareholder shall be obliged to transfer the Specified Sale Number of Ordinary Shares (comprised of such numbers of paid up Ordinary Shares, and Ordinary Shares which are not paid up, as were specified in the notice of the Company under clause 8.2) as part of the Second Opening.

8.4 **Other Shareholders**: If one or more Non-Pro Rata Sell-Down Shareholders serves a notice in accordance with clause 8.3, the Company shall, within three Business Days of the expiry of the five Business Day period specified in clause 8.3, issue a written notice offering the other Sell-Down Shareholders the opportunity to transfer additional Ordinary Shares pursuant to the Second Opening, by providing them with written notice of the total number of Retained Share Numbers of all Non-Pro Rata Sell-Down Shareholders (which shall include notice of the aggregate paid up Ordinary Shares, and aggregate Ordinary Shares which are not paid up, comprised in the total Retained Share Numbers). Each other Sell-Down Shareholder shall, if it so wishes, provide written notice to the Company of any additional Ordinary Shares (which may not exceed as concerns paid up Ordinary Shares, and Ordinary Shares which are not paid up, the aggregate numbers set out in the notice of the Company) that such Sell-Down Shareholder wishes to transfer as part of the Second Opening within five Business Days of receipt of such notice from the Company, provided that any such notice must be such that, if a transfer were made of the Ordinary Shares referred to in that notice (together with a transfer of the Specified Sale Number), the Sell-Down Shareholder would continue to hold no less than 100,000 fully paid Ordinary Shares and the same proportions of paid up, and not paid up, Ordinary Shares, and any notice which does not satisfy those requirements shall be disregarded.

8.5 **Consequences**: If:

(a) no notice is received from Sell-Down Shareholders in accordance with clause 8.4, each Non-Pro Rata Sell-Down Shareholder shall be obliged to transfer the Specified Sale Number of Ordinary Shares (comprised of such numbers of paid up Ordinary Shares, and Ordinary Shares which are not paid up, as were specified in the notice of the Company under clause 8.2) in the Second Opening;

(b) notices are received from Sell-Down Shareholders in accordance with clause 8.4, the Company shall determine:

(i) for each Non-Pro Rata Sell-Down Shareholder, the number of paid up Ordinary Shares, and Ordinary Shares which are not paid up, by which the Specified Sale Number of the Non-Pro Rata Sell-Down Shareholder shall be reduced (which may not exceed the numbers set out in the notice given by the Non-Pro Rata Sell-Down Shareholder under clause 8.3); and

(ii) for each Sell-Down Shareholder which gave notice under clause 8.4, the number of paid up Ordinary Shares, and Ordinary Shares which are not paid up, by which the Specified Sale Number of the Non-Pro Rata Sell-down Shareholder shall be increased (which may not exceed the numbers set out in the notice given by the Sell-Down Shareholder under clause 8.4).

In making that determination the Company shall act fairly and equitably as between Shareholders. The determination of the Company shall be final and binding on all parties, and each Sell-Down Shareholder shall be obliged to transfer the Specified Sale Number of Ordinary Shares as so reduced or increased by the Company (comprised of such numbers of paid up Ordinary Shares, and Ordinary Shares which are not paid up, as so determined by the Company) as part of the Second Opening.

8.6 **Notice**: The Company shall give notice to all Sell-Down Shareholders of the number of Ordinary Shares which it is required to transfer as part of the Second Opening, and the number of paid up Ordinary Shares and Ordinary Shares which are not paid up comprised in that number, in accordance with clauses 8.2 to 8.5, within three Business Days of the expiry of the five Business Days referred to in clause 8.4, if clause 8.5(a) is applicable, and otherwise within three Business Days of its determination under clause 8.5(b).

8.7 **Price**: Any Ordinary Shares to be transferred as part of the Second Opening shall be transferred at a price per share equal to the amount paid up on that share at the time of the Second Opening.

8.8 **Terms of sale**: The purchase of any Ordinary Shares as part of the Second Opening shall be effected on the following terms:

(a) each Sell-Down Shareholder shall transfer the Ordinary Shares which it is obliged to transfer as part of the Second Opening to such Incoming Principal Shareholder as notified to such Sell-Down Shareholder by the Company pursuant to clause 8.6;

(b) the purchase of the Ordinary Shares shall be settled on the date of the Second Opening;

(c) each Sell-Down Shareholder shall transfer to each Incoming Principal Shareholder good title to the Ordinary Shares free of any security interest; and

(d) on settlement of the purchase of the Ordinary Shares, each Incoming Principal Shareholder shall pay the purchase price to the relevant Sell-Down Shareholder in cleared funds, the Sell-Down Shareholder shall deliver to the relevant Incoming Principal Shareholder a transfer of the Ordinary Shares in a form reasonably acceptable to that Incoming Principal Shareholder, and each Incoming Principal Shareholder and Sell-down Shareholder shall enter into and deliver to the Company an Accession Deed in accordance with clause 10.11. If any Shareholder fails to enter into that Accession Deed, it shall nevertheless be conclusively deemed to have done so. The Board shall take all necessary steps to cause the Incoming Principal Shareholder to be registered as holder of the relevant Ordinary Shares.

8.9 **Clause 10**: Nothing in clause 10 (except clause 10.11) applies to a transfer of Ordinary Shares in the Second Opening.

9. SECTION 107 CONSENTS

9.1 **Consent**: Each Shareholder hereby consents:

(a) for the purposes of section 107(d) of the Companies Act, to any redemption from time to time, in accordance with this agreement and the Constitution, of any of the Redeemable Shares by the Company, being otherwise than in accordance with sections 69 to 72 of the Companies Act;

(b) for the purposes of section 107(e) of the Companies Act, to financial assistance (if any) being given by the Company from time to time for the purpose of, or in connection with, the purchase of any Shares, otherwise than in accordance with sections 76 to 80 of the Companies Act, where such assistance is in the form of:

(i) any loan, advance or other financial accommodation given by the Company which funds (directly or indirectly) the subscription by a Participating Borrower of Borrower Notes, or of the Redeemable Shares issued on conversion of Borrower Notes, and any incidental assistance; or

(ii) any loan, advance or other financial accommodation given by the Company which funds (directly or indirectly) the subscription by a Guarantor of Redeemable Shares pursuant to the Guarantor's Equity Commitment, and any incidental assistance; and

(c) for the purposes of section 107(2) of the Companies Act, to any issue of Redeemable Shares from time to time pursuant to conversion of Borrower Notes, or pursuant to a Guarantor's Equity Commitment, being otherwise than in accordance with sections 42, 44 or 45 of the Companies Act.

9.2 **No withdrawal**: Each Shareholder covenants that it shall not withdraw any consent provided under clause 9.1. If any Shareholder does withdraw any such consent, this shall constitute a breach of this agreement which shall be an Event of Default.

9.3 **Not exhaustive**: For the avoidance of doubt, nothing in this clause 9 prohibits or restricts the Board or the Company from redeeming any Shares, providing financial assistance for the purpose of, or in connection with, the purchase of any Shares or issuing any Shares without consent under section 107 of the Companies Act, where permitted under the Companies Act, and subject to the other terms of this agreement.

10. PRE-EMPTIVE RIGHTS

10.1 **No sale**: No Principal Shareholder shall directly or indirectly sell, transfer, or dispose of the legal or beneficial ownership of, or the control of, any of its Ordinary Shares otherwise than in compliance with clause 8, this clause 10 or clause 13. No interest in, or control of, any Ordinary Share may be sold, transferred or disposed of except the full legal and beneficial ownership of an Ordinary Share.

10.2 **Sale notice**: If any Principal Shareholder ("**Seller**") wishes to sell, transfer or otherwise dispose of the legal or beneficial ownership of, or the control of, any of its Ordinary Shares ("**Sale Interest**"), that Shareholder shall give notice (a "**Sale Notice**") to the other Principal Shareholders specifying:

(a) the precise nature of the Sale Interest (including the number of Shares involved, which must be an equal proportion of any paid up, and unpaid, Ordinary Shares held by the Seller),

(b) the price which the Seller wishes to receive for the Sale Interest; and

(c) any other terms and conditions of sale of the Sale Interest (which shall be described sufficiently precisely to enable an acceptance of the offer in the Sale Notice to constitute a binding contract).

10.3 **Acceptance of Sale Notice**: Each Principal Shareholder other than the Seller may, not later than the date ("**Acceptance Date**") 10 Business Days after the giving of the Sale Notice, give notice to the Seller that that Principal Shareholder wishes to acquire the Sale Interest on the terms specified in the Sale Notice.

10.4 **Terms of sale**: A Principal Shareholder which gives notice to the Seller in accordance with clause 10.3 that it wishes to acquire the Sale Interest (a "**Buyer**") shall be entitled and bound (subject to clause 10.5) to acquire the Sale Interest. If more than one Principal Shareholder gives notice to the Seller that it wishes to acquire the Sale Interest, those Principal Shareholders shall be entitled and bound to acquire the Sale Interest in proportion to their respective holdings of Ordinary Shares. The purchase of the Sale Interest shall be effected at the price, and on the terms and conditions, specified in the Sale Notice, and, subject to anything to the contrary in the Sale Notice, on the following terms:

(a) the purchase of the Sale Interest shall be settled on the date 10 Business Days after the Acceptance Date, or if clause 10.5 applies, 10 Business Days after the last of the consents referred to in clause 10.5 is obtained;

(b) if there is more than one Buyer, the purchase of the Sale Interest by all Buyers shall be settled simultaneously;

(c) the Seller shall transfer to each Buyer good title to its relevant part of the Sale Interest free of any security interest; and

(d) on settlement of the purchase of the Sale Interest each Buyer shall pay the relevant purchase price to the Seller in cleared funds, and the Seller shall deliver to each Buyer a transfer of its relevant part in the Sale Interest in a form reasonably acceptable to that Buyer. All Shareholders and the Board shall take all necessary steps to cause the Buyer to be registered as holder of the relevant Shares.

10.5 **Consents**: Each Buyer and the Seller shall use their reasonable endeavours, with all due speed and diligence, to obtain all necessary consents to the sale and purchase of the Sale Interest, including any consent required from any governmental or regulatory agency or authority. If any necessary consent is:

(a) not granted within 20 Business Days after the Acceptance Date; or

(b) granted on terms and conditions that are not reasonably acceptable to the party affected thereby,

the Seller or any Buyer may, by notice to all Principal Shareholders, terminate the obligation to buy and sell the Sale Interest created by clause 10.4.

10.6 **Sale to other Local Authorities**: If:

(a) no notice is given to the Seller pursuant to, and within the time specified in, clause 10.3; or

(b) the obligation to buy and sell the Sale Interest is terminated pursuant to clause 10.5 by reason of a consent required on the part of any Buyer not being granted, or being granted on terms and conditions not reasonably acceptable to any Buyer,

the Seller may, subject to clauses 10.8 and 10.11 within 60 Business Days of the date of the Sale Notice, transfer the Sale Interest to a Local Authority or the New Zealand Government for a price not less than, and on terms and conditions no more favourable than, specified in the Sale Notice. For this purpose, terms and conditions offered to another Local Authority or the New Zealand Government shall not be considered to be more favourable to a buyer than those specified in the Sale Notice by reason only:

(c) that the terms offered to that person include normal and reasonable warranties; or

(d) of inclusion in the terms offered to that person of terms which give no material value to a buyer.

10.7 **Assistance**: For the purpose of clause 10.6, each Shareholder shall provide such assistance as may reasonably be required by the Seller for the purposes of enabling the Seller to solicit offers for, and sell, the Sale Interest including:

(a) allowing prospective purchasers and their advisers to carry out reasonable due diligence enquiries (subject to those persons entering into appropriate confidentiality arrangements); and

(b) enabling completion of any such sale to take place.

10.8 **Approval of purchaser**: The Seller shall not transfer a Sale Interest to any person unless the Seller has obtained the prior written approval of the Board to registration pursuant to clause 12.5 of the Constitution (which approval may be granted or not in accordance with clause 12.5 of the Constitution).

10.9 **Clause to apply again**: If:

(a) notice is given to the Seller pursuant to clause 10.3, but the obligation to buy and sell the Sale Interest is terminated pursuant to clause 10.5 (other than for the reason specified in clause 10.6(b));

(b) the Seller proposes to sell, transfer, or otherwise dispose of the Sale Interest outside the period referred to in clause 10.6, or at a price, or on terms and conditions more favourable to a buyer than, specified in the Sale Notice; or

(c) the Seller does not obtain the approval referred to in clause 10.8,

clauses 10.1 to 10.9 shall again apply.

10.10 **Redeemable Shares**: Clauses 10.1 to 10.9 shall not apply to Redeemable Shares. No Shareholder shall directly or indirectly sell, transfer, or dispose of the legal beneficial ownership of, or control of, any of its Redeemable Shares except with the prior written approval of the Board (which approval may be granted or not, at the discretion of the Board).

10.11 **Accession Deed**: Whenever a Shareholder transfers the legal or beneficial ownership of any Shares to a person who is not a party to this agreement, that person and that Shareholder shall enter into and deliver to each other an Accession Deed. Each person entering into an Accession Deed shall also deliver to the Company such evidence as it reasonably requires in order to be satisfied that that Accession Deed is valid, binding, and enforceable as against that person. The Company is irrevocably authorised to execute each Accession Deed on behalf of all Shareholders (other than the transferring Shareholder).

10.12 **Security**: Notwithstanding the other provisions of this clause 10, a Shareholder shall, subject to obtaining the prior written consent of the Board (which approval may be granted or not, at the discretion of the Board), be permitted to grant a security interest over its Shares subject to the holder of the security interest agreeing, in a form reasonably acceptable to the Company, to be bound by this agreement.

10.13 **Amalgamation**: Nothing in clauses 10.1 to 10.11 shall apply to a Local Authority succeeding, by process of law, to the Shares of another Local Authority, pursuant to an amalgamation of Local Authorities.

11. PROTECTED TRANSACTION

11.1 **[Not used]**

11.2 **[Not used]**

11.3 **Protected transaction**: Each Principal Shareholder (other than the New Zealand Government) warrants that, for the purposes of section 117 of the Local Government Act, the entry by it into, and the performance by it of, this agreement, is:

(a) in compliance with the Local Government Act;

(b) not contrary to any provision of the Local Government Act;

(c) within the capacity, rights and powers of the relevant Principal Shareholder; and

(d) for the purpose authorised by the Local Government Act or any other statute.

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12. FINANCIAL

12.1 **Records**: The Board shall ensure that proper accounting and other records of the Company are maintained in accordance with generally accepted accounting practice (as defined in section 5 of the Local Government Act) and all relevant legal requirements.

12.2 **Audit**: The Board shall ensure that the financial statements of the Company are audited by the Auditor as at the end of each financial year (as defined in section 5 of the Local Government Act).

12.3 **Reporting**: The Company must provide reports to Shareholders in accordance with the requirements of the Local Government Act, including:

(a) by the end of February in each year, the Board must deliver to Shareholders a report on the Company's operations during the six month period ending on 31 December in the previous year in accordance with section 66 of the Local Government Act; and

(b) by the end of September in each year, the Board must deliver to Shareholders, and make available to the public, a report on the Company's operations during the year ending on the preceding 30 June in accordance with section 67 of the Local Government Act.

The Company must provide to Shareholders a copy of its unaudited financial statements for the six month period ending on 31 December in the previous year together with the half-yearly report to be delivered pursuant to clause 12.3(a).

12.4 **Debenture Trust Deed Notifications:** The Company shall:

(a) to the extent known by the Company, notify each Shareholder (in writing) of any Event of Default affecting any other Shareholder or Guarantor as soon as reasonably practicable after its occurrence, and of the steps taken or proposed to be taken in relation to such Event of Default, provided that:

(i) the Company's obligation under this clause 12.4(a) only applies in respect of Securities of which it is the Holder; and

(ii) the Company shall not be liable for:

(aa) any failure to provide such notification to a Shareholder; or

(bb) any inaccurate, incomplete or incorrect information given in such a notification, provided the notification is given by the Company in good faith; and

(b) promptly notify each Shareholder (in writing) if the Board determines that there is a risk of imminent default under any Borrowed Money Indebtedness;

(ba) to the extent known by the Company, promptly notify each Shareholder (in writing):

(i) if any Event of Default (as defined in the Multi-issuer Deed) occurs in relation to a Participating CCO; or

(ii) where there is a risk that the CCO Shareholder will not be able to meet an obligation to pay any amount uncalled and/or unpaid in respect of its Participating CCO;

(c) within one Business Day of receipt of a written request from a Shareholder or the Shareholder's Trustee, notify the Shareholder and the Shareholder's Trustee (in writing) of the "nominal amount" of the Security Stock:

(i) held by the Company in respect of the Shareholder's obligations under each of the Multi-issuer Deed and, where the Shareholder is a Guarantor, the Equity Commitment Deed; and

(ii) where the Shareholder is a Guarantor, held by the Security Trustee in respect of the Shareholder's obligations under the Guarantee,

in each case, as at the date of the Company's notification.

In this clause 12.4, "Holder", "Security Trustee", "Trustee", "Security Stock", "Equity Commitment Deed" and "Guarantee" each have the meaning given in the Multi-issuer Deed.

12.5 **SOI reporting**: The Company must provide quarterly reports to the Shareholders' Council in accordance with any requirements of the Statement of Intent (which shall include, without limitation, to the extent known by the Company, details of any Event of Review occurring in any quarter, and the steps taken (or proposed to be taken) by the Company in relation to that Event of Review, and provided that clause 12.4(a)(ii) shall also apply to any such notification (or failure to provide any such notification) concerning an Event of Review).

13. DEFAULT

13.1 **Consequences**: If an Event of Default occurs in respect of a Shareholder (the "**Defaulting Shareholder**"):

(a) the Company may, while that Event of Default continues, by notice in writing to the Defaulting Shareholder require that the Defaulting Shareholder transfer all of its Shares to a Local Authority, the New Zealand Government or the Company, as the Board may determine, at Fair Value. Clauses 11.2 to 11.4 of the Constitution shall apply to any such required transfer as if it were the sale of a forfeited Share under those provisions. Clause 10 (other than clause 10.11) of this agreement shall not apply to any such transfer;

(b) while that Event of Default continues, the Defaulting Shareholder shall not be entitled to exercise any votes attaching to its Shares; and/or

(c) while that Event of Default continues, the Defaulting Shareholder shall not be entitled to receive any dividends or other distributions which may become payable in respect of any of its Shares, provided that, if the Event of Default is remedied, the amount of any accrued but unpaid dividends or other distributions will be paid to the Defaulting Shareholder as soon as reasonably practicable following such Event of Default becoming remedied (after deduction of any amounts owing to the Company by such Defaulting Shareholder).

13.2 **Default interest**: If any party does not pay any amount payable under this agreement on the due date for payment ("**Due Date**") that party shall pay to the other party interest (both before and after judgment) on that amount. That interest:

(a) shall be paid at the Bill Rate plus five per cent. per annum;

(b) shall be paid by instalments at intervals of ten Business Days from the Due Date; and

(c) shall be calculated on a daily basis from and including the Due Date until the unpaid amount is paid in full.

The right of a party to require payment of interest under this clause does not limit any other right or remedy of that party.

13.3 **Other remedies**: Clauses 13.1, and 13.2 are without prejudice to any other right, power or remedy under this agreement, at law, or otherwise, that any person has in respect of a default by any party. The parties agree that no sale of a Share under clause 11.1 of the Constitution may be made except at a price which is equal to or greater than Fair Value, and that nothing in clause 10 (except clause 10.11) shall apply to any such sale.

14. CONFIDENTIALITY

14.1 **Confidentiality Obligation**: Subject to clause 14.2, each Shareholder and, in respect of (a) and (b) below only, the Company, shall keep confidential, and make no disclosure of:

(a) the existence and contents of this agreement;

(b) all information obtained from the Shareholders under this agreement or in the course of negotiations in respect of this agreement; and

(c) all information obtained from the Company, or developed or held for the purposes of the Company,

(together "**Information**").

14.2 **Exceptions**: Information may be disclosed by a Shareholder or the Company if:

(a) written consent to the disclosure is given by the party to which the Information relates;

(b) disclosure is required by law, is necessary to comply with the listing rules of any recognised stock exchange, or if the Company determines disclosure in any prospectus, investment statement, product disclosure statement, offering memorandum or offer or disclosure document of the Company is necessary or desirable; or

(c) disclosure is necessary to obtain the benefits of, and fulfil obligations under, this agreement or as necessary for the enforcement of, or any proceedings or claims with respect to, this agreement (or any other agreements or deeds which concern the Company);

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(d) that Information already is, or becomes, public knowledge other than as a result of a breach of clause 14.1 by that Shareholder or the Company (as the case may be); or

(e) disclosure is made to a lawyer, accountant or other professional adviser of that Shareholder or the Company.

15. NOTICES

15.1 **Writing**: Each notice or other communication to be given or made under this agreement to any person must:

(a) **Writing**: be given or made in writing by email or letter and be signed by the sender or an authorised officer of the sender;

(b) **Address**: be given or made to the recipient at the address or email address and marked for the attention of the person (if any), from time to time designated by the recipient to the other for the purposes of this agreement;

(c) **Deemed delivery**: not be effective until received by the recipient, and any such notice or communication shall be deemed to be received:

(i) (if given or made by letter) when left at the address of the recipient or 5 Business Days after being put in the post, postage prepaid, and addressed to the recipient at that address; or

(ii) (if given or made by email) when dispatched in tangible, readable form by the sender to the email address advised by the recipient from time to time,

provided that any notice or communication received or deemed received after 5pm on a working day in the place to which it is sent, or on a day which is not a working day in that place, shall be deemed not to have been received until the next working day in that place.

15.2 **Initial address and numbers**: The initial address, email address and person (if any) designated for the purpose of this agreement, are set out in schedule 6.

16. DISPUTES

16.1 **Arbitration**: Any dispute, difference or claim arising out of or in connection with this agreement, or the subject matter of this agreement, including any dispute as to its existence or validity ("**Dispute**") will be referred to arbitration by a single arbitrator. The arbitration will be commenced by a party giving notice to the other parties stating the subject matter and details of the Dispute and requiring the Dispute to be referred to arbitration. The arbitrator will be appointed by the parties, or failing agreement within 10 Business Days after, and exclusive of, the date of giving the notice, will be appointed at the request of a party by the president or vice-president for the time being of the New Zealand Law Society or the nominee of such president or vice-president. The place of arbitration will be Auckland.

16.2 **Appeals on points of law**: The parties waive any right to seek a determination by the court of a preliminary point of law (pursuant to section 4, Second Schedule to the Arbitration Act

1996) and to appeal on a question of law (pursuant to section 5, Second Schedule to the Arbitration Act 1996).

16.3 **Costs**: The parties will bear their own costs (including legal costs) and an equal share of the costs of the award in relation to the arbitration, unless the arbitrator determines that a party shall bear some proportion of, or all of, the costs of any other party because of impropriety, lack of cooperation or unreasonable conduct by that party.

16.4 **Binding**: The determination of an arbitrator appointed pursuant to clause 16.1 shall be binding on the parties.

17. WARRANTIES

17.1 **Warranties**: Each party represents and warrants that:

(a) **Power**: it has full legal capacity and power to enter into this agreement and to carry out the transactions that it contemplates;

(b) **Authorisations**: it holds each Authorisation that is necessary or desirable to:

(i) execute this agreement and to carry out the transactions that it contemplates;

(ii) ensure that this agreement is legal, valid, binding and admissible in evidence; or

(iii) enable it to properly carry on its business, and it is complying with any conditions to which any of these Authorisations is subject;

(c) **Documents effective**: this agreement constitutes legal, valid and binding obligations, enforceable against it in accordance with its terms (except to the extent limited by equitable principles and laws affecting creditors' rights generally); and

(d) **No contravention**: neither its execution of this agreement nor the carrying out by it of the transactions that it contemplates, does or will:

(i) contravene any law to which it or any of its property is subject or any order that is binding on it or any of its property;

(ii) contravene any Authorisation;

(iii) contravene any undertaking or instrument binding on it or any of its property; or

(iv) require it to make any payment or delivery in respect of any financial accommodation or financial instrument before it would otherwise be obliged to do so.

17.2 **Consultation**: Without limiting clause 17.1, each Shareholder which is a Local Authority represents and warrants to each other party that is has complied with section 56 of the Local Government Act in connection with its subscription for and/or acquisition of Shares in the Company.

18. GENERAL

18.1 **Term**: This agreement shall terminate on the earlier of:

(a) the date on which the liquidation of the Company is completed; and

(b) the date on which one person owns all of the Shares.

18.2 **No partnership, joint venture**: Nothing in this agreement shall create or evidence any partnership, joint venture, agency, trust or employer/employee relationship between any of the Shareholders, and a Shareholder may not make, or allow to be made, any representation that any such relationship exists between any of the Shareholders. A Shareholder shall not have authority to act for, or to incur any obligation on behalf of, any other Shareholder, except as expressly provided for in this agreement. No Shareholder has any obligation of good faith or similar obligation to any other Shareholder.

18.3 **Counterparts**: This agreement is deemed to be signed by a party if that party has signed or attached that party's signature to any of the following formats of this agreement:

(a) an original; or

(b) a facsimile copy; or

(c) a photocopy; or

(d) a PDF or email image copy;

and if every party has signed or attached that party's signature to any such format and delivered it in any such format to the other parties, the executed formats shall together constitute a binding agreement between the parties.

18.4 **Entire agreement**: This agreement constitutes the entire agreement between the parties relating to the subject matter of this agreement and supersedes and cancels any previous agreement, understanding or arrangement whether written or oral.

18.5 **Severance**: If any provision of this agreement is, or becomes unenforceable, illegal or invalid for any reason it shall be deemed to be severed from this agreement without affecting the validity of the remainder of this agreement and shall not affect the enforceability, legality, validity or application of any other provision of this agreement.

18.6 **Further assurance**: Each party shall make all applications, execute all documents and do or procure all other acts and things reasonably required to implement and to carry out its obligations under, and the intention of, this agreement.

18.7 **Amendment**: This agreement may be amended in accordance with the terms of any Ordinary Resolution. If any such Ordinary Resolution is passed, the amendment recorded in that resolution shall take effect in accordance with their terms, and the Company shall prepare a deed recording such amendments, and may execute that deed on behalf of each Shareholder. Each Shareholder irrevocably appoints the Company as its attorney to execute such a deed on its behalf.

18.8 **Governing law**: This agreement is governed by the laws of New Zealand and the parties submit to the non-exclusive jurisdiction of the courts of New Zealand in respect of any dispute or proceeding arising out of this agreement.

18.9 **No guarantee**: The parties acknowledge that the obligations and liabilities of the Company under this agreement are not guaranteed by the Crown.

SIGNATURES

[Original execution blocks intentionally deleted]

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SCHEDULE 1
Foundation Policies
(Clause 5.1)

All foundation policies may be reviewed annually by Principal Shareholders at the annual meeting of Shareholders. Any alteration requires approval pursuant to clause 5.1.

Credit Risk

Lending Policy

All Local Authorities that borrow from the Company will:

- Provide debenture security in relation to their borrowing from the Company and related obligations, and (if relevant), equity commitment liabilities to the Company and (if relevant) guarantee liabilities to a security trustee approved for the Company's creditors.
- Issue securities (bonds / FRNs / CP) to the Company and/or enter into facility arrangements with the Company.
- Comply with their own internal borrowing policies.
- Comply with the financial covenants outlined in the following table, provided that:
    - Unrated Local Authorities or Local Authorities with a long-term credit rating lower than 'A' equivalent can have bespoke financial covenants that exceed the:
        - Lending policy covenants outlined in the following table with the approval of the Board;
        - Foundation policy covenants outlined in the following table with the approval of an Ordinary Resolution.
    - Local Authorities with a long-term credit rating of 'A' equivalent or higher will not be required to comply with the lending policy covenants in the following table, and can have bespoke financial covenants that exceed the foundation policy covenants outlined in the following table with the approval of an Ordinary Resolution.
    - Any Board or Ordinary Resolution approval of bespoke financial covenants will only be provided after a robust credit analysis and any approval must also include bespoke reporting and monitoring arrangements.
- If the principal amount of a Local Authority's borrowings or the Company's commitment under a facility agreement with a Local Authority is at any time greater than NZD 20 million, be a party to a deed of guarantee and an equity commitment deed (in each case in a form set by the Company).

Financial covenant	Lending policy covenants	Foundation policy covenants
Net Debt / Total Revenue	<175%	<250%
Net Interest / Total Revenue	<20%	<20%
Net Interest / Annual Rates Income	<25%	<30%
Liquidity	>110%	>110%

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Total Revenue is defined as cash earnings from rates, grants and subsidies, user charges, interest, dividends, financial and other revenue and excludes non government capital contributions (e.g. developer contributions and vested assets).
Net debt is defined as total debt less liquid financial assets and investments.
Liquidity is defined as external debt plus committed loan facilities plus liquid investments divided by external debt.
Net Interest is defined as the amount equal to all interest and financing costs less interest income for the relevant period.
Annual Rates Income is defined as the amount equal to the total revenue from any funding mechanism authorised by the Local Government (Rating) Act 2002 together with any revenue received from other local authorities for services provided (and for which the other local authorities rate).

Financial covenants are measured on Council only basis and not consolidated group basis, unless requested by a Local Authority and approved by the Board.

During the initial three years of operation the Auckland Council will be limited to a maximum of 60% of the Company's total Local Authority (including CCOs (as defined below)) assets. After three years Auckland Council will be limited to a maximum of 40% of the Company's total Local Authority (including CCO) assets.

No more than the greater of NZD 100 million or 33% of a Local Authority's or CCO's (as defined below) borrowings from the Company will mature in any 12 month period.

Subject to implementation of any amendments or other actions considered necessary, advisable or expedient by the Board and the approval of the Board in relation to the relevant CCO (as defined below)(which may be a Council-Controlled Trading Organisation), an approved CCO may borrow from the Company provided that:

- The CCO is a "council-controlled organisation" as defined in section 6 of the Local Government Act 2002, where the CCO is a company in which equity securities carrying at least 51% or more of the voting rights at a meeting of the shareholders of the CCO are held or controlled, directly or indirectly, by one or more Local Authorities (respectively, a "CCO" and each such Local Authority being a "CCO Shareholder");
- Each CCO Shareholder provides a guarantee in respect of the CCO in favour of the Company and/or there is sufficient uncalled capital in respect of the CCO to meet the financial obligations of the CCO;
- Each CCO Shareholder provides equity commitment liabilities to the Company, guarantees liabilities to a security trustee approved for the Company's creditors, and provides debenture security for its equity commitments to the Company and guarantee liabilities to the security trustee;
- Each CCO Shareholder complies with Lending policy financial covenants, Foundation policy financial covenants or other financial covenants required by the Board (if any);
- The CCO complies with any covenants required by the Board; and
- If required by the Board, the CCO will grant security in favour of the Company (which may be subject to any intercreditor arrangements acceptable to the Board).

Where the Company agrees to provide funding to the CCO, it must within 90 days of receiving annual financial covenant reporting from a CCO Shareholder (in its capacity as a borrower) report to the Shareholders' Council, holders of ordinary shares in the Company and any Local Authority guarantors of the Company's liabilities as to whether that CCO Shareholder has complied with its financial covenants on an individual and consolidated group basis.

Notwithstanding the definition of "CCO" set out above, the Board may not approve a CCO to borrow from the Company unless 100% of the equity securities carrying voting rights at a meeting of

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shareholders of the CCO are held or controlled, directly or indirectly, by one or more Local Authorities and the Crown (if applicable).

Cash and Liquid Investment Policy

The Company will only invest in NZD senior debt securities, money market deposits and registered certificates of deposits within the counterparty limits outlined in the following table.

New Zealand Local Authority and CCO securities are excluded from the Company's cash and liquidity portfolio.

Counterparty[1]	S & P Credit Rating or equivalent (Short-term / long-term)[2]	Maximum % Limit (Total Cash + Liquid Assets)	Minimum % Limit (Total Cash + Liquid Assets)	Maximum New Zealand Dollar counterparty Limit (millions)[3]	Maximum term (years)[4]
Category 1: NZ Government or RBNZ[5]	N/A	100%	20%	Unlimited	No longer than the longest dated LGFA maturity on issue
Category 2	A1+ / AAA	80%	N/A	300	3
Category 3	A1+: A1 / AA+	80%	N/A	200	3
	A1+: A1 / AA	80%	N/A	200	3
	A1+: A1 / AA-	80%	N/A	200	3
Category 4	A1: /A+, NZ Registered Bank	60%	N/A	200	3
Category 5	A1: /A+ Other Issuers	10%	N/A	50	1

The maximum individual counterparty limit (excluding the NZ Government) cannot be greater than 100% of Accessible Capital. Accessible Capital is defined as issued and paid capital plus retained earnings plus issued and unpaid capital plus outstanding borrower notes.

Derivative Policy

Unless explicitly approved otherwise by the Board, all derivative transactions must be transacted with New Zealand Debt Management as counterparty.

1 Category 2, 3, 4 and 5 counterparties do not include the RBNZ or the NZ Government.
2 Short term rating applies for all securities with a maturity date of 365 days or less.
3 If the counterparty credit rating is downgraded below the allowed limit, LGFA has 30 days to sell the security.
4 Maximum term applies from the date of settlement.
5 At least 20% of the portfolio must be held at the RBNZ or invested in NZ Government securities.

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Market Risk

The Company's total 12 month forecast portfolio PDH (Partial Differential Hedge) Limit is $100,000[6].

The Company's total portfolio Value at Risk (VaR) daily limit is $1,000,000[7].

Foreign exchange risk policy

The Company will take no foreign exchange risk.

Operational Risk

Unless explicitly approved otherwise by the Board, the Company will outsource the following functions to New Zealand Debt Management as follows:

- Hedging – New Zealand Debt Management is the LGFA interest rate swap counterparty.

Dividend policy

The policy is to pay a dividend that provides an annual rate of return to Shareholders equal to the Company's cost of funds plus 2.00% over the medium term, recognising that, to assist in the start-up period, the initial expectation is for no dividend for the part period to 30 June 2012, and for a dividend equal to 50% of the target dividend in the two periods to 30 June 2014 to be paid. Thereafter, the intention is to pay at least the full target dividend until the target dividend return is achieved as measured from commencement, including consideration of the time value of money at the target annual rate of return.

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

[6] PDH risk measures the sensitivity of a portfolio to a one basis point change in underlying interest rates. For example a PDH of $100,000 means that the portfolio value will fall by $100,000 for a one basis point fall in interest rates.
[7] VaR measures expected loss for a given period with a given confidence. For example, 95% confidence, daily VaR of $1,000,000 means that it is expected that the portfolio will lose $1,000,000 on 5% of days. i.e. 1 day in 20 the portfolio value will decrease by $1,000,000.

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SCHEDULE 2
First Opening
(Clause 7.1)

SHAREHOLDER	NO. OF PAID UP ORDINARY SHARES	NO. OF UNPAID ORDINARY SHARES
Auckland Council	2,000,000	2,000,000
Bay of Plenty Regional Council	2,000,000	2,000,000
Christchurch City Council	1,999,999	2,000,000
Hamilton City Council	2,000,000	2,000,000
Hastings District Council	400,000	400,000
Masterton District Council	100,000	100,000
New Plymouth District Council	100,000	100,000
Otorohanga District Council	100,000	100,000
Selwyn District Council	200,000	200,000
South Taranaki District Council	100,000	100,000
Tasman District Council	2,000,000	2,000,000
Taupo District Council	100,000	100,000
Tauranga City Council	2,000,000	2,000,000
Waipa District Council	100,000	100,000
Wellington City Council	2,000,000	2,000,000
Wellington Regional Council	2,000,000	2,000,000
Western Bay of Plenty District Council	2,000,000	2,000,000
Whangarei District Council	800,000	800,000
New Zealand Government	5,000,000	0
Total	24,999,999	20,000,000

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SCHEDULE 3
Reimbursement
(Clause 7.2)

LOCAL AUTHORITY	AMOUNT
Auckland Council	$250,000.00
Christchurch City Council	$200,000.00
Hamilton City Council	$200,000.00
Tasman District Council	$200,000.00
Tauranga City Council	$200,000.00
Wellington City Council	$200,000.00
Wellington Regional Council	$200,000.00
Western Bay of Plenty District Council	$150,000.00
Whangarei District Council	$200,000.00

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SCHEDULE 4
Form of Accession Deed
(Clause 10.11)

DEED dated **[ ]**

PARTIES	**[ ]** ("**Remaining Shareholder(s)**") **[ ]** ("**Transferor**") **[ ]** ("**Transferee**")

INTRODUCTION

A. The Remaining Shareholder(s) and the Transferor are the parties to a shareholders' agreement dated **[ ]** 2011 (**"Agreement"**) relating to New Zealand Local Government Funding Agency Limited (the "**Company**").

B. The Transferor wishes to transfer to the Transferee **[Number]** shares in the Company.

C. Under the Agreement the parties are required to execute this deed.

OPERATIVE PROVISIONS

1. With effect from the **[**date of this deed**]**:

   (a) The Transferee becomes a party to the Agreement as if it had been named as a party to the Agreement and had executed it.

   (b) The Transferor ceases to be a Shareholder. ***[Include only if applicable]***

2. The Transferor is not released from any liability to the Remaining Shareholders existing as at **[**the date of this deed**]**. ***[Include only if applicable]***

3. New Zealand law governs. New Zealand courts have non-exclusive jurisdiction.

SIGNED AS A DEED

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SCHEDULE 5
Events of Default
(Clause 13.1)

An Event of Default occurs in respect of a Shareholder if:

(a) without limiting paragraphs (b), (c) and (e), that Shareholder commits any breach of or fails to observe any of the obligations under this agreement or the Constitution or the Guarantor's Equity Commitment of that Shareholder and (if that breach or failure is capable of remedy) does not remedy that breach or failure within 10 Business Days of notice from any other Shareholder or the Company specifying the breach or failure and requiring remedy or (if that breach or failure is not capable of remedy) that breach or failure is material in the context of the obligations of that Shareholder under this agreement, the Constitution or the Guarantor's Equity Commitment (as the case may be);

(b) that a Shareholder fails to pay any calls on any Ordinary Shares within the prescribed time frame following a call being made by the Board;

(c) that Shareholder fails to subscribe for any Redeemable Shares in accordance with the Guarantor's Equity Commitment of that Shareholder;

(d) an "Event of Default", as defined in the Multi-issuer Deed, or a default under clause 7.6 or clause 7.7 of the Multi-issuer Deed, occurs with respect to that Shareholder;

(e) an Event of Default occurs under clause 9.2 with respect to that Shareholder; or

(f) an "Event of Default" as defined in any other arrangements for the Shareholder to be provided debt funding by the Company.

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SCHEDULE 6
Addresses for Notice
(Clause 15.2)

PARTY	ADDRESS FOR NOTICES
The Company	Address: Russell McVeagh, Vero Centre, 48 Shortland Street PO Box 8, Auckland 1140 Fax: 09 367 8163 Attention: Grant Kemble
Auckland Council	Delivery Address: 1 Greys Avenue Auckland Central Postal Address: Private Bag 92300 Auckland 1142 Fax: (09) 368 5964 Attention: Mark Butcher
Bay Of Plenty Regional Council	Delivery Address: 5 Quay Street Whakatāne Postal Address: P O Box 364 Whakatāne 3158 Fax: 0800 884 882 Attention: Brian Trott
Christchurch City Council	Delivery Address: Civic Offices 53 Hereford Street Christchurch Postal Address: P O Box 73016 Christchurch 8154 Fax: 03 941 8811 Attention: Paul Anderson
Hamilton City Council	Delivery Address: Council Building Garden Place Hamilton

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PARTY	ADDRESS FOR NOTICES
	Postal Address: Private Bag 3010 Hamilton 3240 Fax: 07 838 6616 Attention: Matthew Walker
Hastings District Council	Delivery Address: 207 Lyndon Road East Hastings 4122 Postal Address: Private Bag 9002 Hastings 4156 Fax: 06 871 5101 Attention: Tony Gray
Masterton District Council	Delivery Address: 64 Chapel Street Masterton 5840 Postal Address: PO Box 444 Masterton 5840 Fax: 06 378 8400 Attention: David Paris
New Plymouth District Council	Delivery Address: Liardet St New Plymouth Postal Address: Private Bag 2025 New Plymouth 4342 Fax: 06 759 6072 Attention: Philip Armstrong
Otorohanga District Council	Delivery Address: 17 Maniapoto Street Otorohonga 3940 Postal Address PO Box 11 Otorohonga 3940 Fax: 07 873 4300 Attention: Graham Bunn

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PARTY	ADDRESS FOR NOTICES
Selwyn District Council	Delivery Address: 2 Norman Kirk Drive Rolleston Postal Address: P O Box 90 Rolleston 7643 Fax: 03 347 2799 Attention: Douglas Marshall
South Taranaki District Council	Delivery Address: 105-111 Albion Street Hawera 4610 Postal Address: Private Bag 902 Hawera 4640 Fax: 06 278 8757 Attention: Vipul Mehta
Tasman District Council	Delivery Address: 189 Queen Street, Richmond, Nelson 7050 Postal Address Private Bag 4 Richmond, Nelson 7050 Fax: 03 543 9524 Attention: Murray Staite
Taupo District Council	Delivery Address: 72 Lake Terrace Taupo 3330 Postal Address: Private Bag 2005 Taupo 3352 Fax: 07 377 2985 Attention: Rob Williams
Tauranga City Council	Delivery Address: 91 Willow Street Tauranga 3143 Postal Address: Private Bag 12022 Tauranga 3143 Fax: 07 577 7056

Russell McVeagh

PARTY	ADDRESS FOR NOTICES
	Attention: Mohan De Mel
Waipa District Council	Delivery Address: 101 Bank Street Te Awamutu Postal Address: Private Bag 2402 Te Awamutu 3800 Fax: 07 872 0033 Attention: Ken Morris
Wellington City Council	Delivery Address: 101 Wakefield Street Wellington Postal Address: PO Box 2199 Wellington 6140 Fax: 04 801 3090 Attention: Danny McComb
Wellington Regional Council	Delivery Address: 142 Wakefield Street Wellington Postal Address: P O Box 11646 Manners Street Wellington 6142 Fax: 04 385 3973 Attention: Mike Timmer
Western Bay Of Plenty District Council	Delivery Address: Barkes Corner Greerton Tauranga Postal Address: Private Bag 12803 Tauranga 3143 Fax: 07 577 9280 Attention: Matthew Potton
Whangarei District Council	Delivery Address: Forum North Rust Avenue

Russell McVeagh

PARTY	ADDRESS FOR NOTICES
	Whangarei Postal Address: Private Bag 9023 Whangarei 0148 Fax: 09 438 7632 Attention: Alan Adcock
New Zealand Government	Delivery Address: Minister of Finance Parliament Buildings, Wellington And to: Minister of Local Government Parliament Buildings, Wellington With a copy to: William More, The Treasury, No 1 The Terrace Wellington 6011 Postal Address: The Treasury, No 1 The Terrace Wellington 6011 Attention: William More Fax: 04 472 3792

8.6 ACTIVITY REPORT: 1 JULY TO 30 SEPTEMBER 2019

Author: Terry Creighton, Corporate Monitoring Officer

Authoriser: Mark de Haast, Group Manager

PURPOSE OF REPORT

1 This report provides the Strategy and Operations Committee with a quarterly performance overview for the first quarter of the 2019/20 financial year for each activity published in the 2018-38 Long Term Plan.

