

Finance and Corporate Committee Agenda

Date: Thursday, 26 October, 2017

Time: 9:00 am

Location: Council Chamber
Forum North, Rust Avenue
Whangarei

Elected Members: Cr Shelley Deeming (Chairperson)
Her Worship the Mayor Sheryl Mai
Cr Stu Bell
Cr Crichton Christie
Cr Vince Cocurullo
Cr Tricia Cutforth
Cr Sue Glen
Cr Phil Halse
Cr Cherry Hermon
Cr Greg Innes
Cr Greg Martin
Cr Sharon Morgan
Cr Anna Murphy

For any queries regarding this meeting please contact
the Whangarei District Council on (09) 430-4200.

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Finance and Corporate Committee – Terms of Reference

Membership

Chairperson: Councillor Shelley Deeming

Members: Her Worship the Mayor Sheryl Mai
Councillors Stu Bell, Crichton Christie, Vince Cocurullo, Tricia Cutforth, Sue Glen, Phil Halse, Cherry Hermon, Greg Innes, Greg Martin, Sharon Morgan, Anna Murphy

Meetings: Monthly

Quorum: 7

Purpose:

To oversee Council and CCO's financial management and performance, including operation of the administrative and internal support functions of council.

Key responsibilities include:

- Progress towards achievement of the council's financial objectives as set out in the Long Term Plan.
- Preparation for recommendation to council:
 - Advising and supporting the mayor on the development of the Long Term Plan (LTP) and Annual Plan (AP)
 - Financial policy related to the LTP and AP
 - Setting of rates
 - Preparation of the consultation document and supporting information, and the consultation process for the LTP and AP
 - Annual Report
- Financial/Planning and Control
 - Corporate accounting services
 - Treasury – debt and interest risk management
 - Procurement
- CCO Monitoring and Performance
 - Monitoring the financial and non-financial performance targets, key performance indicators and other measures of each Council Controlled Organisation (CCO) to inform the committee's judgement about the performance of each organisation.
 - Advising the mayor on the content of the annual Letters of Expectations (LoE) to CCOs.
- Overseeing and making decisions relating to an ongoing programme of service delivery reviews as required under section 17A of the Local Government Act 2002

- Shared Services – investigate opportunities for Shared Services for recommendation to council.

Delegations

- (i) All powers necessary to perform the committee's responsibilities, including, but not limited to:
 - (a) the approval of expenditure of less than \$5 million plus GST.
 - (b) approval of a submission to an external body.
 - (c) establishment of working parties or steering groups.
 - (d) power to establish subcommittees and to delegate their powers to that subcommittee.
 - (e) the power to adopt the Special Consultative Procedure provided for in Section 83 to 88 of the LGA in respect of matters under its jurisdiction (this allows for setting of fees and bylaw making processes up to but not including adoption).
 - (f) the power to delegate any of its powers to any joint committee established for any relevant purpose under clause 32, Schedule 7 of the Local Government Act 2002

Item 3.1**Finance and Corporate Committee Meeting Minutes**

Date: Thursday, 28 September, 2017
Time: 9:00 a.m.
Location: Council Chamber
Forum North, Rust Avenue
Whangarei

Elected members: Cr Shelley Deeming (Chairperson)
Her Worship the Mayor Sheryl Mai
Cr Stu Bell
Cr Crichton Christie
Cr Vince Cocurullo
Cr Tricia Cutforth
Cr Sue Glen
Cr Phil Halse
Cr Cherry Hermon
Cr Greg Martin
Cr Sharon Morgan
Cr Anna Murphy

Not in Attendance Cr Greg Innes

In attendance:

Acting Chief Executive (Simon Weston), General Manager Corporate (Alan Adcock), General Manager Strategy and Democracy (Jill MacPherson), Manager Finance (Rich Kerr), Manager ICT (Jo Wheat-Connelley), Manager Business Improvement (Ben Smith), Commercial Portfolio Manager (Mike Hibbert), Corporate Accountant (David Vollenhoven), Executive Assistant (Judi Crocombe) and Senior Democracy Adviser (C Brindle)

1. Declarations of Interest

Item 4.3 Local Government Funding Agency – Alan Adcock
Item 4.5 NRLLP Annual Financial Report – Cr Martin & Alan Adcock

2. Apologies

Moved By Her Worship the Mayor Sheryl Mai
Seconded By Cr Greg Martin

Cr Innes (absent) and Cr Murphy (late arrival)

That the apologies be sustained.

Carried

3. Confirmation of Minutes of Previous Finance and Corporate Committee Meeting held 31 August 2017

Moved By Cr Cherry Hermon

Seconded By Cr Sharon Morgan

That the minutes of the Finance and Corporate Committee meeting held on Thursday 31 August 2017, having been circulated, be taken as read and now confirmed and adopted as a true and correct record of proceedings of that meeting.

Carried

Cr Murphy joined the meeting at 9.01am following Item 3.1.

4. Information Reports

4.1 Financial Report for the 2 Months Ending 31 August 2017

Moved By Cr Sue Glen

Seconded By Cr Tricia Cutforth

That the Finance and Corporate Committee notes the financial report for the two months ending 31 August 2017.

Carried

4.2 Operational Report - Finance and Corporate - September 2017

Moved By Cr Greg Martin

Seconded By Cr Sharon Morgan

That the Finance and Corporate Committee notes the operational report for September 2017.

Carried

4.3 Local Government Funding Agency - Annual Report 2016-2017

Moved By Cr Stu Bell

Seconded By Cr Greg Martin

That the Finance and Corporate Committee notes the Local Government Funding Agency Annual Report for 2016-2017.

Carried

General Manager Alan Adcock declared an interest as Council's appointed member LGFA Shareholders Council.

4.4 Whangarei District Airport Annual Report and Performance Summary

Moved By Cr Sue Glen

Seconded By Her Worship the Mayor

That the Finance and Corporate Committee note the report on the performance of the Whangarei District Airport for the year 2016-2017.

Carried

Secretarial note: Tabled - page 2 of the Financial Statements – noting minor amendments to Committee name and the date.

4.5 NRLLP Annual Financial Report

Moved By Cr Crichton Christie

Seconded By Cr Vince Cocurullo

That the Finance and Corporate Committee:

1. Notes the 2016/17 Annual Report from the Northland Regional Landfill Limited Partnership.

Carried

Cr Martin and General Manager Alan Adcock declared an interest as Council appointed Directors Whangarei Waste Limited (partner NRLLP).

5. Public Excluded Business

Moved By Cr Vince Cocurullo

Seconded By Her Worship the Mayor Sheryl Mai

“That the public be excluded from the following parts of proceedings of this meeting. The general subject of each matter to be considered while the public is excluded, the reason for passing this resolution in relation to each matter, and the specific grounds under Section 48(1) of the Local Government Official Information and Meetings Act 1987 for the passing of this resolution are as follows:

General subject of each matter to be considered		Reason for passing this resolution in relation to each matter	Ground(s) under Section 48(1) for passing this resolution
5.1	Bad debt	Good reason to withhold information exists under Section 7 Local Government Official Information and Meetings Act 1987	Section 48(1)(a)
This resolution is made in reliance on Section 48(1)(a) of the Local Government			

Official Information and Meetings Act 1987 and the particular interest or interests protected by Section 6 or Section 7 of that Act which would be prejudiced by the holding of the whole or the relevant part of the proceedings of the meeting in public, are as follows:		
Item	Grounds	Section
C.2	To protect the privacy of natural persons including that of a deceased person.	Section 7(2)(a)

Carried

6. Closure of Meeting

The meeting concluded at 9.49am

Confirmed this 26th day of October 2017

Cr Shelley Deeming (Chairperson)

4.1 Local Government Funding Agency – AGM Matters

Meeting: Finance and Corporate Committee
Date of meeting: 26 October 2017
Reporting officer: Alan Adcock (General Manager – Corporate/CFO)

1 Purpose

To establish Council's position on the matters being put forward for consideration at the Local Government Funding Agency (LGFA) Annual General Meeting (AGM) on 21 November 2017.

2 Recommendations

That the Finance and Corporate Committee:

1. Notes the information from the Local Government Funding Agency and Shareholders' Council.
2. Appoints GM Corporate/CFO Alan Adcock to attend the AGM as the shareholder representative for Whangarei District Council.
3. Should Alan Adcock be unable to attend the meeting, appoints Craig Stobo, Local Government Funding Agency Chair, as Council's proxy in his place.
4. Authorises Council's proxies to vote to:
 - a) Approve the LGFA Board composition being set as five Independent Directors and one Non-Independent Director;
 - b) Approve the re-election of Craig Stobo and Mike Timmer as Directors;
 - c) Approve the election of Anthony Quirk as a Director;
 - d) Approve the re-election of Bay of Plenty Regional Council and Whangarei District Council as Nominating Local Authorities;
 - e) Approve the recommended increase in Director remuneration;
 - f) Approve the proposed changes to Foundation Documents;
 - g) Approve other matters arising at the meeting that, in their judgement, support Council's position on the governance and operations of the Local Government Funding Agency.

3 Background

Shareholders are entitled to attend and vote at the AGM, with a proxy form for voting to be sent to LGFA at least 48 hours prior to the AGM.

There are now 30 shareholding councils together with the Crown. Whangarei District Council's ownership share is 3.3% of paid up capital.

The following matters are being considered at the AGM:

- To receive and consider the financial statements for the year ended 30 June 2017
- Size and composition of the Board
- Election of Independent Directors
- Election of non-Independent Directors
- Election of Nominating Local Authorities to Shareholders' Council
- Directors' remuneration
- Changes to LGFA's Foundation Documents (relating to the Treasury Policy).

Attachment 1 is the Local Government Agency Limited 'Notice of Annual Meeting', which includes Explanatory Notes and a marked-up copy of the Treasury Policy. The associated 'Proxy Form' is at Attachment 2.

Whangarei District Council has moved two of the resolutions:

- Setting the Board size and composition at 5 Independent Directors and one non-Independent Director.
- Nominating Anthony Quirk as an Independent Director.

4 Discussion

The LGFA Shareholders' Council (SC) has considered the matters listed above and has written to Shareholders (Attachment 3). Their letter has supporting documents related to Director remuneration appended.

The SC's role (as per the Shareholders' Agreement) includes requirements to:

- make recommendations to Shareholders as to the appointment, removal, re-election, replacement and remuneration of Directors
- make recommendations to Shareholders as to any matters which require the approval of Shareholders.

The SC has made clear recommendations on most of the AGM resolutions, although was unable to reach a common position on the election of non-Independent Directors.

Their role (as per the Shareholders' Agreement) includes requirements to:

- make recommendations to Shareholders as to the appointment, removal, re-election, replacement and remuneration of Directors
- make recommendations to Shareholders as to any matters which require the approval of Shareholders.

It should be noted that this letter has been sent by Alan Adcock as the SC Chair and represents the collective views of the SC. Their recommendations relating to non-Independent Director appointments differ from those contained in this report.

It is recommended that Council follows the recommendations of the SC on all other matters, noting the information in their letter on each topic.

Appointment of non-Independent Directors

As noted in their letter, the SC was unable to reach a position on which of the two candidates for the non-Independent Director position/s to support.

Having considered the matters outlined in that letter, it is recommended that Council supports Mike Timmer as its preferred candidate because:

- He has considerable experience in matters affecting the LGFA, given his long association and role as an incumbent Director
- His original appointment was recommended by the SC and supported by Council
- He has performed his role competently since his appointment
- He has demonstrated a broad understanding of matters affecting councils across the sector.
- As an employee of Greater Wellington Council which has borrowings of \$281 million his re-appointment is unlikely to be perceived as introducing conflicts of interest.

By comparison, the appointment of Suzanne Tindal may introduce a conflict of interest (either real or perceived) as she is employed by Auckland Council, which is LGFA's largest borrower (\$2.4 billion). It is considered that this issue outweighs her personal credentials, which are clearly evident given her background and experience.

5 Conclusion

The Local Government Funding Agency (LGFA) is in its sixth year of operations and has established itself as a highly effective organisation that provides an important service to the sector.

It is recommended that WDC's voting aligns with the recommendations of the SC, while supporting the 'status quo' position in terms of Board size and composition, including the re-election of incumbent Directors

6 Significance and engagement

The decisions or matters of this Agenda do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via Agenda publication on the website.

7 Attachments

1. LGFA – Notice of Annual General Meeting
2. LGFA AGM Proxy Form
3. Letter to LGFA Shareholders dated 3 October 2017

**NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY LIMITED
NOTICE OF ANNUAL MEETING**

Notice is given that the 2017 annual meeting of shareholders of New Zealand Local Government Funding Agency Limited ("**Company**" or "**LGFA**") will be held at the **Rydges Hotel, 75 Featherston Street, Wellington** on **21 November 2017** commencing at **2:45pm**.

BUSINESS

1. **FINANCIAL STATEMENTS AND REPORTS:** To receive and consider the financial statements of the Company for the year ended 30 June 2017 together with the directors' and auditor's reports to shareholders.

2. **SIZE AND COMPOSITION OF BOARD**

In accordance with section 23.1 of the Company's constitution, and in accordance with the changes to the composition of the Board recently recommended by the Shareholders' Council, **Whangarei District Council** proposes the following amendment to the Company Shareholders' Agreement ("**SHA**"). To be effective, this amendment must be approved by Ordinary Resolution as required by clauses 5.1(b) and 18.7 of the SHA:

To set the Board composition as five Independent Directors and one non-Independent Director.

(See Explanatory Note 2)

3. **ELECTION OF DIRECTORS**

In accordance with clause 3.3 of the SHA, **Craig Stobo** retires by rotation and, being eligible, offers himself for re-election as an Independent Director.

In accordance with clause 3.5 of the SHA, **Anthony Quirk** has been nominated by **Whangarei District Council** as an Independent Director.

In accordance with clause 3.3 of the SHA, **Michael Timmer** retires by rotation and, being eligible, offers himself for re-election as a non-Independent Director.

In accordance with clause 3.5 of the SHA, **Suzanne Tindal** has been nominated by **Auckland Council** as a non-Independent Director.

Accordingly, if the resolution in paragraph 2 above **IS** passed, to:

- (a) Re-elect **Craig Stobo** as an Independent Director of the Company, by way of Ordinary Resolution;
- (b) Elect **Anthony Quirk** as an Independent Director of the Company, by way of Ordinary Resolution;
- (c) Elect, by way of Ordinary Resolution, ONE of the following candidates as the non-Independent Director:
 - (i) **Michael Timmer**; OR
 - (ii) **Suzanne Tindal**.

Accordingly, if the resolution in paragraph 2 above **IS NOT** passed, to elect, by way of Ordinary Resolution, AT LEAST ONE AND UP TO ALL of the following:

- (a) **Craig Stobo** as an Independent Director of the Company;
- (b) **Anthony Quirk** as an Independent Director of the Company;
- (c) **Michael Timmer** as a non-Independent Director of the Company;
- (d) **Suzanne Tindal** as a non-Independent Director of the Company.

(See Explanatory Note 3)

4. **ELECTION OF NOMINATING LOCAL AUTHORITIES**

In accordance with clause 4.6 of the SHA, **Bay of Plenty Regional Council** and **Whangarei District Council** retire by rotation. **Bay of Plenty Regional Council** and **Whangarei District Council** being eligible, offer themselves for re-election.

Accordingly, to:

Re-elect **Bay of Plenty Regional Council**

as a Nominating Local Authority, by way of Ordinary Resolution. (See Explanatory Note 4)

Accordingly, to:

Re-elect **Whangarei District Council**

as a Nominating Local Authority, by way of Ordinary Resolution. (See Explanatory Note 4)

5. **DIRECTORS' REMUNERATION**

In accordance with clause 3.6 of the SHA, to approve, by way of Ordinary Resolution, an increase in the Directors' fees payable to:

- (a) With effect from 1 July 2017, the Director acting as chairman of the Board, an increase of \$7,000 per annum, from \$90,000 per annum to \$97,000 per annum.
- (b) With effect from 1 July 2017, each of the other Directors, an increase of \$4,000 per annum, from \$51,000 per annum to \$55,000 per annum.
- (c) With effect from 1 July 2017, the Director acting as chairman of the audit and risk committee, an increase of \$6,000 per annum, from \$54,000 per annum to \$60,000 per annum.

(See Explanatory Note 5)

6. **CHANGES TO FOUNDATION POLICIES**

In accordance with clause 5.1(c) of the SHA, to approve, by way of Ordinary Resolution, the amendments to the foundation policies of the Company ("**Foundation Policies**") as explained in Explanatory Note 6.

7. **GENERAL BUSINESS**

To consider such other business as may properly be raised at the meeting.

Please refer to the explanatory notes that accompany this notice of meeting.

By order of the board:

A handwritten signature in blue ink, appearing to read 'Craig Stobo', with a horizontal line drawn underneath it.