DELEGATION

2 The Strategy and Operations Committee has delegated authority to consider this report under the responsibilities delegated in Section B.1 of *Governance Structure and Delegations*. In particular, the Committee's key responsibilities include:

- *Overviewing strategic programmes*
- *Financial management, including risk mitigation*

BACKGROUND

3 The dashboard graphic on the following page gives a snapshot of performance across all council activities and is intended to highlight at a glance where there might be issues that need attention.

4 Section 1 of this report gives an overview of progress on projects and results for key performance indicators (KPIs) across the council as a whole.

5 Section 2 reports on the 'Across council work programmes'.

6 Sections 3 to 6 reports on the activity cluster groupings. These sections report on the status of projects (with a brief explanation where projects are not on target), present other key development highlights and provide more detail on KPI performance.

7 This report is a summary of work programme and activity reports. Further and more detailed information is included in the following appendices:

- Appendix A provides a status list of the significant projects. Table 1 shows the status of the major capital expenditure projects ($250,000 and above) while Table 2 shows the status of the additional significant projects[1].
- Appendix B contains detailed activity chapters which present an overview of performance across a range of projects and work programmes, recent developments in those activities and performance against key performance measures published in the 2018–38 long term plan.

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[1] An *additional significant project* is a project that has a significant impact on community interests or has significant interest from a governance perspective, but has a capital expenditure budget of less than $250,000 (although it may have a higher operational expenditure budget).

Activity overview dashboard for the first quarter 2019/20

KPIs: Achieved / Not yet due / On target / Not achieved / Not on target

Projects: On target / Not on target / On hold

Capital Spend ($000), Operating Spend ($000), Income ($000): Favourable / On budget / Unfavourable

Group	Activity	KPIs	Projects	Capital Spend ($000)	Operating Spend ($000)	Income ($000)
INFRASTRUCTURE	Access & Transport	On target 4; Not yet due 5; Not on target	Not on target; On target 3	$1,391 (Favourable)	$3,079 (On budget)	$1,239 (On budget)
INFRASTRUCTURE	Coastal Management	On target 2	On target 1	$154 (Unfavourable)	$298 (On budget)	
INFRASTRUCTURE	Solid Waste	On target 4; Not on target	On target 1	$14 (Favourable)	$257 (On budget)	$149 (On budget)
INFRASTRUCTURE	Stormwater	On target 6; Not yet due	On target 2	$934 (Unfavourable)	$905 (On budget)	$49 (Favourable)
INFRASTRUCTURE	Wastewater	On target 5	Not on target 2; On target	$204 (Favourable)	$1,831 (On budget)	$9 (Unfavourable)
INFRASTRUCTURE	Water	On target 8; Not yet due 3	Not on target; On target 1	$378 (Unfavourable)	$1,688 (On budget)	$80 (Favourable)
COMMUNITY SERVICES	Parks & Open Space	Achieved 2; On target 2; Not yet due 7	On target 1	$72 (Unfavourable)	$1,204 (On budget)	-$148 (Unfavourable)
COMMUNITY SERVICES	Recreation & Leisure	On target 3; Not yet due 4; Not on target 3		$133 (Favourable)	$2,098 (On budget)	$425 (On budget)
COMMUNITY SERVICES	Community Facilities & Community Support	On target 7; Not yet due 7	Not on target 1	$425 (On budget)	$1,178 (Favourable)	$420 (On budget)
COMMUNITY SERVICES	Economic Development	On target; Not yet due 2	On target 2	$887 (Unfavourable)	$345 (Favourable)	$25 (Favourable)
PLANNING & REGULATORY	Districtwide Planning	On target 2	On target 1		$302 (Favourable)	$18 (Favourable)
PLANNING & REGULATORY	Regulatory Services	On target 3; Not yet due 2; Not on target 2	Not on target	$24 (Favourable)	$1,176 (Favourable)	$1,695 (On budget)
GOVERNANCE & TĀNGATA WHENUA	Governance & Tāngata Whenua	On target 3; Not yet due 3		$3 (Favourable)	$641 (Favourable)	$288 (On budget)
GOVERNANCE & TĀNGATA WHENUA	Corporate			$347 (On budget)	$5,857 (On budget)	$17,417 (On budget)
	Total			$4,957	$20,859	$21,666

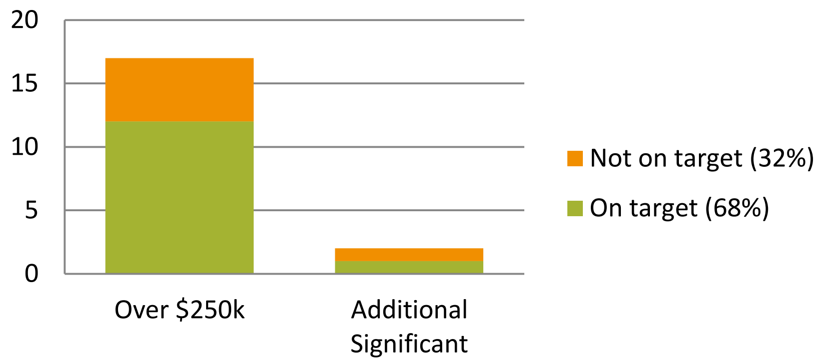
CONSIDERATIONS

Section 1: Overview of KPIs and Projects

Summary of significant projects

8 There are 19 significant projects being undertaken by Council in the activities reported below (compared to 29 last year). Of these, 17 are Capital Expenditure Projects with a value of $250,000 and above and two are additional significant projects. Figure 1 below provides a performance summary of these projects. [2]

Figure 1: Status summary of significant projects
as at 30 September 2019



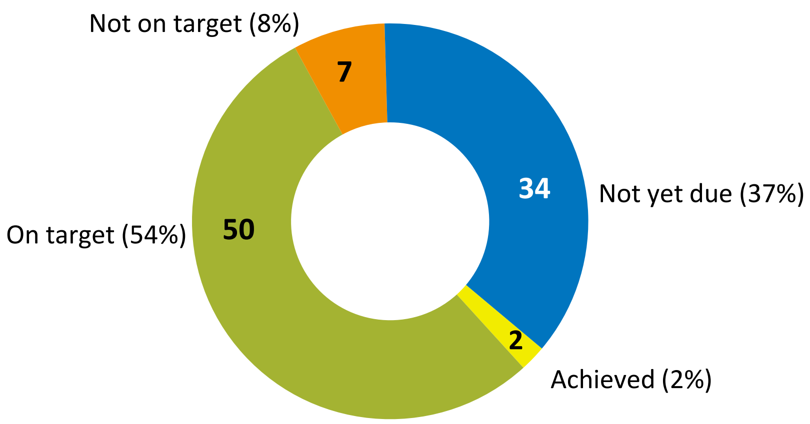
9 Thirteen projects were on target as at 30 September 2019.

10 Six projects were not on target for a range of reasons. These are summarised in paras 27-28, 56-57 and 78 below, and reported on in the activity chapters in Appendix B.

Summary of key performance indicators

11 There are 93 KPIs which have targets this year. Figure 2 below reports on KPI results against their targets.

Figure 2: Key Performance Indicators
as at 30 September 2019



12 Two KPIs were achieved and fifty were on target at the end of the first quarter. Of the remainder, 34 were not yet due and seven were not on target. These are summarised in paragraphs 50-53, 74-76, 84-85 and 96-97 and reported in more detail in the activity chapters in Appendix B.

[2] Note that there are other work programmes and projects reported in the 'Across Council Work Programmes' section of this report (and in that chapter in Appendix B) that are not included in Figure 1 or in Appendix A.

Section 2: Across Council Work Programmes

13 There are several programmes of work that carry across a number of activities. These are discussed briefly below, and in more detail in the 'Across Council Work Programmes' chapter in Appendix B.

Provincial Growth Fund

Key developments

14 Regional Economic Development Minister Shane Jones visited Ōtaki and announced four successful applications to the Provincial Growth Fund (PGF): Omeo Technologies, Waiorua Lodge, Māoriland Trust and a PGF Programme Manager role at Council.

15 Council's Express Application to the Provincial Growth Fund for a PGF Programme manager role in Kāpiti was one of the four successful applications announced.

Housing work programme

Key developments

16 A draft report outlining the current state and options to consider for the housing work programme was consulted with SLT, Councillors and stakeholders in August and September 2019.

17 Following feedback, a final draft report, including a prioritisation schedule for the work to establish a housing programme, is planned to be submitted to Council by the end of 2019.

Coastal adaptation work programme

Key developments

18 A high-level coastal vulnerability assessment was approved and released by the Wellington Mayoral Forum in August 2019.

19 A Coastal Manager was appointed to support the Community-led coastal adaptation work programme. Planning of communication and engagement for Phase One of the programme is underway.

20 The Wellington Region Climate Change Working Group agreed to consider the future of the coastal adaptation sub-group after the election.

Corporate IT projects

Key developments

21 The IT Hardware renewals programme is well underway with the purchase of new desktops, laptops and mobile phones to replace old equipment, and the purchase of new radios for the digital radio network. The project is currently forecast to be a modest $12,000 over the budget of $399,277 by year end, and is classified as on target.

22 The IT Software upgrade programme is well underway with the completion of two projects – i) the installation of new microphones, camera and sound equipment in the Council chambers, and ii) the implementation of new software at the Coastlands Aquatic Centre. This project is currently forecast to be $45,000 over the budget of $322,258 by year end. It is classified as not on target for that reason.

Carbon and energy management

Key developments

23 In late 2018/19 the Infrastructure group manager, Sean Mallon, announced his intention to establish a new Sustainability and Resilience team to ensure Council had the resources to undertake work to further improve Council's energy efficiency and further reduce CO2e

emissions. This commitment was in response to Council's adoption of the goal of seeking carbon neutrality by 2025.

24 The new position of Sustainability and Resilience Manager was advertised in late September 2019 and has since been filled. This role also picks up some Civil Defence Emergency leadership functions. Other positions in the team were planned to be filled over November/December 2019.

25 Preparation for the annual carbon emissions (CEMARS) audit for 2018/19 got underway in late September 2019 but won't be completed until early December. The audit is planned for late January 2020 and it is expected the verified results will be reported to Council in February 2020.

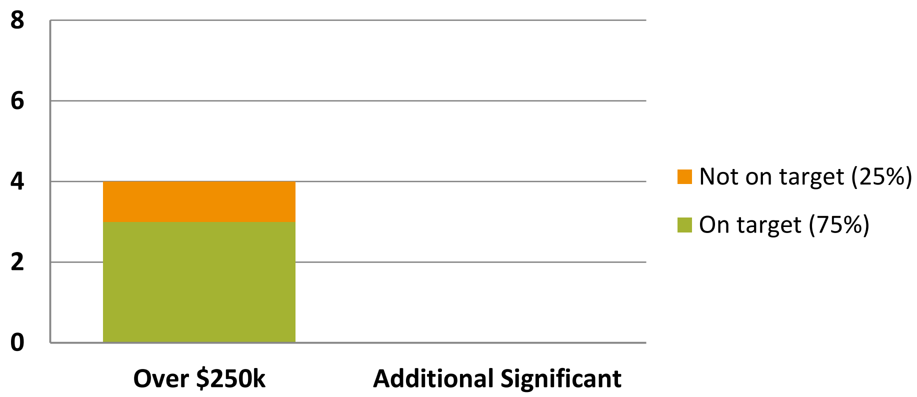
Section 3: Place & Space

Significant projects

26 There are five Place and Space projects, all of which are capital expenditure over $250,000 projects.

Figure 3: Place & Space – significant projects

as at 30 September 2019



27 Three projects were on target as at 30 September 2019.

28 One Community facilities projects, the Older Person's Housing Renewals project, was not on target. It is progressing well, but has already spent 45% of the annual budget in the first quarter. This is in large part due to the urgent remediation of the Wipata Flats in Paekākāriki that was unscheduled. The number of units that will fall vacant over the remainder of the year is unpredictable, but it is now expected the spend will exceed the initial budget again this year.

Other projects

29 Significant leaks in the Waterfront Bar & Restaurant in Raumati Beach, a Council-owned building, have required roof replacement and associated remediation. There are some window and doors replacements required which are scheduled for October 2019.

30 Work finished on the Paraparaumu Library to remediate the concrete panels on the western and eastern ends of the building. Water ingress occurred due to the panels not being fully grouted and sealed during construction resulting in leak issues in the basement. Rusted steel beams were replaced and damaged concrete remediated.

Other key developments - highlights

31 Stage 1 of the Maclean Park redevelopment was completed in August 2019. An opening event is planned for November 2019.

32 The 2019 restoration planting programme was completed. A total of 18,000 eco-sourced native plants were planted to restore bush, riparian margins, wetlands and dunes across the district.

33 The Garden Talks programme was launched at Ōtaki Library – as a tie-in with the newly planted community garden. Over 45 people attended the first session. This project was developed in partnership with the Parks and Recreation team.

34 We celebrated Te Wiki o te Reo with a series of exciting musical and theatre performances that attracted over 130 participants.

35 The first round of Creative Communities Scheme funding grants for 2019/20 was completed with $22,904.40 was awarded to nine recipients.

36 There were 64,901 pool visits in the first quarter, which is the highest first quarter since the opening of the Coastlands Aquatic Centre in August 2013.

37 Kāpiti Coast Aquatics won the National Lifeguard Championships.

38 The Economic Development Strategy drafting group continues to meet with the business community and key partners. The target remains to adopt and implement the strategy in February 2020.

39 Council approved funding of $175,000 on 8 August 2019 for five major events (*one of the events, Ffflair, has since withdrawn*).

40 Council officers have been working to assist the owners of the Paraparaumu Beach Market to move from its current location. All necessary approvals have been granted and the market was scheduled to move on 5 October 2019 (*this went ahead as planned*).

41 Moisture testing at the Community Centre in August 2019 did not identify elevated mould readings and noted that the levels of mould found would be unlikely to result in health issues.

42 The Mahara Gallery Trust submitted a funding application to the Lotteries Environment and Heritage Fund. A decision is expected in November 2019. They are targeting three other funding opportunities.

43 Miyamoto International NZ Ltd are undertaking condition surveys across the Housing for Older Persons portfolio and four community facility buildings. That work was due to be completed in October 2019.

44 In July 2019, Council hosted a funders forum. This provided a ‘speed dating’ opportunity for community not for profits to sit down and talk with funders.

45 Contract holders for Council’s Social Investment programme presented their Year One achievements to elected members in September 2019.

46 Council has been working with the Capital and Coast DHB as part of a new suicide prevention initiative

47 The Council was awarded the Enviro-Mark Solutions award for ‘Excellence in Climate Action (medium organisation)’ in August 2019.

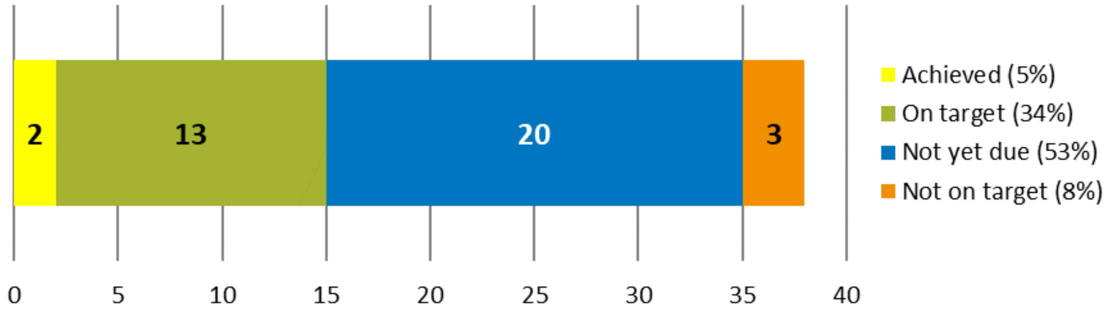
48 Just over 300 participants attended No. 8 Wire week events. The programme of events and activities aims to build community resilience, resourcefulness and environmental responsibility.

Key performance indicators

49 In this cluster there are 38 KPIs.

Figure 4: Place and Space KPIs

as at 30 June 2019



50 Two KPIs were achieved at the end of the first quarter of 2019/20.

51 Thirteen KPIs were on target.

52 Twenty KPIs were not yet due, largely because their results are determined by surveys not undertaken until the third and fourth quarters of the year.

53 Three KPIs Recreation and leisure KPIs were not on target. These were all Recreation and Leisure KPIs and all in the library services area. They are attributable to the smaller scale and storage capacity of the current Waikanae library:

i). *Total visits to libraries* is below target with 65,831 visits in the first quarter. To achieve the annual target of 300,000 visits we need to average around 75,000 visits per quarter.

ii). *Number of items borrowed* is also below target with 146,538 in the first quarter. To achieve the annual target of 650,000 items borrowed we need to average around 162,500 items borrowed per quarter.

iii). We added 1,888 new items to the library's collection in the first quarter, which equates to 35 new items per 1,000 of population. With the reduction in the collections budget for 2019/20 the expected level of new items added to the collection is approximately 180 items per 1000 of population - so although we're on track to achieve that we won't be meeting the target set in the long term plan.

Section 4: Infrastructure

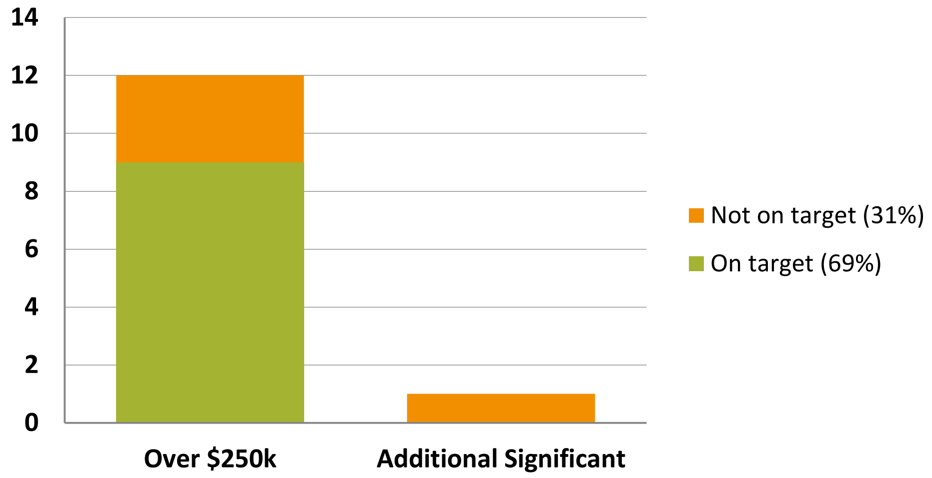
Significant projects

54 There are 13 Infrastructure projects, 12 of which are capital expenditure over $250,000 projects. The other is an additional significant project (it is a capex project less than $250,000).

55 Figure 5 below summarises the status of these infrastructure projects.

Figure 5: Infrastructure Projects

as at 30 September 2019



56 Nine projects were on target as at 30 September 2019.

57 Four projects were not on target:

i). One Access and transport project was not on target. The SH1 Revocation project has been behind schedule for some time and has taken longer than expected this year for NZTA to start the physical works this year. Work is expected to start in December 2019.

ii). Two Wastewater projects were not on target:

a) The Paraparaumu wastewater treatment plant (WWTP) renewals project has critical works programmed for this year that exceed the available budget. Options to defer or offset this expenditure are being investigated.

b) The Ōtaki WWTP land discharge and treatment area upgrade project is currently forecast to run over budget this year.

iii). One water management project was not on target. The Drinking Water Safety and Resilience Programme was delayed last year which has had flow on effects. The design of the works is progressing in 2019/20 but construction is now planned for 2020/21. We will be seeking approval for construction budgets to be carried forward to 2020/21.

Other key developments - highlights

58 Physical works continue on PP2O and Fletcher Construction is liaising with Council and residents to enable the works.

59 Council and the revocation team from NZTA are reviewing NZTA's asset data and working through the agreement on the future take-over of these assets.

60 Paekākāriki seawall Building Consent application has been lodged with Council.

61 The Wharemauku block wall Long Term Solution Options report is completed.

62 A submission is being prepared on the proposed priority products and priority product stewardship scheme guidelines.

63 A new worm farm was Installed to manage organic waste from the Maple and Civic Buildings and Novella Café.

64 The Waste Minimisation Taskforce is currently meeting fortnightly and will report to Council on 12 December 2019.

65 Five more projects have been added to the active list in the Stormwater major works programme for 2019/20 – there are now 16 projects currently underway.

66 Asset condition investigations were completed in three more Paraparaumu catchments this quarter. A total of six out of 34 have been completed to date.

67 Ongoing efforts are being made to meaningfully engage tāngata whenua in the re-consenting of the Paraparaumu WWTP. The project is now however on a critical path to develop a resource consent application to GWRC.

68 The detailed wastewater works programme for 2019/20 has been developed. This work will be used to identify any improvements needed and better inform future long term planning of renewals, upgrades and resilience projects.

69 Consultants have been engaged to investigate containment standards for our wastewater network that will inform investment planning for the 2021 long term plan.

70 The annual reporting process on the operation of the river recharge scheme was completed and the annual reports lodged with Greater Wellington Regional Council. The final administrative amendments to the consent to remove the requirements during the baseline monitoring period have been complete. This will streamline the ongoing operation of this scheme.

71 The river recharge scheme has successfully proven it is operable to the four approved ongoing mitigation plans (OMPs). It is now under adaptive management for the remainder of the fifteen-year period, to the full extent of it's stage one capacity.

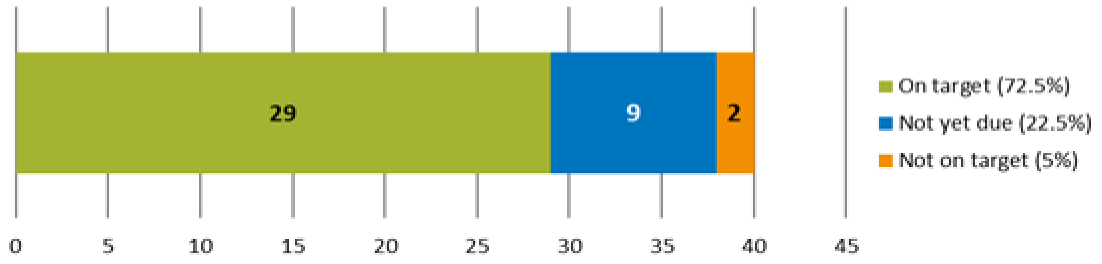
72 The detailed water management works programme for 2019/20 has been substantially scoped and Consultant Service Orders (CSOs) approved. Work is underway in the inspections of reservoirs, pipelines and water treatment plants and in master planning for the growth projected in the Ōtaki water supply network and for coming legislative changes.

Key performance indicators

73 In this cluster there are 40 KPIs with assigned targets to report against this year.

Figure 6: Infrastructure KPIs

as at 30 September 2019



74 Twenty-nine KPIs were on target at the end of the first quarter.

75 Nine KPIs have results which are not yet due, typically because they're only measured at the end of the year.

76 Two KPIs were not on target:

i). One Access and transport KPI was not on target:

'Residents (%) who are satisfied with street lighting' reported a provisional result from the first quarter Resident Opinion Survey of 83% satisfied against a target of 85% (the result for 2018/19 year was 85%). This result may well improve as further quarterly surveys are completed and the number of respondents increases. The results for the past two years show considerable volatility in the quarterly results.

ii). One Solid Waste KPI was not on target:

'Residents who are satisfied with the waste minimisation education, information and advice available' reported a provisional satisfaction result of 63% in the first quarter's Resident Opinion Survey, against a target of 75% for the year. This measure has reported below target results since Envirowaste discontinued its plastic rubbish bag collection service in early 2018. That service provided a very low cost option for those who actively minimised their household waste.

Section 5: Regulatory Services

Significant projects

77 There are two significant projects in Regulatory Services this year, the District Plan Review project and the Animal Management Centre Renewals project. The latter is now a capital expenditure over $250,000 project, while the former is an 'additional significant' project as it is an operational expenditure project.

78 One project is on target and the other is not as explained below:

i). The District Plan Review project is progressing well with resolving appeals and is on target. There has been an increase in increase in expected costs for hearing commissioners to complete variations, however this is offset from saving elsewhere in that budget.

ii). The Animal Management Centre Renewal project is not on target. Detailed investigation and design work on the centre has been completed and, due to the hidden poor condition of the building, has resulted in an increase in the scope of works. The cost of the required work is now forecast to exceed the initial budget.

Other key developments - highlights

79 In this first quarter, one Proposed District Plan appeal was resolved (five altogether) and two further appeals were withdrawn (six altogether). This leaves seven of the 18 appeals live (including three that are partially resolved).

80 Regulatory Services received a total of 2,512 service requests in the first quarter (2,972 in the same period last year).

81 The building consents team processed and issued 325 building consents in the first quarter (279 last year), all except one were issued within 20 days and the average processing time was 12 days. In addition, 196 code compliance certificates were issued (256 last year)) and 1,526 building inspections undertaken (1,647 last year).

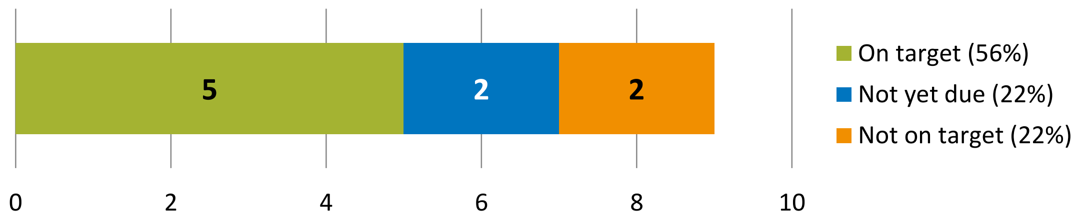
82 The resource consents team issued 80 consents in the first quarter (73 last year). The team also processed 12 permitted boundary activities (17 last year) and 20 certifications for subdivision (18 last year), relating to a total of 30 new allotments (48 last year).

Key performance indicators

83 In this cluster there are nine KPIs.

Figure 7: Regulatory Services KPIs

as at 30 September 2019



84 Five KPIs were on target at the end of the first quarter and two were not yet due.

85 Two KPIs were not on target, but at least one should improve in coming quarters:

i). The percentage of service requests responded to within corporate standards was 94.4%, against a target of 95%.

ii). The ratio of compliments to complaints was 2:1 in the first quarter against a target of greater than 3:1.

Section 6: Governance and tāngata whenua

Significant projects

86 There are no significant projects in this activity in 2019/20.

Other key developments - highlights

87 The Council adopted the Annual Report for the 2018/19 financial year on 26 September 2019.

88 Council approved the Subcommittee's draft terms of reference for the independent organisational review.

89 Council adopted the Elected Member Remuneration Expenses and Allowances Policy with the inclusion of a Childcare Allowance for Elected Members.

90 The Council received 51 official information requests in the first quarter, compared to 62 in the same quarter last year.

91 There was one citizenship ceremony, on 28 August 2019, which conferred citizenship upon 44 applicants.

92 Council approved seven submissions in the quarter on a range of issues.

93 Te Whakaminenga o Kāpiti met twice in this quarter.

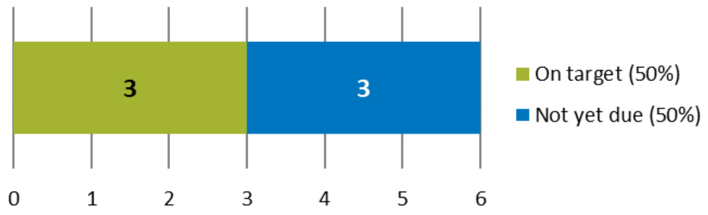
94 Over 120 people attended the 2019/20 Maramataka launch at Whakarongotai Marae on 2 August 2019. The theme of the calendar was a 'celebration of the interconnectedness of the Ātiawa, Raukawa, Toa (ART) confederation'.

Key performance indicators

95 There are six KPIs in this stand-alone activity.

Figure 8: Governance & Tāngata Whenua KPIs

as at 30 June 2019



96 Three KPIs were on target at the end of the first quarter.

97 Three KPIs were not yet due.

Policy considerations

98 There are no policy issues to consider.

Legal considerations

99 Under the Local Government Act 2002, the Council has a legislative responsibility to monitor and report on the Council's organisational performance).

Financial considerations

100 A summary of budget details for each activity (as at 30 September 2019) is provided in the activity chapters attached as Appendix B to this report.

Tāngata whenua considerations

101 There are no iwi or tāngata whenua issues to consider in regard to this report.

102 There is reporting on issues of interest to iwi and tāngata whenua throughout this report, not limited to the Governance and tāngata whenua section of this report or the activity chapter contained in Appendix B. However, this report is for information about recent developments only and is not calling for any decision.

Strategic considerations

103 There are no specific strategic considerations in this report. The developments outlined in this report and the attached Appendix B contribute in various ways to Council's ten-year outcomes. However, it is not the aim of this report to explore those contributions.

SIGNIFICANCE AND ENGAGEMENT

Significance policy

104 This matter has a low level of significance under Council's Significance and Engagement Policy.

Consultation already undertaken

105 This is a report for information only – no consultation is required.

Publicity

106 Many of the developments referred to in this report have already been communicated through the council's regular communications channels.

107 Performance outcomes for the year will be published in the Annual Report 2019/20.

CONCLUSION

108 The Council has performed well in the first quarter. In particular:

- i). There has been the usual degree of variability in financial results relative to budget across activities for the first quarter, however these balance out overall as total operating expenditure, total operating income and total capital expenditure are all showing only modest variance compared to budget.
- ii). There are 19 significant projects reported on this year, of which six are not on target. However, of those six there are three that are due to events outside our control and two which are due to flow on effects from delays last year.
- iii). There are 93 KPIs reported on, of which seven (8%) are not on target, and three of these are the result of the Waikanae Library closure last year.

RECOMMENDATIONS

109 That the Strategy and Operations Committee notes the content of this Activity Report for the first quarter of 2019/20, the status of the projects in the Summary List of Projects (Appendix A), and the further work programme and project performance, other key developments and KPI results contained in the activity chapters attached as Appendix B to this report.

APPENDICES

1. Appendix A: Project Status List (as at 30 September 2019) ⇩
2. Appendix B: Across Council work programme and activity chapters (1 July to 30 September 2019) ⇩

Appendix A: Project status list (as at 30 September 2019)

Appendix A: Table One - Capital Expenditure projects $250,000 and above

Activity / Programme	Major Project	Status
Access and Transport	Sealed road resurfacing	
	Footpath renewal	
	Minor improvements	
	SH 1 Revocation	
Coastal Management	Coastal renewals	
Solid Waste	Otaihanga landfill capping	
Stormwater Management	Major stormwater projects	
	Minor stormwater projects	
Wastewater Management	Paraparaumu WWTP renewals	
	Paraparaumu WWTP consent process	
Water Management	Pipe renewals & network upgrades	
	Drinking Water Safety & Resilience programme	
Community facilities and support	Older Person's Housing renewals	
Economic Development	Paraparaumu and Waikanae Town Centres development	
	Strategic land purchase	
Parks and open space	Districtwide Parks & Playgrounds	
Regulatory services	Animal Management Centre	

Project status key

Complete	On target	Not on target	On hold	High risk

Page 1 of 2

Appendix A: Project status list (as at 30 September 2019)

Appendix A: Table Two - Additional Significant Projects[2]		
Activity / Programme	**Project**	**Status**
Wastewater management	Ōtaki WWTP upgrades	Not on target (orange)
Districtwide Planning	District plan review	On target (green)

2. As noted in the footnote on page 1 of the Activity Report an 'additional significant project' is a project that has a significant impact on community interests, or has significant interest from a governance perspective, but has a capital expenditure budget of less than $250,000 (although it may have a higher operational expenditure budget).

Project status key

Complete	yellow	On target	green	Not on target	orange	On hold	blue	High risk	red

Page 2 of 2

Appendix B

- Across Council work programme
- Place and Space cluster
- Infrastructure cluster
- Regulatory Services cluster
- Governance and Tāngata Whenua

Appendix B – Across Council Work Programmes chapter (1 July to 30 September 2019)

Across Council Work Programmes

There are several programmes of work that extend across two or more activity areas. To present the reporting on these programmes of work more cohesively, they will be reported on in this 'Across Council Work Programmes' section rather than in separate activity reports.

These programmes of work are:

- Provincial Growth Fund
- Housing work programme
- Coastal adaptation work programme
- Council-wide corporate information technology projects
- Carbon and Energy Management – this is normally only reported annually when the audited CEMARS results from the previous year become available. However, there is a short report this quarter about recent developments.

Appendix B – Across Council Work Programmes chapter (1 July to 30 September 2019)

Provincial Growth Fund

Provincial Growth Fund - work programme	
Description	This work programme supports the development and implementation of Provincial Growth Fund applications for the Council and the Kāpiti community.
Lead	Senior Leadership Team

Comments (latest developments/upcoming milestones/critical activities)

Key developments in the first quarter:

1. Regional Economic Development Minister Shane Jones visited Ōtaki in early July 2019 and announced four successful applications to the PGF: Omeo Technologies in Ōtaki, Kapiti Island's Waiorua Lodge, the Māoriland Trust in Ōtaki and funding for a Provincial Growth Fund Programme Manager at Council.
2. Council's Express Application to the Provincial Growth Fund for a PGF Programme manager role in Kāpiti was one of the four successful applications announced.
3. Regional Advisory Group met on 1 August to discuss PGF applications from Kāpiti.
4. Provided continuous support and advice to organisations developing applications to the Provincial Growth Fund.
5. Progressed concept development for Council-led opportunities identified as a priority, including discussions with potential partners and stakeholders.

Risks (to programme, cost, quality, other)

1. National PGF landscape – as the PGF progresses through the second year, significant levels of funding have already been allocated and the overall portfolio of required priority investment is becoming more refined, creating a higher bar for success.
2. Relationship management – a significant amount of mis-information is being circulated through the community, and creating delays to progressing concept development of Council priorities.

Issues (for elected member attention)

1. None to report.

Appendix B – Across Council Work Programmes chapter (1 July to 30 September 2019)

Housing

Housing work programme	
Description	This work programme defines the implementation strategy for Council to progress housing supply across the District including physical assets and advocacy work streams on behalf of the local community
Lead	People and Partnerships Group

Comments (latest developments/upcoming milestones/critical activities)

Key developments in the first quarter:

1. Council has engaged The Property Group Limited (TPG) to investigate the options Council has to influence housing issues in the district. This will include:
   - Confirmation of the district's housing continuum opportunities and constraints,
   - Proposed actions to enable the opportunities and mitigate the constraints,
   - Measurable outcomes to support Council and stakeholders reach consensus on supporting areas of housing in need in the district,
   - The findings of this work will inform the next steps for Council to consider establishing a housing programme.
2. Over 80 stakeholders from the Kapiti district and who are part of the sector were engaged to inform this project.
3. A draft report outlining the current state and options to consider for the work programme was consulted with SLT, Councillors and stakeholders in August and September 2019.
4. Following feedback, a final draft report including a prioritisation schedule for the work to establish a housing programme is planned to be submitted to Council by the end of 2019.

Forthcoming milestones:

5. The report will then be finalised and presented back to Council in early 2020.

Risks (to programme, cost, quality, other)

1. Council's role in the housing sector is not consistently understood.
2. The Council's reputation is eroded by the perceived lack action on addressing housing issues in the district.
3. The proposed options are not supported by Council and there are delays to establish the work programme.

Issues (for elected member attention)

1. None to report

Appendix B – Across Council Work Programmes chapter (1 July to 30 September 2019)

Coastal adaptation

Coastal adaptation work programme	
Description	This work programme comprises the development of a regional approach to community-led coastal adaptation under the umbrella of the Wellington Region Climate Change Working Group's coastal adaptation sub-group.
Lead	Regulatory Services Group

Comments (latest developments/upcoming milestones/critical activities)

Key developments in the first quarter:

1. A high-level coastal vulnerability assessment, carried out by Mitchell Daysh with the assistance of Dr Iain Dawe of Greater Wellington Regional Council, was approved and released by the Wellington Mayoral Forum in August 2019.
2. Coastal Manager appointed to support the Community-led coastal adaptation work programme for Kāpiti Coast District Council.
3. The Wellington Region Climate Change Working Group agreed to consider the future of the coastal adaptation sub-group after the election. The purpose of the sub-group to date has been to develop, coordinate and support a regional coastal adaptation work programme.
4. Planning of communication and engagement for Phase One of the programme is underway.

Upcoming milestones

5. Ongoing discussions with some key parties on development of the community-led coastal adaptation process.
6. Commence discussions with iwi to co-design the community-led coastal adaptation process.
7. Planning for wider community engagement opportunities to support community awareness and understanding of issues, challenges and opportunities for community-led discussions relating to the impacts of sea level rise.

Risks (to programme, cost, quality, other)

1. Due to the high degree of importance and significance to iwi, affected or interested parties, and the wider community. It is important that iwi and the community has ample opportunity to provide input during the community engagement period.
2. If the community-led process and wider community engagement expands significantly (e.g. to meet community expectations)and Greater Wellington Regional Council is unable to contribute financially, there may not be sufficient budget to complete this community-led process in 2020/21.

Issues (for elected member attention)

1. None to report

Appendix B – Across Council Work Programmes chapter (1 July to 30 September 2019)

Corporate IT projects

Information technology – Hardware renewals			
Description	The hardware programme includes servers, desktops, laptops, mobile phones, internal network, digital radio network across the district and the CCTV network.		
Group	Corporate Services		
Status	**Category**	**Timeliness**	**Budget**
		🕓✓	$✓

Comments (latest developments/upcoming milestones/critical activities)

Developments in the first quarter were:

1. Purchase of new desktops and laptops to replace old equipment.
2. Purchase of new mobile phones to replace old equipment.
3. Purchase of new radios for the digital radio network.
4. Programme to review and upgrade old CCTV cameras.

Upcoming milestones:

5. Implementation of fibre to key Council sites across the district.
6. Continue replacing desktops, laptops and mobile phones.

Risks (to programme, cost, quality, other)

1. There are no risks to the current programme.

Issues (for elected member attention)

1. There are no issues to be considered.

Current year project costs to 30 September 2019					
Financial year	**Year**	**Project budget $**	**Project costs to date $**	**Forecast project costs $**	Carry over $
This year	2019/20	399,277[1]	124,344	411,331	

Appendix B – Across Council Work Programmes chapter (1 July to 30 September 2019)

Information technology – Software upgrades

Description	The software programme includes upgrading existing software applications where required along with projects that require new modules or new software applications.		
Group	Corporate Services		
Status	**Category**	**Timeliness**	**Budget**
		✓	$

Comments (latest developments/upcoming milestones/critical activities)

Developments in the first quarter were:

1. Completed the installation of new microphones, camera and sound equipment in the Council chambers.
2. Completion of the implementation of new software to replace the no longer supported software at the Aquatic Centre

Upcoming milestones:

3. Upgrade of Magiq software to v4.26

Risks (to programme, cost, quality, other)

1. There are no risks to the current programme.

Issues (for elected member attention)

1. The forecast overspend in software includes higher project cost than anticipated for both the upgrade project to the Council chambers and the software project for Aquatics. It is anticipated that the overspend will be able to absorbed across the programme for the year.

Current year project costs to 30 September 2019

Financial year	Year	Project budget $	Project costs to date $	Forecast project costs $	Carry over $
This year	2019/20	322,258	224,075	367,873	

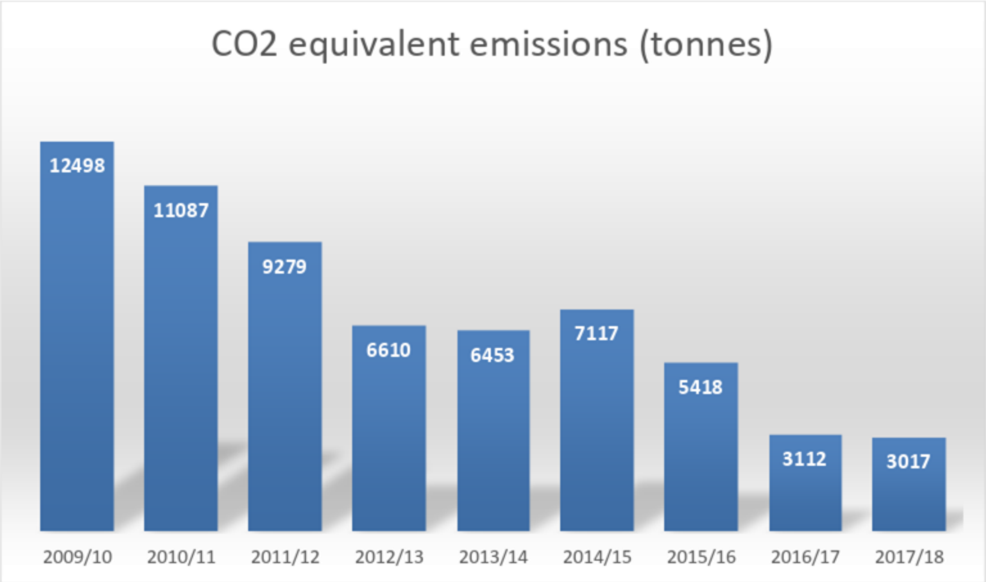
Appendix B – Across Council Work Programmes chapter (1 July to 30 September 2019)

Carbon and energy management

Introduction: Adopted in 2012, the Council's Carbon and Energy Management Plan sets a target of an 80% reduction in greenhouse gas emissions from the organisation by 2021/22 compared to 2009/10, through energy conservation, renewable energy, reducing fossil fuel use and changing how waste is disposed of. The Council has its annual emissions inventory (carbon footprint) independently audited to gain 'CEMARS'[1] accreditation to the ISO-14064 standard.

Background

1. In the Quarterly Activity report for the second quarter 2018/19 the results of the CEMARS audit for the 2017/18 year were presented to the Operations and Finance Committee (OFC), at the meeting on 21 February 2019.
2. The audit results for 2017/18 were that the Council's greenhouse gas emissions (GHG) in 2017/18 were 3017 tonnes on a CO_2 equivalent basis (see Chart). This is 95 tonnes below the previous year and is a 75.9% reduction on the 2009/10 baseline year.



Recent developments

3. At a Council meeting on 23 May 2019, the Council declared a climate change emergency and committed to pursue the goal of carbon neutrality by 2025.
4. At the request of Council, a report was prepared outlining suggested steps to pursue the goal of carbon neutrality by 2025, and was presented to Council at its meeting on 27 June 2019. In that report a range of options for carbon reductions and offsets were presented, but it was noted that more time and resources would be required to further investigate those.
5. To provide those additional resources the Infrastructure team is establishing a new Sustainability and Resilience team incoporating the functions of the current Solid Waste team. The new position of Sustainability and Resilence Manager was advertised in late September - early October. That position has been filled and the new manager started on 21 October. One other

[1] Certified Emissions Measurement and Reduction Scheme – administered by Enviro-Mark Solutions Ltd.

Appendix B – Across Council Work Programmes chapter (1 July to 30 September 2019)

role, the Waste Projects Manager, has been filled. This role alsdo picks up some Civil Defence Emergency leadership functions. Additional roles were due to be advertised in October/November 2019.

Next CEMARS Audit

6. The next CEMARS audit, for the 2018/19 year, is currently programmed to be over 29-30 January 2020. Provisional results will be reported to the Strategy and Operations Committee (SOC) in the Quarterly Activity Report for the second quarter of 2019/20 (mid-late February 2020).

7. Early indications from data collation to date suggest that the further impact of the LED streetlight conversion project undertaken through 2017/18 and 2018/19 will lead to a reduction in CO_2e emissions , from that source, of around 70 tonnes for the 2018/19 year. This is in addition to the reduction by 41 tonnes of emissions reported for 2017/18. There are further reductions to come from this source as the full year effect of the LED conversions undertaken throughout 2018/19 won't be accounted for until we see the streetlight electricty consumption figures for 2019/20.

8. There will, however, be some contra effects to this electricity use reduction as Council has taken occupancy of two additional buildings since last year. On 1 July 2018 we took on management of the Te Newhanga Community Centre, and so electricity and gas invoices for that facility now contribute to Council's emissions total. In addition, early in 2019 we started a lease for Takiri House to provide additional staff office space. The electricity invoices for Takiri House will also be a net addition to our emissions total for 2018/19.

9. The net impact of these offsetting impacts will not be known until the CEMARS audit is completed in late January 2020 and verified by Toitū envirocare (previously Enviro-Mark Solutions) in late February 2020. The provisional results (and hopefully final results as well) will be reported back to the SOC in late February as noted above.

10. As noted in the last Carbon and energy management project report (at the OFC meeting on 21 February 2019) the projected emissions reductions from current projects will not, on their own, be sufficient to see the Council reach its stated 80% reduction target by 2021/22. To achieve that, emissions need to be reduced by 517 tonnes from 2017/18 levels to just under 2,500 tonnes.

11. Investigating the most cost-effective pathway forward with emissions reduction and carbon offsets will be one of the core roles of the new Sustainability and Resilience team.

Place and Space

- Parks and open space
- Recreation and leisure
- Economic development
- Community facilities and community support

Appendix B – Parks and open space chapter (1 July to 30 September 2019)

Parks and open space

Ngā papa rēhia me ngā waahi māhorahora

First quarter activity report – 1 July to 30 September 2019

Purpose	To manage a wide range of parks, reserves and open space to benefit the whole of our community. To facilitate barrier-free access to our network of cycleways, walkways and bridleways.

Financial key: within 10% of budget; 10% or more favourable to budget; 10% or more unfavourable to budget

Operating expenditure

The costs to operate this activity (excluding overheads)

$1.20m (ytd)

$1.11m budget (ytd)

FY Outlook: within 10% of budget

Year to date: within 10% of budget

→ Minor variance, on track for year end.

Operating income

What we earn – fees, charges, grants etc (excluding rates)

-$0.15m (ytd)

$ 0.30m budget (ytd)

FY Outlook: within 10% of budget

Year to date: 10% or more unfavourable to budget

→ Major variance, on track for year end

→ The lower income is mostly due to a decision by the Council to accept the proposal for the Ngarara Waimeha Development in Waikanae to develop and provide a pocket park as part of their development instead of paying cash for reserve.

Capital expenditure

Costs for our capital projects

$0.07m (ytd)

$0.01 m budget (ytd)

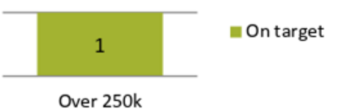
FY forecast $0.52m underspend

FY Outlook: 10% or more favourable to budget

Year to date: 10% or more unfavourable to budget

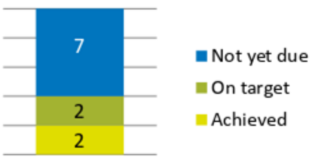
→ Moderate variance year to date, lower spending planned for year end. The lower spending relates to two projects – Otaki Beach Development and Paraparaumu/Raumati Escarpment planned to be completed in 2020/21 There is some reprioritisation planned within the activity to meet community commitments described below.

Projects



→ There is only one parks and open space 'project' this year, the Districtwide Parks and Playgrounds work programme. It is a capex over $250k project and is on target.

Performance measures (KPI)



→ Of the 11 KPIs two were achieved at the end of the first quarter 2019/20, two were on target and the other seven were not yet due.

Appendix B – Parks and open space chapter (1 July to 30 September 2019)

Summary of projects

The parks and open space significant project is on target and summarised below.

1. Districtwide Parks and Playgrounds

→ The playgrounds scheduled for upgrade this year are Campbell Park, Paekākāriki; Mazengarb Park, Paraparaumu; Marere Avenue, Paraparaumu; Waimeha Domain, Waikanae; Pharazyn Avenue, Waikanae; and Tasman Road Reserve, Ōtaki. Further discussion is needed with the community before we proceed with the playground upgrade at Marere Avenue.

→ Procurement process commenced for five of the playgrounds and options were received from suppliers based on feedback from the community.

Key risks/issues:

- Marere Avenue playground is part of the upgrade programme but the park as a whole needs improvement. Officers will work with the local community to understand their priorities for the park and put a plan in place for this year that will include some new equipment for the playground.

Costs ytd ($000)	Budget ($000)	Forecast ($000)	Status	Financial Commentary
16	749	766	$	

2. Other projects

Project	Costs ytd ($000)	Budget ($000)	Forecast ($000)	Status	Comment
Districtwide beams and seating	5	55	55		
Paraparaumu/Raumati Escarpment	-	201	-		Currently on hold while under discussion with Kiwirail
Otaki Beach development	-	333	-		Currently on hold while road stopping issue resolved

Project status key				
Complete	On target	Not on target	On hold	High risk
Ahead	Lagging	Underspend $	Overspend $	

Appendix B – Parks and open space chapter (1 July to 30 September 2019)

Other key developments

Kaitawa Reserve

→ The Kaitawa Reserve Outdoor classroom was completed and officially opened.

Maclean Park

→ Stage 1 of the Maclean Park redevelopment was completed. An opening event is planned for November.

Restoration planting

→ Successful completion of the 2019 restoration planting programme. A total of 18,000 eco-sourced native plants were planted to restore bush, riparian margins, wetlands and dunes across the district. Specific areas of interest included:

- 2,300 native plants planted at Pharazyn Reserve, including 1,800 by Waikanae school children celebrating Arbor Day.
- 1.2 hectares of the Matai Huka (Raumati Escarpment) Reserve planted to trial a new method of restoration planting designed to reduce planting costs by up to 80% per hectare.
- 3,000 native sand bindling plants (spinifex and pingao) planted between Paraparaumu and Ōtaki to speed dune recovery following storms in 2017 and 2018.
- 3,000 native riparian plants planted to restore riparian margins throughout the district.

Waikanae ki Uta ki Ta

→ Council officers continued working with the Department of Conservation, Greater Wellington Regional Council, iwi and community representatives on the establishment of a Waikanae River Mountains to the Sea catchment restoration programme, provisionally named 'Waikanae ki Uta ki Tai'. This programme aims to foster a collaborative, coordinated approach to protecting and restoring the Waikanae River catchment from the headwaters to the sea.

→ The early focus has been on iwi partnership and developing a governance structure and values framework. The Department of Conservation (DoC) is fulfilling its commitment to lead, assigning a staff member to work on the programme 20 hours per week, and allocating a long-term budget. DoC has requested that Kāpiti Coast District Council and Greater Wellington Regional Council commit to sharing programme costs. Once a governance structure and values framework are agreed, a plan will be developed to serve as a guiding document.

Appendix B – Parks and open space chapter (1 July to 30 September 2019)

Performance measures

There are 11 key performance indicators (KPI) in the parks and open space activity.

Performance measures	Target	Result	Comment
Achieved			
Residential dwellings in urban areas are within 400 metres of a publicly owned open space	85%	Achieved (99.4%)	103ha out of 18,452ha (0.6%) of the total District Plan residential area are not within 400m of a publicly owned open space.
At least a 10 year burial capacity is maintained across the district	Achieve	Achieved (56 years)	There is a total of 56 years capacity across the three cemeteries (based on 2013 Census data and growth analysis).
On target			
Sports grounds are open when scheduled	85%	On target	Sports grounds were open 93% of the time in the first quarter. (2018/19 result was 97%)
All available records will be on council's website within four weeks of interment	100%	On target	
Not yet due			
Residents(%) who are satisfied with the current availability of facilities	85%	Not yet due	The annual Park Users' survey will be done in the third quarter. (2018/19 result was 100%)
Residents (%) who are satisfied with the quality of Council parks and open space	85%	Not yet due	The annual Park Users' survey will be done in the third quarter. (2018/19 result was 100%)
Residents (%) who are satisfied with the quality and range of recreation and sporting facilities in the district	85%	Not yet due	The annual Park Users' survey will be done in the third quarter. (2018/19 result was 100%)
Residents (%) that are satisfied with Council playgrounds	85%	Not yet due	The annual Park Users' survey will be done in the third quarter. (2018/19 result was 100%)
Users who are satisfied with the cemeteries appearance and accessibility	85%	Not yet due	The annual Park Users' survey will be done in the third quarter. (2018/19 result was 100%)
Users who are satisfied with Council walkways, cycleways and bridleways	85%	Not yet due	Provisional Residents Opinion Survey results are not due until the second quarter. (2017/18 result was 94%)
Residents (%) who are satisfied with access points to beaches	85%	Not yet due	Provisional Residents Opinion Survey results are not due until the second quarter. (2017/18 result was 92%)

Appendix B – Recreation and leisure chapter (1 July to 30 September 2019)

Recreation and leisure

Hākinakina

First quarter activity report – 1 July to 30 September 2019

Purpose	To provide affordable and safe aquatic facilities, services and programmes for the health and wellbeing of our community. This activity also provides a districtwide library service. and arts and museums services for the Kāpiti community.

Financial key: within 10% of budget · 10% or more favourable to budget · 10% or more unfavourable to budget

Operating expenditure

The costs to operate this activity (excluding overheads)

$2.10m (ytd)

$2.21m budget (ytd)

FY Outlook: within 10% of budget

Year to date: within 10% of budget

→ Minor variance, on track for year end.

Operating income

What we earn – fees, charges, grants etc (excluding rates)

$0.43m (ytd)

$0.44m budget (ytd

FY Outlook: within 10% of budget

Year to date: within 10% of budget

→ Minor variance, on track for year end.

Capital expenditure

Costs for our capital projects

$0.13m (ytd)

$0.29m budget (ytd)

FY forecast $0.04m underspend

FY Outlook: within 10% of budget

Year to date: 10% or more favourable to budget

→ Minor variance, lower spending forecast for the year.

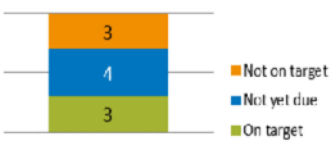
→ The lower spending forecast relates to plans to move swimming pool routine asset maintenance and renewal to 2020/21 to reduce the inconvenience to the public and minimise the loss of income.

Projects

There are no significant council projects in this activity for 2019/20.

→ There are a number of minor projects summarised in the table on the next page.

Performance measures (KPI)



→ Of the ten KPIs from the Recreation and Leisure acitivity three were on target and four were not due yet .

→ The three KPIs not on target are all in the library area and are attributable to the closure of the Waikane Library in late 2018 and its subsequent replacement by a smaller medium term option.

Appendix B – Recreation and leisure chapter (1 July to 30 September 2019)

Summary of projects

There are a number of minor projects underway this year, they are summarised in the table below:

1. Minor projects					
Project	**Costs ytd ($000)**	**Budget ($000)**	**Forecast ($000)**	**Status**	**Comment**
Coastlands Aquatic Centre	12	112	64	$↓	Carryover of $50k to be requested
Otaki Theatre	8	116	117		
Public Art	0	154	154		
Pool - Waikanae	118	204	204		
Library - Books	51	211	211		
Mahara Gallery	9	270	199	$↓	Project put on hold until early 2020.
Other minor projects	103	178	279	$↑	Forecast increase relates to medium term Waikanae Library fit out and Paraparaumu Library Basement renewal.

Project status key

Complete	On target	Not on target	On hold	High risk
Ahead ◷▲	Lagging ◷▼	Underspend $↓	Overspend $↑	

Other key developments

Libraries

- → A medium term library and service centre was opened in Mahara Place on Monday 1 July 2019. The new space has allowed the library to once again offer regular community programmes.
- → The Garden Talks programme was launched at `Ōtaki Library – as a tie-in with the newly planted community garden. Over 45 people attended the first session with a focus on garden design and growing your own microgreens. This project was developed in partnership with the Parks and Recreation Team to develop a "productive garden" outside Ōtaki Library.
- → We celebrated Te Wiki o te Reo with a series of exciting musical and theatre performances that attracted over 130 participants.
- → The library has received ongoing feedback from a small portion of the community regarding the reduction in collection budgets for 2019/20

Arts and Museums

- → The first round of 2019/20 Creative Communities Scheme funding grants was completed which support arts activities that celebrate Kāpiti culture, community involvement and our diversity, particularly youth and Toi Māori. The amount of $22,904.40 was awarded to nine recipients.
- → Work on the 2019 Arts Trail has continued through the quarter with the publication of the Arts Trail Guide which has proved very popular with the local community and beyond.

Aquatics

- → There were 64,901 pool visits in the first quarter, which is the highest first quarter since the opening of the Coastlands Aquatic Centre. This is due to higher programme numbers including learn to swim, an updated marketing approach and four major events which were held during this time.

Appendix B – Recreation and leisure chapter (1 July to 30 September 2019)

→ A total of 548 people were registered for swimming lessons during the school term in the first quarter – 421 at Coastlands Aquatic Centre, 88 at the Ōtaki Pool and 39 children who completed the holiday swimming programme during the first quarter.

→ There were 171 school children in total who participated in schools swimming lessons delivered by council instructors in the first quarter.

→ Four events were held during the first quarter. Coastlands Aquatic Centre hosted the Swim Wellington Distance Meet and Tier 1 Meet, NZ Surf Lifesaving Regional Pool Champs and the Matson Trophy Meet with a total of 394 participants.

→ Kapiti Coast Aquatics won the National Lifeguard Championships.

Performance measures

There are ten key performance indicators (KPI) in the recreation and leisure activity.

→ The three KPIs not on target are discussed below:

i) *Total visits to libraries* is below target with 65,831 visits in the first quarter. To achieve the annual target of 300,000 visits we need to average around 75,000 visits per quarter. The Waikanae Library, with 13,879 visits in the quarter is over 11,000 down from the average quarterly visits seen in 2017/18 and accounts for all of the districtwide shortfall.

ii) We added 1,888 new items to the library's collection in the first quarter, which equates to 35 new items per 1,000 of population. With the reduction in collections budget for 2019/20 the expected level of new items added to the collection is approximately 180 items per 1000 of population. We expect to meet that level – but won't reach the target specified in the long term plan of 350 new item per 1,000 of population.

iii) *Number of items bo*rrowed is also below target with 146,538 in the first quarter. To achieve the annual target of 650,000 items borrowed we need to average around 162,500 items borrowed per quarter.

Performance measures	Target	Result	Comment
On target			
Visits to swimming pools in the district	At or above 290,000 annual admissions	On target	64,901 combined swims in the first quarter (compared to 58.509 last year). (2018/19 result was 293,638)
Learn to swim registrations	At or above 3,200 annual registrations	On target	587 registrations for the first quarter (651 last year). (2018/19 result was 3,344)
Total value of applications received relative to the total amount of funding in each allocation round	Ratio is > 1	On target	In the first round of the Creative Communities Scheme 2019/20, a total amount of $23,797 was applied for: $22,904 was available – a ratio of 1.04 to 1. (2018/19 result was 1.58:1)
Not on target			
Total visits to libraries	At or above 300,000 annually	Not on target	There were 65,831 visits to the district's four libraries in the first quarter (19,130 for Ōtaki, 886 for Paekākāriki, 13,879 for Waikanae and 31,936 for Paraparaumu). (2018/19 total visits were 253,978)
Collections are refreshed in accordance with New Zealand public library standards	Maintain 350 new items (incl renewals) per 1,000 *(where population is 52,762)*	Not on target	There were 1,888 items added to the library collections in the first quarter. That equates to 35 items per 1,000 for this quarter. This is a reflection of the reduction in the Library Collection budget for 2019/20. (2018/19 result was 331 per 1,000)

Appendix B – Recreation and leisure chapter (1 July to 30 September 2019)

Performance measures	Target	Result	Comment
Not on target			
Number of items borrowed per annum (including renewals)	650,000	Not on target	There were 146,538 items borrowed in the first quarter. (2018/19 result was 613,190)
Not yet due			
Council will maintain PoolSafe accreditation	Achieve	Not yet due	PoolSafe accreditation will be assessed in the third quarter. (2018/19 result was 'Achieved')
Users who are satisfied with the pools services and facilities	85%	Not yet due	Provisional results for this measure are not due until the second quarter. (2018/19 result was 96%)
Users who are satisfied with the library services	85%	Not yet due	Survey results are not yet available. (2018/19 result was 95% satisfied).
Users who are satisfied with library spaces and physical environments	85%	Not yet due	The annual Library Users Survey will be undertaken in May 2020. (2019/20 result was 90% satisfied)

Appendix B – Economic development chapter (1 July to 30 September 2019)

Economic development

Whakawhanake umanga

First quarter activity report – 1 July to 30 September 2019

Purpose	This activity is aimed at generating greater growth, employment and prosperity in the Kāpiti region

Financial key: within 10% of budget; 10% or more favourable to budget; 10% or more unfavourable to budget

Operating expenditure

The costs to operate this activity (excluding overheads)

$0.34m (ytd)
$0.49m budget (ytd)

F/Y Outlook: within 10% of budget
Year to date: 10% or more favourable to budget

→ Moderate variance, on track for year end.

Operating income

What we earn – fees, charges, grants etc (excluding rates)

$0.02m (ytd)
$0.00m budget (ytd

F/Y Outlook: within 10% of budget
Year to date: 10% or more favourable to budget

→ Moderate variance, on track for year end.

→ The additional income this quarter is from NZTA for the Peka Peka to Otaki Expressway Project.

Capital expenditure

Costs for our capital projects

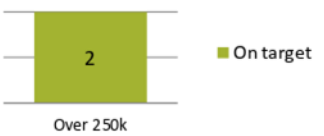
$0.89m (ytd)
$0.60m budget (ytd)
FY forecast $1.23m overspend

F/Y Outlook: 10% or more unfavourable to budget
Year to date: 10% or more unfavourable to budget

→ Moderate variance, additional capital spending planned for year end.

→ The additional capital spending relates mostly to the Kapiti Road project which will receive additional NZTA funding.

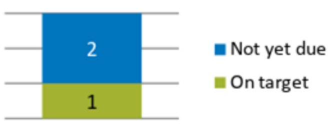
Projects



→ The Strategic Land Purchase Fund and the Town Centres project are the two main projects in this area. Both are capex over $250,000 projects.

→ Both projects are regarded as on target from a Council perspective.

Performance measures (KPI)



→ Of the 3 KPIs one was on target as at the end of the first quarter 2019/20 and the results of the other two KPIs are not yet due .

Appendix B – Economic development chapter (1 July to 30 September 2019)

Significant projects

There are two economic development projects reported in this activity report (the Strategic Land Purchase Fund and the Town Centres project).

We have reported on the Elevate Ōtaki project developments on the next page. This is not included as a Council project in the chart on the previous page as Council is providing resource and funding support for the project but is not managing it.

1. Town Centres project

→ W3 Mahara Place upgrade project construction was near complete at 30 September 2019.

→ Preparation work on Kapiti Road between Arawhata Road and Brett Ambler Way is well advanced for completion of the shared path and preparation for road widening.

→ Continued coordinated SH1 Revocation works aligned with Town Centres master plan priority projects with a focus on Paraparaumu and Waikanae.

Key risks/issues:

- SH1 Revocation works do not align with Town Centres projects leading to re-prioritisation and re-scheduling.

Costs ytd ($000)	Budget ($000)	Forecast ($000)	Status	Financial Commentary
869	1,130	1,740	$	This budget is largely for the planned Kapiti road project with additional scope of works to undertake the road widening. The resultant additional costs are to be funded by the NZTA 'Low Cost Low Risk' budget. Works due to be completed by January 2020.

2. Strategic Land Purchase Fund

→ No land purchases have been completed this quarter

(there is no timeline set for this fund as it is dependent on when strategic parcels of land come up for sale).

Costs ytd ($000)	Budget ($000)	Forecast ($000)	Status	Financial Commentary
18	1,430	1,690	$	Mainly Marine Parade acquisitions and other strategic land/property acquisitions as outlined in the paper to Council on 26 Sep 2019

Project status key

Complete		On target		Not on target		On hold		High risk	
Ahead	▲	Lagging	▼	Underspend	$	Overspend	$		

Appendix B – Economic development chapter (1 July to 30 September 2019)

3. Elevate Ōtaki

- Ōtaki Identity work by Flightdec is almost complete. The official outcomes have not been released as of yet.
- The A4 brochure about living, working and playing in Ōtaki is complete and has been circulated throughout the community, and is available at elevateotaki.nz
- Elevate Ōtaki had a stand at the Ōtaki Expo in September 2019.
- Survey of local businesses - Kapiti Business Projects has been engaged to undertake a Business Preparedness Survey of businesses on SH1. The final report is due in November 2019.
- The Terms of Reference (ToR) have been agreed by both Council and Elevate Ōtaki members except for one point. Elevate Ōtaki believe that ED support was committed to until the end of the term of the funding support ie. 2021/22. The Council governance of the group have committed only to 30 June 2020.
- Ōtaki Community Board – the meet and greet was held in July 2019.
- Monthly finance report – a standard finance report has been issued each month for review by the group to understand current and forecast spending.

Key risks/issues:

- SH1 Revocation Resourcing the group to deliver projects.
- Ōtaki Identity project perception by the community. High potential for varied views on the topic by old and new residents and various sectors or groups. Works do not align with Town Centres projects leading to re-prioritisation and re-scheduling.
- Council process around approval of projects and payment for services (carried forward).
- Administration and ED Support – there is a discrepancy in the expectations of the Council governance of the group and Elevate Ōtaki. From previous discussions with Council, Elevate Ōtaki believe the support was committed to until the end of the term of the funding support ie. 2021/22. Whereas the Council governance of the group have committed only to 30 June 2020. This is an outstanding point within the Terms of Reference. The current support structure is confirmed until the 30 June 2020.

Costs ytd ($000)	Budget ($000)	Forecast ($000)	Status	Financial Commentary
31	63	63		

Other key developments

Economic Development Strategy Refresh

→ The drafting group continue to meet with the ED team on a monthly basis, as well as attend workshops with the wider business community. Progress continues as follows with next steps :

- Continued stakeholder meetings, discussions and workshops held with the business community and key partners, stakeholders, individual iwi workshops, individual businesses and community and industry groups. (Aug – Sept 2019)
- All Community Boards to have been presented with feedback requested by 11 October.
- Incorporate feedback into development of strategy document (Oct 2019)
- Circulate draft strategy and implementation plan for final feedback (Nov 2019)
- Finalise strategy (Dec – Jan 2020)
- Adopt and implement strategy (Feb 2020)

Appendix B – Economic development chapter (1 July to 30 September 2019)

Filming requests

→ Council received two filming requests from Screen Wellington this quarter.
  - Additional filming on Peka Peka beach for a health and safety video for a Wellington based company.
  - Filming on Waikanae Beach for observational footage of beach cleaning and a gathering for a climate march.

→ The Policy Team completed a review of the Film Friendly Policy during the quarter, which was approved by the Strategy and Policy Committee on 5 September 2019. A new Memorandum of Understanding was agreed to with Screen Wellington, which is currently with WellingtonNZ for signing. Information on the Council and Destination websites is now being updated.

Major Events Fund

→ Applications for the 2019/20 Major Events Fund closed on 24 June 2019, with recommendations for funding approved by Council on 8 August 2019. Funding of $175,000 was available to support event delivery, with $25,000 available for event feasibility support.

→ Council approved funding for five events, with three events receiving multiyear funding. There were two new events that also received funding.

Event	Amount	New / Existing	Multiyear
Māoriland Film Festival	$55,000	Existing	Yes
Kāpiti Food Fair	$25,000	Existing	Yes
Otaki Kite Festival	$25,000	Existing	Yes
FFFlair Limited	$50,000	New	No
XTERRA Wellington	$20,000	New	No

→ The amount of funding available for feasibility funding was reduced to $15,000 with $10,000 to be used to support the organisation review. Officers are currently talking with organisers who would like to apply for the feasibility funding.

Kāpiti Destination Story update

→ Progress continues to be made with the development of the Kāpiti Destination Story, this includes having workshops with iwi representatives. Feedback from these workshops and the wider community engagement is now forming the development of the overarching story.

→ The destination website – www.kapiticoastnz.com is currently being redeveloped with the updated website scheduled to be completed in mid-November 2019. This will include updated content and improved accessibility and usability.

Paraparaumu Beach Market relocation

→ Council Officers have been working with the owners of the Paraparaumu Beach Market following a request to Council to move the Saturday morning market from its current location to Maclean Street with additional capacity and growth provided in Maclean Park.

→ There were a number of steps to be completed to enable the move to happen including:
  - Approval to partially close Maclean Street
  - Licence for the use of part of Maclean Park

Appendix B – Economic development chapter (1 July to 30 September 2019)

- Resource Consent for use of part of Maclean Park
- Application to trade in public places

→ Approval to close part of Maclean Street and issue a licence for the use of part of Maclean Park has now been granted. The market is scheduled to move to the new location from 5 October 2019.

Kapiti Youth Employment Foundation (The Foundation)

→ The Foundation continues to work with the three local colleges - Kāpiti, Paraparaumu and Ōtaki, who run the Kāpiti Work Ready Passport Programme with their students and also host an #EmployerMeet event each, along with helping to advertise for the WEX work experience placements.

→ The Foundation is now working in partnership with Te Kura to promote each other's offerings to suitable students.

→ Kapiti Rotary and Lions Waikanae have offered their support to the Foundation. And the Foundation is currently in discussions with the Ministry of Social Development to discuss ways they could partner.

Performance measures

There are three key performance indicators (KPI) in the economic activity.

Performance measures	Target	Result	Comment
On target			
The economic development strategy implementation plan deliverables are achieved	Achieve	On target	In addition to the continued delivery of actions from the 2015 Economic Development Strategy work has commenced on a refresh of the strategy. The refresh of the strategy is scheduled for presentation to Council in February 2020 and is on track for delivery.
Not yet due			
Representatives of the business leadership forum that are satisfied that the economic development strategy implementation plan deliverables are being achieved	85%	Not yet due	The business leadership forum was dissolved in the previous triennium. Work on the governance structure for the new ED strategy is being undertaken alongside the drafting of the refreshed strategy. An external drafting group has been established to assist with this process, along with an external stakeholder group.
The Māori Economic Development Strategy implementation plan deliverables are achieved	Achieve	Not yet due	The Economic Development team are working with TWoK and Iwi representatives on the Economic Development Strategy Refresh and the Maori Economic Development and Well-being Plan.

Appendix B – Community facilities and support chapter (1 July to 30 September 2019)

Community facilities and support

Whakaurunga hapori me ngā hāpai hapori

First quarter activity report – 1 July to 30 September 2019

Purpose	To manage and maintain Council's building and property assets and provide resources to the community for capacity building and service provision.

Financial key: within 10% of budget · 10% or more favourable to budget · 10% or more unfavourable to budget

Operating expenditure

The costs to operate this activity (excluding overheads)

$1.18m (ytd)

$1.44m budget (ytd)

Full year outlook: within 10% of budget

Year to date: 10% or more favourable to budget

- → Moderate variance, on track for year end.
- → The variance this quarter is mainly due to timing of community contract payments, including the youth centre.

Operating income

What we earn – fees, charges, grants etc (excluding rates)

$0.42m (ytd)

$0.39m budget (ytd)

Full year outlook: within 10% of budget

Year to date: within 10% of budget

- → Minor variance, on track for year end.

Capital expenditure

Costs for our capital projects

$0.43m (ytd)

$0.47m budget (ytd)

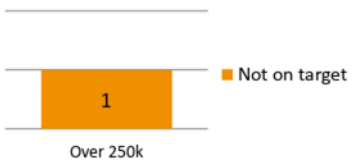
FY forecast $0.49m underspend

Full year outlook: 10% or more favourable to budget

Year to date: within 10% of budget

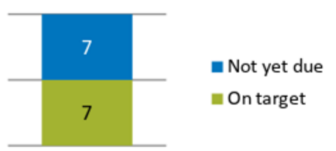
- → Minor variance, lower spending planned for the year.
- → The Raumati waterfront building and the Paraparaumu Memorial Hall are on hold pending review.

Projects



- → There is one significant Community Facilities and Community Support projects.
- → It is the Housing for Older Person's renewals project and it is forecast to overspend the initial budget, largely as a result of urgent remediation needed to the Wipata Flats in Paekākāriki.

Performance measures (KPI)



- → Of the 15 KPIs only 14 of these have targets as one is for recording and monitoring purposes.
- → Seven KPIs were on target at the end of the first quarter 2019/20 and the results for the other seven KPIs are not yet due.

Appendix B – Community facilities and support chapter (1 July to 30 September 2019)

Summary of projects

There is one significant Community Facilities and Community Support project summarised below.

1. Older person's housing renewals

→ Council completed the urgent remediation of the Wipata Flats in Paekākāriki, much of which had been done in the previous quarter.

→ Council completed full interior renewal on two Housing for Older Persons units during the first quarter. Additionally, renewal of four further units is on track to complete in October 2019.

→ Two units, (in renewed condition), became vacant in the first quarter and will be re-let in October 2019.

→ The Older person's housing renewals project is currently on target although at the end of the first quarter has already spent 45% of the annual budget.

→ A contract was let to Miyamoto to undertake condition surveys across the entire Housing for Older Persons portfolio. The contract is due to be finished in October and the results and next steps (if any) will be analysed after that. The rental houses and four community facility buildings are being surveyed in October.

→ As at 30 September 2019, the Applicant Register number is 51.

Key risks/issues:

- Contractor/component availability may affect completion.
- Renewals works are generally undertaken when they become vacant. This means there is no certainty with forecasting.
- A prioritisation plan for managing renewals will be brought to Council after the Building Condition Surveys program has been completed. In the mean time staff will continue to assess units for renewal as and when they become vacant. This will be in addition to *ad hoc* replacement bathrooms, kitchens or other building elements staff believe necessary.

Costs ytd ($000)	Budget ($000)	Forecast ($000)	Status	Financial Commentary
397	587	757	$⏼ (Not on target; Overspend)	Given spending to date we're forecasting an overspend of this year's budget. The projected overspend is in large part due to the $150,000 spent on the urgent remediation of the Wipata Flats.

Project status key

Complete	(yellow)	On target	(green)	Not on target	(orange)	On hold	(blue)	High risk	(red)
Ahead	◷▲	Lagging	◷▼	Underspend	$ (down)	Overspend	$ (up)		

Appendix B – Community facilities and support chapter (1 July to 30 September 2019)

2. Other projects					
Project	**Costs ytd ($000)**	**Budget ($000)**	**Forecast ($000)**	**Status**	**Comment**
Halls - Waikanae	44	102	106		
EQP	61	123	122		
Civic Access Control System	3	139	157	$↑	
Halls - Paraparaumu/ Raumati	1	144	73	$↓	Significant part of works may be deferred to allow reallocation of budget.
Paraparaumu College Gymnasium	-	255	350	$↑	Paper will come to Council to discuss cost increases and proposed re-scheduling of this project.
Memorial Hall renewals	16	327	26		Safety work only to be done. Major project is on hold for reassessment of community needs.
Waterfront building	45	505	138	$↓	New roof and replacement windows only. Major alteration plan likely to be deferred to allow reallocation of budget.
Performing Arts Centre	-	1,600	1,600		Contribution now expected to be made in December 2019.
Other minor projects	21	108	232	$↑	The forecast overspend is the result of possible unbudgeted spends on public toilet renewals in Ōtaki and proposed work at Takiri House.

Other key developments

Mahara Gallery

→ The consultants are progressing the detailed design plans for the Mahara Gallery based on the Resource Consent approved in June 2019. The Mahara Gallery Trust submitted a funding application to the Lotteries Enviornment and Heritage Fund. A decision is expected in November 2019. This is one of four Central Government funding opportunities the Trust is targetting.

Te Newhanga Kāpiti Community Centre

→ Moisture testing was undertaken in August at Community Centre. The results did not identify elevated mould readings and noted that the levels of mould found would be unlikely to result in health issues.

Paraparaumu Library

→ Work finished on the Paraparaumu Library to remediate the concrete panels on the western and eastern ends of the building. Water ingress occurred due to the panels not being fully grouted and sealed during construction resulting in leak issues in the basement. Rusted steel beams were replaced and damaged concrete remediated.

Waterfront Bar & Restaurant

→ Due to significant leak issues, a contract was let for the roof replacement and associated remediation at the Waterfront Bar & Restaurant in Raumati. There are some window and door replacements required which are scheduled for October 2019.

Appendix B – Community facilities and support chapter (1 July to 30 September 2019)

Community support initiatives

→ In July, Council hosted a funders forum. This provided a 'speed dating' opportuntiy for community not for profits to sit down and talk with funders. Over 80 people attended two forums. Funders included, Generosity New Zealand, New Zealand Community Trust, Nikau Foundation, One Foundation, Pelorus Trust, The Department of Internal Affairs, Wellington Community Trust and Council. Another forum is planned for later in the year.

→ Contract holders for Council's Social Investment programme presented their Year One achievements to elected members in September. The reportbacks gave organisations an opportunity to highlight key acheivements. Elected members heard from Kāpiti Impact Trust and Volunteer Kāpiti, Kāpiti lIving without Violence and Kāpiti Womens' Centre, Energise Ōtaki, Kāpiti Youth Support, Challenge for Change, Ngā Hapū o Ōtaki and Māoriland Hub. Age Concern reportback at earlier in the year.

→ Neighbourhood Support and Council are working collaboratively to support a programme for Kapiti. An interim approach has been developed and will be implemented in October 2019. This will included a digitial platform to support local neighbourhoods, roll out of the new national branding and administration and promotional resource from the Regional Coordinator.

→ The Council was awarded the Eviromarks Solutions award for a meduim sized organisation. The award was in recognition of Council's reduction in carbon emissions. The award was presented at a ceremony in Auckland.

→ The Youth Council has finished its recruitment phase which has resulted in four new members. They spent a weekend workshoping ideas for their 2019/20 work plan. The Youth Council will be focusing on activities for Youth Week in May 2020, a campaign to showcase things to do in Kāpiti for young people called Secrets of Kāpiti and Te Anamata Project – an Ōtaki focussed event.

→ Council has been working with the Capital and Coast District Health Board as part of a new suicide prevention initiative to reduce incidences across the region. Current statistics for Kapiti (excluding Otaki) show that 85% of suicides are men and 34% are over the age 65. A terms of reference for a mens group has been drafted.

→ Just over 300 participants attended No. 8 Wire week. The programme of events and activities aims to build community resilience, resourcefulness and environmental responsibility. Events included a range of community lead workshops. For the first time some workshops were in te reo Māori. Most popular workshops included: Rongoa (traditional Māori healing plants), Food for Thought (ran by Transition Towns Ōtaki) and a tamariki wild play space.

→ Council continues to support the Kāpiti Settlement Support Network, Kāpiti Health Advocacy Group, Kāpiti Accessibilty Advisory Group, Kāpiti Youth Council and Kāpiti Older Persons' Council and the Kāpiti social services nework to encourage community particpation and support advocacy for unmet needs.

→ The Kāpiti Coast Older Persons'Council, Accessibility Advisory Group and Council partnered to host an 'Age on the Go' expo. The event attracted more than 500 participants to the Waikanae Memorial hall. The expo showcased over 50 information stalls and a range of activities where held throughout the day.

→ The Council awarded over $34,000 to 23 community groups through its annual Community Grants Scheme. The Scheme rpoviders upt o $2,000 to not-for-profits projects, programmes and events that contribute to positive social outcomes for Kāpiti residents.

Appendix B – Community facilities and support chapter (1 July to 30 September 2019)

→ Recently Grey Power Kāpiti were successful in securing Government funding for the initial engagement to get Kāpiti on its way to becoming Age Friendly. Council will work with Grey Power to compliment this approach and collaborate on a range of activities to help inform ongoing Age Friendly activities that will lead to a districtwide Strategy.

→ Te Newhanga Kāpiti Community Centre had 547 bookings.

Performance measures summary

There are 15 KPIs in the Community facilities and community support activity. Only 14 of these have targets as one is for recording and monitoring purposes.

Performance measures	Target	Result (ytd)	Comment
Community facilities			
On target			
Occupancy rate of available[1] housing for older persons units	97%	On target (99.6%)	Four units are undergoing full interior renewal - due to complete in October.
Percentage of council-owned buildings that have a current building warrant of fitness (where required)	100%	On target (100%)	All Warrant of Fitness have been issued on time (2018/19 result was 100%)
Residents (%) who are satisfied that public toilets are clean, well-maintained and safe	75%	On target (88%)	The provisional result from the first quarterly Resident Opinion Survey was 88% (note that this is from 147 of 208 respondents). (2018/19 result was 82%)
Urgent requests in regard to public toilet facilities that are responded to within four hours	98%	On target (100%)	There were 21 service requests received in the first quarter, with all meeting the four-hour target (2018/19 result was 97.8%)
Not yet due			
Users (%) who are satisfied with the standard of the library building facilities	85%	Not yet due	The Library users survey is not conducted until the third quarter. (2018/19 result was 90%)
Users who are satisfied with halls	80%	Not yet due	The annual Hall Hirers Survey is conducted in the third quarter. (2018/19 result was 92%)
Housing for older persons tenants (%) who rate services and facilities as good value for money	85%	Not yet due	The annual tenant survey is conducted in the third quarter. (2018/19 result was 100%)
Housing for older persons tenants (%) who are satisfied with services and facilities	85%	Not yet due	The annual tenant survey is conducted in the third quarter. (2018/19 result was 97.4%)

1. *Where 'available' units excludes those flats that are unavailable due to renewals or maintenance work being carried out.*

Appendix B – Community facilities and support chapter (1 July to 30 September 2019)

Performance measures	Target	Result	Comment
Community support			
On target			
Council's social investment programme enables services to deliver on community priorities	Achieve	On target	Year One report backs have been delivered to Council. A formal report will follow in 2020. Contract deliverables have been agreed for Year 2 and will be monitored to assess performance.
Residents (%) who are satisfied with the Council's community support services	85%	On target (88%)	The provisional result from the first quarterly Resident Opinion Survey was 88% (this is from 109 of 208 respondents). (2018/19 result was 90%)
Community connectedness and diversity projects and initiatives planned for year are progressed or completed	Achieve	On target	Support provided for the Kāpiti Multi-Cultural Council events. Support for Kāpiti Settlement Network meeting and ongoing bimonthly meetings aimed at services to support migrants.
Not yet due			
Youth Development Centre opens and Youth development programme deliverables are achieve	Achieve	Not yet due	Year Four report back is due in the second quarter 2019/20.
Participants from the social and community sector are satisfied with the learning opportunities and workshops provided by Council	85%	Not yet due	Survey due in fourth quarter. (2018/19 result was 85%)
The youth council, older person's council and accessibility advisory group are satisfied or very satisfied with opportunities provided to influence the content of council strategies, policies and project planning	Satisfied	Not yet due	Survey due in fourth quarter (2018/19 result was 'Achieved')
Monitor only			
Estimated attendance at council-supported events	There is no target as we will use this for monitoring.	Monitor only	The No.8 Wire week had over 300 participants with some sessions in Te reo Māori for the first time. Over 500 people attended the Kāpiti Age on the Go expo in Waikanae. 80 people representing the not-for-profit sector attended two funders' forums.

Infrastructure

- Access and transport
- Coastal management
- Solid waste
- Stormwater
- Wastewater
- Water

Appendix B – Access and transport chapter (1 July to 30 September 2019)

Access and Transport

Putanga me to ikiiki

First quarter activity report – 1 July to 30 September 2019

Purpose	To maintain, protect and improve our roading network and strongly encourage and support sustainable transport options

Financial key: within 10% of budget · 10% or more favourable to budget · 10% or more unfavourable to budget

Operating expenditure

The costs to operate this activity (excluding overheads)

$3.08m (ytd)
$3.20m budget (ytd)

FY Outlook: within 10% of budget
Year to date: within 10% of budget

→ Minor variance, on track for year end.

Operating income

What we earn – fees, charges, grants etc (excluding rates)

$1.24m (ytd)
$1.29m budget (ytd)

FY Outlook: within 10% of budget
Year to date: within 10% of budget

→ Minor variance, additional income forecast for year end.

→ The Council is currently negotiating with NZTA to secure additional unbudgeted funding for the Ratanui roundabout and Kapiti Road. The full year forecast will be revised and included in the next report.

Capital expenditure

Costs for our capital projects

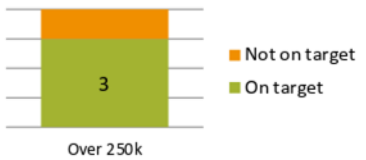
$1.39m (ytd)
$1.57m budget (ytd)
FY forecast $0.61m underspend

FY Outlook: within 10% of budget
Year to date: 10% or more favourable to budget

→ Moderate variance, on track for year end.

→ The lower capital spending year to date is due to the SH1 Revocation project being behind schedule.

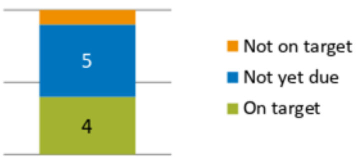
Projects



→ There are four significant projects in this activity. Three are on target.

→ The SH1 Revocation project is behind time and forecast to underspend its budget. It is intended to use that budget for the Kapiti Road project (Town Centres).

Performance measures (KPI)



→ One of ten KPIs was not on target - 'Residents who are satisfied with street lighting' reported a provisional result from the first quarter Resident Opinion Survey of 83% satisfied against a target of 85% (the result for 2018/19 year was 85%).

Appendix B – Access and transport activity report (1 July to 30 September 2019)

Summary of projects

The four significant Access and Transport projects are summarised below.

1. Sealed road resurfacing

→ Surfacing sites have been finalised and provided to the respective contractors to programme sealing (chipseal and asphalt). Completion is expected by 31 March.

Costs ytd ($000)	Budget ($000)	Forecast ($000)	Status	Financial Commentary
38	1,271	1,271		Work programmed for second and third quarters – due to be complete by 31 March 2020.

2. Footpath renewals and upgrades

→ Footpath renewals and new footpaths instructions have been given to our contractors. A total of 3 km of renewals and new paths are programmed for completion by 30 June 2020. This is an area of 6,286 m^2 (note that with the first year of increased budget in 2018/19 we did 6,586 m^2, after only 3,147 m^2 in the previous year).

Costs ytd ($000)	Budget ($000)	Forecast ($000)	Status	Financial Commentary
242	930	1,020	$	Forecast overspend is due to additional funding from NZTA. There will be no overspend of the Council share of the budget.

3. SH1 revocation

→ NZTA are currently working through the SH1 tender process and construction programme, which is likely to start in late 2019.

→ Council and the revocation team from NZTA are reviewing NZTA's asset data and working through the agreement on the future take-over of these assets, including Council's requirements for these assets.