Craig Stobo, Chairman

[5 October 2017]

ORDINARY RESOLUTIONS: *Ordinary resolutions are resolutions approved by a simple majority of more than 50% of the votes of the shareholders entitled to vote and voting at the annual meeting.*

SHAREHOLDERS ENTITLED TO ATTEND AND VOTE: *Pursuant to section 125 of the Companies Act 1993, for the purposes of voting at the annual meeting, those registered shareholders of the Company as at 9.00am on Thursday 21 November 2017 shall be entitled to exercise the right to vote at the meeting.*

CAPITALISED TERMS: Unless otherwise defined in this notice, capitalised terms have the meanings given to them in the SHA.

EXPLANATORY NOTES

EXPLANATORY NOTE 1 - PROXY VOTE

A shareholder entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of the shareholder. The proxy need not be a shareholder. To be effective, a copy of the proxy form must be received by the Company at **Level 1, 117 Lambton Quay, Wellington 6145** not later than 48 hours before the start of the meeting.

A corporation may appoint a person to attend the meeting as its representative in the same manner as that in which it could appoint a proxy.

EXPLANATORY NOTE 2 – SIZE AND COMPOSITION OF THE BOARD

Since establishment in November 2011, the LGFA Board has comprised six Directors. Section 3.1 of the SHA states 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.

The Shareholders' Council, after taking independent external advice, has agreed that the optimal size of the Board is six Directors, comprising five Independent Directors and one non-Independent Director. This is the current Board size and composition, and the Shareholders' Council is recommending to shareholders to formally set this in place.

EXPLANATORY NOTE 3 - ELECTION OF DIRECTORS

The SHA provides that, 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 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 director who is not an Independent Director, 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 is eligible for re-election.

In this case, **Craig Stobo** (being an Independent Director) who has been longest in office since being re-elected on 19 November 2013 (John Avery having been re-elected on 24 November 2015, Linda Robertson having been elected on 24 November 2015 and Philip Cory-Wright having been re-elected on 24 November 2016) and **Michael Timmer** (being the only Director who is not an Independent Director) shall retire by rotation at this annual meeting. **Craig Stobo** and **Michael Timmer**, being eligible, offer themselves for re-election.

In contemplation of the retirement of Abby Foote, effective from the date of the annual meeting, representatives from the Shareholders' Council and the chairman of the Board have undertaken a recruitment process for a new Director and propose **Anthony Quirk** as an Independent Director, who has since been nominated by Whangarei District Council.

Suzanne Tindal has been nominated by Auckland Council as a non-Independent Director.

If the resolution referred to in Explanatory Note 2 above **IS** passed, in order to comply with such resolution, the shareholders will need to elect both **Craig Stobo** and **Anthony Quirk** as Independent Directors and elect EITHER **Michael Timmer** OR **Suzanne Tindal** as a non-Independent Director.

If the resolution referred to in Explanatory Note 2 above **IS NOT** passed, to comply with the current provisions of the SHA, the shareholders will need to elect AT LEAST ONE AND UP TO ALL of the following (a)

Craig Stobo (as an Independent Director), (b) **Anthony Quirk** (as an Independent Director), (c) **Michael Timmer** (as a non-Independent Director), AND/OR (d) **Suzanne Tindal** (as a non-Independent Director).

The following biographies have been provided by the candidates;

Craig Stobo Biography

Craig Stobo was educated at Waitaki Boys High School (Milner Prize); Otago University (BA Hons First Class in Economics); and Wharton Business School, University of Pennsylvania (Advanced Management Programme).

He has worked as a diplomat for the NZ and Australian Governments; economist and investment banker for Bankers Trust NZ; and as CEO and Executive Vice President for BT Funds Management NZ Ltd.

He has chaired the Government's Review of the Taxation of Investment Income in 2004 which led to the PIE tax regime which underpins the managed funds including the Kiwisaver superannuation industry; chaired the Government review of financial services exports in 2010; and chaired the Establishment Board of the Local Government Funding Agency (LGFA) prior to its incorporation in December 2011. LGFA is now the largest NZD bond issuer after the NZ Government.

Currently he provides corporate advisory services to domestic and global clients. He also has private equity interests in businesses including global equity investor Elevation Capital Management; national investment advisory firm Saturn Portfolio Management; and oyster farmer and exporter Biomarine Ltd.

His independent directorships include chairing the Local Government Funding Agency, AIG Insurance New Zealand Ltd, and the NZX-listed companies Precinct Properties New Zealand Ltd, and Fliway Group Ltd. He has also been appointed by Local Government NZ to the establishment board of the Local Government Risk Agency; is a member of the External Challenge Group to peer review the Crown's forthcoming 2018 Investment Statement; and has been invited to be a member of the Otago Business School Taumata.

Anthony Quirk Biography

Anthony Quirk was educated at Viard and Tawa Colleges and Victoria University (BCA Hons First Class). He has worked as an equities analyst and Head of Research for sharebroking firms (from 1985-1992) and then as Managing Director or General Manager in the investment management industry (from 1992-2016) including the last nine years as Managing Director of Milford Asset Management.

He is a Director of Evolve Education Group and Graeme Dingle Foundation, Wellington and is Deputy Chair of Compass Housing NZ and New Zealand Water Polo. He is a shareholder and Director of Milford Asset Management.

He is a Fellow of the Institute of Finance Professionals New Zealand (INFINZ) and is a former Chairman of that organisation. He is a member of the Institute of Directors.

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.

Mike Timmer Biography

Mike has over 10 years' experience in senior finance roles in Local Government having joined Wellington Regional Council as Treasurer in January 2007.

He holds a Bachelor of Agricultural Science and a Bachelor of Business Studies degree both from Massey University and is a certified Chartered Accountant and an INFINZ (cert) professional.

As Treasurer, his responsibilities include Treasury activities involving commercial paper issuance, bond placement, standby facilities, interest rate risk management, balance sheet structure, security documentation, funding and optimising subsidiary company borrowings. Other responsibilities include risk management, insurance, business assurance (internal audit), and managing Council's WRC Holdings board.

He has also been acting Chief Financial Officer for the council for around two years in total. Previous roles have involved Treasury and Accounting activities and working in the dealing room at Citibank for 5 years.

He has been active with local and sector CFO groups, has served on the initial Local Government Risk Agency establishment group and the LGFA establishment committee. Mike has been involved with the establishment of the LGFA initiating the idea and was one of the tight nine representatives setting up the LGFA documentation. He has been on the Shareholders' Council since its inception where he was vice chairman prior to taking up the LGFA directorship role.

Mike is a member of the Institute of Directors. He is Chairman of the Finance Committee of Physiotherapy New Zealand Incorporated and has been a director of the LGFA since 2015.

Suzanne Tindal Biography

Sue was appointed as the CFO of Auckland Council in January 2015 and became the Group CFO on 1 October 2015. Primarily an experienced Corporate & Institutional banker, Sue has a wealth of international experience having held numerous senior or Chief Executive roles in the financial services, energy and IT sectors. Sue was the Chief Operating Officer of Westpac in Asia and Chief Executive Strategy and Reputation in the Commonwealth Bank of Australia Group. Sue is a Member of both the Australian and New Zealand Institute of Company Directors, a Fellow of Certified Practising Accountants Australia Ltd (CPA). She is also a Member of Global Women and was a finalist in the 2016 Women of Influence Awards (Board & Management category). She was appointed as an independent director to the board of Mainfreight on 1 January 2017.

EXPLANATORY NOTE 4 - ELECTION OF NOMINATING LOCAL AUTHORITIES

The SHA provides that 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. Each Nominating Local Authority, and the New Zealand Government (for so long as it is a shareholder), may appoint one member of the Shareholders' Council, and remove and replace any member so appointed, in accordance with clause 4.4 of the SHA.

The SHA provides that, beginning at, and including, the annual meeting for 2013, the shareholders shall ensure that two Nominating Local Authorities 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, and 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 is eligible for re-election.

In this case, Whangarei District Council, Hamilton City Council and Bay of Plenty Regional Council are deemed to have been last elected on the same day (7 December 2011) and are the Nominating Local Authorities who have been longest in office since their last election (Tauranga City Council having been re-elected as a Nominating Local Authority on 19 November 2013, Western Bay of Plenty District Council having been re-elected as a Nominating Local Authority on 25 November 2014, Tasman District Council having been re-elected as a Nominating Local Authority on 24 November 2015, Auckland Council having been elected as a Nominating Local Authority on 24 November 2015, Wellington City Council having been re-elected as a Nominating Local Authority on 24 November 2016 and Christchurch City Council having been elected as a Nominating Local Authority on 24 November 2016). Accordingly, as determined by agreement, **Bay of Plenty Regional Council** and **Whangarei District Council** shall retire by rotation at this annual meeting.

The Shareholders Council is comprised of between five and ten members. The New Zealand Government can appoint a member and the remaining members are nominated by up to nine Nominating Local

Authorities. Following the retirement of **Bay of Plenty Regional Council** and **Whangarei District Council** there are currently two positions available.