→ NZTA and staff are working through the SH1 revocation scheme design process and construction programme. Briefings with elected members on the construction programme and timeframes will continue.

Key risks/issues: that NZTA falls further behind their timelines and cause further delays for Councils updated timelines for this project

Costs ytd ($000)	Budget ($000)	Forecast ($000)	Status	Financial Commentary
55	1,848	1,238	$	Project is late starting. It is planned to use forecast underspent budget to fund additional 'Low Cost Low Risk' work, probably including the Kapiti Road project (see Town Centres project in Economic Development activity chapter). If it is used for the latter it will be repaid in 2020/21.

Project status key

Complete	On target	Not on target	On hold	High risk
Ahead	Lagging	Underspend $	Overspend $	

Appendix B – Access and transport activity report (1 July to 30 September 2019)

4. Minor Improvements programme

→ The Mazengarb Road/Ratanui Road roundabout work progressed well in the first quarter with 75% of the project completed at 30 September 2019.

→ Stage two of the speed limit reviews was substantially completed.

→ The Waimea Road /Ono Street intersection safety upgrade is complete.

Costs ytd ($000)	Budget ($000)	Forecast ($000)	Status	Financial Commentary
535	1,492	1,692	$	Additional NZTA funding has been allocated and will be reinvested into these minor improvement projects.

5. Other projects

Project	Costs ytd ($000)	Budget ($000)	Forecast ($000)	Status	Comment
Cycleways Walkways and Bridleways	18	160	160		Kotuku bridge and Waimea boardwalk to be delivered in Q3/Q4
Annual Reseal – incl carparks	23	187	187		Programme scheduled to be delivered from Jan- Mar 2019
Street Lighting	25	240	240		
Drainage renewals – incl curb and channel replacements	65	297	297		Major curb and channel replacements forecast for Jan-March 2020. Aligned with the footpath programme.
Bridge repairs	8	327	327		Programme scheduled to be delivered from Jan- Mar 2019
Traffic services renewals	43	381	381		Programmed for March-April 2020
Targeted roading projects – incl east-west connectors	11	650	211	$	Forecast for Business case & design of East-West Connectors only. Balance of funds will be spent on minor works projects.

Other key developments

Network Planning

→ In addition to providing advice on resource consents received in the previous quarter 39 new resource consents were received this quarter. Advice has been provided at a number of pre-application and business start-up meetings and in response to temporary events.

Expressways

→ Physical works continue on PP2O and Fletcher Construction is liaising with Council and residents to enable the works.

Travel planning and safety initiatives

→ There have been a range of safety education initiatives this quarter, including:

- Rail Safety Week 12-18 August run by Track Safe with an emphasis that every near miss has an impact on train drivers. Crosses were installed at railway crossings with a history of near misses with a barcode that when scanned linked to six real near miss incidents. This information was viewed over one million times.
- Meeting with the drivers at the Waitohu Quarry on 27 August regarding safety issues for Waitohu school and all road users due to high volume of truck and trailers movements for Transmission Gully and Peka Peka to Ōtaki projects.

Appendix B – Access and transport activity report (1 July to 30 September 2019)

- Meeting with the Waikanae Visually Impaired group run by Gail Mann and discussed road safety with the group.
- Undertaking a joint distractions checkpoint with the Police on 5 September targeting distractions. Tickets issued for cell phone use, not wearing seatbelts and going through the intersection on an amber traffic light when they could stop, speeding up to try and beat the lights and driving through a red light.

Performance measures

There are ten key performance indicators (KPI) in the Access and Transport activity.

→ One KPI was not on target - 'Residents (%) who are satisfied with street lighting' reported a provisional result from the first quarter Resident Opinion Survey of 83% satisfied against a target of 85% (the result for 2018/19 year was 85%). This result may well improve as further quarterly surveys are completed and the pool of survey respondents increases from the 208 surveyed in the first quarter to the full annual survey population of around 800. The results for the past two years can be seen below and show considerable volatility in the quarterly results.

Satisfaction with Street lighting – trend over the past eight quarters

	Sep '17	Dec '17	Mar '18	Jun '18	Sep '18	Dec '18	Mar '19	Jun '19	Sep '19
Quarterly result	83%	91%	86%	83%	77%	86%	91%	87%	**83%**
Annual result	-	-	-	86%	-	-	-	85%	

Performance measures	Target	Result	Comment
On target			
Residents (%) who agree that the existing transport system allows easy movement around the district	80%	On target (80%)	The provisional result from the first quarter Resident Opinion Survey (ROS) was a score of 80% (from all 208 respondents). (2018/19 result was 74%)
Number of serious and fatal crashes on district roads is falling *(DIA mandatory measure)*	5-year rolling average reduces each year (it was 10.2 crashes for the 2015-19 FY period)	On target	There was 1 serious injury or fatal crash in the first quarter (compared to 1 in the same quarter last year). (2018/19 result was 'Not achieved' as 10.2 average compared to 9.8 for previous five year period)
Residents (%) who are satisfied with the condition of roads	70%	On target (72%)	The provisional result from the first quarter ROS was 72% (from all 208 respondents), (2017/18 result was 80%)
Residents (%) who are satisfied with the condition of footpaths	65%	On target (65%)	The provisional result from the first quarter ROS was a score of 65% (200 of 208 respondents), (2018/19 result was 66%)
Not on target			
Residents (%) who are satisfied with street lighting	85%	Not on target (83%)	The provisional result for the first quarter ROS was a score of 83% (201 of 208 respondents) (2018/19 result was 85%)

Appendix B – Access and transport activity report (1 July to 30 September 2019)

Performance measures	Target	Result	Comment
Not due yet			
Percentage of the sealed local road network that is resurfaced *(DIA mandatory measure)*	5% (expressed as kilometres)	Not yet due	This is reported on at the end of the year
Roads that meet smooth roads standards. *(DIA mandatory measure)*	Overall Smooth Travel Exposure is above 85%	Not yet due	This is reported on at the end of the year (2018/19 result was 87%)
Percentage of footpaths that fall within the service standard for the condition of footpaths as set out in the activity management plan. *(DIA mandatory measure)*	50% for 2019/20 (*increases to 60% for 2020/21)*	Not yet due	This is reported on at the end of the year. (2018/19 result was that, of the 20% of the network surveyed, 94% was in good or better condition.)
Average cost of local roading per kilometre is comparable with similar councils in New Zealand	Achieve	Not yet due	This is reported on at the end of the year. (2018/19 result was 'Achieved')
Percentage of service requests relating to roads and footpaths responded to within 3-5 hrs (urgent), 15 days (non-urgent. *(DIA mandatory measure)*	Roads 85% Footpaths 85%	Not yet due	This is reported on at the end of the year. (2018/19 result was 'Not achieved')

Appendix B – Coastal management chapter (1 July to 30 September 2019)

Coastal management

Whakahaere takutai

First quarter activity report – 1 July to 30 September 2019

Purpose	To assist in achieving the sustainable management of the coastal environment and to protect publicly-owned assets

Financial key: within 10% of budget; 10% or more favourable to budget; 10% or more unfavourable to budget

Operating expenditure

The costs to operate this activity (excluding overheads)

$0.30m (ytd)

$0.28m budget (ytd)

FY Outlook: within 10% of budget

Year to date: within 10% of budget

→ Minor variance, on track for year end

Capital expenditure

Costs for our capital projects

$0.15m (ytd)

$0.14m budget (ytd)

FY forecast $0.02m underspend

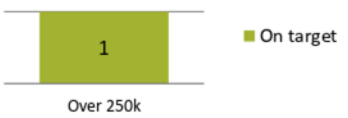
FY Outlook: within 10% of budget

Year to date: 10% or more unfavourable to budget

→ Minor variance, lower spending planned for the year.

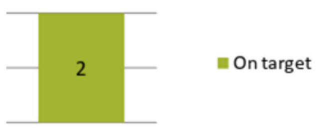
→ The lower spending relates to coastal signage and coastal restoration.

Projects



The Coastal renewals project is on target.

Performance measures



→ Both KPIs were on target at the end of the first quarter 2019/20.

Appendix B – Coastal management chapter (1 July to 30 September 2019)

Summary of projects

The one significant Coastal management project this year is summarised below.

1. Coastal renewals

- → Materials have been purchased for coastal assets renewals and replacements at Raumati Beach launching ramp, Willow Grove, and Rosetta Road. Physical works on site are to commence in mid-October 2019.
- → Consenting requirements have been investigated for the replacement of the retaining wall situated on the left bank at the mouth of Wharemauku Stream.
- → Work has started to determine Council responsibilities/liabilities related to the Raumati Seawall.
- → Work is underway to identify the critical assets needing renewal/ replacement based on the condition assessments undertaken last year.

(Note: The Paekākāriki seawall upgrade project had detailed designs completed on schedule in 2018/19 but the build is not due to start until 2021/22.)

Costs ytd ($000)	Budget ($000)	Forecast ($000)	Status	Financial Commentary
16	494	494		

2. Other projects

Project	Costs ytd ($000)	Budget ($000)	Forecast ($000)	Status	Comment
Minor projects	138	177	153		No issues.

Project status key

Complete		On target		Not on target		On hold		High risk	
Ahead	◷▲	Lagging	◷▼	Underspend	$	Overspend	$		

Other key developments

- → Paekākāriki seawall Building Consent application lodged with Council.
- → Resolving the Old Coach Route ownership issue is in progress.
- → The Wharemauku blockwall Long Term Solution Option report is completed.

Appendix B – Coastal management chapter (1 July to 30 September 2019)

Performance measures

There are two key performance indicators (KPIs) in the coastal management activity.

Performance measures	Target	Result (ytd)	Comment
On target			
Respond within 48 hours to urgent requests to repair seawalls or rock revetments	90%	On target (100%)	There were 9 requests in the first quarter. One of these was urgent and was responded to within 24 hours. (2018/19 result was 100%)
Stormwater beach outlets are kept clear	80%	On target (100%)	All beach outlets cleaned and kept clear. (2018/19 result was 100%)

Appendix B – Solid waste chapter (1 July to 30 September 2019)

Solid waste

Para ūtonga

First quarter activity report – 1 July to 30 September 2019

Purpose	To provide accessible, effective and efficient waste management options, encourage waste minimisation, and provide landfill management.

Financial key: within 10% of budget; 10% or more favourable to budget; 10% or more unfavourable to budget

Operating expenditure

The costs to operate this activity (excluding overheads)

$0.26m (ytd)

$0.28m budget (ytd)

F/Y Outlook: within 10% of budget

Year to date: within 10% of budget

→ Minor variance, on track for year end

Operating income

What we earn – fees, charges, grants etc (excluding rates)

$0.15m (ytd)

$ 0.15m budget (ytd)

F/Y Outlook: within 10% of budget

Year to date: within 10% of budget

→ Minor variance, on track for year end

Capital expenditure

Costs for our capital projects

$0.01m (ytd)

$0.04m budget (ytd)

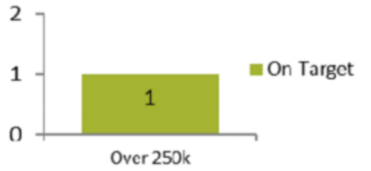
FY forecast $0.00 variance

F/Y Outlook: within 10% of budget

Year to date: 10% or more favourable to budget

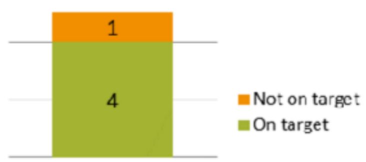
→ On budget , on track for year end

Projects



→ The Otaihanga Landfill Capping project is a multi-year capex over $250,000 project (although it is coming to the end of its life and will be under $250,000 capex in the current year spend). It is on target.

Performance measures (KPI)



→ One of five KPI is not on target. The KPI regarding resident satisfaction with the waste minimisation education, information and advice available reported a satisfaction result of 63%, against a target of 75% for the year. Council is currently recruiting for additional waste minimisation resources to improve our services in this area.

Appendix B – Solid waste chapter (1 July to 30 September 2019)

Summary of projects

There is one solid waste significant project, the Otaihanga Landfill Capping project.

1. Landfill Capping

- There remains 1.55 Ha of landfill to be formally capped as part of the landfill closure project. Capping is progressing as appropriate fill material becomes available.
- The development of expanded wetlands at the Otaihanga landfill were completed in June 2019 including planting of the wetlands and surrounds.

Costs ytd ($000)	Budget ($000)	Forecast ($000)	Status	Financial Commentary
14	168	168	On target	The material for capping the landfill is purchased when available.

2. Other projects

Project	Costs ytd ($000)	Budget ($000)	Forecast ($000)	Status	Comment
Minor projects	-	13	13	On target	

Project status key

Complete	On target	Not on target	On hold	High risk
Ahead ◷▲	Lagging ◷▼	Underspend $	Overspend $	

Other key developments

- The Waste Minimisation Taskforce (approved for establishment by the Strategy and Policy Committee on 21 March 2019) held it's first meeting on the 16 May 2019. The taskforce is currently meeting fortnightly and has been tasked to report to Council on how actions from the Waste Minimisation and Management Plan may be implemented to achieve the most cost-effective reduction in the volume of waste materials in the district. The taskforce is scheduled to report to Council on 12 December 2019
- Preparation of a submission to the Ministry for the Environment on the proposed priority products and priority product stewardship scheme guidelines
- Waste minimisation activities included:
  - Promotion of Plastic Free July in-house and on social media.
  - Installation of an additional wormfarm to manage organic waste from the Maple and Civic Buildings and Novella Café.
  - Advertising and receiving of applications for 2019/20 Waste Levy Grants – a total of 18 applications for Community grants and 10 expressions of interest for New Technology and Seed Funding grants were received.
  - Work with the regional group of Waste Minimsation Officers on a regional event waste management guide progressed and will be completed and promoted in Q2.

Appendix B – Solid waste chapter (1 July to 30 September 2019)

- A talk to Ōtaki College year 13 social studies students who are planning a waste minimsation project at the College.
- A staff clean up for Keep New Zealand Beautiful Week, as well as support of four community clean-up events.
- Progressing the Maclean Park recycling bin project – bins are to be installed in the second quarter this year.
- Regular visits to Transfer Stations to inform customers on waste diversion options (e.g. recycling, home composting).

Performance measures

There are five key performance indicators (KPIs) in the solid waste activity.

Performance measures	Target	Result (ytd)	Comment
On target			
Residents (%) who are satisfied with the standard of kerbside collections	85%	On target (85%)	The provisional result for the first quarter Resident Opinion Survey was 88% satisfied (150 of 208 respondents). (2018/19 result was 88%)
Number of days disposal facilities are open	357 days per year	On target	Facilities met opening targets for the first quarter.
Licensed collectors are compliant with licence requirements	Achieve	On target	No official warnings issued.
Illegally dumped waste is removed within two working days	85%	On target (95%)	There were 56 service requests, of which 53 were resolved within two days.
Not on target			
Residents (%) who are satisfied with the waste minimisation education, information and advice available	75%	Not on target (63%)	The provisional result for the first quarter Resident Opinion Survey was 63% satisfied (42 of 208 respondents). (2018/19 result was 64%)

Appendix B – Stormwater chapter (1 July to 30 September 2019)

Stormwater

Whakahaere wai araha

First quarter activity report – 1 July to 30 September 2019

Purpose	To provide a stormwater system to manage surface-water run-off from urban catchments while protecting the receiving environment, ensuring water quality and reducing risks to human life and health from flooding.

Financial key: within 10% of budget; 10% or more favourable to budget; 10% or more unfavourable to budget

Operating expenditure

The costs to operate this activity (excluding overheads)

$0.91m (ytd)
$0.90m budget (ytd)

FY Outlook: within 10% of budget
Year to date: within 10% of budget

→ Minor variance, on track for year end

Operating income

What we earn – fees, charges, grants etc (excluding rates)

$0.05m (ytd)
$ 0.04m budget (ytd)

FY Outlook: 10% or more favourable to budget
Year to date: 10% or more favourable to budget

→ Moderate variance, additional income forecast for year end.

→ M2PP have agreed to pay Council $100,000 in lieu of undertaking lining works on several stormwater pipes they installed as part of the overall project.

Capital expenditure

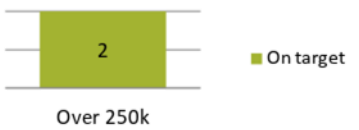
Costs for our capital projects

$0.93m (ytd)
$0.55m budget (ytd)
FY forecast $0.0m variance

FY Outlook: within 10% of budget
Year to date: 10% or more unfavourable to budget

→ Minor variance, on track for year end

Projects



→ Both projects (Major and Minor stormwater programmes) are broadly on target despite some consenting delays with individual projects within those programmes. This has been addressed by bringing forward other works that don't require consents.

Performance measures (KPI)

→ Six KPIs were on target at the end of the first quarter 2019/20.

→ One KPI is not due yet.

Appendix B – Stormwater chapter (1 July to 30 September 2019)

Summary of projects

Stormwater projects have been organised into Major and Minor stormwater programmes, with each group treated for reporting purposes as a single project. Both programmes are capital expenditure $250,000 and above and are summarised below.

1. Major stormwater projects

The major stormwater projects cover the design and construction of major drainage systems to accommodate run off from less frequent storms (1 in 50 year or 1 in 100 year events). These projects include upgrading under capacity networks, stream works, pumping systems etc. and the main purpose of major stormwater projects is to eliminate the risk of loss of life and property damage due to flooding. The projects covered under this in 2019/20 are mainly focused on alleviating habitable floor flooding and include: stormwater upgrades for Kena Kena, Moa Road, Karaka Grove, Alexander Bridge, Titoki, Riwai, Amohia Stage 1, Kākāriki, Raumati Road Area 1, Sunshine Avenue, Amohia diversion, Charnwood Grove, Richmond Avenue and Asset renewals in areas not affected by under capacity pipes in Paraparaumu Catchments 8 and 1. Kena Kena – construction related to areas not needing a resource consent will commence in October/November 2019.

→ Riwai Street, Sunshine Avenue and Kākāriki – continuing to work on resource consent applications, plan to lodge first two by December 2019 and latter by February 2020.

→ Moa Road, Karaka Grove and Alexander Bridge are in various stages of the design process. Moa Road is planned for construction to start in early March 2020.

→ Raumati Road (Area 1) – pump station assessments raised concerns about adding more flows to the current pump station, so now carrying out more investigation work based on alternative design options.

→ Titoki Street and Amohia Street (Stage 1) – due to the difficulties experienced in gaining resource consents, we have changed the design concept for both projects and are working up the new designs.

→ New projects were started this quarter for the Amohia Catchment diversion, Charnwood Grove and Richmond Avenue stormwater upgrades. Detailed investigations and design options are in progress.

→ Designs are completed for asset renewals in areas not affected by under capacity network in Paraparaumu catchments 8 and 1. Procurement of physical works will start in October 2019 and March 2020, respectively.

<u>Key risks/issues:</u> May be difficulties in gaining GWRC consents and iwi inputs may cause delays to most of the Stormwater major projects.

Costs ytd ($000)	Budget ($000)	Forecast ($000)	Status	Financial Commentary
797	3,133	3,133	On target	Delays/difficulties with some resource consents so advancing other work.

Project status key

Complete	(yellow)	On target	(green)	Not on target	(orange)	On hold	(blue)	High risk	(red)
Ahead	◷▲	Lagging	◷▼	Underspend	$	Overspend	$		

Appendix B – Stormwater chapter (1 July to 30 September 2019)

2. Minor stormwater projects				
The minor stormwater project includes the design and construction of minor drainage systems to accommodate run off from more frequent storms (1 in 5 year or 1 in 10 year events). These projects include renewal of existing assets, construction of overland flow paths, minor stormwater upgrades and extensions including upgrading inlet control devices such as stormwater sumps (cost of each project is in the order of $10,000 to $100,000). Work has been completed in the final two of last year's 14 minor improvement locations. → Completed the physical works at William Street but have now added more work as a variation to the contract. → Tender documentation has been completed for the 2019/20 minor improvements works. → Designs have been completed for works at Awanui Drive and Matene Place.				
Costs ytd ($000)	**Budget ($000)**	**Forecast ($000)**	**Status**	**Financial Commentary**
136	523	523		Progressing well.

Other key developments

→ There were 154 service requests in the first quarter of 2019/20, compared to 152 in the same quarter last year.

→ 5 more projects added to the Major works programme (16 in total now).

→ Districtwide Water Quality tender (for a period of 4 years) compiled. Ready to advertise in early October 2019.

→ Completed asset condition Investigations in 3 more Paraparaumu Catchments (3 catchments completed in 2018/19) making the total Catchments completed 6 out of 34 catchments.

Appendix B – Stormwater chapter (1 July to 30 September 2019)

Performance measures

There are seven key performance indicators in the Stormwater Management activity.

Performance measures	Target	Result	Comment
On target			
Median response time to attend a flooding event from notification to attendance on site *(DIA mandatory measure)*	Urgent = less than or equal to 24 hours	On target (median response time was less than 24 hours)	There were 154 service requests to-date, 122 were flooding related complaints. Of those 122, 45 were urgent and the median response time was 0 days (less than 24 hours). (2018/19 result was less than 24 hrs)
	Non-urgent = less than or equal to 5 days	On target (median response time was 1 day)	The median response time was 1 day for the 77 non-urgent flooding related complaints. (2018/19 result was 3 days)
Percentage of all buildings that have been inundated due to minor flooding are visited within four weeks	90%	On target (100%)	There was 1 building (garages) related minor flooding requests this year. Visited within less than 1 day. (2018/19 result was 100%)
Number of complaints received about the performance of the district's stormwater system *(DIA mandatory measure)*	Less than 30 per 1000 properties connected to the council's stormwater system	On target (5.6 per 1000)	The 122 flooding related complaints in the year to date translate to 5.6 per 1,000 connections *(estimate of 22,390 connections – from 2018/19).* (2018/19 result was 15.15 per 1,000*)*
Number of buildings (habitable floors) reported to be flooded as a result of a less than 1-in-50 year rain event (DIA mandatory measure)	Less than 3 per 1000 properties connected to the council's stormwater system	On target	No habitable floors were affected by flooding events. (2018/19 result was 'Achieved')
Measure compliance with council's resource consents for discharge from its stormwater system, by the number of: a) abatement notices; b) infringement notices; c) enforcement orders; and d) successful prosecutions, received by the council in relation those resource consents. (DIA mandatory measure)	None	On target (None)	There has been no non-compliance with Council's resource consents for discharge from its stormwater system in the first quarter.
Not due yet			
Major flood protection and control works are maintained, repaired and renewed to the key standards as defined in the council's activity management plan *(DIA mandatory measure)*	Achieve	Not yet due	No major stormwater projects have been completed to date in this year. (2018/19 result was 'Achieved')

Appendix B – Wastewater chapter (1 July to 30 September 2019)

Wastewater management

Whakahaere wai para

First quarter activity report – 1 July to 30 September 2019

Purpose	To provide wastewater (sewerage) infrastructure that protects public health and the natural environment and provides continuity of service for the Kāpiti community.

Financial key: within 10% of budget; 10% or more favourable to budget; 10% or more unfavourable to budget

Operating expenditure

The costs to operate this activity (excluding overheads)

$1.83m (ytd)

$2.00m budget (ytd)

FY Outlook

Year to date

→ Minor variance,on track for year end.

Operating income

What we earn – fees, charges, grants etc (excluding rates)

$0.01m (ytd)

$ 0.07m budget (ytd)

FY Outlook

Year to date

→ Minor variance, on track for year end

→ The lower income this quarter is due to lower development contributions.

Capital expenditure

Costs for our capital projects

$0.20m (ytd)

$0.24m budget (ytd)

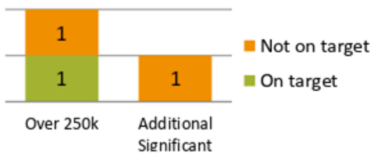
FY forecast $0.03 underspend

FY Outlook

Year to date

→ Moderate variance, on track for year end

Projects

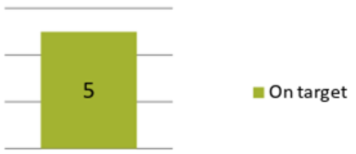


→ There are three significant projects.

→ The Paraparaumu WWTP renewals project is currently on target – but is on its critical path.

→ The Paraparaumu WWTP resource consent renewals and Ōtaki WWTP upgrade projects are forecast to overspend.

Performance measures (KPI)



→ All five KPIs were on target at the end of at the end of the first quarter 2019/20.

Appendix B – Wastewater chapter (1 July to 30 September 2019)

Summary of projects

There are three significant wastewater management projects, all of which are capex projects of $250,000 and above, these are summarised in the first three tables below. There are a further three under $250,000 capex summarised briefly in table 4 below.

1. Paraparaumu wastewater treatment plant (WWTP) renewals

- → Procurement of replacement sludge feed pumps for the decanting centrifuges commenced in quarter four of 2018/19 and was completed this quarter.
- → Intrusive investigation in clarifier 1 was planned for summer but a drive mechanism problem in August 2019 provided an opportunity to bring that forward. Drone and remote scanning technology was used to develop detailed drawings for this work and reduce risk from having to enter the structure to undertake this work.
- → The study of the sludge decanting centrifuges and their conveyors is complete and procurement of long lead components has been actioned.
- → However, critical renewal works programmed for this year mean the project is currently forecast to exceed its allocated budget. Options to defer or offset this expenditure are being investigated.

Costs ytd ($000)	Budget ($000)	Forecast ($000)	Status	Financial Commentary
139	284	399	$ (Not on target / Overspend)	Forecast over budget due to urgent renewal work for the No1 clarifier.

2. Paraparaumu WWTP – resource consent renewals

- → Whole effluent toxicity testing and emerging organic contaminants sampling programmes are developing to plan.
- → Ongoing efforts are being made to meaningfully engage tāngata whenua in the re-consenting of the Paraparaumu WWTP. All our iwi have been invited to participate and to identify how this could be best achieved. The draft project governance arrangements, vision and objectives, and engagement and communications strategy have been provided and continuing progress updates will be given as the work develops.
- → The project is now on its critical path to develop an application and the next phase being worked through is the development of the full list of options, fatal flaw considerations and the resulting long list. Governance will consider if the consent should continue or be put on hold.

Key risks/issues

- That consultation delays will require Council to take an alternate path and apply for an extension to the existing consent. (Sean to review)

Costs ytd ($000)	Budget ($000)	Forecast ($000)	Status	Financial Commentary
63	695	462	$ (On target / Underspend)	Currently forecasting an underspend.

Project status key

Complete (yellow)	On target (green)	Not on target (orange)	On hold (blue)	High risk (red)
Ahead ◷▲	Lagging ◷▼	Underspend $	Overspend $	

Appendix B – Wastewater chapter (1 July to 30 September 2019)

3. Ōtaki WWTP upgrades				
→ The improvements to the land treatment discharge area (LTDA) at the Ōtaki WWTP include treated wastewater pumping and pipe distribution systems upgrades, and supporting grounds maintenance work. The planting for grounds maintenance is planned to be undertaken in the winter 2020 planting season. → A site-wide condition and capacity study that commenced in the fourth quarter is continuing to update asset investment planning information. → Draft design information was completed for the Ōtaki wastewater treatment plan. The scope included treated wastewater pumping & pipe distribution system upgrades and site wide condition and capacity study was completed in Q1. Procurement and market approach to be delivered in the coming months.				
Costs ytd ($000)	**Budget ($000)**	**Forecast ($000)**	**Status**	**Financial Commentary**
12	158	201	$	Currently forecasting an overspend.

4. Other projects					
Project	**Costs ytd ($000)**	**Budget ($000)**	**Forecast ($000)**	**Status**	**Comment**
Planned wastewater network renewals	41	100	188		Expenditure in line with program and offset with unplanned renewals
Wastewater reticulation network upgrades	5	200	200		Program of works to be delivered by June 2020
Wastewater unplanned network renewals	11	223	175		Expenditure in line with program and offset with planned renewals

Other key developments

→ The detailed 2019/20 Water Professional Services Panel (WPSP) works programme has been developed. The annual programme of investigations, inpections and feasiblity studies is underway or being scoped in detail for delivery. This work will be used to identify any improvements needed and better inform future long term planning of renewals, upgrades and resilience projects.

→ As regards the wastewater network in particular, the focus for 2019/20 is on condition assessment and asset investment planning. Current investigations include: the ongoing Wastewater Pumping Station condition assessments programme, condition asssessment of key wastewater pipework, and the current Wastewater Network Performance programme. Current work also includes further updates of our hydraulic models to consider the latest climate change profiles and population growth information.

→ Consultants have been engaged to investigate containment standards for our wastewater network that will inform investment planning for the 2021 long term plan.

Appendix B – Wastewater chapter (1 July to 30 September 2019)

Performance measures summary

There are five key performance indicators (KPIs) in the wastewater management activity. All five were on target at the end of at the end of the first quarter 2019/20.

Performance measures	Target	Result (ytd)	Comment
On target			
Median response times to sewage overflows resulting from a blockage or other fault measured by attendance time (from the time council receives notification to the time that staff are on-site) *(DIA mandatory measure)*	Less than or equal to 1 hour	On target	Median attendance time was 17 minutes, for 28 blockages or faults attended in the first quarter. (2018/19 result was 20 minutes)
Median response times to sewage overflows resulting from a blockage or other fault measured by resolution time (from the time that council receives notification to the time that staff confirm resolution) *(DIA mandatory measure)*	Less than or equal to 5 hours	On target	Median resolution time was 2 hours and 1 minute, for 28 blockages or faults resolved in the first quarter. (2018/19 result was 2 hrs and 29 mins)
Number of complaints received by council about any of the following: a) sewage odour; b) sewerage system faults; c) sewerage system blockages, and d) council's response to issues with the sewerage system. *(DIA mandatory measure)*	Less than 7.2 complaints per 1,000 connections to Council's sewerage system.	On target (1.4 complaints per 1,000 connections)	29 complaints were received in the first quarter (from a total of 20,292 connections). (2018/19 result was 4.8 per 1,000)
Number of dry weather sewerage overflows *(DIA mandatory measure)*	At or below 2 per 1000 connections to Council's sewerage system	On target (*nil* overflows per 1,000 connections)	There were no dry weather overflows this quarter, thus no notifiable events (out of a total of 20,292 connections). (2018/19 result was 2.56 per 1,000)
Compliance with council's resource consents for discharge from its sewerage system measured by the number of: a) abatement notices; b) infringement notices; c) enforcement orders; and d) convictions, received by council in relation to those resource consents. *(DIA mandatory measure)*	None	On target	No non-compliance actions in the first quarter.

Appendix B – Water management chapter (1 July to 30 September 2019)

Water management

Whakahaere wai

First quarter activity report – 1 July to 30 September 2019

Purpose	The key goal for the water management activity is ensuring a safe, affordable and sustainable long-term water supply solution for our district.

within 10% of budget · 10% or more favourable to budget · 10% or more unfavourable to budget

Operating expenditure
The costs to operate this activity (excluding overheads)

$1.69m (ytd)
$1.80m budget (ytd)

F/Y Outlook: within 10% of budget
Year to date: within 10% of budget

→ Minor variance, on track for year end.

Operating income
What we earn – fees, charges, grants etc (excluding rates)

$0.08m (ytd)
$ 0.06m budget (ytd)

F/Y Outlook: within 10% of budget
Year to date: 10% or more favourable to budget

→ Moderate variance, on track for year end

→ The lower income this quarter is due to lower development contributions.

Capital expenditure
Costs for our capital projects

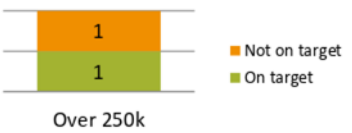
$0.38m (ytd)
$0.25m budget (ytd)
FY forecast $6.22m underspend

F/Y Outlook: 10% or more favourable to budget
Year to date: 10% or more unfavourable to budget

→ Moderate variance, lower capital spending planned for the year.

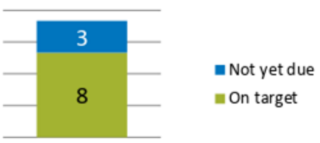
→ The lower capital spending forecast is due to the intention to carry forward $6.2 million of the funding for the drinking water safety and resilience project to 2020/21.

Projects



→ There are two water management projects. Both are over $250,000 capex projects. The DWRSP is not on target – design work will be completed this year but construction works are now planned for next year.

Performance measures



→ Eight KPIs were on target at the end of the first quarter 2019/20.

→ Three KPIs are not yet due as results are only available at the end of the year.

Appendix B – Water management chapter (1 July to 30 September 2019)

Summary of projects

The two significant water management projects this year are summarised below.

1. Drinking water safety and resilience project

- → Not on target due to delays in the establishment of the Water Professional Services Panel in 2018/19 to allow for a strategic procurement review. Those delays held back the awarding of the contract for the DWSRP and although the design work is progressing well the construction work is now planned to start in 2020/21.
- → The preliminary design for the Waikanae WTP Stage 2 upgrades has been com[pleted and is being reviewed by Council staff.
- → The strategic review of the source and treatment options for the Ōtaki and Hautere water supply schemes is substantially completed. This review provides strategic direction for short, medium and longer term investment in these schemes.
- → A procurement workshop to support the development of the strategy for the procurement of future physical works was undertaken.
- → A detailed communications plan for the project has been developed.

Costs ytd ($000)	Budget ($000)	Forecast ($000)	Status	Financial Commentary
267	8,090	1,804	◷▼ $⬇	Delays from last year have had flow-on effects. The design of the works is progressing well now but construction has been deferred to 2020/21. Approval for a carry forward of the projected underspend will be sought in the near future.

2. Network renewals and upgrades

- → Work on reactive lateral replacements is ongoing.
- → The new Zone Meter for Ngaio Road installed in 2018/19 is now fully operational following connection to the mains power supply.
- → Asset condition assessment and renewal planning activities are underway for the bulk main from the Waikanae water treatment plant to the Riwai Reservoir, and for districtwide network renewals.
- → The design for the Tasman Road water supply main (to the Ōtaki CBD) has been delayed pending the outcome of the strategic review of water source and treatment options being finalised with the Water Safety and Resilience Project.
- → A programme of backflow prevention risk assessment and development of policy documentation is underway, to offer investment planning guidance by the end of 2019/20

Costs ytd ($000)	Budget ($000)	Forecast ($000)	Status	Financial Commentary
48	1,576	1,587		Underway – modest forecast overspend

Project status key

Complete		On target		Not on target		On hold		High risk	
Ahead	◷▲	Lagging	◷▼	Underspend	$⬇	Overspend	$⬆		

Appendix B – Water management chapter (1 July to 30 September 2019)

3. Other projects					
Project	**Costs ytd ($000)**	**Budget ($000)**	**Forecast ($000)**	**Status**	**Comment**
Network unplanned renewals	57	210	226		Modest forecast overspend
Minor projects	7	217	251	$	Additional forecast spend on water meter renewals and minor renewals at the Waikanae water treatment plant

Other key developments

→ The annual reporting process on the operation of the river recharge scheme was completed and the annual reports lodged with Greater Wellington Regional Council. The scheme was successfully operated in 2018/19 for 10 days. The final administrative amendments to the consent to remove the requirements during the baseline monitoring period have been complete. This will streamline the ongoing operation of this scheme.

→ The river recharge scheme has successfully proven it is operable to the four approved ongoing mitigation plans, and is under adaptive management for the remainder of the fifteen-year period to the full extent of it’s stage one capacity.

→ An inspection of the clarifier at the Waikanae WTP in August 2019 further supported the need for its renewal and provided an opportunity to complete interim mechanical repairs to reinforce aging equipment and maintain reliable service while the new clarifier is constructed.

→ The 2019/20 Water Professional Services Panel (WPSP) works programme has been substantially scoped and Consultant Service Orders (CSOs) approved. Work is underway in the inspections of reservoirs, pipelines and water treatment plants and in master planning for the growth projected in the Otaki water supply network and for coming legislative changes. This work will be used to identify any improvements needed and better inform the Long Term Plan of renewals, upgrades and resilience projects.

Performance measures

Performance measures	Target	Result	Comment
On target			
Median response times to a fault or unplanned interruption to our water network measured by attendance time (from the time council receives notification to the time that staff are on-site) *(DIA mandatory measure)*	Urgent = less than or equal to 1 hour	On target (10 min)	Median attendance time was 10 minutes for 9 urgent water interruptions. (2018/19 result was 15 minutes)
	Non-urgent = less than or equal to 3 days	On target (4 hours, 45 min)	Median attendance time was 4 hours and 45 minutes for 200 non-urgent water faults. (2018/19 result was 3hrs, 27 min)
Median response times to a fault or unplanned interruption to our water network measured by resolution time (from the time that council receives notification to the time that staff confirm resolution) *(DIA mandatory measure)*	Urgent = less than or equal to 5 hours	On target (1 hour, 14 min)	Median resolution time was 1 hour and 14 minutes for 9 urgent water interruptions. (2018/19 result was 1 hr, 38 min)
	Non-urgent = less than or equal to 4 days	On target (26 hours, 30 min) [1]	Median resolution time was 26 hours and 30 minutes for 90 non-urgent water faults. (2018/19 result was 25 hrs, 2 min)

1. An internal audit of the ‘Water – non-urgent’ SR response times found that 108 of the originally reported 198 service requests needed to be excluded from this measure because they were either duplicates, private issues, internal requests or there was no fault found. This resulted in a significant increase in the reported median resolution time from 7 hours and 11 minutes to the now reported 26 hours and 30 minutes.

Appendix B – Water management chapter (1 July to 30 September 2019)

Performance measures	Target	Result	Comment
On target			
Measure the total number of complaints received by council, per 1000 connections, to council's networked reticulation system, about any of the following: a) drinking water clarity; b) drinking water taste; c) drinking water odour; d) drinking water pressure or flow; e) continuity of supply; and f) council's response to any of these issues. *(DIA mandatory measure)*	At or below 6.2 complaints per 1,000 connections	On target	A total of 12 'complaints' were logged this year (3 water quality [taste/odour], 9 service requests for no water supply). With a total of 23,020 connections, 12 complaints translate to 0.52 complaints per 1,000 connections. (2018/19 result was 5.56 per 1,000)
Residents who are satisfied with the quality of council's water supply (taste, odour, clarity)	80%	On target (83%)	The provisional result from the resident Opinion Survey for the first quarter is 83% (from 181 out of 208 respondents). (2018/19 result was 85%)
Peak water consumption in litres per person per day (l/p/d)	At or below 490 l/p/d	On target	Peak day water use for the year to date was 309 l/p/d. (2018/19 result was 399 l/p/d)
Average water consumption in litres per person per day *(DIA mandatory measure)*	At or below 325 l/p/d	On target	Average use for year to date was 281 l/p/d. (2018/19 result was 302 l/p/d
Not yet due			
Percentage of real water loss from the Council's networked reticulation system. *(DIA mandatory measure)*[2]	At or below 23.6%	Not yet due	The water loss from the council's network for 2019/2020 will be calculated at the end of the financial year. (2018/19 result was 18%)
Measure the extent to which the district's drinking water supply complies with: a) part 4 of the drinking-water standards (bacteria compliance criteria); and b) part 5 of the drinking-water standards (protozoal compliance criteria) *(DIA mandatory measure)*	a) Achieve 100%	Not yet due	Confirmed compliance results are not due until later in 2020 from the Drinking Water Assessors (DWAs). The result for 2018/19 was 'Not achieved' because of a corrupt data block causing a loss of compliance data on 1 September 2018. A programme of remedial measures is underway to avoid a similar data corruption reoccurrence. The work planned over 2019-22 through the LTP will resolve any issues with turbidity spikes causing non-compliance. (2018/19 result was 'Not achieved')
	b) Achieve 100%	Not yet due	Note that the Ōtaki and Hautere supplies will not be 100% compliant until upgrade work is undertaken which is programmed in the 2018 LTP for 2019–2022. (2018/19 result was 'Not achieved')

Regulatory Services

- Districtwide planning
- Regulatory services

Appendix B – Districtwide planning chapter (1 July to 30 September 2019)

Districtwide planning

Ngā kaupapa takiwa

First quarter activity report – 1 July to 30 September 2019

Purpose	To establish the development framework for the sustainable management of the district's natural and physical resources.

Financial key: within 10% of budget; 10% or more favourable to budget; 10% or more unfavourable to budget

Operating expenditure

The costs to operate this activity (excluding overheads)

$0.30m (ytd)
$0.51m budget (ytd)

FY Outlook
Year to date

→ Moderate variance, on track for year end.

→ The lower spending this quarter is mostly due to time spent planning the initital stage of the coastal programme and the timing of appeals.

Operating income

What we earn – fees, charges, grants etc (excluding rates)

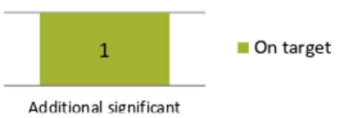
$0.02m (ytd)
$0.00m budget (ytd)

FY Outlook
Year to date

→ Moderate variance, on track for year end.

→ Additional income received in the first quarter from Greater Wellington for their contribution to the population forecast online platform.

Projects



→ The District Plan Review is the only significant Districtwide Planning project.

→ On track for year end.

Performance measures (KPI)

→ Both Districtwide Planning KPIs were on target as at the end of the first quarter 2019/20.

Appendix B – Districtwide planning chapter (1 July to 30 September 2019)

Summary of projects

There is one significant project in this activity, the District Plan Review. It is an additional significant project that has greater than $250,000 but its all operational expenditure.

1. District Plan Review

→ One appeal (Amateur Radio) fully resolved and two appeals (Carter and Blackburne) withdrawn. Seven of the 18 appeals remain live (including three partially resolved appeals, five appeals fully resolved and six appeals withdrawn by the appellants).

→ Variation 3 to the Proposed District Plan publicly notified and submissions received; further submissions called for and received.

→ Variation 2 to the Proposed District Plan publicly notified and submissions received; further submissions called for.

→ Council approved public notification of Variation 4 to the Proposed District Plan.

Key risks/issues:

- Unpredictable time resolution of six of the seven outstanding appeals dependent on the capacity of the Environment Court.
- Recruiting for District Plan team vacancies in a competitive market for RMA planners.

Costs ytd ($000)	Budget ($000)	Forecast ($000)	Status	Financial Commentary
72	559	559		On track for year end.

Project status key

Complete		On target		Not on target		On hold		High risk	
Ahead	◷▲	Lagging	◷▼	Underspend	$	Overspend	$		

Performance measures

There are two key performance indicators (KPI) in the districtwide planning activity.

Performance measures	Target	Result (ytd)	Comment
On target			
Residents (%) who agree that the district is developing in a way that takes into account its unique character and natural environment	75%	On target (76%)	The provisional result from the first quarter's Resident Opinion Survey was 76% (from 200 of 208 respondents) (2017/18 result was 77%).
Develop and monitor a strategic policy framework and research programme to underpin the district plan and long term plan	Achieve	On target	The 2018-21 policy work programme was adopted by Council on 24 January 2019. The Strategy and Policy Committee received an update on the policy work programme on 5 September 2019. Two new policies were added to the programme: i). Market (Support) Policy scheduled from March 2020 to February 2021. ii). Gifting (Vested assets) Policy – scheduled from November 2019 to June 2020.

Appendix B – Regulatory services chapter (1 July to 30 September 2019)

Regulatory services

Ratonga whakaritenga

First quarter activity report – 1 July to 30 September 2019

Purpose	To manage a range of public health, safety and design needs associated with building control, resource consents, environmental health, food safety, animal control, noise management, alcohol licencing, designations and compliance.

Financial key: (green) within 10% of budget (purple) 10% or more favourable to budget (orange) 10% or more unfavourable to budget

Operating expenditure

The costs to operate this activity (excluding overheads)

$1.18m (ytd)

$1.41m budget (ytd)

FY Outlook: green

Year to date: purple

→ Moderate variance for this quarter, on track for year end.

→ The lower spending for this quarter relates to personnel vacancies.

Operating income

What we earn – fees, charges, grants etc (excluding rates)

$1.69m (ytd)

$1.59m budget (ytd)

FY Outlook: green

Year to date: green

→ Minor variance, on track for year end.

Capital expenditure

Costs for our capital projects

$0.01m (ytd)

$0.08m budget (ytd)

FY forecast $0.15m overspend

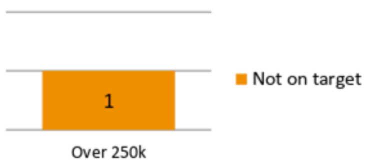
FY Outlook: orange

Year to date: purple

→ Moderate variance for this quarter, forecast higher spending for the year.

→ Higher forecast spending relates to additional costs for the Animal Management Centre renewal.

Projects



→ There is one significant Regulatory Services project, the Animal Management Centre renewal.

→ It is forecast to cost more than initially budgeted as investigation found some hidden issues with the building.

Performance measures (KPI)

→ Two of the seven KPIs was not on target but at least one of these should recover over coming quarters.

→ Three KPIs are on target at the end of the first quarter and and two are not yet due.

Appendix B – Regulatory services chapter (1 July to 30 September 2019)

Significant projects

There is one significant Regulatory Services project summarised below.

1. Animal Management Centre renewal

→ The Animal Management Centre renewal project is currently reported as not on target as the scope of the works have increased since the budget was set and the project is now forecast to significantly exceed the initial budget.

→ The detailed construction design documentation was completed for the Animal Management Centre. The Building Consent application was lodged in August and the contract was uploaded on the Government Electronic Tendering Services (GETS). We didn't receive any responses from interested parties so are currently doing direct approach to companies seeking their interest.

Key risks/issues:

- A risk that we may be unable to secure contractor within timeframe resulting in delays in project completion.
- The revised forecast costs are based on an increased scope of works. There is a dearth of suitably experienced contractors available for small construction works of this nature.

Costs ytd ($000)	Budget ($000)	Forecast ($000)	Status	Financial Commentary
15	238	390	$	Detailed investigation of this project has resulted in an increased scope of works, due to the hidden condition of the building, and hence an increase in the forecast spend.

Other key developments

Regulatory services

→ Regulatory Services received a total of 2512 service requests in the first quarter of 2019/20. Of those requests 2371 (94.4%) were responded to within required times against a target of 95%. 1.5 percent of those service request types not responded to in time related to noise control complaints and rely on an external contractor. The performance of this external contractor is currently being addressed.

→ This first quarter, Regulatory Services received 10 compliments and five complaints about service received. The complaints were investigated and two were not upheld.

→ This first quarter, 161 Land Information Memoranda (LIM) were issued with an average of six days to issue. All LIMs were issued within the statutory timeframes.

Building

→ This first quarter, 325 building consents were processed compared with 279 for the first quarter last year (18% increase). All except one of these consents were issued within 20 days with an average processing time of 12 days. The one issued overtime was due to staff error setting the wrong status in our database.

→ 1,526 building consent inspections were undertaken this quarter. This compares with 1,647 building inspections in the same quarter last year (a 9% decrease) continuing the trend of a lighter inspection workload. The reasons given for needing extensions of time to start work seem to indicate that there is a shortage of available builders which may explain some of the drop off in inspection demand.

→ 196 code compliance certificates were issued this quarter (256 for the same period last year).

Appendix B – Regulatory services chapter (1 July to 30 September 2019)

- → Preparatory work underway for welcoming IANZ Auditors to Council to audit our Building Consent Authority functions. This is a mandatory two-yearly audit which will occur in the next quarter.

Resource consents

- → The Resource Consents team issued 80 consents in the first quarter (compared to 73 resource consents in the same quarter last year). All but one were processed non-notified and 23 had time extensions under section 37 of the Resource Management Act[1]. For those non-notified consents that did not have their statutory timeframes extended, the average processing time was 14 days against a target of 17 days.
- → One consent was processed via public notification. This application was to construct an electronic billboard sign which does not comply with the permitted activity standards at 129 Kapiti Road, Paraparaumu. A hearing was held on 4 July 2019 and a decision was made to approve the sign subject to conditions by an independent commissioner on 5 August 2019.
- → The Resource Consents team processed 12 permitted boundary activities, two certificates of compliance and two notices of requirements this quarter. The average processing time for permitted boundary activities was 7.5 days against a statutory timeframe of 10 working days.
- → The Resource Consents team has received and processed 20 certifications for subdivisions in the first quarter of this year, compared to 18 at the same time last year. These certifications related to a total of 30 new allotments (48 last year).
- → On 10 July the Resource Consents team sent a newsletter to our regular customers providing information on the e-Plan, National Monitoring System results for the 2017/2018 year, the withdrawal of the hydraulic neutrality provisions and an update on the PDP appeals relating to Chapter 4 - Coastal Environment. It is proposed to send another newsletter at the start of October.
- → Major input has continued this year into the three major roading projects within the Kapiti District. PP2O has continued to ramp up construction this quarter resulting in a significant increase in workload for the Development Control Team. Compliance staff have also been ensuring that Mackays to Peka Peka is meeting its plantings and landscaping obligations as it gets closer to transferring the responsibility back to NZTA. Transmission Gully continues to progress its works within the district and regular monitoring checks have been undertaken.

Environmental Health, Licensing and Compliance

- → In the first quarter, 62 of the 218 currently registered food businesses which operate under a template food control plan were verified by the team. In addition, 13 support or follow-up visits were undertaken for new businesses owners or to investigate complaints from members of the public.
- → Only one health licensed premises (a new funeral home) was inspected as all other required inspections were undertaken in the second half of the previous financial year.
- → Inspections were carried out of all 15 premises for which an alcohol licence was granted or renewed. 33 special licences were issued, and 59 managers' certificates were issued or renewed.

[1] Section 37 allows for the extension of a statutory timeframe provided special circumstances apply or the applicant agrees; and the interests of any person or the community is not affected and unreasonable delay is avoided.

Appendix B – Regulatory services chapter (1 July to 30 September 2019)

→ Compliance Officers carried out 61 inspections of swimming pool barriers, including taking follow-up action where the barrier was found to be non-compliant.

Public Spaces and Animal management

→ This quarter the Public Spaces and Animal Management team received three urgent service requests for 'dog attacks'. All were on stock or other animals. The team received three service requests relating to 'dog threatening'. One involved a threat to person and the other two related to threat to stock or other animal. All urgent requests were responded to within the required one hour.

Performance measures

There are seven key performance indicators (KPIs) in the regulatory services activity.

Performance measures	Target	Result	Comment
On target			
Average working days to process building consents will not exceed 17 days	Achieve	On target (12 days)	325 BCs were issued in the first quarter. All but 1 was completed within 20 working days. Average processing time is 12 days.
Average working days to process non-notified resource consents will not exceed 17 days	Achieve	On target (14 days)	For the first quarter the average excluding consents deferred under s.37 was 14 working days. (2018/19 result was 15 days).
All dog attack and threatening behaviour requests for service (classified as urgent) are responded to within 1 hour of notification	100%	On target (100%)	There were 6 service requests for urgent dog attacks or threatening dogs for this quarter. All complaints were responded to within one hour of receipt of call.
Not on target			
Percentage of service requests that are responded to within corporate standards are responded to in time	95%	Not on target (94.4%)	2,371 of 2,512 service requests received in the first quarter were responded to within time. (2018/19 result was 95%)
Ratio of compliments to complaints greater than 3:1	Achieve	Not on target (2:1)	Received 10 compliments and 5 complaints in the quarter. 2 complaints were not upheld. (2018/19 result was 4.3:1).
Not due yet			
Percentage of survey respondents that agree that the regulatory events are good or very good	93%	Not yet due	No stakeholder events were held this quarter (2018/19 result was 97.7%).
Building Consent Authority (BCA) accreditation is retained	Achieve	Not yet due	Next assessment audit is due in October 2019. We achieved BCA accreditation in October 2017 at the last audit. (2018/19 result was 'Achieved').

Appendix B – Regulatory services chapter (1 July to 30 September 2019)

Management KPIs	Target	Result	Comment
Percentage of alcohol, food, resource consent, and building consent application survey respondents agree that they have received good or better service.	75%	On target (98%)	For breakdown of survey results see Chart 1 overleaf (2018/19 result was 94%)
Percentage of users / respondents agree that pre-application processes are useful and informative.	75%	On target (100%)	For breakdown of survey results see Chart 2 overleaf (2018/19 result was 96%)

Chart 1: Application survey respondent's results

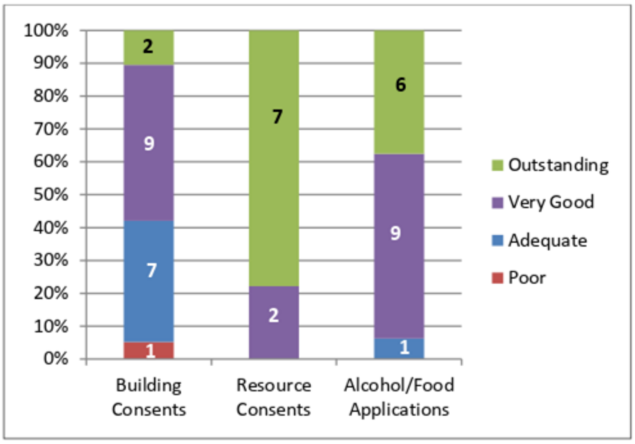
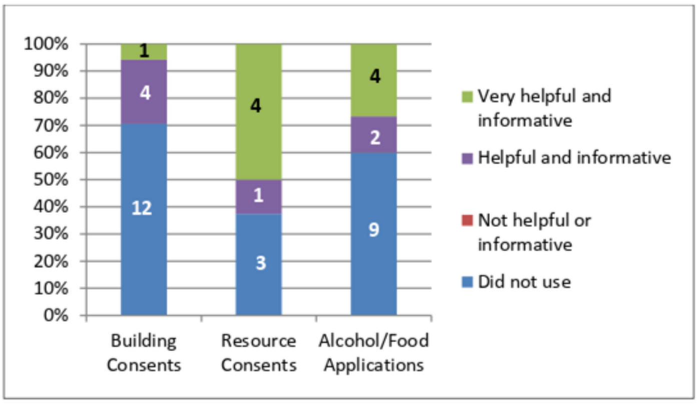


Chart 2: Rating of pre-application services



Governance and Tāngata Whenua

Appendix B – Governance and tāngata whenua chapter (1 July to 30 September 2019)

Governance and tāngata whenua

Kāwanatanga me ngā tāngata whenua

First quarter activity report – 1 July to 30 September 2019

Purpose	To manage our democratic processes, provide administrative support, facilitate community input to decision-making and provide information to our community in support of that. Responsibility for liaising with iwi to ensure that, through Te Whakaminenga o Kapiti, they can contribute to council policy and practise.

Financial key: within 10% of budget · 10% or more favourable to budget · 10% or more unfavourable to budget

Operating expenditure

The costs to operate this activity (excluding overheads)

$0.64m (ytd)

$0.73m budget (ytd)

FY Outlook: within 10% of budget

Year to date: 10% or more favourable to budget

→ Moderate variance, on track for year end.

→ The lower spending for the quarter relates to emergency management.

Operating income

What we earn – fees, charges, grants etc (excluding rates)

$0.29m (ytd)

$0.28m budget (ytd)

FY Outlook: within 10% of budget

Year to date: within 10% of budget

→ Minor variance, on track for year end.

Capital expenditure

Costs for our capital projects

$0.00m (ytd)

$0.04m budget (ytd)

FY forecast $0.00m variance

FY Outlook: within 10% of budget

Year to date: 10% or more favourable to budget

→ Moderate variance, on track for year end.

→ The lower spending for the quarter relates to Councillor's IT hardware being purchased in the second quarter.

Projects

There are no significant projects in this activity for 2019/20

→ There are no significant projects in this activity this year. There are some projects that aren't regarded as significant reported in the 'Other projects' table overleaf.

Performance measures (KPI)

→ Three KPIs were on target at the end of the first quarter 2019/10 and three KPIs are not yet due. .

Appendix B – Governance and tāngata whenua chapter (1 July to 30 September 2019)

Other projects

1. Other projects					
Project	**Costs ytd ($000)**	**Budget ($000)**	**Forecast ($000)**	**Status**	**Comment**
Civil Defence	-	13	13		
EOC building renewal	-	3	3		
Hardware	2	36	36		
Plant & vehicle renewals	1	393	393		

Other key developments

Governance

→ Council adopted the Kāpiti Coast District Council Annual Report for the year ending 30 June 2019 on 26 September.

→ Council approved the Subcommittee's draft terms of reference for the independent organisational review.

→ Council adopted the Elected Member Remuneration Expenses and Allowances Policy with the inclusion of a Childcare Allowance for Elected Members.

→ The Council resolved that an extraordinary vacancy that had been created effective from 26 June 2019 should be left vacant for the remainder of the 2016-2019 Triennium, as per clause 117(3)(b) of the Local Electoral Act 2001.

→ There was one citizenship ceremony, 28 August 2019, which conferred citizenship upon 44 applicants. Their countries of origin included Britain, South Africa, Philippines, Australia, Russia, Ireland, Kiribati, Singapore and Poland.

→ The Council received 51 requests under the Local Government Official Information and Meetings Act in the fourth quarter, compared to 62 in the same quarter last year.

→ There were three Council meetings, eight Committee meetings and no subcommittee meetings in this quarter. There were twelve briefings and no public workshops.

Research and policy

The Research and Policy team developed the following policies, reports and submissions that were then respectively accepted/adopted/approved by Council:

→ The NPS-UDC fourth quarter monitoring report was published in August 2019.

→ Council adopted the Film Friendly Policy 2019 on 5 September 2019

→ Council approved seven submissions this quarter:

- The Climate Change Response (Zero Carbon) Amendment Bill - 2 July 2019.
- The Kāinga Ora—Homes and Communities Bill - 1 August 2019

Appendix B – Governance and tāngata whenua chapter (1 July to 30 September 2019)

- Ministry of Transport's Road to Zero: Draft Road Safety Strategy 2020-2030 - 12 August 2019
- Ministry for the Environment's Proposed National Policy Statement on Urban Development – confirmed by Council 26 September 2019
- Ministry for the Environment's Proposed National Policy Statement for Highly Productive Land – confirmed by Council 26 September 2019
- Ministry for the Environment's Proposed Priority Products and Priority Product Stewardship Scheme Guidelines – 26 September 2019
- NZ Productivity Commission's Draft Report on Local Government Funding and Financing Review – 26 September 2019.

Tāngata whenua

→ Te Whakaminenga o Kāpiti (TWoK) met twice in this quarter.

→ Over 120 people attended the 2019/20 Maramataka launch at Whakarongotai Marae on 2 August 2019. Te Ātiawa ki Whakarongotai collated content for the maramataka. The theme was based on the ART confederation and celebrated the 10th anniversary of the maramataka.

→ Ongoing support was provided to iwi partners to engage within council activites.

→ Ongoing support to other internal Council activities to facilitate iwi engagement. This work continues to inform council on the critical values and aspirations that are significant to iwi and works towards meeting the legislative requirements on council in regards to iwi participation.

Appendix B – Governance and tāngata whenua chapter (1 July to 30 September 2019)

Performance measures

There are six key performance indicators (KPI) in the Governance and tāngata whenua activity.

Performance measures	Target	Result	Comment
On target			
Council meeting agendas are available in hard copy in council service centres and/or district libraries within two working days prior to the meeting	100%	On target	
Percentage of official information requests responded to within 20 working days[1]	100%	On target	All 51 official information requests were responded to within 20 working days in this quarter (there were 62 requests in the same quarter last year).
Māori have representation on standing committees of Council and tāngata whenua working parties contribute to significant Council work programmes	Achieve	On target	We have iwi representation on all the committees we have sought it for. We also gained representatives recently for the Waste Minimisation Taskforce.
Not yet due			
Number of households that have an emergency plan and kit sufficient for three days following an emergency event	70%	Not yet due	The Residents Opinion Survey result is not due for this measure until the second quarter. (2018/19 result was 70.5%)
The memorandum of partnership is renewed each triennium	Achieve	Not yet due	MoP yet to be signed for the 2019-2022 triennium. It was signed for the 2016-2019 triennium in December 2017.
Te Whakaminenga o Kāpiti is satisfied or very satisfied with the partnership	Achieve	Not yet due	This will be reported at the end of the year (2018/19 result was 'Achieved')

1. *Unless a time extension is notified under LGOIMA (1987) Section 14 (1).*

8.7 FINANCE REPORT AS AT 30 SEPTEMBER 2019

Author: **Jacinta Straker, Chief Financial Officer**

Authoriser: **Mark de Haast, Group Manager**

PURPOSE OF REPORT

1 This report sets out Kāpiti Coast District Council's (Council) financial performance and financial position for the quarter ended 30 September 2019 – the first quarter of the 2019/20 year - with explanations of key results and variances.

DELEGATION

2 The Strategy and Operations Committee (Committee) has delegated authority to consider this report under the 2019-2022 Triennium Governance Structure and Delegations in Section B.2. - *Monitoring and decision-making on all broader financial management matters. Key responsibilities will include financial management, including risk mitigation.*

BACKGROUND

3 The Committee is provided with information on nine broad areas of financial performance each quarter.

Part A: Statement of Comprehensive Revenue and Expense

Part B: Statement of Financial Position

Part C: Statement of Cash Flows

Part D: Summary of Rates Funding

Part E: Water Account Statement

Part F: Capital Spending Programme

Part G: Outstanding Rates Debt

Part H: Treasury Management

Part I: Asset Revaluation

Executive Summary

Key financial results

Operating income

What we earn - rates, fees, charges and grants

F/Y Outlook

Year To Date

$21.67m (ytd)

$22.03m budget (ytd)

Operating spending

What we spend on Council's operations

F/Y Outlook

Year To Date

20.86m (ytd)

$21.72m budget (ytd)

Net Borrowings

Our external loans (gross borrowings) less our financial assets (cash and term deposits)

F/Y Outlook

Year To Date

$150.7m (ytd)

Forecast to be on budget at $161 million at year end June 2020

Capital expenditure

What we spend to renew and upgrade our assets

F/Y Outlook

Year To Date

$4.96m (ytd)

$4.64m budget (ytd)

Forecast to be $7 million underspent at year end

4 **Operational spending:** While our operational spending was lower than projected for the first quarter, we expect the full budget to be spent by the end of the financial year.

5 **Ongoing prioritisation:** We will continue to prioritise the work programme and funding that is needed across different activities to move the organisation forward, and will provide the committee with updates and more detailed plans over the next three quarters.

6 Decisions regarding reprioritisation of existing funding for both capital and operational spending may be required in the coming quarters for a number of areas. These include: responses to the organisational review and our property asset management improvement programme.

7 **Capital spending:** During 2018/19, we committed to reviewing our 2019/20 capital spending programme and we are now currently forecasting to spend $7 million less in 2019/20 than originally planned. The majority of this is due to the intention to carry forward $6.2 million of the funding for the drinking water safety and resilience project to 2020/21. Delays in the establishment of the Water Professional Services Panel in 2018/19 to enable a strategic procurement review delayed the awarding of the contract for the project and although the design work is progressing well, construction is now planned to start in 2020/21.

Financial Threshold Key

within 10%

10% or more below

10% or more above

Part A: Statement of Comprehensive Revenue and Expense

8 The statement of comprehensive revenue and expense covers all of the Council's revenue and expenditure for the reporting period.

9 The net position of revenue less expenditure provides the operating surplus or deficit for the reporting period.

10 Table 1 below outlines the Council's actual revenue and expenses for the first quarter ended 30 September 2019, including our full year budget and forecast for 2019/20.

Table 1	Year to Date to 30 Sep 2019			Full Year 2019/20		
	Actual $000	Budget $000	Variance $000	Forecast $000	Budget $000	Variance $000
Rates	16,762	16,752	10	67,498	67,498	-
Fees and Charges	2,993	2,964	29	9,771	9,771	-
Grants and Subsidies	1,134	1,143	(9)	4,706	4,606	100
Development and Financial Contributions Revenue	25	531	(506)	2,124	2,124	-
Other Operating Revenue	249	133	116	905	905	-
Interest Income	503	505	(2)	1,848	1,848	-
Total Income	**21,666**	**22,028**	**(362)**	**86,852**	**86,752**	**100**
Personnel, maintenance & operations	13,321	14,205	884	56,518	56,418	(100)
Depreciation and Amortisation	5,240	5,094	(146)	21,183	21,183	-
Finance Expense	2,298	2,416	118	9,493	9,493	-
Total Expenditure	**20,859**	**21,715**	**856**	**87,194**	**87,094**	**(100)**
Operating Surplus / (Deficit)	**807**	**313**	**494**	**(342)**	**(342)**	**-**
Unrealised gains/(losses)						
Unrealised gain/(loss) on revaluation of financial derivatives	(4,045)	-	(4,045)	(4,045)	-	(4,045)
Total Comprehensive Revenue and Expense	**(3,238)**	**313**	**(3,551)**	**(4,387)**	**(342)**	**(4,045)**

Financial performance summary

11 The Council's September year to date net operating surplus is $494,000 favourable to budget. This is mainly due to Council spending less in the first quarter in areas such as personnel, maintenance and general expenses. While our spending was lower than projected for the first quarter, we expect the full budget to have been spent by the end of the financial year.

12 The unrealised loss on revaluation of financial derivatives of $4.05 million reflects continued softening of market interest rates since 30 June 2019, compared to Council's committed financial derivatives. This revaluation needs to be shown in our financial statements but it is not a real loss as there is no intention to prematurely terminate these commitments.

13 Council's across New Zealand use financial derivatives to "fix" their interest rates rather than relying on floating interest rates, so as to provide more certainty over cash flows and protection against adverse movements in market rates.

Revenue performance - commentary

14 **Rates**

Description	Rates include all rates earned by the Council, including water rates. Rates remissions and rates billed to Council-owned properties are excluded.
Variance Analysis	Minor variance, on track for year end. Rates revenue for the first quarter is $10,000 more than budget. We expect the full year result to be in line with the budget.

15 **Fees and charges**

Description	Fees and charges includes all non-rates revenue earned by the Council for providing services to the community. This also includes fines and penalties charged.
Variance Analysis	Minor variance, on track for year end. The higher revenue of $29,000 was mainly driven by higher regulatory income.

16 **Grants and subsidies**

Description	Includes grants received by the Council for operating and capital spending. The majority of grants revenue is received from NZ Transport Agency (NZTA) for their share of our roading maintenance and capital investment.
Variance Analysis	Very small variance, expecting additional income for year end. M2PP have agreed to pay the Council $100,000 in lieu of undertaking lining works on several stormwater pipes they installed as part of the overall project. This is not included in the 2019/20 Annual Plan. In the previous term, the Council authorised the Chief Executive to reassign this unbudgeted revenue of $100,000 to help fund the costs of the unbudgeted independent organisational review. The Council is currently negotiating with NZTA to secure additional unbudgeted funding for the Ratanui roundabout and Kapiti Road. The full year forecast will be revised and included in the next Finance report to the Committee.

17 **Development and financial contributions**

Description	Development contributions are levied under the Local Government Act 2002 and cover all key activities except reserves and are also levied on developers at the time of subdivision. Developers' contributions to Council works are treated as revenue. Financial contributions are levied under the Resource Management Act and cover reserves contributions levied on developers at the time of subdivision.
Variance Analysis	Significant variance for this quarter, but on track for year end. The lower revenue of $506,000 in this quarter is mostly due to a decision by the Council to accept the proposal for the Ngarara Waimeha Development in Waikanae to develop and provide a pocket park as part of their development, instead of paying the reserve contributions as originally planned.

18 Other operating revenue

Description	Includes assets vested to the Council, local government petrol tax, donations and/or sponsorship and realised gains on asset disposals. Note, also, that the value of land vested to the Council as part of subdivision activity in any year is recorded as revenue in that year.
Variance Analysis	Moderate variance for this quarter, on track for year end. The additional $116,000 of income received is mainly due to the Council successfully obtaining unbudgeted funding of $90,000 from MBIE to assist the Council in continuing to encourage responsible camping in the district.

19 Interest income

Description	Interest income represents the Council's earnings on its term deposits, overnight cash deposits and borrower notes held by the Local Government Funding Agency.
Variance Analysis	Very small variance, on track for year end.

Expenditure performance - commentary

20 Personnel, maintenance and operations

Description	Includes personnel expenses, maintenance, business-as-usual Council operating expenses, internal recoveries, grants and other sundry expenses.
Variance Analysis	Significant variance for this quarter, but on track for year end. Although Council spending in this category is tracking below budget by $884,000 for the first quarter, the expectation is that we will spend an additional $100,000 by year end due to the unbudgeted independent organisational review. This is fully offset by additional unbudgeted revenue from the M2PP projects as discussed above.

21 Depreciation and amortisation

Description	Depreciation reflects the use of our property, plant and equipment and intangible assets currently owned by the Council.
Variance Analysis	Moderate variance for this quarter, on track for year end. $146,000 of additional depreciation is mainly due to the following: • NZTA connector roads such as Hadfield Road planned for 2021/22 was vested from NZTA during 2018/19. • The final revaluation of roading assets as at 30 June 2019 was higher than planned, resulting in higher depreciation.

22 Finance expense

Description	Interest is incurred on borrowings.
Variance Analysis	The lower finance expense of $118,000 is due to the Council finishing the year last year with lower net borrowings.

Items reported below the line - commentary

23 Unrealised gain / (loss) on revaluation of derivatives

Description:	1. The Council recognises its interest rate swaps at fair value on a monthly basis. 2. The change in fair value between 30 June 2019 and 30 September 2019 is treated as either an unrealised gain (fair value has decreased) or an unrealised loss (fair value has increased).
Variance Analysis	Major variance but no impact on rates funding required. The unrealised loss on revaluation of financial derivatives of $4.05 million reflects the softening of market interest rates compared to Council's committed financial derivatives. This revaluation needs to be shown in our financial statements but it is not a real loss as there is no intention to prematurely terminate these commitments. (See Part H: Treasury Management for further information).

Part B: Statement of Financial Position

24 The Council's financial position as at 30 September 2019 and full year forecast and budget are set out in Table 2, followed by a summary of the key variances.

Table 2	2019/20			
	YTD actual $000	Full year forecast $000	Full year budget $000	Variance $000
Assets				
Cash and cash equivalents	6,305	200	200	-
Trade and other receivables	4,787	8,569	8,569	-
Inventories	167	127	127	-
Property, plant and equipment	1,672,113	1,754,040	1,760,240	(6,200)
Forestry assets	79	114	114	-
Intangible assets	880	2,625	2,625	-
Other financial assets	33,176	53,496	48,496	5,000
Loans	470	453	453	-
Total assets	**1,717,977**	**1,819,624**	**1,820,824**	**(1,200)**
Liabilities				
Trade and other payables	9,883	18,892	20,092	1,200
Employee benefit liabilities	2,474	2,681	2,681	-
Deposits	1,161	1,237	1,237	-
Borrowings	190,000	210,000	210,000	-
Provisions	3,412	3,724	3,724	-
Derivative financial instruments	25,337	25,337	12,887	(12,450)
Total liabilities	**232,267**	**261,871**	**250,621**	**(11,250)**
Public equity				
Accumulated funds	561,650	567,958	580,408	12,450
Reserves and special funds	4,914	6,404	6,404	-
Revaluation reserve	919,146	983,391	983,391	-
Total equity	**1,485,710**	**1,557,753**	**1,570,203**	**12,450**
Total liabilities and equity	**1,717,977**	**1,819,624**	**1,820,824**	**1,200**

Major movements since 1 July 2019

25 Our net borrowings have increased by $3.1 million since the start of the financial year to pay for the Council's capital works programme.

Full year forecast summary

26 We have reviewed our capital works programme and we now plan to spend $6.2 million less on renewing and upgrading our assets (See part F: Capital Spending Programme for further information). Net borrowings are forecast to be on budget at year end, being $161.4 million.

27 Derivative financial instruments are currently forecast to be $12.45 million less than budget. This is mainly due to the fall in fixed interest rate swap rates since the Annual Plan budget was set in March 2019.

Part C: Statement of Cash Flows

28 The Council's cash flow for the quarter ended 30 September 2019 and full year forecast and budget are set out in Table 3, followed by a summary of key variances.

Table 3	YTD Actual $000	2019/20 Full year forecast $000	Full year budget $000	Full Year Variance $000
Cash flows from operating activities				
Cash was provided from:				
Kapiti Coast District Council rates	17,433	67,498	67,498	-
Greater Wellington Regional Council Rates	3,195	-	-	-
Grants and subsidies - operating	452	1,942	1,942	-
Interest received	1,077	1,811	1,811	-
Charges and fees	3,205	12,800	12,800	-
GST (net)	(72)	(70)	(70)	-
	25,290	**83,981**	**83,981**	**-**
Cash was applied to:				
Payments to employees and suppliers	19,327	52,616	52,616	-
Rates paid to Greater Wellington Regional Council	3,195	-	-	-
	22,522	**52,616**	**52,616**	**-**
Net cash flows from operating activities	**2,768**	**31,365**	**31,365**	**-**
Cash flows from investing activities				
Cash was provided from:				
Loan repayment/Term deposit maturities	25,331	45,720	45,720	-
Proceeds from sale of property, plant and equipment	-	-	-	-
Proceeds from capital grants	682	2,664	2,664	-
	26,013	**48,384**	**48,384**	**-**
Cash was applied to:				
Construction and purchase of property, plant and equipment and intangibles	4,207	25,446	30,446	(5,000)
Purchase of investments	-	44,280	39,280	5,000
	4,207	**69,726**	**69,726**	**-**
Net cash flows from investing activities	**21,806**	**(21,342)**	**(21,342)**	**-**
Cash flows from financing activities				
Cash was provided from:				
Short-term borrowings	9,200	-	-	-
Long-term borrowings	-	44,280	44,280	-
	9,200	**44,280**	**44,280**	**-**
Cash was applied to:				
Interest on borrowings	2,355	9,303	9,303	-
Short-term borrowings	9,200	-	-	-
Long-term borrowings	20,000	45,000	45,000	-
	31,555	**54,303**	**54,303**	**-**
Net cash flows from financing activities	**(22,355)**	**(10,023)**	**(10,023)**	**-**
Net increase/(decrease) in cash and cash equivalents	2,219	-	-	-
Add total cash and cash equivalents at 1 July 2019	4,086	200	200	-
Total cash and cash equivalents	**6,305**	**200**	**200**	**-**

Year to Date Summary

29 The Council's material changes to its cash flow management for the quarter ended 30 September 2019 were:

- $20 million of long term debt matured during September 2019.
- $25 million of term deposits matured ($20 million was prefunded for the repayment of the September 2019 debt maturity and $5 million of surplus cash that was placed on fixed deposit for final payment of the 2018/19 capital works programme)
- $4.2 million was paid towards the Council's capital expenditure programme.

Part D: Summary of Rates Funding

30 The summary of rates funding covers the Council's revenue and expenses that are funded by rates. It is a sub-set of the statement of comprehensive revenue and expense on page 2 which covers all of the Council's operating revenue and expenses.

31 Table 4 below details the actual rates funding surplus/(deficit) for the quarter ending 30 September 2019.

Table 4	Year to Date to 30 Sep 2019 Actual $000	2019/20 Full Year Forecast $000	Full Year Budget $000
Operating surplus /(deficit)	**807**	**(342)**	**(342)**
Adjusted by income and expenditure not funded by rates:			
Add: Net Expenditure funded by reserves and special funds	177	186	186
Less: Capital funding and vesting of assets	(568)	(2,989)	(2,989)
Add: Unfunded Depreciation	667	3,145	3,145
Underlying net rates surplus/(deficit)	**1,082**	**-**	**-**
Represented by:			
Net underspend across the organisation	1,082	-	-
Rates surplus / (deficit)	**1,082**	**-**	**-**

32 **Operational spending:** While our operational spending was lower than projected for the first quarter, we expect the full budget to be spent by the end of the financial year.

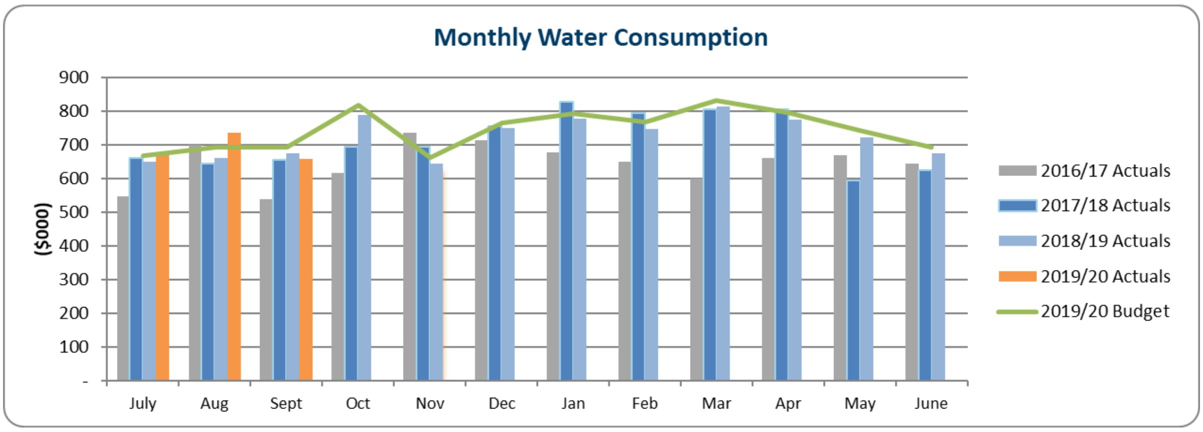
33 Decisions regarding reprioritisation of existing funding for both capital and operational spending may be required in the coming quarters for a number of areas. These include: responses to the organisational review and our property asset management improvement programme.

Part E: Water Account Statement

34 Since water meters were introduced in 2014, the total operational cost of supplying potable water, which includes reticulation and treatment, and the rates we have received, has been tracked as part of the water account. The water account is a closed account. This means that any surpluses will be held within the account to fund future costs of providing water. Conversely, any deficits need to be recovered from future water charges.

35 Water usage has taken a number of years to normalise since districtwide water meter charging for all residential properties commenced from July 2014. Therefore, the Council has carefully monitored usage trends to best determine what charges are necessary to fully recover the total costs of providing a treated water supply over a rolling 5-year period.

36 The Council's water revenue year to date is tracking to budget.



37 The table below outlines the water account position. As shown, we are planning to reduce the overall water account deficit from $0.5 million to $0.3 million by the end of the financial year. Further work will be done during the development of the 2021/21 Annual Plan and the following 2021-41 LTP to assess when the water account is likely to be fully funded.

Table 5	2014/15 Actual $m	2015/16 Actual $m	2016/17 Actual $m	2017/18 Actual $m	2018/19 Actual $m	2019/20 Budget $m
Cost of providing water	8.1	8.0	8.5	8.3	8.0	8.7
Water rates revenue	7.6	7.6	7.8	8.6	8.9	8.9
Annual surplus/(deficit)	(0.5)	(0.3)	(0.7)	0.2	0.9	0.2
Balance of water account	(0.5)	(0.8)	(1.6)	(1.4)	(0.5)	(0.3)
Variable price (Including GST)	$0.95	$0.99	$1.04	$1.09	$1.14	$1.19
Fixed price (Including GST)	$189	$190	$199	$207	$215	$222
Fixed portion	54%	55%	57%	54%	54%	55%

Part F: Capital Spending Programme

38 A summary of our capital spending programme for 2019/20 is shown by activity against the full year forecast and full year budget in Table 6 below.

Table 6	2019/20			
	Year to Date to 30 Sep 2019 Actual	Full Year Forecast	Full Year Budget	Full Year Variance to Budget
	$000	$000	$000	$000
Access and Transport	1,391	7,389	7,998	609
Coastal Management	154	646	671	25
Community Facilities and Community Support	425	3,371	3,890	519
Corporate	347	801	1,260	459
Economic Development	887	3,790	2,562	(1,228)
Governance and Tangata Whenua	3	445	445	-
Parks and Open Spaces	72	905	1,427	522
Recreation and Leisure	133	1,227	1,245	18
Regulatory Services	15	390	238	(152)
Solid Waste	14	181	181	-
Stormwater Management	934	3,655	3,656	1
Wastewater Management	204	1,662	1,697	35
Water Management	378	3,870	10,092	6,222
Totals	**4,957**	**28,332**	**35,362**	**7,030**

39 We have completed $4.96 million of work renewing and upgrading the Council's assets so far this year.

40 During 2018/19 we committed to reviewing the capital programme to ensure it was deliverable and we are now currently forecasting to spend $28.3 million for the year, which is $7 million less than originally planned.

41 The majority of this reduction is due to the intention to move $6.2 million of the funding for the drinking water safety and resilience project (DWSRP) to next year. This was due to delays in the establishment of the Water Professional Services Panel in 2018/19 to allow for a strategic procurement review. Those delays held back the awarding of the contract for the DWSRP and although the design work is progressing well the construction work is now planned to start in 2020/21.

42 In the economic development activity, the majority of the additional spending relates to work on Kapiti Road for the completion of the shared path and widening of the road which has received additional funding from NZTA.

43 Detailed information about spending variations at the activity level are included in the Activity Reports 1 July – 30 September 2019 that is also part of the agenda for the Strategy and Operations Committee meeting on 5 December 2019.

Part G: Outstanding Rates Debt as at 30 September 2019

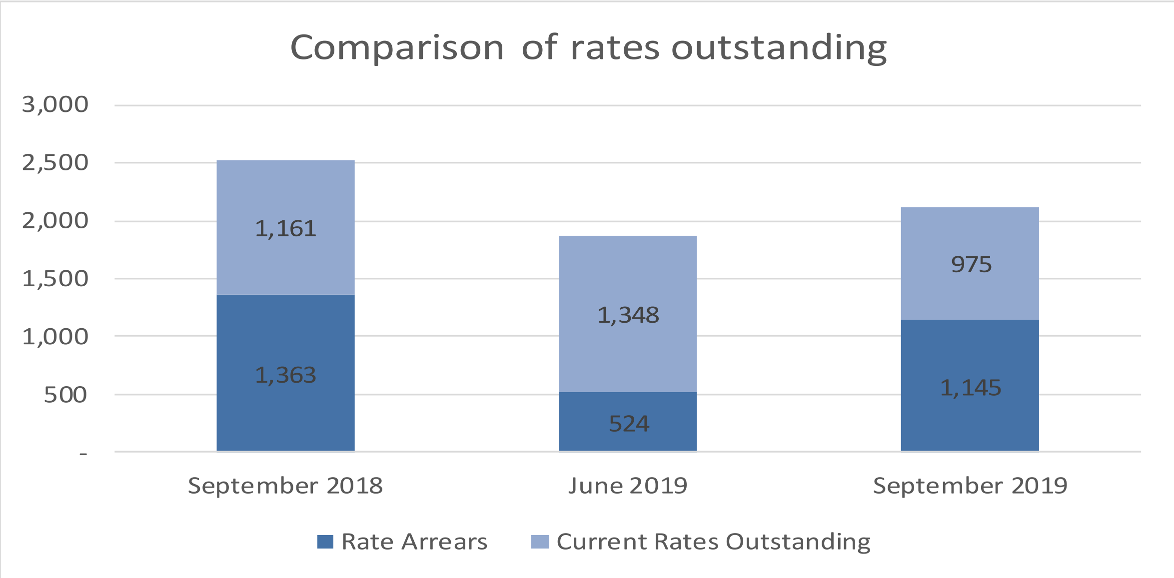
44 As part of the wider strategy of continuing to reduce the Council's debt, we need to ensure that everyone is paying their property and water rates.

45 Like a number of other councils around the country, we are now using the services of a local government shared services agency, Debt Management Central (DMC), to assist our team with collecting outstanding rates debts.

46 This framework for recovery of unpaid rates is set out in the Local Government (Rating) Act 2002. DMC is working within the provisions of our rating policy and following our internal debt collection processes.

Improved collection of outstanding property rates

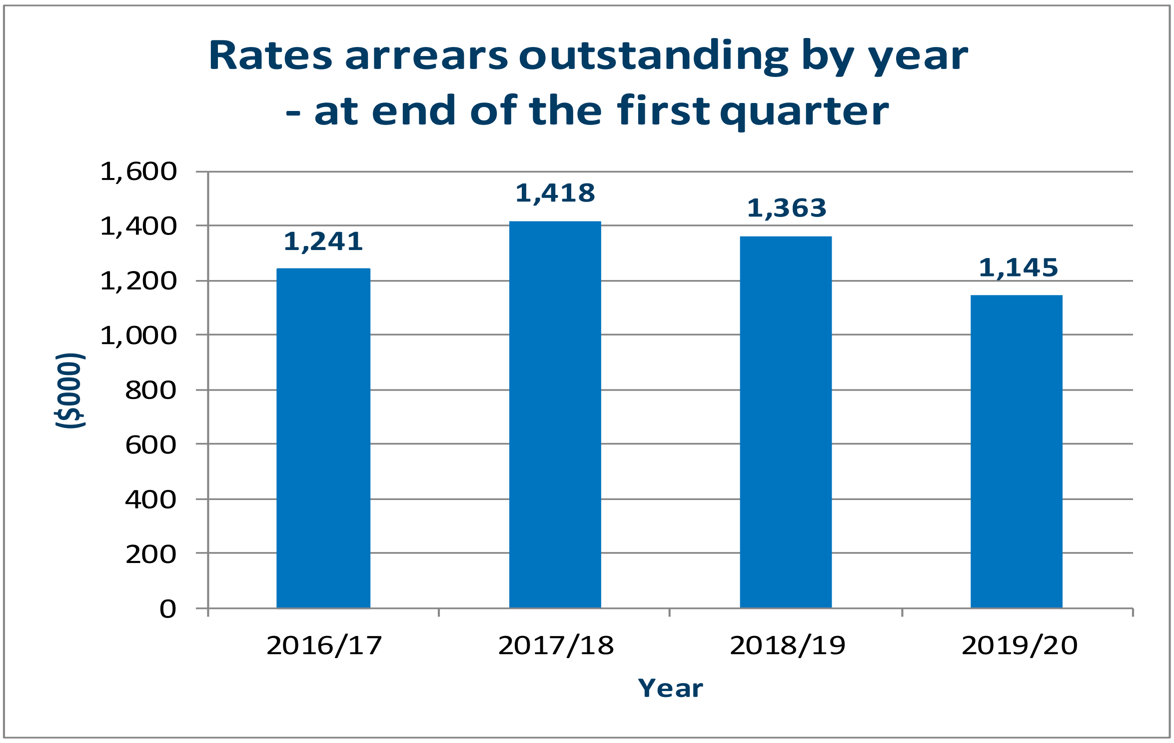
47 The total property rates outstanding as at 30 September 2019 was $2.12 million, which was a reduction of almost 16% from this time last year (30 September 2018: $2.52 million).