Bay of Plenty Regional Council offer themselves for re-election as a Nominating Local Authority.

Whangarei District Council offer themselves for re-election as a Nominating Local Authority.

EXPLANATORY NOTE 5 - DIRECTORS' REMUNERATION

This resolution seeks shareholders' approval for an increase in Directors' remuneration with effect from 1 July 2017. The proposed fee increases for Directors (as set out in the notice of meeting) have been calculated based on a 7.8% increase for Directors and the chairman of the Board and an 11.1% increase for the chair of the Audit and Risk Committee for the 2017-2018 year. The fee increases have been set following an independent external review.

The Shareholders' Council have provided to shareholders a background document outlining the proposed fee increases.

EXPLANATORY NOTE 6 – CHANGES TO FOUNDATION POLICIES

This resolution seeks shareholders' approval for amendments to the Foundation Policies of the Company.

The current Foundation Policies of the Company are set out in schedule 1 to the SHA. Clause 5.1(c) of the SHA provides that neither the Board nor any shareholder shall take or permit any action to cause any alteration to any of the Company's Foundation Policies unless it is approved by an Ordinary Resolution of the Company's shareholders (or, if required by law, a Special Resolution).

There are several Foundation Policy limits that are incorporated into the LGFA Treasury Policy. While the Treasury Policy is approved by the LGFA Board, any changes to the Foundation Policy limits contained within the Treasury Policy require shareholder approval. The LGFA Board notes that the Company's business has both grown and changed significantly since the Foundation Policy limits were drafted in 2011 and changes last approved by shareholders at the 2014 AGM. Primarily, there is a requirement for a larger portfolio of liquid assets because of:

- (a) The significant growth in the Company's assets over the past three years as outlined in the following table:

	Actual June 2014	Actual June 2015	Actual June 2016	Actual June 2017
Total Assets	\$3.92 billion	\$5.41 billion	\$7.26 billion	\$8.49 billion
Total Liabilities	\$3.89 billion	\$5.38 billion	\$7.21 billion	\$8.44 billion
Total Net Interest Income	\$10.2 million	\$13.9 million	\$15.5 million	\$17.5 million
Net Profit	\$7.0 million	\$9.2 million	\$9.5 million	\$11.0 million

- (b) The introduction of bespoke lending by LGFA has proven very successful with 32% of all council borrowing since the introduction in March 2015 being bespoke in nature. LGFA must ensure it holds sufficient liquid assets in the periods between LGFA tender dates to meet any council borrowing demand. Furthermore, LGFA needs to hold sufficient liquid assets to meet the repayment at maturity of any LGFA bonds that are not backed with council loans or have been refinanced prior to maturity.
- (c) The introduction of short dated lending and issuance of LGFA Bills has proven successful with short term loans outstanding of \$302 million to twenty-three councils as at 19 September 2017. LGFA Bills on issue total \$350 million as at 19 September 2017 and any difference between LGFA Bills issued and short dated loans to council is invested as part of the Liquid Asset Portfolio.

- (d) Cash collateral received as security from the lending of LGFA Bonds to banks (who provide market pricing and liquidity in LGFA Bonds) are required to be invested for the term of the Bond loan.

The credit ratings of the Australasian Banks have been stable since LGFA was established in late 2011. However, there is a possibility that the credit ratings could be downgraded and this would restrict the ability of LGFA to invest the Liquid Asset Portfolio within the existing limits structure that is credit rating dependent.

The proposed changes to the Treasury Policy and the rationale for those proposed changes are set out in the table below. A copy of the Treasury Policy with the proposed changes indicated in mark-up is enclosed with this notice.

Current	Proposed change	Rationale for change
Category 1 Assets NZ Government or RBNZ Maximum term of 10 years	Category 1 Assets Maximum term to be defined as "No longer than the longest dated LGFA maturity on issue"	LGFA has issued a 2033 bond (sixteen years) and the longest dated conventional NZ Government Bonds (NZGB) is 2037 (twenty years). Extension of the maturity limit for NZGB is sought to enable the ability to hedge interest rate exposure from LGFA bond issuance beyond the current ten years.
Category 2 Assets Maximum individual counterparty limit of \$150 million. Maximum of 80% of assets. Maximum term of 3 years.	Category 2 Assets Maximum individual counterparty limit of \$200 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 are needed to be increased to reflect the increasing size of the Liquid Asset Portfolio.
Category 3 Assets Maximum individual counterparty limits of \$75 million (AA-) and \$110 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 \$125 million (AA-) and \$150 million (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 are needed to be increased to reflect the increasing size of the Liquid Asset Portfolio.
Category 4 Assets Maximum individual counterparty limit of \$30 million. Minimum credit rating for assets of "A". Maximum term of 1 year.	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.	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

	<p>Minimum credit rating for assets of "A1" short term rating and "A" long term rating.</p> <p>Maximum term of 1 year.</p>	<p>Registered Banks and RBNZ supervision we are comfortable holding their assets in the Liquid Asset Portfolio.</p>
<p>Interest Rate risk policy</p> <p>The Company's total portfolio VAR daily limit is \$250,000.</p>	<p>The Company's total portfolio VAR daily limit is \$400,000.</p>	<p>The current size of LGFA's balance sheet exceeds the original forecast and is projected to grow further in the next three years. 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.</p> <p>Note that there is no proposed change to PDH limits.</p>

TREASURY POLICY

Board approved: XX XX 201X (subject to shareholder approval) ~~18 February 2015~~

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Treasury Policy

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1. INTRODUCTION

The Local Government Funding Agency (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.

LGFA has treasury exposures arising from its normal business activities that principally relate to the raising and on-lending of funds. Specific treasury exposures relate to liquidity, maturity,

funding, interest rate, foreign exchange, counterparty credit and operational risks (collectively known as treasury risks).

The purpose of the Treasury Policy document is to provide a policy framework by which LGFA's treasury risks are identified, measured, managed and reported.

2. OBJECTIVES

The objectives for the Treasury Policy are to:

- Effectively manage balance sheet and interest rate risk within the interest rate risk control 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 a professional image 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.

3. 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 arises through:

- A timing mismatch in short-term receipts and payments.
- A balance sheet maturity imbalance whereby assets and liabilities are not maturing evenly over time.
- A short-term crisis situation or market disruption where there is a perception that LGFA has suffered a serious deterioration in creditworthiness.
- A significant deterioration of the quality of the LGFA's assets.
- A wider financial market disruption.
- Either negligent management or, in an extreme situation, fraudulent activities.

3.1 Liquidity risk management

Short-term mismatches between operational receipts and payments are managed to ensure that the inability to meet short-term obligations does not occur.

Whilst these structural mismatches are managed over the medium to long term through the maturity gap approach, short-term liquidity imbalances are monitored and managed within the cash management function.

LGFA may suffer a short-term liquidity crisis due to a market disruption and/or a perception that the creditworthiness of the LGFA has deteriorated. This may cause difficulties for refinancing existing debt and raising new funding. LGFA manages this risk by maintaining a Liquidity Buffer (comprising a standby facility and holdings of cash and liquid investments) that supports the operating and funding commitments for a period of up to 180 days until normal market conditions are restored.

3.2 Liquidity risk limits

Treasury limits relating to liquidity risk management are detailed in Section 1 of the Treasury Limits Schedule

4. BALANCE SHEET AND FUNDING RISK

LGFA funds through the domestic and international debt capital markets. Funding risk is the risk that:

- LGFA cannot borrow sufficient amounts of funds to meet its funding and lending obligations, or opportunities, on terms that make its lending profitable (i.e. the risk of negative net margins),
- LGFA cannot borrow on as favourable terms in the future as what it can borrow at today.

Funding risk will increase in the event that LGFA's own creditworthiness declines.

Balance sheet risk is the risk that LGFA does not significantly match fund its term assets, and will occur when unmatched term funding is re-invested in cash or the liquid asset portfolio with different to the underlying funding maturity.

4.1 Balance sheet and funding risk management

Balance Sheet and Maturity management objectives are to ensure that maturing term Local Government assets and available liquid assets cover maturing liabilities and that cumulative balance sheet assets will exceed cumulative liabilities.

Legal Maturity Basis

As a general rule, under a legal maturity or run-off basis (where the balance sheet maturity profile is plotted based upon the legal maturity date of when asset, liabilities and equity convert to cash), management seeks to minimise any mismatches at all times.

Security Arrangements

LGFA will issue debt securities on a senior unsecured basis, however, its obligations are guaranteed by participating Local Authorities on a pro-rata basis according to their rates revenue and the guarantors' obligations will be secured by a rates charge.