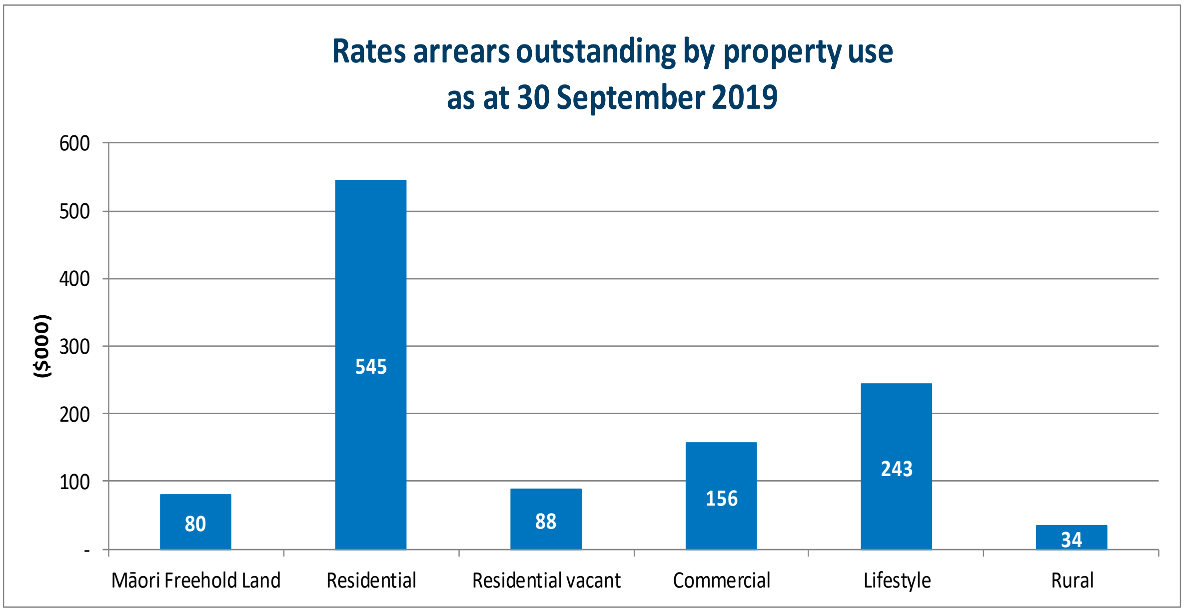
48 DMC and Council's debt collection staff have worked with ratepayers to set up workable payment arrangements. Where a payment arrangement has not been agreed, and provided the property is subject to a mortgage, Council has issued mortgagee notifications where appropriate.

49 DMC will continue to work with our debt collection team during the 2019/20 year to collect outstanding rates, enabling the Council to reduce its borrowing levels.

50 The graph below shows a comparison of the $1.14 million of rate arrears outstanding as at 30 September 2019 and for the previous three years.



51 The graph below details the rates arrears of $1.14 million by property use/type. The majority of the total rate arrears are from residential and lifestyle properties.



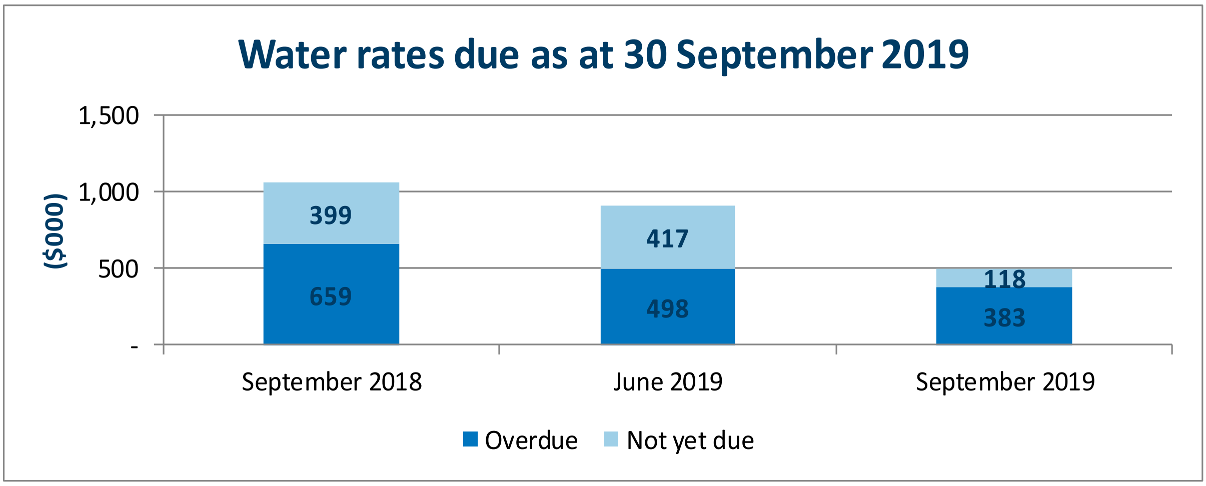
52 The rates arrears from Māori freehold land are rates owed to the Greater Wellington Regional Council.

53 There are a small number of properties with significant outstanding arrears over a number of years. We will follow the process prescribed in the legislation for collection of this long outstanding debt. Updates will be provided to the Committee over the coming months.

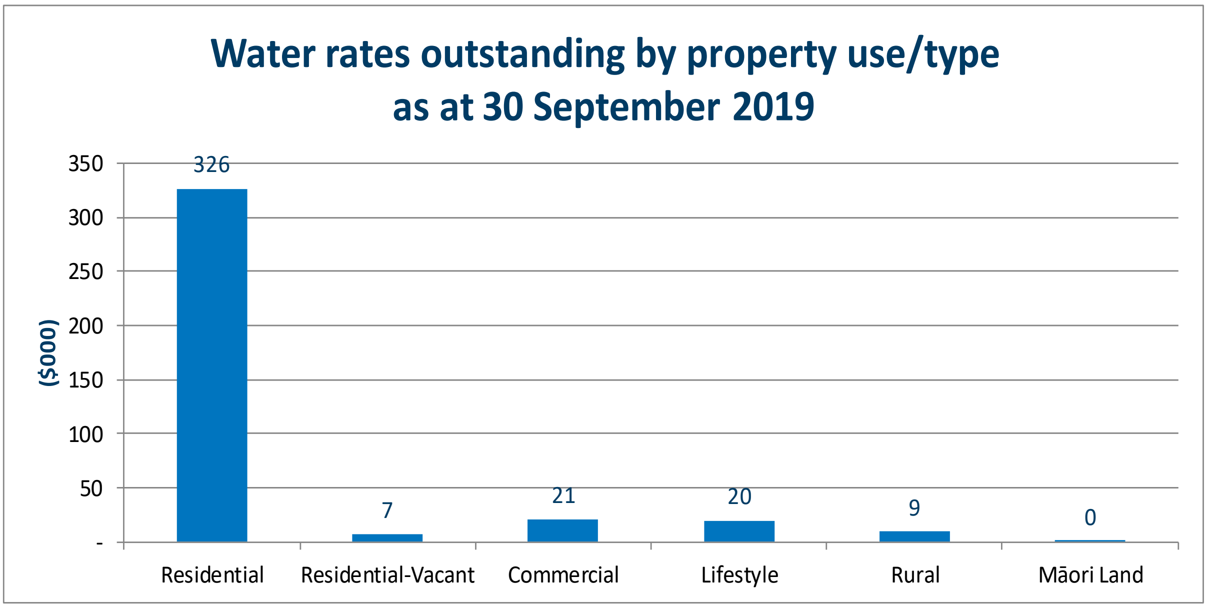
Improved collection of outstanding water rates

54 A total of $383,000 of water rates is overdue as at 30 September 2019, which is a 41% reduction from the same time last year ($659,000 as at 30 September 2018). This significant reduction is due to the focus on collection by Council over the last year in partnership with DMC.

55 Water rates payments received are first applied to water rate arrears. The chart below reflects the overdue and not-yet-due water rates as at 30 September 2019, 30 June 2019 and 30 September 2018.



56 The graph below details the total water rates outstanding by property use/type. The majority of the outstanding water rates are from residential properties.



57 $210,000 or 55% of outstanding water rates relate to individual debtor balances of less than $500.

58 Table 7 below details the total rate remissions approved to 30 September 2019 against the year to date budget. Applications for rates assistance will be posted to eligible property owners in December 2019, and we will begin processing applications from February 2020.

59 Rates assistance grants are funded by rates and are a unique level of additional support provided by our Council to assist households in need. Further detail on the eligibility criteria can be found in the Council's rates remission policy.

Table 7	Actual $000	Forecast $000	Budget $000	Variance $000
Community properties (Council and private ownership), sporting, recreational and other community organisations	8	200	200	157
Residential rating units containing two separately used habitable units	35			
Rates assistance including ongoing financial assistance, temporary financial assistance and water rates remission for vulnerable households	1	204	204	203
Total	44	404	404	360

60 Year to date, central government rates rebates have been granted for 1,181 Kāpiti properties totalling of $718,000. The Council provides the approved rates rebate (up to $640 per rateable property) to the successful applicants and recovers the costs directly from the Department of Internal Affairs (DIA).

61 The Council actively promotes the Government rates rebate and remissions on radio, Facebook and through advertisements in the local papers and has worked with Grey Power and the Older Persons' Council to promote remissions and rebates more widely.

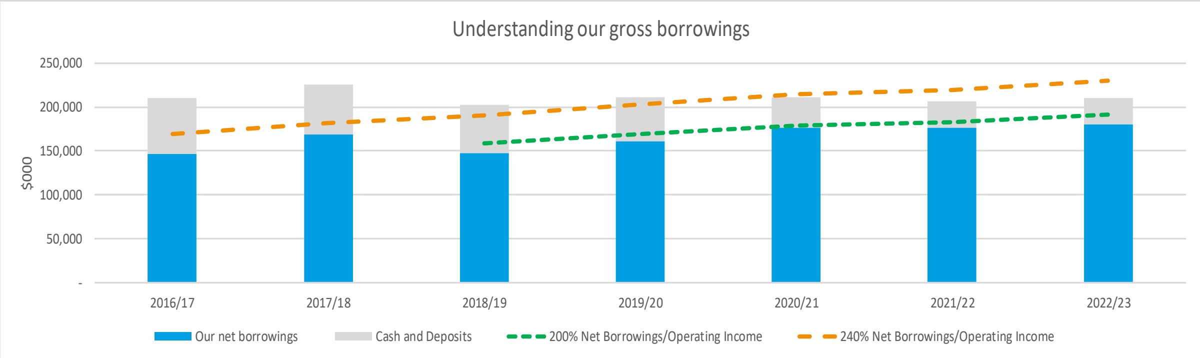
62 Kāpiti was one of three councils invited to take part in an online rates rebate trial during June 2019 with the DIA. The other councils involved in the trial were Tauranga and Hutt City. The online application was being trialled as an alternative to the current paper form, allowing customers to complete and submit an application at home without the need to provide supporting income information.

Part H: Treasury Management

SUMMARY

63 We talk about our borrowings as gross and net. Gross is the total and net is what we owe less our financial assets – essentially the cash and term deposits we hold to repay borrowings. To make sure we can always cover repayments when they are due, we start to build up funds in advance of the due date and put those funds into term deposits. Our net borrowings therefore reflect the true position of what we owe.

64 The graph below shows how our total borrowings break down into gross and net. It also shows our strategy to keep below 200% of operating income – represented by the green line. Currently our borrowings are forecast to be 191% of our operating income at the end of June. Looking at borrowing against income shows how well an organisation (or even an individual) is placed to handle and repay borrowings in the future.



65 It is one of the key measures used by Standard & Poor's when they assess our credit rating. While we could borrow more (up to 240% as outlined in our treasury management policy and shown by the orange dotted line), we are choosing to limit our borrowings to 200% of operating income and that becomes our 'green line'. This approach is so we can afford to replace significant water and wastewater infrastructure in the future.

66 The table below shows the Council's net borrowings as at 30 September 2019 against full year budget and the prior year.

	September YTD Actual $000's	Full Year Forecast $000's	Full Year Budget $000's	Prior year 2018/19
External debt	190,000	210,000	210,000	210,000
less borrower notes	(3,040)	(3,360)	(3,360)	(3,360)
less cash investments	(36,305)	(45,200)	(45,200)	(59,086)
Net debt	**150,655**	**161,440**	**161,440**	**147,554**

67 During the first quarter the Council repaid $20 million of borrowings which matured. This was repaid using a term deposit that had been built up over the last 18 months in advance of the maturity. This ensures there is adequate funding available when borrowings mature. We call this prefunding and it is a key tool used by the Council to manage our liquidity risk or risk that we may not have access to funding when we need it.

68 As at 30 September 2019, the Council had $39.35 million of cash, term deposits and borrower notes on hand. This is broken down as follows:

Term deposits, cash & borrower notes	Term deposits to prefund borrowings $000	Borrower notes $000	Cash $000	Total cash, term deposits and borrower notes $000
LGFA debt maturing April 2020	20,000	-	-	20,000
LGFA debt maturing Oct 2020	10,000			10,000
Surplus cash	-	-	6,305	6,305
Borrower notes held	-	3,040		3,040
Total	**30,000**	**3,040**	**6,305**	**39,345**

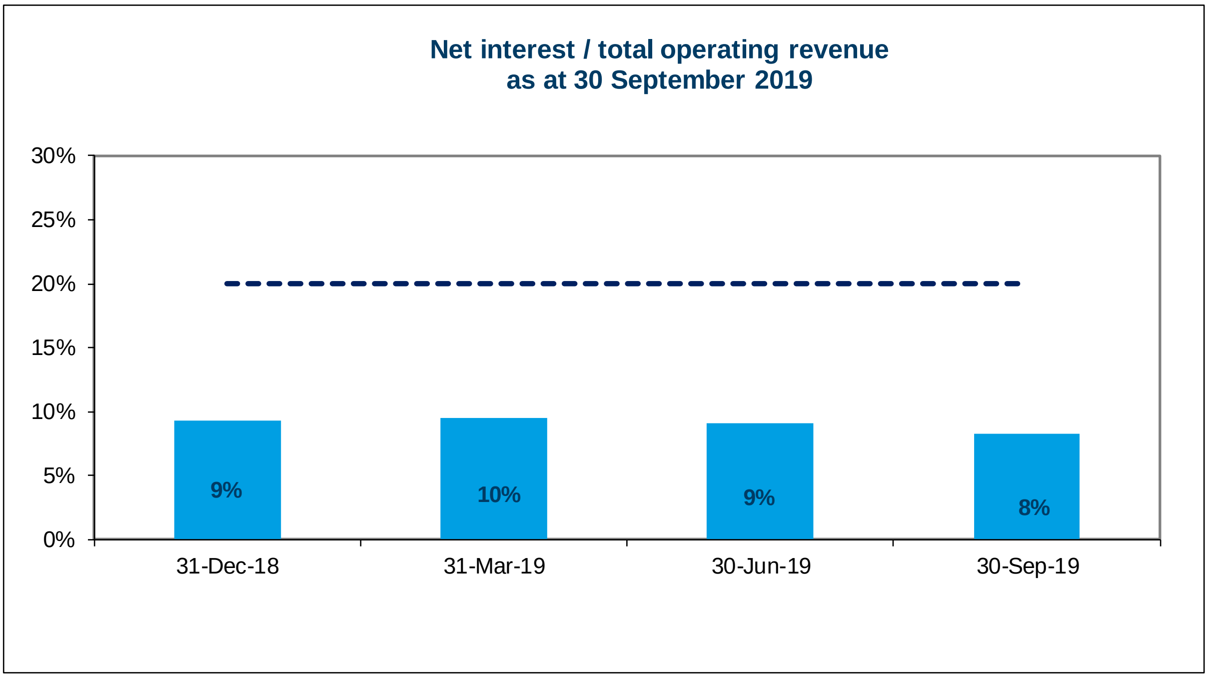
69 The Reserve Bank of New Zealand cut the official cash rate (OCR) by 0.25% to 1.0% in August 2019, with no change to the rate in the following two announcements in September and November 2019.

70 The Council's weighted average cost of borrowing for the quarter ended 30 September 2019 was 4.32% compared to the budget of 4.8%.

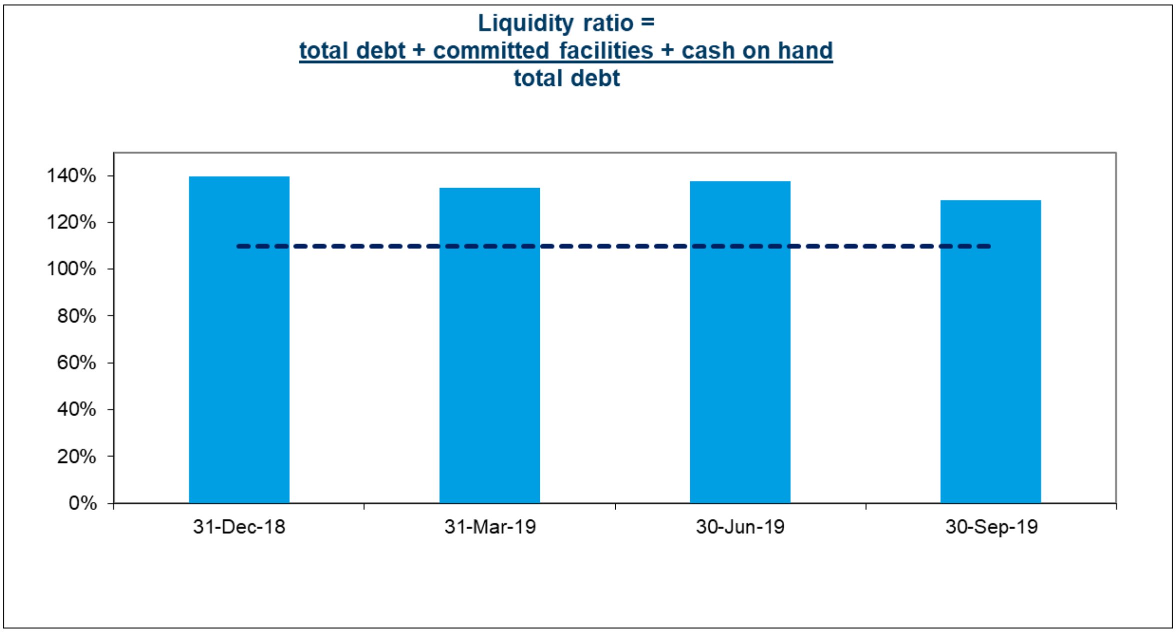
Treasury policy limits

71 The treasury management policy (Policy) contains three financial ratios with either a maximum or minimum policy limit.

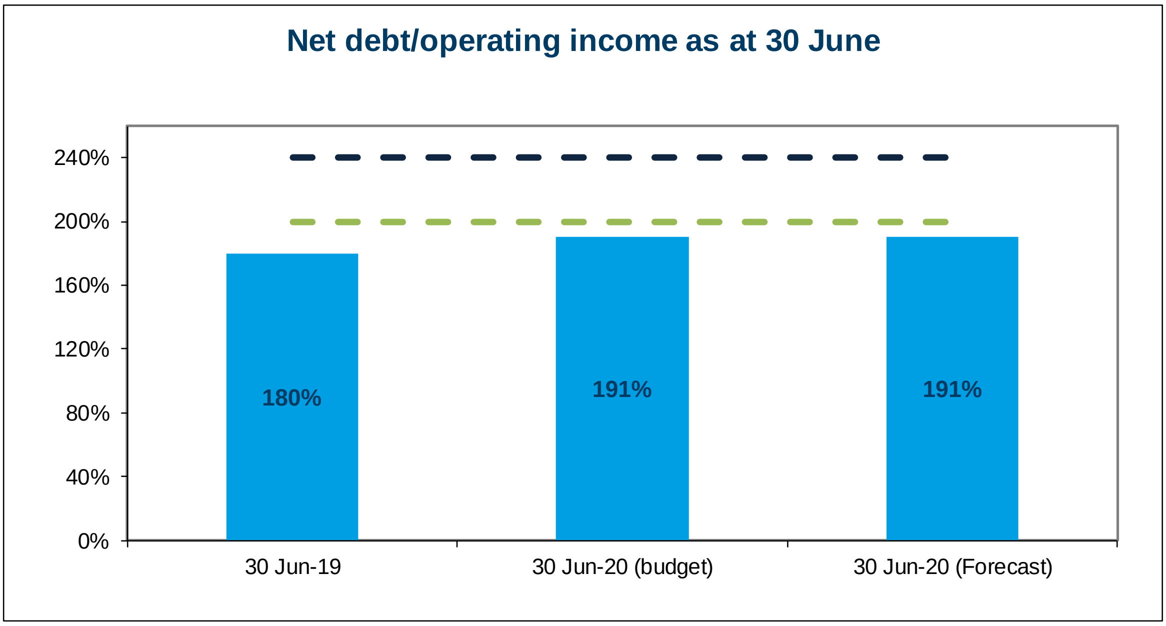
72 The Policy sets the maximum limit for the ratio of net interest expense to total operating revenue of 20%. The following chart shows actual limits achieved for each quarter.



73 The Policy sets the minimum limit for the liquidity ratio of 110%. This is a measure of the Council's available financial facilities compared to its current debt levels. The chart below shows actual limits achieved for each quarter.



74 The policy sets the maximum limit for net debt to operating income of 240%. This is a measure of the Council's ability to repay its debt from the operating revenue it receives during a given financial year.



Part I: Asset Revaluation

75 The Council's asset valuations are performed with sufficient regularity to ensure the carrying amounts are maintained at fair value. All valuations are performed by independent qualified valuers.

76 By maintaining asset values at fair value, the Council ensures that it best achieves intergenerational equity whereby ratepayers pay their fair share, and only their fair share, of the assets they use and benefit from.

77 From 1 July 2015, Council transitioned to an annual rolling asset revaluation programme as set out below. We have previously completed asset revaluations as at 30 June each year. Officers have reviewed this process and asset revaluations will now be completed as at 31 March each year, to ensure that there is more certainty about the impact of the revaluation on future years' depreciation charges and rates revenue requirements.

Asset classification	Revaluation date	Subsequent revaluation
Land and buildings (including land under roads revaluations)	31 Mar 2020	Every three years thereafter
Parks and reserves structures	31 Mar 2020	Every three years thereafter
Water, wastewater and stormwater (including seawalls and river control	31 Mar 2020	Every two years thereafter
Roading and bridges, (excluding land under roads)	31 Mar 2021	Every two years thereafter

78 For the 2019/20 revaluation programme we have engaged WSP New Zealand Ltd (formerly Opus) to complete the 3 waters revaluation. Aon NZ Ltd have also been engaged for the revaluation of Council's land, buildings, park and land under road assets.

79 Both valuers will provide Council with a draft revaluation in November 2019 to start the due diligence on the changes in unit rates and asset data analysis. The final revaluation will be completed for the third quarter finance update to the Committee.

CONSIDERATIONS

Policy considerations

80 There are no policy implications arising from this report.

Legal considerations

81 There are no legal considerations arising from this report.

Financial considerations

82 The financial information as detailed in Parts A to I of this report is unaudited. Best endeavours have been made by all Council officers to ensure the accuracy, completeness and robustness of the financial information contained herein as at the time of issuance of this report.

Tāngata whenua considerations

83 There are no tāngata whenua considerations arising from this report.

SIGNIFICANCE AND ENGAGEMENT

Significance policy

84 This matter has a low level of significance under the Council Policy.

Publicity

85 There are no publicity considerations arising from this report

RECOMMENDATIONS

86 That the Strategy and Operations Committee notes the actual financial performance and position of the Council for the quarter ended 30 September 2019.

APPENDICES

Nil

8.8 RECENT SUBMISSIONS TO MINISTRY FOR THE ENVIRONMENT, DEPARTMENT OF INTERNAL AFFAIRS, AND PARLIAMENT'S SOCIAL SERVICES AND COMMUNITY COMMITTEE

Author: **Brandy Griffin, Senior Policy Advisor**

Authoriser: **Mark de Haast, Group Manager**

PURPOSE OF REPORT

1 This noting report provides the Committee with an update on three submissions that were made over the recent election period.

DELEGATION

2 Section B1 of the Governance Structure and Delegations for the 2019-2022 Triennium states that the Strategy and Operations Committee is responsible for signing off any submission to an external agency or body.

BACKGROUND

3 Central Government is currently in a 'delivery' phase, prior to the next elections. This brings numerous demands on Council to provide submissions. Often, these submissions are resource hungry and the submission timeframes are very tight.

4 Normally, draft submissions will be submitted to the Committee for adoption; however, the recent local government election period meant that the submission timeframes did not allow for this preferred approach.

5 Three submissions were completed during this period. This noting report is provided to ensure that the Elected Members are made aware that these submissions were made.

ISSUES AND OPTIONS

Ministry for the Environment's *Action for Healthy Waterways*

6 On 5 September 2019, the Ministry for the Environment (MfE) released a consultation document entitled *Action for healthy waterways: A discussion document on national direction for our essential freshwater*. Submissions were due on 31 October 2019.

7 The *Action for Healthy Waterways* programme seeks to improve the current management of freshwater. The discussion document proposed new requirements that would:

7.1 strengthen Te Mana o Te Wai as the framework for freshwater management

7.2 better provide for ecosystem health (water, fish and plant life)

7.3 better protect wetlands and estuaries

7.4 better manage stormwater and wastewater, and protect sources of drinking water

7.5 control high-risk farming activities and limit agricultural intensification

7.6 improve farm management practices.

8 The full discussion document is available on the MfE website at https://www.mfe.govt.nz/consultation/action-for-healthy-waterways.

9 Council made a submission on 31 October 2019, which is attached as Appendix 1 to this report.

Department of Internal Affairs' *Infrastructure Funding and Financing*

10 On 18 September 2019, the Department of Internal Affairs (DIA) released a consultation document entitled *Infrastructure Funding and Financing: Development contributions and*

targeted rates (Appendix 2). Submissions were originally due on 23 October 2019, but DIA later changed the due date to 8 November 2019.

11 The consultation document summarised feedback from initial discussions that DIA held with some key stakeholders, provided further information, and invited feedback from a wider group of stakeholders on:

11.1 how existing funding tools could be utilised more effectively to better recover the cost of infrastructure; and

11.2 how better cost recovery would help with enabling a more responsive supply of infrastructure and appropriate cost allocation.

12 Council made a submission on 8 November 2019, which is attached as Appendix 3 to this report.

Rates Rebate (Statutory Declarations) Amendment Bill

13 On 24 September 2019, the Rates Rebate (Statutory Declarations) Amendment Bill had its first reading in Parliament and was then directed to the Social Services and Community Select Committee. The Committee called for submissions on the Bill, which were due on 27 November 2019.

14 The objectives of the Bill are to make it easier for eligible applicants to apply for a rates rebate, to replace the requirement to make a statutory declaration with a requirement to verify the application, and to allow authorities to design application forms for the purposes of the Rates Rebate Act 1973. Further information on the Bill can be found online at https://www.parliament.nz/en/pb/bills-and-laws/bills-proposed-laws/document/BILL_91293/rates-rebate-statutory-declarations-amendment-bill.

15 Council made a submission on 27 November 2019, which is attached as Appendix 4 to this report.

CONSIDERATIONS

Policy considerations

16 There are no policy considerations arising from this report.

Legal considerations

17 There are no legal considerations arising from this report.

Financial considerations

18 There are no financial considerations arising from this report.

Tāngata whenua considerations

19 Iwi have not been consulted on the development of this paper.

20 It was understood that tāngata whenua would likely have a strong interest in the *Action for Healthy Waterways* programme so the Iwi Relationships Team provided information on the consultation to Counci'ls iwi partners.

Strategic considerations

21 The *Toitū Kāpiti* vision is that of a thriving environment, a vibrant economy, and strong communities. An important role of Council is to advocate on behalf of the District to encourage the development and implementation of Central Government programmes that help to achieve the *Toitū Kāpiti* vision.

SIGNIFICANCE AND ENGAGEMENT

Significance policy

22 This noting paper on these three submissions has a low level of significance under Council's Significance and Engagement Policy.

Consultation already undertaken

23 No consultation was undertaking in the development of this report.

Engagement planning

24 An engagement plan is not required for this report.

Publicity

25 The three completed submissions have all been posted on the 'Submissions we have made' section of the Council's website.

RECOMMENDATIONS

26 Note that three submissions were made to the Ministry for the Environment, Department of Internal Affairs, and the Social Services and Community Select Committee during the recent local government election period.

APPENDICES

1. Submission to MfE on health waterways _ 31 October 2019 ⇩
2. DIA consultation document on infrastructure funding and financing ⇩
3. Submission to DIA on infrastructure funding and financing _ 8 November 2019 ⇩
4. Submission to Select Committee on Rates Rebate Bill _ 27 November 2019 ⇩

Essential Freshwater: Action Plan for healthy waterways

Submission of the Kapiti Coast District Council

Thank you for the opportunity to make submissions on the Essential Freshwater: Action Plan for healthy waterways. It is helpful to be able to review and comment on general package of changes proposed, as well as the specific proposals in the discussion document that are in formal consultation.

Structure of this submission

This submission is constructed in 2 sections.

Section 1 sets out our general comments about the package of proposals, including the process.

Section 2 identifies our specific concerns in detail about elements of the proposals, organised under the questions in the discussion document.

Section 1: General commentary

Overall the Council supports the direction of the package. We recognise that improvements need to be made to the way we manage freshwater, and welcome the initiatives that improve clarity of expectations and consistency of performance across the sector.

In particular, we welcome the clarity of expectation of the role of iwi, stronger support for water sensitive urban design, and the clarification of the roles of TLAs and regions.

We have identified however elements of the package in relation to the protection of wetlands and streams that are likely to pose significant costs and barriers for both the Kapiti Coast District Council and the community, and foreclose opportunities for future beneficial urban growth, without delivering any significant benefits to the environment. We therefore urge the Minister for the Environment to consider fine-tuning of those parts of the package, and in so doing, achieve a more coherent overall package of national direction across freshwater, urban development, highly productive land, and other yet-to-be-released proposals.

Process challenges

The timing of the release of the package means that this Council has not been able to engage with its elected representatives, iwi, or the Kapiti Coast community in evaluating the impacts of the proposals. The submission is therefore the views of officials. This is unfortunate as the proposals, if adopted, have significant implications for this district.

While the proposals have been well signalled, some specific provisions (in particular wetland proposals) have significant implications for the community. There has been insufficient time to unpack the implications of these proposals, and involve the community in formulating a response. This means that many parties may be blindsided by new requirements, and have few options to contribute to balanced feedback to the Minister.

Section 2: Detailed Responses to Questions

Please note that the questions not responded to specifically are greyed out.

The Government welcomes your feedback. The questions below, and at the end of each section, are a guide only. You do not have to answer all the questions and all comments are welcome. See section 12 for how and when to make a submission.

1. Do you think the proposals set out in this document will stop further degradation of New Zealand's freshwater resources, with water quality materially improving within five years?
2. Do you think the proposals will bring New Zealand's freshwater resources, waterways and ecosystems to a healthy state within a generation?
3. What difference do you think these proposals would make to your local waterways, and your contact with them?
4. What actions do you think you, your business, or your organisation would take in response to the proposed measures?

The Kapiti Coast District Council is impacted by many of the proposals, and by a number of these proposals in combination. While the Council acknowledges and supports the need to improve freshwater management, the net effect this suite of proposals will be to increase the cost burden on existing ratepayers, while constraining growth and development opportunities.

5. What support or information could the Government provide to help you, your business, or your organisation to implement the proposals?

Government needs to address the consequences of decisions that put costs onto local authorities and communities where the benefits are only experienced at a national scale. The example here is wetland protection – where the burden of protection will fall unequally on a community that has already protected a wealth of wetlands – in order to meet a national objective (no further loss of wetlands).

6. Can you think of any unintended consequences from these policies that would get in the way of protection and/or restoration of ecosystem health?

Cumulative impacts from the suite of instruments proposed is likely to result in poorer outcomes in some areas. In the case of the Waikanae River, which currently already scores well against the FMU outcomes sought by the proposed NPS FM with ratings of A and B, a combination of requirements proposed for a Wastewater NES could very well pose significant cost for little ecological benefit. This risks scarce resources being diverted into compliance activities for little environmental gain, at the expense of other initiatives needed to improve the overall health of our waterways.

A requirement that limits wastewater discharge options on blanket cultural grounds could likely to lead to significant additional cost and trade-offs with other holistic cultural values, with a poorer overall cultural outcome. The cost of meaningful land treatment for the Paraparaumu Wastewater Treatment Plant would be significant, given there is little suitable land available where cultural treatments could be applied to the existing surface water discharge.

In addition, duplicative requirements such as end-of-pipe standards as well as FMU outcomes mandated through the proposed NPSFM will add cost significantly. End-of-pipe parameters may oblige network operators to take action to ensure compliance, whether or not there is any environmental benefit.

There are also likely to be substantive costs with reporting against two sets of parameters to two different agencies for wastewater discharges (Regional Councils, and a new water oversight entity).

These three requirements represent a "belts and braces" approach. If NZ is meeting the relationships with māori, and has established FMUs and improved compliance and reporting as envisioned in the proposed NPS, these should deliver the desired outcomes.

The diversion of scarce ratepayer funds into activities that may deliver little or no additional ecological benefit, away from other areas where greater environmental gain might be achieved (such as restoring riparian edges and wetlands) would represent a perverse outcome.

7. Do you think it would be a good idea to have an independent national body to provide oversight of freshwater management implementation, as recommended by KWM and FLG?

If greater oversight is required (and performance to date identifies that more oversight and action on data produced is required) then that capability and capacity will need to be built. Organisationally it would appear to be efficient to build this into an existing agency with a like mandate, such as the EPA, rather than create another special purpose entity. The benefit of this is that it also builds capacity and capability into an agency that already has responsibilities under the RMA, potentially benefitting both functions.

8. Do you have any other comments?

Our concerns are not so much with the intent or direction of travel, but with the need to target implementation costs to deliver best benefits. It appears that implementation costs of these proposals to local government have not been taken in to account. These costs come about in two ways: the cost of the policy adjustments that have to be made to statutory and associated supporting documents, but more importantly the impost on the cost of running the business of the Council. These initiatives will impact on all aspects of delivery of water services.

There is apparently no analysis of the impact of these changes on the institutions of local government, nor how government expects local government to meet them.

We would recommend that the Minister take a closer look at the impact of the proposed National Environmental Standards for Freshwater in particular, as these instruments create very blunt tools that impose stringent rules on the community and on Council infrastructure maintenance for little if any environmental gain. These are more fully described under Q 25 and 26.

Te Mana o te Wai

9. Do you support the Te Mana o te Wai hierarchy of obligations, that the first priority is the health of the water, the second priority is providing for essential human health needs, such as drinking water, and third is other consumption and use?

The principle of protecting the health and wellbeing of the water above other considerations is sound conceptually, in that we cannot achieve sustainability unless this is a pre-requisite. However, the interpretation of this principle creates risk of a hard line being taken or sought, rather than a consideration of how justifiable and reasonable human health needs are met.

The risk is some human health needs may be traded off against ecological values, which will sit uneasily in some communities. In the Kapiti Coast context, this applies to scarce water supply as set out under question 25.

10. Do you think the proposals will have the desired effect of putting the health of the water first?
11. Is it clear what regional councils have to do to manage freshwater in a way consistent with Te Mana o te Wai?
12. Will creating a long-term vision change how councils and communities manage freshwater and contribute to upholding Te Mana o te Wai?

New Māori value

13. Do you think either or both of these proposals will be effective in improving the incorporation of Māori values in regional freshwater planning?

The value of either option is to require a level of engagement that is not currently even or universal. What is proposed will require a minimum level of good practice.

14. Do you foresee any implementation issues associated with either approach?

Lifting the status of mahinga kai may well set unrealistic expectations of what is achievable. Absolute safety for human consumption for some mahinga kai (such as freshwater mussels, watercress) is not realistic in a natural or built environment.

15. What are the benefits and impacts of either of these approaches?
16. What implementation support will need to be provided?

New planning process for freshwater

17. Do you support the proposal for a faster freshwater planning process? Note that there will be opportunity to comment on this proposal in detail through the select committee process on the Resource Management Amendment Bill later this year.

More integrated management of freshwater

18. Does the proposal make the roles and responsibilities between regional councils and territorial authorities sufficiently clear?

The clarification is helpful.

Exceptions for major hydro schemes

19. Does the proposal to allow exceptions for the six largest hydro-electricity schemes effectively balance New Zealand's freshwater health needs and climate change obligations, as well as ensuring a secure supply of affordable electricity?

Attributes

20. Do you think the proposed attributes and management approach will contribute to improving ecosystem health? Why/why not?
21. If we are managing for macroinvertebrates, fish, and periphyton, do we also need to have attributes for nutrients that have been developed based on relationships with aquatic life?

Threatened indigenous species

22. Do you support the new compulsory national value? Why/why not?

Fish passage

23. Do you support the proposed fish passage requirements? Why/why not?

In principle the concept of protecting and restoring fish passage is sound – however the blanket requirements will be challenging to implement. The scale of environmental effect and benefit does not appear to be a consideration. Treating the installation of passive flap gates as a non-complying activity will effectively rule them out apart from in the most extreme cases – however in urban redevelopment we are frequently dealing with existing highly modified systems, and there will be cases where alternatives are simply not practical, or may not be compatible with its functional operation. It would be preferable to set expectations through the NPS, and leave implementation to regional plans where more granularity can be applied.

24. Should fish passage requirements also apply to existing instream structures that are potentially barriers to fish passage, and if so, how long would it take for these to structures to be modified and/or consented?

In principle it would be good to upgrade all infrastructure over time. However, the practical realities of implementing this is densely developed areas challenging and prohibitively expensive, and may have little ecological benefit. Again, our view is that this is a matter that should be dealt with through more granular provisions in regional plans.

Wetlands

25. Do you support the proposal to protect remaining wetlands? Why/why not?

In principle the concept of protecting the wetlands we have remaining is sound and supported. The NES as drafted however is a blunt instrument that may well deliver the benefits anticipated, but restricts development using alternatives that could provide improved wetland outcomes. The NES provisions will likely increase the number of wetlands under protection exponentially.

Much of the Kapiti Coast community is built on a duneland / wetland complex, on which much of the community and related infrastructure has been located.

The Kapiti Coast District Council has invested significant effort in identifying more than 17 ecological sites that contain nationally significant wetlands, ranging from little more than 1 ha to nearly 70 ha. These have been mapped in conjunction with the regional council, and have been through a rigorous process with the community through our Proposed District Plan. While the District Plan is not yet operative due to appeals, there are none outstanding in relation to wetlands.

In addition, the Council has proactively been undertaking water sensitive design in its own works, and encouraging it in developments. A review of the current Subdivision and Development Principles and *Requirements is under way, with the intent of requiring higher standards in all developments.*

The definition of wetlands, and in particular constructed wetlands is problematic. Constructed wetlands are often located in positions in the landscape where natural wetlands once would have existed. The provision will stop the repurposing of former or highly degraded wetlands for matters such as enhancing water detention, stormwater treatment, and amenity features in subdivisions, even when the existing (or previously existing) wetlands have no ecological values. In effect this will prevent even partial restoration where there is an associated use, and benefit to the community. This would be a perverse outcome for wetlands, and could severely hamper beneficial water sensitive urban design. More guidance would be required to identify circumstances where constructed wetlands are acceptable in areas that may have previously accommodated wetlands (and meet the new definition of a natural wetland as set in the definitions within the standard).

Impacts on the community

There are significant numbers of other wetlands in the district. These wetlands occur in many parts of our communities – in private ownership (including in gardens), in golf courses, business areas, parks, reserves, and even as feature points in subdivisions. We have many within and adjacent to major developments which are served by Council and private infrastructure.

We are very keen to integrate the management of our remaining wetlands into our community environment, but the controls proposed will effectively make many individuals, businesses and organisations non-compliant with the standards.

Impacts on Council infrastructure

As noted, the Council has significant horizontal infrastructure assets located close to or crossing wetlands. Many of these are historical. Maintenance of these assets can require pumping of *groundwater to expose pipes and other subsurface structures to enable works to be undertaken, as well as disturbance and earthworks. These structures and assets are not for the purposes of drainage or flood control, and so are not protected by the mechanisms proposed by Clauses 10,12 and 14 of the proposed NES. Some activities will become non-complying, if not prohibited.*

Impacts on Council water sources

The Council currently holds resource consent to take groundwater as part of its drinking water supply system. Council has invested significant resources over the last decade to improve drinking water supply, and to build resilience into the system. This has included instituting water metering to reduce demand, and the implementation of a recharge system to improve resilience of supply. This recharge system involves drawing groundwater to replenish the Waikanae River, enabling greater use of river water while protecting flows in the river.

This approach has been highly successful, securing a future water source for consumers, reduced demand which has meant no bore water has been needed for supply and a reduced total take from the environment.

Conditions of the resource consent to take groundwater are complex, and take an adaptive management approach as the underpinning knowledge of the behaviour of aquifer system over time develops. A key component is monitoring of wetlands, with trigger points that require the council to take actions in order to both protect wetlands, and remedy or mitigate any adverse effects that may be observed in those wetlands. Those actions are defined in a management plan agreed as part of the consenting process. If the NES is implemented in the form proposed, and in conjunction with the changed hierarchy identified in the proposed NPS for Freshwater that puts ecological functioning ahead of human health needs, the conditions of the consent must be reviewed in the light of the policy and standards at the next review point.

If the conditions become more restrictive on review, resilience of the current system could be severely curtailed, with no certainty that any environmental gain for the wetlands will result. The current minimum median water level change requirements (0.1m) are similar to current trigger levels. To strictly observe the standards will mean a significant level of additional conservatism would need to be built into consent conditions, and agreed remedies and mitigations in management plans subject to further resource consent, potentially placing the Council's water supply in a Catch-22 situation. Requiring further consent to undertake activities required by a consent is legally untenable, and the current approach would need to be reviewed.

26. If this proposal was implemented, what would you have to do differently?

Impacts on the community

Many activities – such gardening, vegetation clearance (such as mowing) and maintenance and use could require consent, or become non-complying or even prohibited (Clauses 11, 13, 14).

Impacts on Council infrastructure

Maintenance of Council infrastructure will be made either a discretionary activity (for stormwater) under Clauses 10, 12 and 14, or non-complying (Clauses 11 and 13) or prohibited (Clause 14) for other purposes such as wastewater, water supply, or roading.

Impacts on Council water supply

The current water take consent is likely to be further complicated and restricted, and any future replacement consent is likely to be deemed non-complying (Clause 17). Further constraints on the water supply will severely impact the Council's ability to support future growth and development for the Waikanae and Paraparaumu communities. The Council would need significantly bring forward *future water supply options, which is likely to involve damming to provide acceptable resilience and security of supply. This requires very long lead times (10-20 years) for investigations, consenting and construction and involves significant investment. New water supply was canvassed in 2009, when the costs were in the order of $36M. Today's cost is likely to be more than double that.*

Streams

27. Do you support the proposal to limit stream loss? Why/why not?

In theory this sounds reasonable – however in practice it could be very difficult to implement. The standard is very blunt, and does not provide any flexibility for circumstances. The definition of a river in the RMA is wide-ranging, and the impact in a community built largely on a wetland / duneland system with multiple small watercourses is considerable. This standard will prevent recontouring of large areas of land identified for subdivision and future growth in the Kapiti District. The option of off-setting at the scale required for very small and minor watercourses is impractical.