Pricing Policy

In proactively managing its Balance sheet and funding risk stemming from both domestic and international debt capital markets, LGFA measures its funding margins (and the change in those margins) against a set of benchmarks that are market related and ensures that matching term Local Government assets are priced at a positive margin to LGFA's funding margins.

Within the LGFA's pricing policy LGFA's funding approach is to balance the objective of achieving target growth in balance sheet and net interest margin, against the external environment of where New Zealand Local Government entities would fund in their own right in the New Zealand debt capital market. As a benchmark the LGFA uses the following external references:-

- Benchmarking Local Government lending margins to Bloomberg NZ Corporate AA Credit Curve.
- Benchmarking LGFA funding margins to borrowing margins paid by AA rated councils in the domestic market.
- Benchmarking LGFA funding margins to AAA Kauri Bond Secondary Market.

The CEO in conjunction with the Board will periodically set a pricing matrix differentiating the lending margins to the Local Government sector based on Local Government credit rating status, size of issuance and status of Local Government as LGFA guarantor. This matrix is likely to change relative to financial market conditions.

Funding Source Risk Mitigation

Sourcing funding solely in the New Zealand domestic capital markets market may constrain LGFA's borrowing activities, consequently to manage this risk LGFA seeks to diversify its funding sources into the international debt capital markets via public and private placements.

Funding Strategy

LGFA adopts a formal approach to setting and reviewing its funding strategy. The CEO is responsible for completing and submitting to the Board for approval over-arching debt strategy recommendation papers on an ad-hoc basis as debt projections change, debt financing opportunities arise and debt market conditions fundamentally change:-

- Policy parameters, particularly matching forecast Local Government funding profile.
- Prevailing interest rates and credit margins relative to term and the NZ government and bank swap yield curves, AAA Kauri Bond issuance margins together with secondary market pricing and the Bloomberg NZ Corporate AA Credit Curve.
- The historical trend in credit margins.
- Available terms from all available debt capital markets.
- The flexibility and liquidity of each funding source.
- Balance sheet projections.
- The performance benchmarks as set out within the Policy.
- Board and internal approvals to proceed to appoint any arranger/lead manager or accept reverse enquiry private placements.
- RFP process to select any arranger/lead manager with pre-determined criteria to be met. In the case of reverse enquiry private placements this step may be disregarded.
- Check all-in pricing is within anticipated target bands in co-ordination with Service Provider and NZDMO as derivative counterparty.
- Assessment of execution risk and consideration of pre-hedging interest rate risk on rate sets in conjunction with Service Provider.
- Treasury Policy compliance.
- Legal, tax, accounting sign off.

Credit Rating Policy

The LGFA maintains an objective to achieve and maintain a long-term credit rating from Standard & Poor's and Fitch that matches that of the New Zealand Government.

LGFA seeks to prudently manage its financial risks to assist in the achievement of these credit rating objectives.

The CEO is responsible for managing the relationship and requirements of the credit rating agencies.

4.2 Balance sheet and maturity risk management limits

Treasury limits relating to balance sheet and maturity risk management are detailed in Section 2 of the Treasury Limits Schedule

5. 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.

Changes in interest rates can impact on LGFA's financial results by affecting the spread between the rate received on the interest earning assets and the rate paid on interest bearing liabilities ("net interest margin"). The magnitude of the change depends on the size of the net asset and/or liability position in each maturity category and the period over which the position is held.

5.1 Interest rate risk management

The LGFA seeks to smooth interest rate re-pricing/maturity risk over time and consequently seeks to mitigate interest rate exposures where there is a material interest rate gap risk.

To measure the risk and sensitivity of the financial asset/liability book to market interest rate movements LGFA utilises Value at Risk (VaR) and Partial Differential Hedge (PDH) reporting to evaluate 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 fall 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 amount LGFA's portfolio could be expected to lose 5% of time over a given time period. It is calculated using historical changes in underlying risk variables and applying those changes to the current portfolio.

VaR measures expected loss for a given period with a given confidence. For example, 95% confidence, daily VaR of NZD 250,000 means that it is expected that the portfolio will lose NZD 250,000 on 5% of days i.e. 1 day in 20 the portfolio value will decrease by NZD 250,000.

Stress testing of the portfolio is required prior to any LGFA Bond tenders or mismatched transactions being undertaken.

Liabilities and assets for interest rate risk control purposes are maturity scheduled on the basis of their legal/documentated interest rate re-pricing dates.

Approved financial instruments may be applied to implement the risk re-balancing with the objective to protect net interest margin/equity from adverse short to medium term market interest rate movements and enhance net interest margin/equity through favourable interest rate movements.

5.2 Interest rate/market risk limits

Treasury limits relating to interest rate risk and market risk management are detailed in Section 3 of the Treasury Limits Schedule

6. COUNTERPARTY CREDIT RISK

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

LGFA is exposed to counterparty credit risk when placing bank deposits, investing in discount/fixed interest securities and derivatives such as cross currency and interest rate swaps. The LGFA's key counterparty risk will lie with the mark to market on derivative contracts entered into with counterparties, the investment of liquid assets in the liquid asset portfolio, cash management and term assets with the Local Government sector.

6.1 Counterparty credit risk management

Counterparty risk on derivative contracts will be mitigated by utilising the NZDMO as the counterparty to derivative contracts unless approved by the LGFA Board. For prudential reasons, ISDAs can be entered into with bank counterparties provided their credit rating is ~~A+~~^{A-} or better, but any transactions with banks needs to have prior LGFA Board approval.

Counterparty credit risk on investments is mitigated by holding a diverse range of investments with a number of highly rated counterparties. Limits on holdings are a function of term of investment, liquidity and credit quality of the counterparty (as measured by credit rating).

LGFA will undertake ongoing credit analysis of all LGFA investments including Council loans and investment assets.

Approved financial investments are listed in Section 6 of the Treasury Policy Schedule.

6.2 Counterparty credit risk limits

Treasury limits relating to counterparty credit risk management are detailed in Section 4 of the Treasury Limits Schedule.

Approved counterparties are detailed in section 5 of the Treasury Limits Schedule.

7. FOREIGN CURRENCY RISK

Exposure to foreign exchange will exist as a result of accessing foreign capital markets for funding purposes.

7.1 Foreign currency risk management

All foreign currency issues will be fully hedged back to floating rate NZD for the full amount and term of the funding and cash flows concerned.

7.2 Foreign currency risk limits

Treasury limits relating to foreign currency risk management are detailed in Section 7 of the Treasury Limits Schedule

8. OPERATIONAL RISK

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

8.1 Operational risk management

The objective of operational risk management is to safeguard the financial resources and assets of LGFA through disciplined and controlled dealing and support operations. It is the Chief Financial Officer's responsibility to monitor and report to the CEO any anomalies in the back-office confirmation, settlements, reporting and accounting procedures.

Integrated and comprehensive systems, internal controls and procedures are in place to ensure all operational risks are covered and managed. Segregation of duties between staff members who have the authority to enter transactions with external counterparties and the support staff who control, check and confirm such transactions is a cornerstone internal control principle, that is complied with at all times.

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.

Legal and Regulatory Risk

Legal and regulatory risks relate to the unenforceability of financial transactions due to an organisation not having the legal capacity or power to enter into the transaction, usually because of prohibitions contained in legislation or the constitution of the LGFA. Legal and regulatory risk is managed by:

- Legal Agreements - Financial instruments are only entered into with the NZDMO when LGFA has executed a formal ISDA Master Agreement. Board approval is required to enter into ISDAs and subsequently transact with any counterparty other than the NZDMO for derivative transactions.
- The Multi-Issuer Deed sets out the legal framework for LGFA to contract with Councils. Councils are not permitted to issue securities under the Multi-Issuer Deed until (among other things) the relevant Council provides LGFA with a certificate for the purposes of section 118 of the Local Government Act 2002, which provides comfort that the Council has complied with that Act in connection with the multi-issuer deed.

8.2 Operational risk limits

Treasury limits relating to operational risk management are detailed in Section 8 of the Treasury Limits Schedule

9. LENDING

9.1 Lending risk management

The LGFA sole purpose will be to provide debt funding to New Zealand Local Government (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 will have ultimate discretion on approving term funding to Council.
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 (i.e. not enter into facility arrangements).
- Comply with their own internal borrowing policies.
- Comply with the financial covenants (S9, Schedule of Limits), 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 is at any time equal to, or 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).

- Non-compliance with the financial covenants will either preclude a Council from borrowing from the LGFA or in the case of existing Council borrowers trigger an event of review. An event of default will occur if (among other things) a Council fails to meet an interest or principal payment (subject to grace periods). An event of default will enable the LGFA to accelerate 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 LGs for services provided and for which the other LGs rate.

Financial covenants are measured on Council only not consolidated group.