28. If this proposal was implemented, what would you have to do differently?

It will impact on urban design, meaning either a reduced developable area, or an acceptance of densification. This may require rethinking approaches to subdivision design, and possibly a new approach to growth for the Kapiti District.

29. Do the 'offsetting' components adequately make up for habitat loss?

New bottom line for nutrient pollution

30. Do you support introducing new bottom lines for nitrogen and phosphorus? Why/why not?
31. If this proposal was implemented, what would you have to do differently?
32. Do you have a view on the STAG's recommendation to remove the 'productive class' definition for the periphyton attribute?

Reducing sediment

33. For deposited sediment, should there be a rule that if, after a period (say five years), the amount of sediment being deposited in an estuary is not significantly reducing, then the regional council must implement further measures each and every year? If so, what should the rule say?
34. Do you have any comments on the proposed suspended sediment attribute?
35. If this proposal was implemented, what would you have to do differently?

Higher standard for swimming

36. Do you agree with the recommended approach to improving water quality at swimming sites using action plans that can be targeted at specific sources of faecal contamination? Why/why not?

Minimum flows

37. Is any further direction, information, or support needed for regional council management of ecological flows and levels?

Reporting water use

38. Do you have any comment on proposed telemetry requirements?

Raising the bar on ecosystem health

39. Do you have any other comments?

Draft NPS-FM (see the draft NPS-FM on the Ministry for the Environment's website)

40. Are the purpose, requirements, and process of the National Objectives Framework clearer now? Are some components still unclear?

It is helpful to have the framework spelt out.

41. What are your thoughts on the proposed technical definitions and parameters of the proposed regulations? Please refer to the specific policy in your response.

42. What are your thoughts on the timeframes incorporated in the proposed regulations? Please refer to the specific policy in your response.

Drinking water (due for consultation mid 2020)

43. Do you agree with the proposed amendments to the Drinking Water NES? Why/why not?

In principle yes. The challenges will be in the detail, and the cost of implementation. Bringing in smaller supplies may have an impact on current landuse, or on future patterns of growth particularly if water supply is being drawn from lowland streams / shallow aquifers.

There will also be significant costs to changing the risk management regimes that will need to be funded.

44. Are there other issues with the current Drinking Water NES that need to be addressed?

45. Do you have any other comments?

Possible wastewater NES (due for consultation mid 2020)

46. Does the proposed Wastewater NES address all the matters that are important when consenting discharges from wastewater networks? Will it lead to better environmental performance, improve and standardise practices, and provide greater certainty when consenting and investing?

The challenge posed by the discharges and overflow requirements in the proposed Wastewater NES, as outlined in responses to question 6, is that it risks being duplicative. From an assurance perspective it is useful to have benchmark standards that all operators are obliged to comply with and report on, building a better national picture. There is no certainty however that they will lead to better environmental performance, or lead to better environmental outcomes. In effect, the standard is imposing additional cost onto local government and infrastructure operators in order to resolve information and assurance challenges at the national level. There may be better mechanisms that can achieve this outcome.

At best, regulation (and compliance with regulation) stops undesirable behaviours. As we have seen with the RMA since inception, the law has been highly effective at stopping point source pollution.

National Standards work best when the impacts of the matters being controlled on the subject are predictable (eg human health). They are not efficient or effective in complex receiving environments where many variables need to be taken into account. The tools for this exist through regional plan provisions, and application of a best practicable option approaches.

Standardised practice is attractive, and creates potentially creates certainty for investment. It has co-benefits in potentially enabling shared services, which may assist in managing capacity and capability issues in local government. What it does not do is ensure right-sizing and targeting of investment to ensure the best environmental outcome.

An example of this creating targets or limits on wet weather overflows. Imposing a national target or limit rather than an effects-based approach is likely to create major challenges. We recognise that *containing overflows is socially and culturally beneficial, and to a lesser extent ecologically/ environmentally. While the Council recognises the deep cultural and social concerns about overflows, nevertheless the costs of full containment are extreme, and will take many years if not decades of investment. In the meantime, because overflows do not necessarily cause environmental harm as they generally occur during flood events, prioritising this issue over others means that the Council will not be meeting the overall intent of the package, which is to improve our freshwater quality and ecological health.*

47. **Do you agree with the scope of the proposed risk management plans for wastewater and stormwater operators? Are there other aspects that should be included in these plans?**

Risk management planning is in line with improving practice, and will be a core element for outcome planning and management.

48. **What specific national level guidance would be useful for supporting best practice in stormwater policy and planning and/or the use of green infrastructure and water sensitive design in stormwater network design and operation?**

Further guidance at a national level that deals with matters of design parameters and implementation of water sensitive urban design would be helpful. This could include templates and best practice examples.

49. What are the most effective metrics for measuring and benchmarking the environmental performance of stormwater and wastewater networks? What measures are most important, relevant and useful to network operators, regional councils, communities, and iwi?

50. Do you have any other comments?

Restricting further intensification

51. Do you support interim controls on intensification, until councils have implemented the new NPS-FM? Why/why not?

52. For land-use change to commercial vegetable growing, do you prefer Option 1: no increase in contaminant discharges OR Option 2: farms must operate above good management practices. What are your reasons for this?

53. How could these regulations account for underdeveloped land, and is there opportunity to create headroom?

Farm plan options

54. Do you prefer mandatory or voluntary farm plans (acknowledging that farm plans may be required by councils or under other parts of the proposed Freshwater NES?) What are your reasons for this?

55. What are your thoughts on the proposed minimum content requirements for the freshwater module of farm plans?

56. What are your thoughts on the proposed priorities and timeframes for roll out of farm plans, as set out in the proposed Freshwater NES?

57. Do you have any comment on what would be required to ensure this proposal could be effectively implemented, including options for meeting the cost of preparing, certifying and auditing of farm plans; and on financing options for other on-the-ground investments to improve water quality?

Immediate action to reduce nitrogen loss

58. Which of the options (or combination of them) would best reduce excessive nitrogen leaching in high nitrate-nitrogen catchments? Why?
59. If you are in a high nitrate-nitrogen catchment, what would you have to do differently under these options?
60. In addition to those already identified, are there other high nitrate-nitrogen catchments that should be subject to these options?
61. Do you think the action already underway in five regions (identified in section 8.4) will be effective in reducing excessive nitrogen leaching in those high nitrate-nitrogen catchments?
62. Should there be higher thresholds for farms that produce food products in winter, and if so, which food products?
63. What alternative or additional policies could contribute to reducing nitrogen loss?
64. Do you have any comment on what would be required to ensure this proposal could be effectively implemented?

Excluding stock from waterways

65. Do you support excluding stock from waterways? Why/why not?
66. Do you have any comment on the proposed different approach for larger and smaller waterbodies?
67. Do you have any comment on the proposed five metre setback, or where it should be measured from?
68. Are there any circumstances that are appropriate for allowing exemptions to the stock exclusion regulations? If so, please give examples.

Controlling intensive winter grazing

69. Do you prefer Option 1: Nationally-set standards or Option 2: Industry-set standards? Why?
70. For the proposed nationally-set standards, which options do you prefer for the area threshold, slope, setback, and pugging depth components of the policy?

Restricting Feedlots

71. Do you have any comment on the proposal to restrict feedlots?

Reducing pollution from stock holding areas

72. Do you support the proposal relating to stock holding areas? Why/why not?
73. Do you think sacrifice paddocks should be included?
74. What would you have to do differently if this proposal was implemented?
75. Do you have any comment on what would be required to ensure this proposal could be effectively implemented?

Draft proposed National Environmental Standards for Freshwater

76. Are the definitions used in the policies accurate, and if not, how do you suggest improving them?

77. What are your thoughts on the proposed technical definitions and parameters of the proposed regulations? Please refer to the specific policy in your response.

The broad definitions leave uncertainty about their implications for strategic growth; and the development, operation, maintenance and upgrade / replacement of regionally significant infrastructure. National Significant Infrastructure doesn't recognise regionally / locally significant infrastructure or balance benefits of infrastructure to existing urban developments that facilitates strategic growth. There is no consideration of differing scales and nature of activities or rivers / wetlands with blanket provisions applying to all.

Information requirements are open ended and vague leaving uncertainty about their application and associated costs. In addition standard wetland monitoring obligations are challenging and without a baseline / state of the environment information applicants will be burdened with establishing baselines prior to monitoring any potential impacts.

78. What are your thoughts on the timeframes incorporated in the proposed regulations? Please refer to the specific policy in your response.

79. Do you think there are potential areas of tension or confusion between the proposals in this document and other national direction? If so, how could these be addressed?

There are tensions both between the proposals set out in this discussion document, and between these proposals and other national instruments.

The main tensions within the discussion document is set out under Question 26.

For Kapiti Coast, the combined impact of the provisions in this document, and in particular the NES as it affects wetlands and piping of streams will potentially impact on the ability to develop areas currently identified for future growth, or the viability of such development. This may require the Council to review the strategy, with future changes likely to be in conflict with the proposals to limit future development on Highly Productive Land. This will leave few options for the Council to meet its future growth requirements as set out in the NPS UDC or the proposed NPS UD.

More flexibility in the wetland provisions and protection of streams is needed. The definition set out in the proposed NES extends the definition in the primary Act, and its application to all wetlands whether modified or not. Certainty is required in the identification of wetlands to be protected, such that developers, communities, householders, and other property owners and managers are clear what their responsibilities are.

Information paper for feedback

Infrastructure Funding and Financing: Development contributions and targeted rates

September 2019

Department of Internal Affairs: Central/Local Government Partnerships Group

Te Tari Taiwhenua Internal Affairs

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Contents

Purpose of this paper

Seeking feedback to inform options development

This information paper supports a targeted engagement and feedback process about existing infrastructure funding tools (targeted rates and development contributions).

This paper is not a departmental or government policy statement. Any references to potential improvement options are not policy proposals and no decisions have been made about any such options.

This paper is not an exhaustive summary of all the issues that will need to be addressed in future policy work. Rather, it summarises feedback from initial discussions we held with some key stakeholders, provides further information and invites feedback from a wider group of stakeholders on:

- how the existing tools can be utilised more effectively to better recover the cost of infrastructure; and
- how better cost recovery will help with enabling a more responsive supply of infrastructure and appropriate cost allocation.

We encourage you to review the information and to send us feedback indicating:

- whether you agree with the problems described by stakeholders during our initial discussions;
- any additional cost recovery problems you associate with development contributions and targeted rates; and
- any improvement options you would like us to consider.

We are also seeking feedback on the information towards the end of this paper about the possibilities of:

- removing the local authority debt-servicing benchmark from the Local Government (Financial Reporting and Prudence) Regulations 2014; and
- considering legislative changes to establish new value capture tools.

The following section of this document explains how to send us your feedback before **the cut-off date of Wednesday 23 October 2019.**

Relationship with the Productivity Commission inquiry

On 4 July 2019, the Productivity Commission released its draft report '*Local government funding and financing*'. The final report is due in November 2019.

We have initiated this feedback process as a proactive way for us to gather stakeholder views that will help to inform the Government's response to the Commission's final report. We will analyse and consider your feedback alongside that final report in the process of identifying options and formulating recommendations about improving existing tools.

We have already discussed with Commission staff a summary of the feedback from our initial discussions.

For now, we also note that the Commission's draft report includes comments along the following lines:

- the current funding and financing framework is broadly sound;
- better use could be made of existing funding tools, including by applying the 'benefit principle' as the primary basis for deciding who should pay for local government services;
- user charges or targeted rates should be used wherever it is possible and efficient to do so;
- it is preferable to make growth 'pay for itself' by ensuring revenue for new property developments is derived from new residents rather than existing ratepayers, but there are significant barriers to this happening (eg, the long time it takes to recover the costs of development, the risks involved and debt limits).

Appendix One includes some further background information on recent Productivity Commission inquiry reports.

Next steps

After analysing the feedback, we will report to Ministers on possible improvement options and next steps. Depending on the outcome of the analysis, we may also run some targeted stakeholder workshop(s) to test thinking about the nature and design of options.

Thank you very much for your consideration and for any feedback you choose to provide. We look forward to hearing from you and to reviewing your responses.

Feedback

We invite interested parties to send us **written feedback** in the form of responses to the questions posed in this information paper.

How to send us your feedback

You can send us feedback using the feedback template (a Word version of the template accompanied this paper when sent to you by email) and emailing it to: **isaac.ryan@dia.govt.nz.**

We prefer feedback utilising the template. If you cannot do that, you may simply send us an email. To help with our analysis please clearly indicate in the email which questions you are responding to. Appendix Two is a consolidated list of the feedback questions.

To enable us to stay on track with this work, **the cut-off date for sending us your feedback is Wednesday 23 October 2019.**

Further information

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or

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Official Information Act 1982

Feedback we receive is subject to the Official Information Act 1982 (OIA). If you have any objection to any information in your feedback being released under the OIA, please set out clearly which specific information you consider should be withheld, together with the reason(s) for withholding the information.

Grounds for withholding information are outlined in the OIA. Reasons could include that the information is commercially sensitive or that you wish personal information, such as names or contact details, to be withheld. An automatic confidentiality disclaimer from your IT system will not be considered as grounds for withholding information.

We will take your advice on this matter into account when responding to requests under the OIA.

Any personal information you supply in your feedback will be used only in conjunction with the matters covered by this document. Please clearly indicate if you do not wish your name to be included in any summary of feedback that we may publish.

Summary

The Department of Internal Affairs' Central/Local Government Partnership Group is assessing whether the existing local authority targeted rates and development contributions regimes ('existing tools') can be utilised more effectively to better recover the cost of infrastructure. This is a part of the Government's Urban Growth Agenda (UGA) infrastructure funding and financing work programme.

During July/August 2019, we completed initial background research and discussed existing tools with a few key stakeholders to clarify what they saw as problems with the tools.

The specific problems, as described by stakeholders, during those discussions were:

- only being able to use development contributions to recover capital costs which means that funding for significant operating costs[1] directly associated with preparing for growth-related development and/or development contributions must come from other sources;
- statutory exemptions that prevent recovery from certain parties, including the Crown exemptions;
- forecasting and calculation issues including:
  - dealing with significant complexity and uncertainties;
  - a shortage of relevant expertise to complete the work; and
  - the risk of determinations being challenged which leads to conservatism and consequent under-recovery; and
- the inability of some developers and/or ratepayers to pay the full cost at the time it is due (eg, due to inadequate finance or cashflow).
- the statutory cap on uniform targeted rates;
- the inability to use targeted rates to set a volumetric charge for wastewater;
- the statutory limits relating to categories of rateable land and calculating liability for targeted rates[2]; and
- limits on the types of infrastructure that can be funded, including infrastructure funded but not owned by a local authority.

This paper has been developed to support wider engagement and seeks feedback to assist us with developing clear problem definitions and possible improvement options. We are also seeking feedback on the possibilities of removing the local authority debt-servicing benchmark from the Local Government (Financial Reporting and Prudence) Regulations 2014; and whether and how targeted rates might enable new 'value capture' tools.

Please send your feedback using the Word template attached to the email that came with this paper.

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[1] Sometimes the operating costs for activities such as pre-planning, forecasting and calculating and administration can be very high relative to the revenue generated.

[2] In Schedules 1,2 and 3 of the Local Government (Rating) Act 2002.

Background

The Urban Growth Agenda (UGA)

The success of our cities affects New Zealand's overall economic, social, cultural and environmental performance. As New Zealand moves to a more sustainable, productive and inclusive economy, cities will play an increasingly important role by hosting a large share of the nation's labour market activity, business growth and connections with other countries.

However, our cities are under pressure and are not delivering the benefits we want. We are seeing the symptoms of this in some major cities with rising urban land prices, unaffordable housing, increasing homelessness, worsening traffic congestion, lack of transport choice and flattening productivity.

The Government is looking at how we can shift our urban markets to perform better, by making room for growth and **making sure growth pays for itself** and investing in transport to drive more efficient and liveable urban form.

The UGA is a package of interventions that aims to facilitate these shifts and address fundamentals of land supply, development capacity and infrastructure provision. The UGA recognises that changes are needed to system settings to create the conditions for the market to respond to growth and bring down the high cost of urban land.

Workstream 3: Effectiveness of existing tools

The first of five UGA 'pillars' is focused on **Infrastructure funding and financing**[3] and the problems of local authority debt constraints and the limitations, or limited and/or variable application, of existing funding tools. Opportunities to help resolve these funding and financing problems are being pursued through the following three workstreams.

1. **Workstream 1:** The design, creation and implementation of alternative financing models to be used primarily for investment in local infrastructure including three waters and transport to support housing and urban development.

2. **Workstream 2:** Investigate easing the existing local authority debt constraints with the Local Government Funding Agency.

3. **Workstream 3:** Assess whether the existing targeted rates and development contributions regimes can be utilised more effectively to better recover the cost of infrastructure.

Although the three workstream activities are coordinated, this information paper relates solely to Workstream 3 and the 'existing tools'. We are not seeking feedback through this process on issues or options related to alternative financing or debt constraints.

[3] The other four pillars relate to urban planning, spatial planning, transport pricing and legislative reform.

Recent stakeholder feedback about the existing tools

To inform the development of this paper, during July/August 2019, we met and discussed the existing tools with some peak organisations[4], senior local authority officials primarily from high growth districts around New Zealand, and Watercare (Auckland). We also reviewed past review reports and submissions to the current Productivity Commission inquiry into local government funding and financing.

The stakeholder feedback indicates that existing tools may not always be as effective as they could be for growth-related infrastructure cost recovery because of:

- legal and practical barriers to achieving full or substantial recovery from beneficiaries/exacerbators;
- local community and political resistance to capital raising and debt-servicing costs and limited incentives to counter this resistance; and
- the long timeframes that may be required to recover what are often large upfront costs.

The effectiveness of the existing tools may also be compromised by stakeholder concerns and disputes around local authority decision-making. Stakeholders usually expressed these concerns in terms of a lack of transparency (distrust) about the bases on which local authority decisions are made, inconsistency and, sometimes, a local authority's failure to meet statutory requirements.

Although outside the 'effectiveness of recovery' scope of this workstream, we also noted stakeholder feedback about:

- investment risks faced by local authorities (eg, when developments do not proceed, or proceed in different places or more slowly than anticipated);
- the varying pace of developments and availability of serviced land for building; and
- the inability to capture some of the private value uplift (windfall gains) generated by growth-related public action (eg, through favourable rezoning or infrastructure investment) with associated inefficiencies and unfairness.

[4] Local Government New Zealand, Society of Local Government Managers, Infrastructure NZ, NZ Property Council.

Development contributions

Overview of current legislative provisions

The current Local Government Act 2002 (LGA) development contribution provisions arise from a substantial review in 2012-13, consequent 2014 amendments and further amendments to the LGA in May 2019.[5] Subpart 5 of Part 8 and Schedule 13 of the LGA contain most of the provisions that enable territorial authorities to require development contributions from those undertaking developments.

The basis on which a territorial authority can require a development contribution is set out in section 199, while various other provisions (including sections 101(3), 106, 200 – 204 and schedule 13) are also relevant.

Section 197AA provides that the purpose of development contributions is to *"enable territorial authorities to recover from those persons undertaking development a fair, equitable and proportionate portion of the costs of capital expenditure necessary to service growth"*.

Section 197AB sets out the following seven principles in relation to development contributions which must be actively considered:

- development contributions can only be required when the effect of development is to require territorial authorities to have provided, or to provide, new or additional assets or assets of increased capacity;
- development contributions should be determined in a manner that is generally consistent with the capacity life of assets, and in a way that avoids over-recovery of costs allocated to development contributions funding;
- cost allocations used to establish development contributions should be determined according to who benefits (including the community as a whole) as well as who created the need for assets;
- development contributions must be used for or towards the purpose for which they were collected, and for the benefit of the district or part of the district in which they were required;
- enough information should be available to demonstrate what development contributions are being used for and why;
- development contributions should be predictable and consistent with the methodology and schedules in the development contributions policy; and
- when calculating or requiring development contributions, territorial authorities may group developments or categories of land use, provided administrative efficiencies are balanced with fairness and equity, and grouping across entire districts is avoided where practical.

[5] The May 2019 amendments were part of the Local Government (Community Well-being) Amendment Act 2019.

While there is considerable variation between the development contribution policies developed and maintained by local authorities under the LGA, it appears that development contributions are widely used.

Development contributions enable recovery of upfront capital costs. Where there are borrowing constraints, development contributions can be helpful as an enabler of 'debt recycling'.

Issues with the legislation

Few issues have been raised about the legislative provisions related to development contributions. Overall, stakeholders' feedback was that the legislation is fit-for-purpose and the 2014 and 2019 LGA amendments largely resolved historic issues.

Legislation-related issues that did come up in discussions with stakeholders were:

- provisions of section 8 of the LGA which mean the Crown cannot be required to pay development contributions;
- the inability for local authorities to recover development-related operating (eg, pre-planning) and administration costs as part of the development contribution;[6]
- limits on the types of infrastructure that can be funded through development contributions, including the inability to require development contributions for public infrastructure the local authority doesn't own or provide directly; and
- the relatively complex nature of the legislation and the scope for interpretation around the purpose of development contributions and how they are calculated create opportunities for legal challenge (ie, increasing certainty and clarity would be helpful).

The Crown and development contributions

We understand that the issue relates to section 8 of the LGA[7] and is based on the stakeholder view that:

- the Crown should generally have to pay development contributions in the same manner as all others who benefit from new or additional assets or an increase in the capacity of an existing asset provided by a local authority; and
- determination of any development contribution 'exemptions' should be left to local authorities when developing their individual contributions policies.

We also understand this is an extension of the view expressed in feedback to previous local authority rating and funding reviews and the July 2015 proposal by Local Government New Zealand (LGNZ) that mandatory rating exemptions should be removed.[8]

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[6] Although not raised during recent discussions, we are aware that the inability of Council Controlled Organisations (CCOs) to seek development contributions may also be seen a concern by some stakeholders.

[7] The effect of which is that the Crown is not bound by the LGA regarding development contributions.

[8] LGNZ '*Local Government Funding Review 10-point plan: incentivising economic growth and strong communities*'.

The issue of rating exemptions was addressed in detail in the August 2007 Report of the Local Government Rates Inquiry ('the Shand Inquiry'). Although the Shand Inquiry supported the almost universal view of local authorities that all rating exemptions should be removed, it also concluded that strong cases can be made to:

- exempt Crown land from rates where land involves a nationally important public good, provides clear net national benefits and where a reasonable valuation of land is difficult to establish; and
- retain statutory exemptions for certain categories of Crown land.

The Shand Inquiry acknowledged that removal of exemptions would be a major policy change with financial implications for the Government (eg, creating the need to increase funding for government institutions) and uncertainty and potential costs for other parties. Shand also found that there are clear grounds for some exemptions for Crown land and local authorities can recover some costs from the Crown through other means (eg, targeted rates for water supply).

The exemption issue relates to the entirety of rating and goes well beyond the scope of this existing tools 'effectiveness of recovery' assessment. We note that that the Productivity Commission did not make any recommendations on the issue in its draft report on local government funding and financing. Further consideration may be given to this issue if the final report of the Productivity Commission (due in November 2019) includes a relevant recommendation.

Operating costs related to development contributions

Section 197AA of the LGA is clear that the purpose of development contributions is to enable recovery of capital expenditure. We note that the LGA definition of a "capital project" is the same as that in section 117A of the LGRA, namely:

> ***capital project—***
>
> *(a) means a project or work the expenditure for which is not recognised by generally accepted accounting practice as being operating expenditure; and*
>
> *(b) includes a loan in relation to a project or work.*

Local authorities have advised us that, in addition to capital expenditure, they incur significant operating expenditure in planning and preparing to open areas for growth and administering the development contribution regime.

We were advised that:

- this operating expenditure includes the costs of procuring and paying external advisors as well as internal staff time and overheads; and
- as operating expenditure cannot be recovered through development contributions, they are usually funded out of rates revenue with the cost generally falling to existing ratepayers, rather than those who benefit directly from the growth.

We expect that, in calculating and setting development contributions, local authorities will apply generally accepted accounting practice (GAAP) to distinguish between capital and operating expenditures.

If legislation were to be changed to enable recovery of operating expenditure through development contributions, amendments may need to be made to LGA provisions relating to matters such as the development contributions purpose, principles, policies and methodology.

The complexity of the legislation may increase as amended provisions would need to be drafted in a way that ensures such operating costs are:

- directly related to developments that require a local authority to provide new or additional assets or to increase in the capacity of an existing asset;
- limited to operational activities that are essential elements of the process of planning and preparing for a development and administering the development contributions directly related to the development (ie, as distinct from ongoing infrastructure operating costs); and
- otherwise legally constrained to ensure the costs are reasonable and over-recovery is avoided.

Policy decisions would also need to be made about whether and how to provide in legislation what flexibility local authorities would have in their determinations around the inclusion, or otherwise, of operating expenditures in development contributions.

We also note that:

- local authorities do already have the option of using a targeted rate to recover relevant operating expenditures from those who benefit directly from the growth (ie, rather than the existing ratepayers who do not); and
- it is likely that inclusion of additional costs in development contributions would increase the amount of contributions, reduce incentives to develop and/or increase the cost of post-development land.

On the other hand, if inclusion of operating costs meant the funding/recovery system became more sustainable, the supply of infrastructure may be more responsive and better support more competitive urban land markets.

Question One:

Please tell us whether you support the idea of amendments to enable inclusion of some operating costs in development contributions, or whether you prefer to retain the current focus on capital expenditure. Please explain the reasons for your answer.

If you support the amendment idea, please include in your answer information about:

- ***how this would enable more effective cost recovery and why this is preferable to using targeted rates;***
- ***how you consider such costs should be determined; and***
- ***what, if any, implications higher development contributions will have on growth?***

Types of infrastructure that can be funded

Recent legislative changes

Some local authorities referred to the 2014 LGA amendments that narrowed the scope of development contributions. For example, those amendments meant that development contributions could no longer be required as a contribution towards 'community infrastructure', such as swimming pools, that have community-wide benefits.

This concern was also referred to by LGNZ in its July 2015 '10-point plan' which proposed that the 2014 scope limitation be reconsidered to "*...give growing communities the flexibility to ensure continued economic development without unfairly burdening existing residents*".

The proposed reconsideration has occurred. In May 2019 amendments to the LGA restored local authorities' power to collect development contributions for any public infrastructure needed because of development and for reserves from non-residential development.

The development contributions principles in section 197AB and other LGA provisions that existed prior to the 2014 amendments still require a 'causal nexus' approach to development contributions. This helps to ensure that, as far as practicable, everyone who benefits from new infrastructure contributes to its cost. The distinction is between the private good nature of local infrastructure (where those who use it are relatively easy to define, and there is little or no use of the infrastructure by people from outside the development area) and the public good nature of infrastructure that is regularly accessed and used by the wider community.

Infrastructure funded but not directly provided by a local authority

At least one local authority mentioned the inability to require development contributions for public infrastructure the local authority doesn't own or provide directly, but for which it has agreed to contribute funding through a partnership or one of many other possible formal ownership and control arrangements. Examples might be facilities jointly provided with a local school, or a sportsground owned by the relevant sporting body.

This issue was also raised by several local authority submitters on the Bill that led to the May 2019 amendments to the LGA. In summary, submitters considered that, provided such arrangements deliver growth-related infrastructure that complies with the LGA in all other respects, it would be reasonable for at least some of the relevant local authority capital expenditure to be recovered through development contributions.

Although the submissions did not lead to changes to the Bill, consideration of the issue did highlight:

- the merits of such joint arrangements; and
- potential for local authorities to structure the arrangements so that their expenditure is classified as capital expenditure and recoverable through development contributions (ie, without amendments to the LGA).

This potential arises from the definition of 'community infrastructure' in s.197 of the LGA, which refers to local authority <u>control</u> as well as ownership. Examples of this potential are:

- where a council has a long-term lease of land for the provision of a facility, it could reasonably be said that the council controls the land, even if it does not own the land; and
- where a council-controlled organisation provides a facility or service on behalf of the council, it is arguable that the facility is controlled by the council (albeit indirectly).

Risks associated with enabling the use of development contributions in such circumstances include:

- potential for increased pressure on local authorities to meet the capital cost of amenities that have traditionally been met from other sources (eg, private fundraising or the Crown);
- increasing complexity/confusion about funding allocations when considering whether and to what extent the development being charged has caused the need for the joint infrastructure; and
- difficulties with maintaining transparency around the cost of the infrastructure and the proportion of local authority funding being contributed.

If consideration were to be given to extending the legislative provisions to provide greater flexibility around joint provision of community infrastructure, it would still be a requirement for expenditure to be limited to that which is necessary to service growth. There would also need to be protections against the additional risks of:

- the funding system being gamed by the local authority's infrastructure partners (ie, at the expense of developers); and
- subsidisation of one private enterprise by another.

Question Two:

Given the potential already provided by the 'control' reference in the LGA definition of community infrastructure, do you consider that there is any need to consider further amendments? Please explain the reasons for your answer.

If you support further amendments, please include in your answer an explanation of:

- ***how the amendments would enable more effective cost recovery; and***
- ***how you consider the risks identified in this paper could be effectively managed.***

Complexity of the legislation and risk of legal challenge

Although the general complexity of the legislation was referred to by several stakeholders in terms of the work it involves to comply, no specific concerns about legal challenge risks were noted. Where concerns were raised, they usually related to how the law was being applied by an individual local authority, or a particular scenario or context.

While it appears that some local authority stakeholders would value some further guidance and advice, most indicated that they could work with developers and others to navigate and apply the legislation appropriately.

Question Three:

Please indicate any specific legislative provisions related to development contributions you consider are not clear, what changes you would suggest to improve clarity and how the changes would enable more effective cost recovery.

Implementation issues

From our readings and direct discussions with stakeholders, it seems that some of the development contribution implementation issues may be more significant and of greater concern than the legislation itself.

The implementation issues that came up during our stakeholder discussions are:

- different (inconsistent) approaches to how local authorities develop, present and implement development contribution policies, including within the same region;
- in some cases, concerns about a lack of transparency and/or precision around the content of policies or specific development contribution calculations and/or failures to strictly comply with legislative requirements;
- difficulties local authorities experience in accurately forecasting development requirements and calculating development contributions, with brownfield and commercial developments being the most challenging;
- financial risks to local authorities if development is delayed and/or most growth occurs in locations other than was anticipated;
- a shortage of expertise for assessment work and to develop the evidential base that supports cost attribution and the quantum of the development contribution; and
- the extent that developers can afford to pay, upfront, large development contributions.

From those discussions, we understand that the implementation issues arise largely from:

- independent decision-making by each local authority in highly variable community contexts and development environments;
- complexities, uncertainties, trade-offs, differing risk appetites, community and political priorities and/or varying financial capacities that inevitably complicate local authority decision-making about future developments and proportionate cost allocations; and
- the differing capabilities and capacities of local authorities and developers to consider and address wide-ranging issues in highly variable circumstances.

Options to address implementation issues

Stakeholder discussions indicated that options to address implementation issues might include some more:

- central development and provision of guidance resources, advice and support;
- regional collaboration and information and resource sharing; and
- formal, independent compliance checking.

We discuss each of these options briefly below and seek further feedback to assist future, more detailed consideration of the merits of these suggestions.

Central guidance resources, advice and support

Local authorities and other stakeholders take advice and use guidance resources from a range of internal and external sources. External/central sources include peak organisations such as the Society of Local Government Managers and Local Government New Zealand and information published from time-to-time by the Department of Internal Affairs.

We are seeking feedback to enable us to assess whether stakeholders consider there is already enough central guidance, advice and support about existing tools and which guidance and advisory support is currently most valued.

If any stakeholders consider that new, improved or additional central guidance resources or advisory support is necessary, we also seek feedback on:

- what else is needed;
- why it is needed (ie, how it would improve the current situation);
- how it should be provided and by whom; and
- who should pay for the development and provision of the new/additional guidance resources, advice and support.

We note that the Productivity Commission's draft 2019 report includes the following recommendation (R6.1):

> *"The Government, Local Government New Zealand and the New Zealand Society of Local Government Managers should work together to develop standardised templates both for the development contribution (DC) policies of councils and council assessments of DC charges for individual property developments. Councils should be required to use the standardised templates."*

From our recent discussions with stakeholders, we expect that central and local government organisations working together to develop standardised templates may be viewed positively. However, because local authorities must respond to a variety of issues with differing local circumstances and community preferences, we are uncertain about the merits of making the use of templates a 'requirement'. We would welcome stakeholder feedback on this point.

In the cost recovery context, we invite stakeholders to consider whether and how central advisory and support services could be improved. For example, in terms of centralised expert capability and capacity and its current availability to local authorities to:

- provide clarifying support, advice and some basic compliance checking (short of legal advice); and

- collate and publish helpful case studies and other information to assist local authorities to identify options for:
  - dealing with forecasting and cost calculation challenges and associated litigation risks;
  - managing financial and other growth-related risks, including cross-subsidisation from rates or other funding sources where cost estimates are too conservative;
  - accessing data and specialist expertise to support decision-making; and
  - working constructively with developers of varying capability and capacity.

Question Four:

<u>With cost recovery effectiveness in mind</u>, please tell us:

- ***which existing guidance resources and advisory support arrangements you value most highly and why;***
- ***whether you consider central guidance resources and advisory support could be improved and, if so:***
  - ***what specific improvements are needed and why;***
  - ***who should lead and contribute to the improvement work; and***
  - ***who should pay for the improvements and any ongoing delivery costs and why they should pay.***
- ***your view of the standardised template recommendation in the draft Productivity Commission report and the idea that the use of such templates should be a 'requirement'.***

Regional collaboration: Information and resource sharing

Stakeholder discussions confirmed that inter-district and regional collaboration and information and resource sharing already occurs to varying degrees in terms of scope and formality. However, we were told that, even in regions where there is relatively close collaboration, independent decision-making at the district level means that some generally desirable regional alignments of local authority development contribution policies and processes cannot always be achieved.

Alignment in this context doesn't necessarily mean identical, or absolute consistency. Rather the aim would be to achieve consistency insofar as local circumstances and community preferences allow. The extent that community preferences can or should be influenced by the regional approach will also need to be determined at the regional level.

As the ultimate independence of each local authority is currently a 'given', approaches to inter-district and wider regional collaboration around development contributions involve local authorities that are adjacent, or within a region, determining themselves whether and how to collaborate and/or share information and resources.

Like the discussion above about central guidance, advice and support, we are seeking feedback to enable us to assess whether and how regional collaboration and information and resource sharing can be improved for the benefit of all concerned.

Question Five:

<u>With cost recovery effectiveness in mind</u>, please tell us:

- ***which existing regional collaboration arrangements you value most highly and why;***
- ***whether you consider regional collaboration could be improved and, if so, what specific improvements are needed and why.***

Compliance checking

Developer representatives and some of the local authorities we spoke with suggested that there should be more formal, independent checking and reporting on local authority compliance with legislative requirements around development contributions. As they described it, this would be central, regulatory oversight and public accountability measures additional to and independent of the advisory functions referred to earlier in this section.

In general, we consider it reasonable to assume that:

- local authorities genuinely strive to comply with all relevant laws and will be prudent in seeking legal advice in carrying out their functions;
- guidance and advice provided to local authorities by their own legal advisors and others (eg, SOLGM) is fit-for-purpose and helps to ensure compliance;
- non-compliance by a local authority will generally be due to an oversight or misinterpretation of the law (rather than deliberate action or omission); and
- where non-compliance is brought to the local authority's attention (eg, by an adversely affected party) a suitable remedy will be applied by the local authority with due haste.

That said, there are examples of local authorities' interpretation and application of the law and/or development contribution policies being challenged and found to be wrong. While it is preferable that such situations are avoided, issues may not always be clear-cut and an authoritative determination (eg, by Development Contribution Commissioners or the Courts) can help to clarify and confirm how the law/policies should be applied generally, or at least in the circumstances of a specific case or type of situation.

We welcome feedback from stakeholders about this compliance checking suggestion.

Question Six

Do you consider compliance checking powers beyond current provisions (eg, the powers of Development Contribution Commissioners) would improve the effectiveness of cost recovery? Please explain your answer.

If you do consider there is a need for new or additional compliance checking powers to improve the effectiveness of cost recovery:

- ***what would those powers be;***
- ***how would you see them working in practice; and***
- ***how should the exercise of such powers be funded?***

Targeted rates

Overview of current legislative provisions

The Local Government (Rating) Act 2002 (LGRA) enables local authorities to raise revenue through different types of rates from the community generally, specified groups or categories of ratepayers, and those who use or generate the need for particular services or amenities. Sections 16-19 of the LGRA specifically provide for targeted rates as summarised below.

Targeted rates may be set for an activity or groups of activities identified in the local authority's funding impact statement (FIS), including a targeted rate for the quantity of water supplied.

Targeted rates can be set for all rateable land in the district or for different categories of land identified in the FIS and defined in terms of 1 or more of the matters listed in Schedule 2 of the LGRA, which include: land use, area, service availability, situation and value (annual, capital or land value).

A targeted rate may be set on a uniform basis for all rateable land, or differentially for different categories of rateable land.

Factors which can be used for calculating targeted rates are specified in Schedule 3 of the LGRA and include value (land, improvement, capital, or annual value), total land area, area of land paved, sealed or built on, area of land protected, area of floor space of buildings, number of connections, number of water closets and urinals, number of separately used/inhabited parts, and extent of provision of services.

Targeted rates are usually paid incrementally over a longer period and typically require a local authority to borrow to finance the upfront capital costs.

Targeting rates towards those ratepayers who benefit from an investment is seen as a fair way of allocating this burden. Targeted rates can be used "*where a council decides that the cost of a service or function should be met by a particular group of ratepayers (possibly even all ratepayers) on a basis different from that of its general rate*".[9]

Issues with the legislation

Overall, stakeholders' feedback was that the legislation around targeted rates is also largely fit-for-purpose. We were told that the provisions are flexible and provide local authorities with considerable choice in how and where targeted rates are used. Some local authorities told us that they use a lot of targeted rates to ensure that those who benefit pay and to increase transparency about where and why the costs fall to some ratepayers and not to others.

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[9] Local Government Rates Inquiry, 2007, p. 44).

Legislation-related issues that came up in discussions with stakeholders about targeted rates were:

- the option of removing the 30 percent cap on uniform charges/rates;
- the inability to use targeted rates for wastewater on a volumetric basis;
- the option of enabling collection of a growth-related targeted rate to be postponed until a property is sold (ie, postponed rates paid by the purchaser), with this recorded on the land title;
- the option of reviewing and updating LGRA Schedules; and
- inability to use targeted rates based on changes in the value of property over a specific timeframe ('value capture').

The 30 percent cap on uniform charges/rates

Where any targeted rate is calculated as a fixed amount per rating unit, the provisions of section 21 of the LGRA mean that a council cannot collect more than 30 percent of its total rates revenue by way of a combination of those targeted rates and uniform annual general charges (excluding targeted rates that are set solely for water supply or sewage disposal).

The intent of the cap is to limit the regressive impact of uniform/undifferentiated rates (ie, rates that take a larger percentage of a low-level income and a smaller percentage of a higher income). As such, the cap is seen as an 'affordability' intervention which:

- recognises that the cost of basic, universal local authority services is often a larger percentage of the expenditure of the lower income population;[10] and
- limits local authorities' ability to fully apply the 'beneficiary pays principle' when setting uniform targeted rates.

Stakeholder feedback suggests that the cap achieves some of its intended effect, however the water and sewage rate exceptions and the ability to use rating differentials to stay below the cap can substantially reduce its effectiveness.

As the following 'real world' example for a New Zealand residential property with a capital value of $63,000 illustrates, application of the cap to total rates revenue doesn't necessarily protect individual ratepayers from regressive impacts. No rate remissions apply to this property.

Description of rate type	Amount of rate ($)
General rate (capital charge)	95.95
Solid waste management (uniform)	175.00
Uniform annual general charge (uniform)	703.00
Stormwater rural (uniform)	15.00
Water supply (uniform)	1,103.00

[10] As rates are primarily an issue for landowners, this is often raised in the context of elderly ratepayers who may be relatively asset rich (eg, own a debt-free home after a lifetime of work) but who have a low income (eg, rely largely on national superannuation).

Sewerage (uniform)	1,028.00
Targeted services rural (uniform)	32.00
Trade waste contribution (uniform)	40.00
District roading (capital charge)	105.40
District wide benefit water (uniform)	44.00
District wide benefit sewerage (uniform)	56.00
Total rates payable for the property	**3,397.35**

In this example the uniform charges make up $3,196.00 (94%) of the total rates and the exemptions for the significant uniform targeted rates for water supply and sewerage are a significant factor in reducing the progressive effect of the cap for this individual ratepayer.

The Productivity Commission's draft 2019 report recommends that the LGRA should be amended to remove the cap. The Commission considers that *"…the cap has no clear rationale and unnecessarily restricts the discretion of councils to use rates to reflect the benefits of services and amenities. Currently, few councils are close to the cap."*

While the intention of limiting the regressive impact of uniform/undifferentiated rates is at odds with the Commission's finding that "*the cap has no clear rationale*", we do understand how it can be seen as an incongruous restriction on local authorities' otherwise broad capacity "*to use rates to reflect the benefits of services and amenities*". During our recent discussions, at least one stakeholder commented that the cap can limit a local authority's ability to invest and set rates for community-wide assets.

Determining a preferred option (eg, maintaining, altering or removing the current cap provisions) involves considering matters such as:

- taxation principles that should guide decision-making about the use, or not, of uniform charges generally and targeted rates specifically;
- how effective the cap has been in limiting the regressive impact of uniform/undifferentiated rates; and
- other possible ways of intervening to address issues of affordability (eg, through local rates remission or postponement policies and/or through the central government redistribution function, including reform or replacement of the existing rebate scheme).

Question Seven:

Please tell us your preferred option regarding the cap on uniform rates (eg, maintaining, altering or removing the cap) and the rationale for your preference, including how it will help to improve the effectiveness of cost recovery.

Inability to use targeted rates for wastewater on a volumetric basis

Currently, the legislation enables local authorities, or their subsidiary infrastructure providers, to use targeted rates to charge volumetrically for water supply, but not for wastewater. The Productivity Commission's draft 2019 report notes that the Commission has recommended in past inquiries that local authorities should also have the power to levy volumetric wastewater charges.[11]

Although local authorities could develop and use a service contracting approach under current legislative settings (eg, like the approach Watercare has taken in Auckland[12]), we were told by some local authorities that the time, effort and costs to establish and maintain new contracting systems and processes would likely be much higher than setting a new targeted rate. We are also aware that the introduction of metering and volumetric user charges can be controversial in and of itself.

Measurement of wastewater volumes discharged from individual properties is more difficult and complex than measuring the volume of water supplied. Until the difficulty is resolved, any volumetric charges for wastewater could be derived from measurements of reticulated water supplied to the property and, where relevant, the contribution of any alternative water sources on the property to wastewater discharges.