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

During the initial three years of operation the Auckland Council will be limited to a maximum of 60% of the LGFA's total Local Government assets. After three years Auckland Council will be limited to a maximum of 40% of the LGFA's total Local Government assets. On this basis and with the maturity requirements the maximum the LGFA will be exposed to any individual Council in any 12-month period will be for 10% of its long-term Local Government assets. This will be covered at least 120% by liquidity represented by Cash + liquid asset portfolio + outstanding NZDMO standby liquidity line + REPO-able LG assets + uncalled capital.

The LGFA will seek to maximise the amount of REPO eligible assets within its loan portfolio (e.g. encouraging rated Councils to borrow in tranche sizes that meet the RBNZ's REPO criteria).

9.2 Lending covenants

Lending covenants are detailed in section 9 of the Treasury Limits Schedule.

Council credit rating margins are detailed in the lending matrix in section 10 of the Treasury Limits Schedule.



TREASURY POLICY

Board approved: XX XX 201X (subject to shareholder approval) ~~18 February 2015~~

SCHEDULE: Schedule of Limits

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S1. LIQUIDITY RISK MANAGEMENT LIMITS

Refer section 3 of the Treasury policy for a description of liquidity risk management

1.1	One month Liquidity Monitor	Cash + liquid asset portfolio + unutilised NZDMO Liquidity facility amount + REPO-able LG term assets + loan receivables less than one month > 120% of one month maximum funding cash flow commitments defined as committed funding/refinancing + Opex + interest owing.
1.2	Three Month Liquidity Monitor	Cash + liquid asset portfolio + unutilised NZDMO Liquidity facility amount + REPO-able LG term assets + loan receivables less than three months > 110% of three month maximum funding cash flow commitments defined as committed funding/refinancing + Opex + interest owing (all known cash obligations).
1.3	One Year Liquidity Monitor	Cash + liquid asset portfolio + unutilised NZDMO Liquidity facility amount + REPO-able LG term assets + loan receivables less than 12-months > 110% of 12-month maximum funding cash flow commitments defined as committed funding/ refinancing + Opex + interest owing (all known cash obligations).
1.4	Liquidity Management under a Crisis Situation	Liquidity buffer. (Cash + liquid asset portfolio (discount value based on quick sale 2% face value), + undrawn committed

		liquidity facility amount, + REPO-able LG term assets (discount value based on Reserve Bank of New Zealand ("RBNZ") haircut) – + non REPO-able LG loan receivable due within 180 days + interest received divided by (funding due for repayment in the next 180 days) + OPEX + interest owing + any other committed cash obligations to be higher than 110%.
1.5	Council Exposure (any 12 month period)	LGFA maximum exposure to any individual LG's maturing debt in any 12-month period will be for a maximum of 10% of LGFA's total assets. This exposure will be also be covered at least 120% by liquidity represented by LGFA Cash + liquid asset portfolio + unutilised NZDMO standby liquidity line amount + REPO-able LG term assets + uncalled capital.
1.6	Council Exposure (any 12 month period)	No more than the greater of NZD 100 million or 33% of a LG's borrowings from the LGFA will mature in any 12-month period.
1.7	Largest single counterparty exposure	The LGFA will ensure that sufficient funding is available from the following sources to meet the largest exposure for any given LG security maturity to its largest single counterparty: cash and other liquid funds; issued and unpaid capital; borrower notes convertible to capital; unutilised NZDMO liquidity facility, REPO any eligible assets within the balance sheet.
1.8	Auckland Council	Until December 2014, Auckland Council will be limited to a maximum of 60% of the LGFA's total LG assets. After December 2014, Auckland Council will be limited to a maximum of 40% of the LGFA's total LG assets.

S2. BALANCE SHEET AND MATURITY RISK MANAGEMENT LIMITS

Refer section 4 of the Treasury policy for a description of balance sheet and maturity risk management

2.1	Balance Sheet Maturity Mismatch	The maximum balance sheet maturity mismatch will not exceed an amount equivalent to 15% of the balance sheet.
2.2	Net Margin at Risk	Any mismatch will be measured by monitoring legal maturity asset and liability mismatches basis and net margin at risk basis. The maximum net margin at risk threshold will be NZD 100,000.

S3. INTEREST RATE RISK / MARKET RISK LIMITS

Refer section 5 of the Treasury policy for a description of interest rate/ market risk management

4.1	Partial Differential Hedge (PDH)	The maximum 12-month forecast portfolio PDH limit is NZD 40,000. PDH to be calculated and reported on a daily basis and any breaches to be remedied immediately.
4.2	Value at Risk (VaR)	LGFA total portfolio Value at Risk (VaR) daily limit is NZD 400,000 250,000. VAR to be calculated and reported on a daily basis and any breaches to be remedied immediately.
4.3	Management are required to advise the LGFA Board Chair when PDH or VAR are in excess of 85% of the respective limits. ie, When PDH exceeds NZD 34,000 and/or VaR exceeds NZD 212,000.	
4.4	Any PDH or VAR actual breach will be corrected immediately.	

S4. COUNTERPARTY CREDIT LIMITS

Refer section 6 of the Treasury policy for a description of counterparty credit risk management

Category ¹	Standard & Poor's rating (Short term/long term)	Maximum % limit (total cash + liquid assets) ²	Minimum % limit (total cash + liquid assets)	Maximum individual counterparty limits (\$m)	Maximum term (years)
Category 1: NZ Government or RBNZ	N/A	100%	20%	Unlimited	<u>No longer than the longest dated LGFA maturity on issue</u> 10
Category 2	A1+/AAA	80%	N/A	200 <u>150</u>	33
Category 3	A1+: A1/AA+	80%	N/A	150 <u>110</u>	33
	A1+: A1/AA	80%	N/A	150 <u>110</u>	33
	A1+: A1/AA-	80%	N/A	125 <u>75</u>	33
Category 4	A1+ : A1 /A++ <u>NZ Registered Bank</u> <u>Other Issuers</u>	60 <u>20</u> %	N/A	<u>125</u> 30	<u>1</u> 4
<p>1 Category 2, 3 and 4 counterparties do not include the RBNZ or the NZ Government.</p> <p>2 The maximum individual counterparty limit (excluding the New Zealand 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.</p> <p><u>3. Short term rating apply for all securities with a maturity date less than 365 days.</u></p>					

S5. APPROVED COUNTERPARTIES – DERIVATIVE TRANSACTIONS

Unless explicitly approved otherwise by the Board, all derivative transactions must be transacted with the New Zealand Debt Management Office.

S6. APPROVED INSTRUMENTS

9.1	Interest rate risk	<ul style="list-style-type: none"> Interest rate swaps Forward start interest rate swaps Cross currency interest rate swaps Board approval for interest rate instruments other than above.
9.2	Cash and liquidity	<ul style="list-style-type: none"> Cash and investments held with a registered bank or RBNZ which is withdraw-able on demand. New Zealand Government securities, which include treasury bills and bonds, with a maximum legal maturity of ten years. New Zealand registered bank senior ranking investments that include money market call deposits, registered certificates of deposit, commercial paper/promissory notes, FRN's and bonds, with a maximum legal maturity of

		<p>five years and a minimum credit rating of equivalent S&P short term A1 and/or long term A+.</p> <ul style="list-style-type: none"> NZD senior debt security issued by corporates comprising commercial paper/promissory notes, FRN's and Bonds, , with a maximum legal maturity of three years and a minimum credit rating of equivalent S&P short term A1 and/or long term A+, and that are formally registered with the RBNZ as an acceptable security for REPO purposes,
9.3	Foreign exchange risk management	<ul style="list-style-type: none"> Currency Swaps. Cross Currency and Interest Rate Swaps. Foreign Currency Deposits (payment of FX coupons, etc.). Forward Foreign Exchange Contracts (payment of FX coupons, etc.). Spot Foreign Exchange Contracts (payment of FX coupons, etc.).

S7. FOREIGN EXCHANGE RISK

Refer section 7 of the Treasury policy for a description of foreign exchange risk management

3.1	Foreign Exchange Risk	LGFA will always fully hedge all foreign currency borrowing back to floating rate NZD.
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S8. OPERATIONAL RISK

Refer section 8 of the Treasury policy for a description of operational risk management

8.1	Treasury Procedures Manual	Written procedures/protocols for the treasury management function must be maintained.
8.2	Delegated authorities and signatories	All delegated authorities and signatories are reviewed at least every six months to ensure that they are still appropriate and current.
8.3	Delegated authorities and signatories	A comprehensive letter is sent to all relevant counterparties at least every year, which details all relevant current, delegated authorities of LGFA and contracted personnel empowered to bind the LGFA.
8.4	Authorising signatures	All treasury transactions require two authorising signatures.
8.5	NZDMO Facility Utilisation	Monthly reporting requirement to report NZDMO facility utilisation.

S9. LENDING COVENANTS

Refer section 9 of the Treasury policy for a description of lending policy.

Financial covenant		Lending policy covenants	Foundation policy covenants
7.1	Net debt / total revenue	<175%	<250%
7.2	Net interest / total revenue	<20%	<20%
7.3	Net interest / Annual rates income	<25%	<30%

7.4	Liquidity	>110%	>110%
•	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 LGs for services provided and for which the other LGs rate.		

S10. LENDING MATRIX

Council credit rating	Credit margin
AA	0
AA-	+5 bps
A (and below)	+10 bps
Unrated	+20 bps
Non-guarantors	+30 bps

S11. DELEGATED AUTHORITIES – LGFA BOARD

Activity	Delegated Authority	Limit
Approving and changing Policy	The Board	Unlimited
Approving Funding Strategy	The Board	Unlimited (subject to shareholder approval for foundation policies and other regulatory approvals as required)
Re-financing existing borrowing	CEO	To the amount of debt required to be refinanced
Approving transactions outside Policy	The Board	Unlimited
Adjust interest rate risk profile	CEO Service Provider	Per Policy control limits Per Policy control limits and SLA
Maintaining asset and funding maturity profile	CEO	Per Policy control
Maintaining liquidity	CEO	Per Policy control
	Service Provider	Per Policy control limits and SLA
Authorising list of signatories	The Board	Unlimited
Opening/closing bank accounts	The Board	Unlimited
Annual review of Policy	Chief Financial Officer	N/A
Ensuring compliance with Policy	Chief Financial Officer	N/A

NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY LIMITED



PROXY FORM

I/We _____

of _____

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

of _____ or failing him/her _____

of _____ as my/our proxy to vote for me/us at the annual meeting of the Company to be held on 21 November 2017 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. To set the Board composition as five Independent Directors and one non-Independent Director | <input type="checkbox"/> | <input type="checkbox"/> |

IF RESOLUTION 1 IS PASSED

- | | | |
|--|--------------------------|--------------------------|
| 2. To re-elect Craig Stobo as an Independent Director of the Company | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. To elect Anthony Quirk as an Independent Director of the Company | <input type="checkbox"/> | <input type="checkbox"/> |
| 4. To elect ONE of the following candidates as the non-Independent Director: | | |
| (a) Michael Timmer ; OR | <input type="checkbox"/> | |
| (b) Suzanne Tindal . | <input type="checkbox"/> | |

IF RESOLUTION 1 IS NOT PASSED

- | | | |
|---|--------------------------|--------------------------|
| 5. To elect AT LEAST ONE AND UP TO ALL of the following: | | |
| (a) Craig Stobo (Independent Director); | <input type="checkbox"/> | <input type="checkbox"/> |
| (b) Anthony Quirk (Independent Director); | <input type="checkbox"/> | <input type="checkbox"/> |
| (c) Michael Timmer (non-Independent Director); | <input type="checkbox"/> | <input type="checkbox"/> |
| (d) Suzanne Tindal (non-Independent Director). | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. To re-elect Bay of Plenty Regional Council as a Nominating Local Authority | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. To re-elect Whangarei District Council as a Nominating Local Authority | <input type="checkbox"/> | <input type="checkbox"/> |
| 8. To approve the following increases in Director fees payable: | | |
| (a) With effect from 1 July 2017, the Director acting as chairman of the Board, an increase of \$7,000 per annum, from \$90,000 per annum to \$97,000 per annum | <input type="checkbox"/> | <input type="checkbox"/> |

(b) With effect from 1 July 2017, each of the other Directors, an increase of \$4,000 per annum, from \$51,000 per annum to \$55,000 per annum

(c) With effect from 1 July 2017, the Director acting as chairman of the audit and risk committee, an increase of \$6,000 per annum, from \$54,000 per annum to \$60,000 per annum

9. To approve the changes to the foundation policies of the Company

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

Signature of Shareholder

Dated: 2017

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 1, 117 Lambton Quay, 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. You should vote on each of resolutions 2, 3, 4 and 5. However, resolutions 2, 3 and 4, and resolution 5, are alternatives dependent on the outcome of voting on resolution 1 and your votes will only take effect in the following way. If resolution 1 **IS** passed, your votes on resolutions 2, 3 and 4, and **NOT** your vote on resolution 5, will be effective. If resolution 1 **IS NOT** passed, your vote on resolution 5, and **NOT** your votes on resolutions 2, 3 and 4, will be effective.
7. 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.

3 October 2017

The Shareholders
NZ Local Government Funding Agency

Dear Shareholder

You have recently received papers from the LGFA for its Annual General Meeting (AGM) on 21 November 2017. The Shareholders' Council (SC) has considered this material and wishes to make recommendations to help with your decision making prior to the AGM.

Our role (as per the Shareholders' Agreement) includes requirements to:

- make recommendations to Shareholders as to the appointment, removal, re-election, replacement and remuneration of Directors.
- make recommendations to Shareholders as to any matters which require the approval of Shareholders

Our recommendations on the different AGM resolutions are as follows:

Resolution 1 - LGFA Board Size and Composition

The SC supports this resolution.

After taking independent external advice, the SC has agreed that the optimal size of the Board is six Directors, comprising five Independent Directors and one Non-Independent Director. This is the current Board size and composition.

The SC is recommending to Shareholders to formally set the size and composition of the Board in place. This follows consideration of an independent review of the Board's performance conducted by Board Dynamics at our request.

Apart from one period (due to the retirement of Mark Butcher to become the CEO and the appointment of Linda Robertson to the Board at the next AGM) there have been six Directors on the Board since the LGFA's inception in 2011. During this time, there have been two independent reviews of the Board's performance.

The last review also assessed the ideal range of skills and experience needed by the Board against those held by the incumbent Directors. It was concluded that, provided a suitable replacement for Abby Foote (who is retiring at the AGM) is found, the optimum Board size remains at six Directors.

Given the size of the company and the scope of its activities, having seven Directors would increase expenses with little additional benefit to Shareholders or the company.

Conversely, having fewer than six Directors would increase the workload on the remaining Directors, increase concentration risk, could lead to a Board imbalance and make it increasingly difficult to manage succession planning.

Having five out of the six Directors being independent sends a strong signal to Investors and Guarantors that the LGFA is being governed in the best interests of the company and all its stakeholders; and not primarily for the benefit of borrowing councils.

Resolution 2 - Re-election of Craig Stobo – Independent Director

The SC supports this re-appointment.

Craig Stobo has been the Board Chair since inception; leading the LGFA successfully through its formative stages and subsequent development into a successful organisation that is now the primary lender to the local government sector.

As the longest-serving Independent Director, Craig is required to retire under the terms and conditions of the LGFA Constitution.

The SC acknowledges the significant contribution Craig has made to the organisation's success to date, and fully endorses his re-election.

Resolution 3 - Election of Anthony Quirk – Independent Director

The SC supports this appointment.

Having determined in May 2017 that the SC supported a Board of six Directors with five of them being Independent; a small selection panel was delegated the task of identifying a suitable candidate to replace Abby Foote, who is retiring from the Board. A similar process was used for a previous Board appointment.

Alan Adcock (SC Chair), Carol Bellette (SC Member), and Craig Stobo (LGFA Board Chair) engaged Board Dynamics to assist them with this process, which entailed:

- determining the broad selection criteria
- preparing an initial 'long list' of potential candidates
- screening the long list of 39 candidates for both suitability and availability
- identifying a short list of 4 candidates
- holding interviews with each candidate
- identifying the preferred candidate (Anthony Quirk)
- the SC confirming that it endorsed the selection panel's recommendation.

A biography for Anthony is included in the Explanatory Notes to the AGM Notice of Meeting.

Resolution 4 - Election of Non-Independent Director/s

The SC does not have a recommendation on this matter.

The SC has been unable to reach a clear position on this matter to recommend to Shareholders.

Assuming Shareholders agree that the Board should comprise five Independent Directors and one Non-Independent Director, there are two candidates seeking appointment:

- Mike Timmer is the incumbent Non-Independent Director who is required to retire under the terms and conditions of the LGFA Constitution. Mike was appointed to the Board following the recommendation of the SC in 2015 and re-elected in 2016. Mike is the Treasurer of Greater Wellington Regional Council and seeks re-election.
- Suzanne Tindal is the Group Chief Financial Officer of Auckland Council, which has nominated Suzanne to the Board.

Biographical details for both candidates are included in the Explanatory Notes to the Notice of Annual Meeting.