Inevitably there will be instances where volumes of water supplied to a property have little or no relationship to wastewater volumes from the property (eg, where the water is almost all used for on-site irrigation or is otherwise consumed without generating wastewater).

Also, if actual wastewater volumes are measured, there may also be a need to consider how this could influence ratepayer behaviour (both positively and negatively) and what, if any, additional measures may be needed to encourage good behaviour and discourage bad behaviour.

An example of good behaviour might be properly designed and approved on-site water management systems that enable appropriate capture and re-use of some wastewater (eg, separate collection of relatively clean 'grey-water' for irrigation in more arid locations). A bad behaviour would be deliberate, unconsented diversion of sewage to land or to some other inappropriate outfall (eg, to stormwater or a natural watercourse). As existing public health and environmental protection laws already enable enforcement action in such cases, it may be that no additional measures are necessary.

This all creates very complex practical and legal challenges for lawmakers and for the local authorities that implement the law, for example in determining how best to:

- assess and determine a fair volumetric wastewater charge in highly variable, site-specific and ratepayer circumstances; and

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[11] The purpose of a targeted rate is effective and appropriate cost recovery. However, it is recognised that efficient cost recovery can send price signals that help to reduce service and infrastructure costs and environmental externalities.

[12] Watercare has a volumetric charge for wastewater incorporated in its service contract with all properties with a water meter and a wastewater connection. Those properties pay a wastewater charge that is usually based on 78.5 percent of the water volume coming in to the property, as measured by the water meter. For apartments, the charge is usually based on 95 percent.

- ensure adequate protections and recourse for ratepayers where excessive, unfair or otherwise inappropriate volumetric cost recovery situations arise.[13]

We are seeking stakeholder feedback to assist us with assessing whether there are practicable options available to overcome the complex legal challenges that have, until now, prevented targeted rates from being used to charge volumetrically for wastewater.

Question Eight:

Please tell us whether you consider that:

- ***enabling targeted rates to be used to charge volumetrically for wastewater would improve the effectiveness of cost recovery;***
- ***if this was enabled, how you would expect ratepayers to be legally protected from excessive, unfair or otherwise inappropriate volumetric cost recovery situations;***

Please also describe:

- ***what you see as the main barriers to volumetric wastewater charges and how they might be overcome; and***
- ***data sources you would recommend to help understand the water in/water out ratio in different contexts (ie, where direct measurement of wastewater flows is not practicable).***

Postponing growth-related targeted rate collection

During stakeholder discussions we noted a suggestion that consideration could be given to a new rates postponement provision whereby collection of growth-related targeted rates is permanently postponed until a property is sold. The suggestion was that the postponed rates would be payable by the purchaser rather than the seller and a record of the postponement be placed on the land title to help ensure potential purchasers were aware of the rates owed.

As it was explained to us, we understand this suggestion is intended to:

- give existing landowners/ratepayers, including developers who are holding land pending its sale, relief from additional, growth-related costs;
- recognise that it is the subsequent purchasers/landowners who are the primary beneficiaries of the new infrastructure the targeted rates apply to; and
- ensure prospective purchasers can easily discover the postponement and the financial liability associated with it (ie, through a land title search).

[13] Noting that local authority ratepayers would not have access to statutory consumer protections (eg, the Fair Trading Act), which do apply, for example, to Watercare customers.

Section 102(3)(b) of the LGA already enables local authorities to adopt a rates postponement policy and section 110 sets out requirements for such a policy. Section 87 of the LGRA is also relevant where a postponement policy has been adopted.

Many councils have a rates postponement policy for residential properties, and these vary considerably. Generally, the policies allow certain people (eg, older persons) with equity in their homes and who meet some other criteria to choose to defer the payment of their rates, sometimes for years. There is usually an administration fee and some level of interest to pay on the sum owed.

Accordingly, it appears that the stakeholder suggestion could be largely met by local authorities adopting or amending a rates postponement policy to enable postponement of growth-related targeted rates. For the reasons outlined in the paragraphs below, we question whether there is any need for new legislative provisions requiring postponed rates to be paid by a purchaser or recording rates postponements on the land title.

Section 38 of the LGRA already provides for the inspection of rates records for a rating unit. Although rates arrears, remissions and postponements are not able to be made available to the general public, all the rates record can be inspected by:

- a person who is authorised by the ratepayer to do so:
- a solicitor, a person (not being a lawyer) who provides conveyancing services, a real estate agent, or any other person, who—
  - is a party to (or acting as an agent for a party to) a transaction relating to the rating unit; and
  - reasonably requires the information in the rates record for the purposes of the transaction.

Examining rates records is standard due diligence and conveyancing practice and rates owing on a property are normally part of the settlement calculation, so, in the ordinary course of events, purchaser awareness should not be an issue. Adding and maintaining information on the land title is likely to be more complex and expensive, with little additional benefit.

If the due diligence checks reveal that the amount of any postponed rates is significant, it will likely influence the sale price of the rating unit, regardless of who pays. If, as is usually/presently the case in residential sale and purchase agreements, the seller is liable to pay then the seller is motivated to recover some of the cost in the sale price. If a purchaser were to become liable, then the reverse would apply (ie, the purchaser would seek a corresponding reduction in the price).

We also note the risk that postponement may further incentivise developers to hold land rather than develop it, and delay the time at which a local authority receives revenue to pay back the money borrowed to fund the development infrastructure.

Question Nine

With effectiveness of cost recovery in mind, do you consider that existing statutory provisions are already adequate to enable:

- ***postponement of growth-related targeted rates until a property is sold; and***
- ***prospective purchasers to make effective due diligence checks about postponed rates?***

If not, please explain what changes you consider are necessary.

Reviewing Local Government (Rating) Act Schedules

One local authority we met with suggested that the LGRA Schedules relating to categories of rateable land and calculating liability for targeted rates (Schedules 1, 2 and 3 to the Act) could be reviewed to ensure they are up-to-date and are not unduly constraining in the present environment. No specific change suggestions were proposed by that authority.

To assist us with considering whether the Schedules need to be reviewed and what, if any, amendments may be appropriate we invite your feedback on this review suggestion.

Question Ten:

If you consider that any changes are needed to Schedules 1, 2 or 3 of the LGRA to enable more effective cost recovery, please describe the changes and explain why the changes are needed.

Implementation issues and options

Stakeholder feedback related to targeted rates indicated that the main options for addressing implementation issues are like those referred to when discussing development contributions, namely:

- centrally developed guidance resources, advice and support; and
- regional collaboration and information and resource sharing.

Accordingly, please refer to the earlier discussion about implementation issues in the development contributions section of this paper.

The potential of value capture tools?

Introduction

Public infrastructure investments funded in traditional ways can increase adjacent land values and result in a cost-free profit (windfall gain) for the owners of the land. In this context, the term 'value capture' refers to conversion of at least some of that windfall gain into public revenue.

Value capture is not a cost recovery tool like development contributions or targeted rates in their current form. Whether and how any value capture options could generate revenue more efficiently and fairly than existing tools in New Zealand remains to be determined. However, we are taking this opportunity to also seek stakeholder feedback to help inform future consideration of the targeted rates regime; and whether there may be merit in changes that would enable a value capture approach. This is not a value capture proposal.

Other government agencies, such as the Ministry of Transport and Ministry of Housing and Urban Development, are also considering the potential of value capture options for transport and housing infrastructure developments. We are in regular communication with these agencies and may share some of the feedback we receive to assist their complementary work on this topic.

Value capture tools: A brief overview

Much has been written about value capture theory and implementation, particularly around the value created by new transport infrastructure. There are also cases where private developers contribute significant funding so they can share in the value capture, often in association with new infrastructure (eg, railway stations) and high density commercial and residential developments.

Two examples of value capture tools most often referred to in our initial discussions with stakeholders were:

- ***Tax increment financing*** (TIF): A 'TIF zone' is established in the area where property values are expected to rise and sets base property values and tax revenue for the zone. When property value increases in the TIF zone tax revenue above the base rate is directed to re-paying loans used to finance the infrastructure investment.[14]
- ***Betterment tax***: Usually based on land value and paid by the property owners identified as direct beneficiaries of a zoning change or infrastructure investment. This tool requires attribution of the value increase to the change or investment (ie, as distinct from general land price increases at the local level).

[14] New Zealand local authority rates are a very different system to the property tax systems in countries where the TIF approach has been used. New Zealand rates revenue is budget driven (cost-based), whereas overseas tax rates are fixed and revenue fluctuates according to changes in the property values.

> We note that local government legislation currently in force enables a local authority to require, in certain circumstances, a landowner to pay a betterment charge where land value increases as a result of the creation or widening of a road. [15]

Please note that this workstream is not considering other value capture tools such as transaction taxes.[16]

Issue summary

Local authorities are required to take a cost-based approach to long-term planning and setting rates. Stakeholders have told us that, although there may be some increase in revenue where there is an increase in the number or rating units, the cost-based approach can prevent revenue from increasing to match significant, unanticipated growth pressures.

The current LGRA provisions do not enable local authorities to use targeted rates based on changes in the value of property over a specific timeframe. This prevents local authorities from using targeted rates to capture some of the uplift in property values generated by infrastructure investment.

In a series of recent reports, the Productivity Commission has recommended that value capture tools be established to enable local authorities to generate funding for infrastructure projects that would otherwise be difficult to initiate, while allocating the financial burden more fairly towards those enjoy a direct windfall benefit.

The Commission sees merit in implementing value capture by allowing local authorities to levy a targeted rate on the uplift in land values within a defined area (ie, where the increase in value is sufficiently greater than the general property inflation in the wider district). When consideration is given to the Commission's recommendation it is likely that the utility of tax increment financing or betterment tax options will be assessed.

Some stakeholders have also suggested that local authorities should be able to set a value capture targeted rate at any time (ie, outside the annual planning and rate-setting cycle) and for multiple years. They consider that this would better enable the timely capture of property value increases due to a zoning change or infrastructure investment. This suggestion recognises that some significant value increases can occur relatively quickly in anticipation of, or shortly after, an announcement about the local authority action (eg, a zoning change or planned infrastructure investment).

However, we note that there would be accountability challenges associated with local authorities potentially being able to set rates outside of the annual planning cycle.

Some other things to consider

Value capture tools are conceptually attractive when focusing on a 'beneficiary pays' approach. The targeted approach enabled by such tools should ensure that those who benefit most from proximity to infrastructure via higher property values, added commerce, or use of the infrastructure, help to pay for it.

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[15] Section 326 of the Local Government Act 1974.

[16] For example, transaction taxes may apply to the difference in the price of a property and the price received when it is sold (ie, capital gains tax) and tax on the purchase of certain assets such as property (eg, stamp duty).

However, overseas experiences indicate that legislative design and implementation would need to be undertaken carefully to ensure that associated risks are minimised.

A 2018 research report on TIFs published by the US Lincoln Institute of Land Policy '*Improving Tax Increment Financing (TIF) for Economic Development*' comments that "*The basic design of TIF has significant virtues, but decades of experience and research from around the United States show that often TIF is flawed in practice. This report argues that, if used properly, TIF can be an important tool to nurture economic development in the public interest*."

Implementing a TIF or betterment tax does not guarantee additional revenue. Because there are many factors that influence property values, a zoning change or investments in infrastructure on their own may not always cause prices to rise.

The attribution challenge of a betterment tax was also summarised in a May 2010 Australian report '*Australia's future tax system*' which noted that "*…in practice, betterment taxes can increase the uncertainty associated with land development. To operate effectively, betterment taxes need to isolate the increase in value attributable to the zoning decision or the building of infrastructure from general land price increases at the local level. This is often difficult since the value of land will move in anticipation of a change in re-zoning. Sometimes this can occur many years before the re-zoning.*"

In its December 2016 publication '*Capturing Value: Advice on making value capture work in Australia*, Infrastructure Australia also observed that estimating value uplift is complex. The publication noted that "*Analysis of property data around recent Australian infrastructure projects shows that the impact of these investments is difficult to isolate from other factors determining property prices. Broader property market forces typically dominate price trends in the areas around projects, and there is often a high degree of price fluctuation across the period of project delivery*".

In our discussions with Infrastructure New Zealand we also heard expressions of concern about the complexity of property-related taxes and associated revenue forecasting difficulties which have potential to make value capture taxes unfair and economically inefficient. Infrastructure New Zealand suggested that it would be preferable to shift rates to a 'pricing-based' approach as that creates incentives on all parties to be efficient and minimise costs.

Infrastructure New Zealand also referred to overseas experiences where value capture is achieved through government ownership of the land prior to the zoning change or infrastructure development – most often transport-related. Clearly this would require detailed, long-term strategic planning and, most likely, the exercise of powers well beyond the scope of a targeted rate regime.

Other risks associated with betterment taxes referred to in the May 2010 Australian report were:

- the taxes may be applied on an ad hoc basis;
- a lack of transparency where tax rates are determined through discussions between developers and government as part of the planning approval processes;

- delays; as setting the tax conditions can create lengthy disputes about how to share the 'economic rent';[17]
- governments may be incentivised to create economic rent through additional zoning restrictions or delays in land release, in order to raise more revenue (which is likely to stop land being devoted to its most productive use — at least in the short run).

If value capture approaches like the special tax bonds used in the USA were to be enabled here that would involve significant changes to New Zealand legislation. The policy and legislative design process would need to consider matters such as voter approval of a long-term pledged special taxes; issuance of special tax bonds the tax is pledged to repaying; pledging the moneys raised to a special public service; and prohibiting the use of council's general revenues to repay those bonds, enabling them to be independently credit rated.

Question Eleven:

Do you support the idea of legislative changes to establish new value capture tools for local authorities to use to generate funding for infrastructure projects? Please explain your answer.

If you support the idea and have a preferred value capture option, please describe that option and explain the reasons for your preference.

[17] Economic rent is the extra amount earned by the land by virtue of its present use.

Debt servicing benchmark

Overview of current legislative provisions

The Local Government (Financial Reporting and Prudence) Regulations 2014 do not set hard limits but do require local authorities to report their actual and planned performance against several financial prudence benchmarks, including a debt-servicing benchmark (regulation 21).

The debt servicing benchmark, focused on sustainability (including capacity to deal with unexpected events/shocks), is a ratio of the borrowing costs against revenue (excluding development contributions, financial contributions, vested assets, gains on derivative financial instruments, and revaluations of property, plant, or equipment).

A local authority meets the debt servicing benchmark for a year if it's borrowing costs for the year equal or are less than 10 percent of its revenue for the year. However, a high-growth local authority meets the debt servicing benchmark for a year if it's borrowing costs for the year equal or are less than 15 percent of its revenue.[18]

We note advice in a June 2018 Treasury Report[19] that all high growth local authorities, apart from Auckland, could double their borrowing and still not breach the 15 percent debt servicing benchmark (assuming no change in interest rates).

The option of removing the benchmark

The utility of the debt servicing benchmark has been questioned. During our discussions with local authority stakeholders there were no expressions of concern about the option of removing the debt servicing benchmark. The feedback suggested that local authorities largely view reporting against the benchmark as a compliance issue.

The baseline covenants of the Local Government Funding Agency and credit rating agency criteria (see below) are clearly more impactive and relevant to local authorities than the debt servicing benchmark.

We note that the three main credit-rating agencies[20] rate local authorities, with each having their own methodologies for making credit-rating assessments.

Naturally, local authorities are motivated to maintain credit ratings that help to minimise borrowing costs. Signals from rating agencies, and internal assessments by local authorities[21], indicate that there may be flow on effects/increased debt costs where a rating

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[18] A high-growth local authority is a local authority whose population is expected to grow at or above the national population growth rate.

[19] https://treasury.govt.nz/sites/default/files/2019-02/oia-20180278.pdf

[20] Standard & Poor's (S&P), Moody's and Fitch Group.

[21] Specialist finance staff at Auckland City Council and the LGFA told the Productivity Commission that if Auckland suffered a credit downgrade it would likely lead to an increase in the cost of new debt of 0.1% to 0.15% (10 to 15 basis points) or $1 million to $1.5 million a year on a loan of $1 billion.

agency downgrades the credit rating of a local authority and/or the LGFA which may ultimately lead to a rise in the cost of borrowing for all local authorities in New Zealand.

As well as the desire to retain strong credit ratings (which assists in minimising the cost of borrowing), self-imposed borrowing limits and associated ratepayer preferences for low debt and low rates may mean that some local authorities are unwilling to increase their debt levels.

Question Twelve:

Do you support the option of removing the debt servicing benchmark from the Local Government (Financial Reporting and Prudence) Regulations 2014? Please explain the reasons for your answer.

Appendix One: Further Information on recent Productivity Commission reports

Using land for housing (2015)

The Productivity Commission's 2015 report noted that the pressure to not increase rates, debt levels and/or development contributions is directly associated with many councillors using "reduce debt" as one of their election platforms in local government elections.

A different interpretation might be that local authorities are prioritising the current and future interests of their existing residents who, unsurprisingly, are reluctant to pay for investment from which they see no benefit. We were also told that trade-offs must sometimes be made, such as choosing to invest in improvements to existing assets rather than new assets to meet growth demands.

Better urban planning (2017)

The Productivity Commission's 2017 report included a recommended decision framework for funding infrastructure. The Commission concluded that local authorities should use targeted rates for the following three main purposes.

- As an alternative to development contributions for infrastructure that serves a new development, where developers and residents prefer to spread the upfront cost over time rather than pay it upfront, and where the council can extend its debt to enable this.
- To fund broader community infrastructure that benefits a wider group of ratepayers than those within a new development. Development contributions would not be appropriate in cases such as this because they target only developers (and the customers of developers). This case also assumes that user charges to recover full costs would be either not practical or not efficient.
- To form part of an efficient scheme of non-linear pricing for infrastructure services. All service consumers could pay the targeted rate in addition to the unit charges they face (based on marginal cost). The rate could proxy the uniform daily charges used by private utility operators and help councils to recover full costs from users.

The report also noted that "*Ensuring that those benefiting from the additional infrastructure bear the financial cost also reduces the burden that infrastructure expenses place on general rates. Targeted rates can be an effective way to recover from beneficiaries the costs neither practically nor efficiently recoverable through user charges. For example, people who never use a community facility may benefit from it. Retailers might benefit from a community centre or library that attracts people to their area, even if the retailer never uses the facility.*"

Responses to a survey referenced in this report indicated that the problem of funding urban infrastructure could be addressed, at least in part, through more extensive use of user charges.

The report also notes that:

- political pressures may be responsible, at least partly, in influencing the decisions a local authority makes regarding the provision, or not, of infrastructure and infrastructure related investments;
- pressure from existing residents, who are fearful that growth and development will impact them in negative ways (eg, rate rises and higher debt burdens), is a potent influence on council politics and decision making;
- what often appears to be overlooked, or at least discounted, is that new residents, however, add to general rates because growth leads to an increased number of rateable properties.

Local government funding and financing (draft 2019 report)

The existing tools workstream is in regular contact, and closely coordinated, with the DIA Central/Local Government Partnership Group's wider programme of work, including the Group's consideration of outcomes from the current Productivity Commission inquiry into local government funding and financing.

The Productivity Commission's final report is due in November 2019. However, the Commission's July 2019 draft report suggests that:

- a fit-for-purpose future funding and financing system for local government would look substantially like the present system but with some significant new tools and improved council performance; and
- the appropriate use of rates (including targeted rates), along with user charges, development contributions and connection charges is efficient and can also yield fair outcomes in the sense of satisfying the benefit principle – that those who benefit from a service or cause the need to prevent or mitigate a harm should pay.

Recommendations in the Commission's draft report directly relevant to this workstream are to:

- give councils the ability to levy targeted rates on the *increase* in land value as an additional revenue source for high-growth urban councils (ie, the 'value capture' concept); and
- enhance councils' ability to charge for congestion and wastewater (by volume).

Appendix Two: Feedback Questions

Question One: Operating costs related to development contributions

Please tell us whether you support the idea of amendments to enable inclusion of some operating costs in development contributions, or whether you prefer to retain the current focus on capital expenditure. Please explain the reasons for your answer.

If you support the amendment idea, please include in your answer information about:

- how this would enable more effective cost recovery and why this is preferable to using targeted rates;
- how you consider such costs should be determined; and
- what, if any, implications higher development contributions will have on growth?

Question Two: Types of infrastructure that can be funded

Given the potential already provided by the 'control' reference in the LGA definition of community infrastructure, do you consider that there is any need to consider further amendments? Please explain the reasons for your answer.

If you support further amendments, please include in your answer an explanation of:

- how the amendments would enable more effective cost recovery; and
- how you consider the risks identified in this paper could be effectively managed.

Question Three: Complexity of the legislation and risk of legal challenge

Please indicate any specific legislative provisions related to development contributions you consider are not clear, what changes you would suggest to improve clarity and how the changes would enable more effective cost recovery.

Question Four: Central guidance resources, advice and support

<u>With cost recovery effectiveness in mind</u>, please tell us:

- which existing guidance resources and advisory support arrangements you value most highly and why;
- whether you consider central guidance resources and advisory support could be improved and, if so:
    - what specific improvements are needed and why;
    - who should lead and contribute to the improvement work; and
    - who should pay for the improvements and any ongoing delivery costs and why they should pay.

- your view of the standardised template recommendation in the draft Productivity Commission report and the idea that the use of such templates should be a 'requirement'.

Question Five: Regional collaboration, information and resource sharing

With cost recovery effectiveness in mind, please tell us:

- which existing regional collaboration arrangements you value most highly and why;
- whether you consider regional collaboration could be improved and, if so, what specific improvements are needed and why.

Question Six: Compliance checking

Do you consider compliance checking powers beyond current provisions (eg, the powers of Development Contribution Commissioners) would improve the effectiveness of cost recovery? Please explain your answer.

If you do consider there is a need for new or additional compliance checking powers to improve the effectiveness of cost recovery:

- what would those powers be;
- how would you see them working in practice; and
- how should the exercise of such powers be funded?

Question Seven: The 30 percent cap on uniform charges/rates

Please tell us your preferred option regarding the cap on uniform rates (eg, maintaining, altering or removing the cap) and the rationale for your preference, including how it will help to improve the effectiveness of cost recovery.

Question Eight: Targeted rates for wastewater on a volumetric basis

Please tell us whether you consider that:

- enabling targeted rates to be used to charge volumetrically for wastewater would improve the effectiveness of cost recovery;
- if this was enabled, how you would expect ratepayers to be legally protected from excessive, unfair or otherwise inappropriate volumetric cost recovery situations;

Please also describe:

- what you see as the main barriers to volumetric wastewater charges and how they might be overcome; and
- data sources you would recommend to help understand the water in/water out ratio in different contexts (ie, where direct measurement of wastewater flows is not practicable).

Question Nine: Postponing growth-related targeted rate collection

With effectiveness of cost recovery in mind, do you consider that existing statutory provisions are already adequate to enable:

- postponement of growth-related targeted rates until a property is sold; and
- prospective purchasers to make effective due diligence checks about postponed rates?

If not, please explain what changes you consider are necessary.

Question Ten: Reviewing Local Government (Rating) Act Schedules

If you consider that any changes are needed to Schedules 1, 2 or 3 of the LGRA to enable more effective cost recovery, please describe the changes and explain why the changes are needed.

Question Eleven: Value capture considerations

Do you support the idea of legislative changes to establish new value capture tools for local authorities to use to generate funding for infrastructure projects? Please explain your answer.

If you support the idea and have a preferred value capture option, please describe that option and explain the reasons for your preference.

Question Twelve: Debt servicing benchmark

Do you support the option of removing the debt servicing benchmark from the Local Government (Financial Reporting and Prudence) Regulations 2014? Please explain the reasons for your answer.

September 2019

Feedback Template: Infrastructure Funding and Financing: Development contributions and targeted rates

Respondent details

Please provide the following details so we can identify which organisation this feedback is from and, if necessary, follow up to clarify or discuss your feedback.

Organisation Name	Kāpiti Coast District Council

Feedback invitation

Please review the information paper '*Infrastructure Funding and Financing: Development contributions and targeted rates (September 2019)*' and use this template to provide us with your responses to the following questions. It is not necessary to answer every question.

Please save your responses and **email them to Isaac.ryan@dia.govt.nz by the due date of 23 October 2019.**

Thank you very much for interest and assistance with this work.

Question One: Operating costs related to development contributions

Please tell us whether you support the idea of amendments to enable inclusion of some operating costs in development contributions, or whether you prefer to retain the current focus on capital expenditure. Please explain the reasons for your answer.

If you support the amendment idea, please include in your answer information about:

- how this would enable more effective cost recovery and why this is preferable to using targeted rates;
- how you consider such costs should be determined; and
- what, if any, implications higher development contributions will have on growth?

Answer:

Drafting and administering a Development Contributions Policy, as required by law, is complex, time-consuming and therefore costly however some of the benefits of doing it well can accrue to the whole community.

Equally, developers should bear the vast majority of the growth-related costs of network infrastructure arising from development as they or the ultimate purchasers are the ones who benefit the most but existing legislation only allows councils to recover the growth-related capital expenditure. Any incorporation of operating cost recovery into legislation would, if agreed, likely only occur as part of a major overhaul of the entire legislation. Unless, perhaps, a flat-rate administration fee (accompanying the development

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contribution) to contribute towards council's operating costs was introduced, by way of a minor amendment?

Given that development contributions are already contentious and problematic for many councils and developers, any overall increase in developer fees needs to be balanced with the over-riding need to encourage growth and thereby increase housing capacity. Further to this, we don't currently charge all our capital-related costs such as interest on borrowings for growth-related capital expenditure.

This is not a significant cost for this Council.

Question Two: Types of infrastructure that can be funded

Given the potential already provided by the 'control' reference in the LGA definition of community infrastructure, do you consider that there is any need to consider further amendments? Please explain the reasons for your answer.

If you support further amendments, please include in your answer an explanation of:

- how the amendments would enable more effective cost recovery; and
- how you consider the risks identified in this paper could be effectively managed.

Answer:

This Council would like to have the ability to co-fund infrastructure on land owned by a third party or through central government partnerships. An example is the current development of a Performing Arts Centre on the Kāpiti Coast. Even though the Council is contributing to the Centre, as it has no control or ownership interest in the building, it is unable to charge development contributions to assist with the increased infrastructural requirements directly resulting from the growth-impacts of the new Centre.

The Government's recently announced National Education Growth Plan (NEGP) is "a new way of thinking about and co-ordinating the Ministry of Education's response to population growth across New Zealand. The NEGP will ensure that sufficient capacity in the school network is delivered as the right type, in the right place, at the right time."

Further to this, we understand that the Minister for Education has recently announced his wish for the utilisation of school infrastructure to be maximised so that it more fully benefits the wider communities that it serves.

This represents a perfect opportunity for central government to work collaboratively and supportively with local government to ensure that local government doesn't continue to pick up further unrecoverable costs as a result of Crown exemptions to central government policy.

Councils should have the ability to charge Development Contributions for any community infrastructure that has growth-related impacts on its networks, regardless of who owns the land on which the infrastructure is built.

Question Three: Complexity of the legislation and risk of legal challenge

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Please indicate any specific legislative provisions related to development contributions you consider are not clear, what changes you would suggest to improve clarity and how the changes would enable more effective cost recovery.

Answer:

Ongoing changes to legislation are particularly unhelpful, with councils having to bear not insignificant administrative costs of having to amend their policies. For example, the overlap between development contributions and financial contributions, followed by a proposed phasing out of financial contributions and then, before the end of the phasing out period, the re-introduction of financial contributions – with the removal of the ability for councils to charge in relation to community infrastructure.

Simplification of legislation where possible is always welcome but it has to be given an opportunity to bed in and it should be equitable and transparent.

Question Four: Central guidance resources, advice and support

With cost recovery effectiveness in mind, please tell us:

- which existing guidance resources and advisory support arrangements you value most highly and why;
- whether you consider central guidance resources and advisory support could be improved and, if so:
  - what specific improvements are needed and why;
  - who should lead and contribute to the improvement work; and
  - who should pay for the improvements and any ongoing delivery costs and why they should pay.
- your view of the standardised template recommendation in the draft Productivity Commission report and the idea that the use of such templates should be a 'requirement'.

Answer:

We welcome further central government guidance and support and consider that a standardised template could be a useful option for many councils, noting that they should have the right to use it or not use it, and tweak it as they see fit. This work should be local-government led, including the DCWG (Development Contributions Working group) as this is where the expertise and day to day operational knowledge resides. It should be a collaborative process with significant involvement from all council stakeholders, and central government should support the process financially.

To quote the Productivity Commission – "A key cause of funding pressures on local government is the continued accumulation of functions and responsibilities that central government has passed to councils over the years."

The current exemptions for Crown entities sends a negative message and central government should demonstrate its support for local government by removing them.

Question Five: Regional collaboration, information and resource sharing

With cost recovery effectiveness in mind, please tell us:

- which existing regional collaboration arrangements you value most highly and why;
- whether you consider regional collaboration could be improved and, if so, what specific improvements are needed and why.

Answer:

The Development Contributions Working Group (DCWG) has provided a useful sounding board and a wealth of knowledge and experience to our Council and we were surprised by their omission from direct stakeholder engagement.

This Council works well with its peer councils and neighbours, and will continue to work collaboratively to standardise policy across the region where it is appropriate to do so.

Question Six: Compliance checking

Do you consider compliance checking powers beyond current provisions (eg, the powers of Development Contribution Commissioners) would improve the effectiveness of cost recovery? Please explain your answer.

If you do consider there is a need for new or additional compliance checking powers to improve the effectiveness of cost recovery:

- what would those powers be;
- how would you see them working in practice; and
- how should the exercise of such powers be funded?

Answer:

We agree with your assertions with regards to councils compliance with legislative requirements around development contributions, specifically that they:

- strive to achieve legal compliance;
- receive appropriate legal advice where necessary;
- any non-compliance would generally be due to an oversight or misinterpretation, and
- once aware of non-compliance, councils act quickly to fix them.

There is no obvious rationale in creating further layers of compliance-checking as the time and cost of doing so seems unlikely to be outweighed by the benefits that would accrue.

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Accordingly, we agree with your assertion that no additional compliance checking is required.

Question Seven: The 30 percent cap on uniform charges/rates

Please tell us your preferred option regarding the cap on uniform rates (eg, maintaining, altering or removing the cap) and the rationale for your preference, including how it will help to improve the effectiveness of cost recovery.

Answer:

This Council recognises fixed charges as a regressive form of taxation that take no account of ability to pay, and therefore we limit the use of fixed charges as far as possible. Furthermore, we actively encourage our residents to apply for rates rebates, where they are eligible, and have a broad-ranging suite of rates remissions and we encourage those members of our community who most need them to apply for them wherever possible.

The 30% cap is well-intentioned but it is an aggregate position that takes no account of individual ratepayers, and the 30% limit has little rationale. There is also sufficient flexibility within the legislation to enable councils who wish to get round the 30% limit to do so. We are slightly concerned that removal of the cap may remove incentives for some councils to take a progressive approach to rating their community. But overall we believe that maintaining, altering or removing the cap will make little difference.

Question Eight: Targeted rates for wastewater on a volumetric basis

Please tell us whether you consider that:

- enabling targeted rates to be used to charge volumetrically for wastewater would improve the effectiveness of cost recovery;
- if this was enabled, how you would expect ratepayers to be legally protected from excessive, unfair or otherwise inappropriate volumetric cost recovery situations;

Please also describe:

- what you see as the main barriers to volumetric wastewater charges and how they might be overcome; and
- data sources you would recommend to help understand the water in/water out ratio in different contexts (ie, where direct measurement of wastewater flows is not practicable).

Answer:

This Council has already successfully introduced water meters, which has decreased overall costs and significantly improved sustainable practices within our community. Therefore, the introduction of volumetric wastewater charging, based on metered water supply coming in to the property, would be easier for us to introduce than it would be for other councils that don't currently have water meters.

However, the accurate assessment of and charging for wastewater usage on a volumetric basis is extremely challenging due to the differing natures of some of the main property categories. For example, urban versus rural, especially given the significant differences in irrigation that may be necessary on some rural properties. Another example is commercial properties with significant volumes of trade waste, where the proposed proxy of basing wastewater usage on water inflows would clearly be inappropriate.

Volumetric charging for wastewater may encourage more sustainable behaviours in terms of water usage and water conservation however we don't consider it will increase the effectiveness of cost recovery.

We believe that security of water supply is understandably a greater priority for many councils than volumetric charging for wastewater which is complex and contentious, and whose benefits may not outweigh the time and cost of implementation.

Question Nine: Postponing growth-related targeted rate collection

With effectiveness of cost recovery in mind, do you consider that existing statutory provisions are already adequate to enable:

- postponement of growth-related targeted rates until a property is sold; and
- prospective purchasers to make effective due diligence checks about postponed rates?

If not, please explain what changes you consider are necessary.

Answer:

We agree with your last point on page 26 of the information paper, namely, that postponement may further incentivise developers to hold land and accordingly therefore we do not support the postponement of growth-related targeted rate collection.

This Council already has appropriate mechanisms in place through developer agreements to facilitate late payment from developers where it makes sense to do so. Payment of Development Contributions just before the property is sold is an efficient method of cost recovery which doesn't require additional administrative layers and doesn't result in the confusing and potentially misleading sale price comprising two distinct and significant amounts , from two different sources.

Question Ten: Reviewing Local Government (Rating) Act Schedules

If you consider that any changes are needed to Schedules 1, 2 or 3 of the LGRA to enable more effective cost recovery, please describe the changes and explain why the changes are needed.

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Answer:

A combination of the election cycle and political process can often lead to significant changes and reversals in legislation that local government has to implement. For example, the overlap between the financial contributions and development contributions charging regimes which has resulted in a lot of confusion and expense, which will finally be brought to an end with the phasing out of financial contributions in 2022.

Where the Crown is the landowner, it is exempt from paying development contributions by statute. Central government could demonstrate simple, transparent and equitable practice by removing this unfair exemption.

Question Eleven: Value capture considerations

Do you support the idea of legislative changes to establish new value capture tools for local authorities to use to generate funding for infrastructure projects? Please explain your answer.

If you support the idea and have a preferred value capture option, please describe that option and explain the reasons for your preference.

Answer:

Value capture sounds good in theory, but as you note, the design and implementation are problematic, particularly with regard to isolating the different factors that affect property prices, and by how much they do so. For example, what happens when properties lose value as opposed to gaining in value, which is likely to be the case for a number of coastal properties? And increases in property value aren't always accompanied by an increase in ratepayers' ability to pay existing rates, let alone an increased level of rates.

It is easy to envisage multiple contentious situations where agreement cannot be reached on the value capture and ultimately the only people to benefit are lawyers. Therefore, we do not support implementing value capture.

Question Twelve: Debt servicing benchmark

Do you support the option of removing the debt servicing benchmark from the Local Government (Financial Reporting and Prudence) Regulations 2014? Please explain the reasons for your answer.

Answer:

We are comfortable with this benchmark being removed, or if it is retained it should be a measure of net financing costs to take into account pre-funding of borrowings which is a prudent and pragmatic strategy used to great effect by many councils, including this one.

This Council manages its debt prudently and our approach to debt-servicing is significantly influenced by the benchmarks and applicable standards of the Local Government Funding

Agency (LGFA) from whom we receive the vast majority of our debt financing, and Standard and Poor's, who provide an independent assessment of our credit-worthiness.

Question Thirteen: Additional comments

If you would like to provide us with any additional comments on the matters covered in the information paper, please provide those comments here.

Answer:

This Council considers that the DIA review has skirted around the edges while avoiding the bigger picture, namely that councils require better funding tools that recognise ability to pay and are collectible, and more importantly are not rates rates-related. We have offered our suggestions to the Productivity Commission and would welcome the opportunity to engage with the DIA on meaningful value-adding options that would positively impact our community.

As an aside, we understand that the DIA's Service Innovation Lab is being closed down. We would be disappointed if this was indeed the case. The Lab trials that this Council was involved in were encouraging in terms of enabling easier access to rates rebates by those people in the community who need them most.

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Kāpiti Coast
DISTRICT COUNCIL
Me Huri Whakamuri, Ka Titiro Whakamua

27 November 2019

Committee Secretariat
Social Services and Community Committee
Parliament Buildings
Wellington

Email: ssc@parliament.govt.nz

RATES REBATE (STATUTORY DECLARATIONS) AMENDMENT BILL

Kāpiti Coast District Council (Council) supports the intent of the Rates Rebate (Statutory Declarations) Amendment Bill to make it easier for eligible applicants to apply for a rates rebate; however, Council would like to propose an additional amendment to remove the need for customers to provide proof of income.

Council participated in the Rates Rebate Beta Trial, alongside Tauranga City Council and Hutt City Council. The online application tested in the Trial removed the need for customers to provide proof of income, but this amendment was not carried through to the draft Bill. Removing the requirement that an applicant had to attend a local authority office, or make some other arrangement, to have their application witnessed by a person authorised to take statutory declarations under the Oaths and Declarations Act 1957 *without also removing the need for proof of income is likely to result in additional administrative costs for local councils*.

Presently, the witnessing of a customer's declaration serves as a means to ensure that all supporting information has been received. Under the current draft of the Bill, councils will no longer have the opportunity to do this. As a result, councils will then need to follow up with applicants for missing information.

To remedy this, Council recommends that the Bill be amended to remove the need for customers to provide proof of income. A simple requirement to include the individual's IRD number would allow the IRD to confirm the income if needed as part of their audit process. This would further simplify the rates rebate application process and save administrative costs. While this amendment could lead to increased concerns about fraud, these concerns could be remedied with more robust protections, such as those recommended by the New Zealand Society of Local Government Managers (SOLGM) in their submission on this Bill.

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Another issue that affects some of our residents is the requirement for property owners to own property at 1 July to qualify for a rates rebate. To ensure all residents are treated equally, we would recommend that some form of pro rata calculation be written into the legislation.

Thank you once again for the opportunity to submit on the Rates Rebate (Statutory Declarations) Amendment Bill.

Yours sincerely

Wayne Maxwell
CHIEF EXECUTIVE

2

8.9 CONTRACTS UNDER DELEGATED AUTHORITY

Author: Jacinta Straker, Chief Financial Officer

Authoriser: Sean Mallon, Group Manager Infrastructure Services

PURPOSE OF REPORT

1 This report provides an update on any contracts over $250,000 accepted under delegated authority for the period 1 July to 30 September 2019.

DELEGATION

2 The Operations and Finance Committee has delegated authority to consider this report under the following delegation in the Governance Structure, Section B.2.

> *This Committee will deal with monitoring and decision-making on all broader financial management matters, including approval of contracts and contract variations outside the Chief Executive's delegations*

CONSIDERATIONS

<u>Contract 2018/C210 – Stormwater Asset Renewals in Paraparaumu Catchment 7</u>

3 Four tenders were received ranging between $640,227 to $1,147,731.

4 The Contract was awarded to Interflow New Zealand Limited for the sum of $640,227 based on the weighted attribute method.

5 Engineer's estimate for the works - $917,605.

6 Local content for the Contract is 20% (wages of some field staff).

<u>Contract 2019/C247 – Kapiti Coast East West Connection Business Case</u>

7 Four tenders were received ranging between $250,000 to $400,000.

8 The Contract was awarded to Jacobs NZ Limited for the sum of $268,726, based on the Price Quality Method in accordance with NZTA Procurement manual.

9 Engineer's estimate for the works - $300,000.

10 Local content for the Contract is 50%.

<u>Contract 2019/C250 – K9 Kapiti Road Shared Path Project</u>

11 1 tender was received and awarded to Brian Perry Civil for the sum of $1,156,919.

12 Local content for the Contract is 80%

<u>Contract 2019/C278 – Traffic Counting Services 2019-2022</u>

13 Four tenders were received ranging between $260,000 to $1 million.

14 The Contract was awarded to Quik-Shot trading as AES Limited for the sum of $265,486, based on the Price Quality Method in accordance with NZTA Procurement manual.

15 Engineer's estimate for the works - $80,000 annually.

<u>Contract – Youth Development Centre (and satellite services)</u>

16 Zeal Education Trust continues the nine-year term contract (currently in year five).

17 Three-year renewal at $281,000 per annum.

CONSIDERATIONS

18 There are no legal, consultation and publicity considerations arising from this report.

SIGNIFICANCE AND ENGAGEMENT

Significance policy

19 The Council's significance policy is not triggered.

RECOMMENDATIONS

20 That the Strategy and Operations Committee notes there were five contracts accepted under delegated authority over $250,000 for the period 1 July to 30 September 2019.

APPENDICES

1. Contracts over $250,000 approved under delegated authority for the 2018/19 year. ⇩

Operations & Finance Committee meeting	**Contract**
15 November 2018 (covering the period 1 July to 31 September 2018)	Contract 2018/C188 – Engagement of consultant for building control services. The Contract was awarded to National Processing Limited. Technical staff $140 per hour (excluding GST) plus administration.
	Contract 2018/C201 – Engagement of consultant for building control services. The Contract was awarded to National Processing Ltd. Technical staff $140 per hour (excluding GST) plus administration
	Contract 2018/C178 – Road Maintenance 2018 – 2021. The Contract was awarded to Higgins Contractors Limited for the sum of $13,827.480
21 February 2019 (covering the period 1 October to 31 December 2018)	Contract 2018/C198 – Chipsealing 2018-21. The Contract was awarded to Higgins Contractors Limited for the sum of $3,537,000.
	Contract 2018/C200 – Ngaio Road Shared Path. The Contract was awarded to Downer NZ Limited for the sum of $354,000.
	Contract 2019/C241 – Architectural Design Services for Mahara Gallery. The Contract was awarded to Athfield Architects Limited for the sum of $252,000 plus disbursements.
16 May 2019 (covering the period 1 January to 31 March 2019)	Contract 2019/C191B – Maclean Park Redevelopment Stage 1B. The Contract was awarded to Mills Albert Limited for the sum of $299,347 +GST.
	Contract for Youth Development Centre. The Contract will be carried out by Zeal Education Trust for the sum of $267,000.
15 August 2019 (covering the period 1 April to 30 June 2019)	Contract 2018/182 – Waikanae Rail Emergency Access. The Contract was awarded to Udy Contracting Limited for the sum of $397,817.
	Contract C240 – Streetlight Maintenance and Renewal 2019-2022. The Contract was awarded to Fulton Hogan for the sum of $984,693.
	Contract 2018/C224 – William Street Stormwater Improvements – stages. The Contract was awarded to Action Civil Limited for the sum of $658,500.
	Contract 2019/C244 – Asset Investigations PP5, 6, 9, 10, 11, 12 catchments. The Contract was awarded to Quick Shot Limited for the sum of $319,518.

	Contract 2018/C217 – Open Drain/Stream Maintenance (12 months). The Contract was awarded to Pritchard Civil Limited for the sum of $415,020.
	Contract 2018/C206 – Wharemauku Blockwall Strengthening and Report works. The Contract was awarded to Mills Albert Limited for the sum of $265,748.
	Contract 2019/C275 – Renewal of Coastal Assets. The Contract was awarded to Mills Albert Limited for the sum of $559,698.
	Contract 2018/C171 – Paraparaumu and Otaki Wastewater Treatment Plants Solids Transportation and Disposal. The Contract was awarded to JB's Environmental Limited to provide transport service for seven years for the sum of $2,149,000.

9 PUBLIC SPEAKING TIME

- For items not on the agenda