The SC has considered a number of issues in relation to the two candidates:

- Experience in governance roles
- Local government experience
- Knowledge of issues of relevance to the sector, particularly regarding funding
- Relationships with the LGFA's stakeholders
- Perceptions (such as potential conflicts of interest) of other stakeholders e.g. Investors, Guarantors, Rating Agencies
- Knowledge of the LGFA
- Personal credentials e.g. experience, qualifications
- Capacity to fulfil obligations to the LGFA alongside other commitments

After considering these matters and hearing from each candidate, the SC members were evenly divided as to who should be our recommended candidate.

Therefore, we are unable to make a recommendation on this appointment. However, as noted with regard to Resolution One above, we do recommend that there is only one Non-Independent Director on the Board.

Resolution 5

The SC does not have a recommendation on this matter.

This Resolution will only be required if Resolution 1, which is supported by the SC, is not passed. It is therefore inappropriate for the SC to form a position on this matter.

However, if this Resolution is required Shareholders will need to carefully consider which of the four candidates for Director positions they wish to support; as this will affect the size of the Board and its composition.

Resolutions 6 & 7 - Re-election of Nominating Local Authorities

The SC supports both these re-appointments.

Bay of Plenty Regional Council is represented by Mat Taylor, who has been an active member of the SC since 2014.

Whangarei District Council is represented by Alan Adcock, who has been directly involved in the LGFA since its formative stages in 2011. Since 2014 Alan has chaired the SC.

We are not aware of any other Councils that wish to have direct representation on the SC at this time and no other nominations have been received.

Resolution 8 - Directors' Remuneration

The SC supports the proposed increase.

Board Dynamics was commissioned to complete a market evaluation of LGFA Board remuneration. A report containing details of this review will be forwarded to Shareholders under separate cover.

In making this recommendation we are mindful that the increase is greater than inflation and may be inconsistent with movements in other Council Controlled Organisations around the country.

However, we consider that given the specific nature of the LGFA and the market it operates in, Director remuneration should be based on relevant financial market data, rather than simple inflation adjustments. This will ensure the LGFA attracts and retains high calibre governance professionals as stewards of an organisation that is now critical to the sector's funding provision.

Resolution 9 - Changes to Foundation Documents

The SC supports these changes.

There has been discussion between LGFA Management and the SC as these policy changes were developed.

In our view the changes are necessary and are driven by several factors:

- The LGFA book has grown significantly since the Foundation Policies were last reviewed in 2014.
- With the introduction of bespoke lending and short-term lending products there is more complexity in the funding arrangements
- Given the LGFA's reliance on financial institutions owned by Australian parents (e.g. NZ trading banks), sufficient flexibility and headroom is required in the Treasury Policy to accommodate the effects of any subsequent downgrade in credit ratings of related NZ entities i.e. if their parent companies are downgraded

Changes to the Foundation Policies will flow through to the Treasury Policy, which in turn will direct appropriate operational practices.

Overall, the SC is very satisfied with the performance of the LGFA to date. We have provided recommendations for all the proposed resolutions, apart from Resolutions 4 and 5 as noted above.

We urge all Shareholders to either attend the AGM or complete the necessary proxies to allow the Chair (or another nominated party) to cast a vote on your behalf.

If there are any matters arising from this letter that you wish to discuss please call me.

Yours faithfully



Alan Adcock

Chair – LGFA Shareholders Council

GM Corporate / CFO

Whangarei District Council

DDI (09) 430 4228

NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY LIMITED

AUCKLAND Level 12, West Plaza Tower, Corner Albert and Customs Street

WELLINGTON Level 8, City Chambers, 142 Featherston Street

PO Box 5704, Lambton Quay, Wellington 6145 | PH +64 4 974 6530 | www.lgfa.co.nz

LGFA Director Remuneration Levels - 2017

Background

Remuneration levels were last reviewed in 2015, when increases covering a two year period were confirmed.

In May 2017 the Shareholders' Council (SC) commissioned Board Dynamics to complete an independent review of Director remuneration (attached).

Discussion

Before commissioning the review the SC considered whether remuneration should simply be linked to an inflation indicator (such as CPI), or should be linked to remuneration levels in comparable financial organisations.

When it started, the LGFA operating model was that of a broker or intermediary, where funds were sourced on behalf of the sector and then-on lent to members. To some extent it was comparable to a procurement shared service – not dissimilar to a number of LASS's set up around the country by small groups of councils. At the time the LGFA was established it was considered appropriate to link Director remuneration increases to inflation; as was common in the local government sector.

However, since 2011 there has been a significant evolution in the role the LGFA plays and the business model it has adopted on behalf of the shareholders as it has responded to:

- demand from Shareholders for bespoke lending with flexible conditions and longer terms,
- the accelerated growth in the amount of funds lent
- the need to source more of those funds off-shore
- Central Government passing more risk back to the LGFA with its decision to withdraw the provision of computer systems through Treasury's Debt management Office
- the listing of LGFA Bonds on the NZX

All of these things have added to the risks the organisation faces and the reliance Shareholders have placed on the Directors to manage them. The LGFA is now operating as a complex financial institution, rather than a simple financial intermediary. The Director remuneration structure should reflect this complexity, to attract and retain the high calibre of governance professionals required.

The SC agreed to commission a comprehensive review that benchmarked Director remuneration against comparable financial sector organisations – excluding the major trading banks.

This benchmarking group recognises that the LGFA operates exclusively as a financial institution, with all associated legislation, compliance issues and risks. In addition, the people we are seeking as Directors will be within that specialised field of expertise.

The report findings were discussed in depth by the SC, with a view to making a recommendation to Shareholders for consideration. Matters discussed included:

- revalidating the approach to remuneration increases i.e. inflation adjusted vs. market driven
- the evolution of the LGFA since its inception,
- risks the LGFA is now facing,
- the role the Board plays in managing risk
- the quality of governance we wish to see going forward
- the implications of the 'cross-guarantee' risks that all shareholders are exposed to
- the importance of the Board protecting Shareholders from the consequences of any default.

All these factors suggested an increase in remuneration was appropriate.

However, we also discussed issues that might limit the level of that increase:

- While the LGFA is operating as a financial institution, it is also a Council Controlled Organisation (CCO). This could influence the approach some Councils take to remuneration, as many CCO's are governed on a voluntary basis or have remuneration set at arbitrary levels that are not market-driven.
- The LGFA faces much less business competition than other financial institutions, as its pricing advantages and ownership structure virtually guarantee a high volume of lending demand.

The report from Board Dynamics recommended an increase of 8%,

After taking all the above factors into account, the SC's majority view was that the recommended increase was appropriate, as the revised remuneration would still place LGFA Directors at the lower end of comparable ranges.

Category	Current Remuneration	Proposed Remuneration	Range in comparable financial institutions
Independent Chair	\$90k	\$97k	\$80k - \$150k
Audit & Risk Chair	\$54k	\$60k	\$50k - \$100k
Director	\$51k	\$55k	\$50k - \$100k

Recommendation

That the proposed increased to LGFA Director remuneration are approved.

Attachment

Board Dynamics Report

Local Government Funding Agency (LGFA)

Chair and Director Fee Review Summary Report

May 2017

Background

Board Dynamics has been engaged by the LGFA Shareholder Council to provide a brief report on the current Director remuneration at LGFA and make recommended changes in the current fees based on current market data.

In benchmarking LGFA Board remuneration we have used the New Zealand financial services industry as the sector of reference, and excluded State Owned Enterprises (SOEs). This is because LGFA is operating in a specialised technical financial services space aligned with the practices and disciplines of the financial services industry, despite operating as an agency for Local Government funding.

LGFA Board remuneration has been benchmarked against similar sized organisations in NZ, based on assets under management and shareholder funds. We have referenced the current remuneration of Chairs and Directors on boards of organisations ranging from a small bank, private equity firm and asset management firms.

As of December 2016, the average board remuneration in the financial services industry in NZ for a Chair is (range) \$80,000-\$150,000 and for a Director is (range) \$50,000-\$100,000. The range depends on breakdown – assets, revenue or industry.

The current LGFA board comprises of 1 Independent Chair, 1 Non-Independent Director and 4 Independent Directors. The remuneration fees per annum are set as follows:

LGFA Board Role	Current Remuneration pa	Avg Financial Services remuneration
Independent Chair	\$90K	\$80K - \$150K
Director with Audit and Risk Chair role	\$54K	\$50K - \$100K
Director	\$51K	\$50K - \$100K

We have taken into consideration the complexity of the industry, size of portfolio and technical skills required of each director or Chair. There is almost a small pool of potential directors. Note: we have excluded director fees of the largest trading banks in NZ to prevent skewing the results.

Recommendations

Our recommendation is based on several factors including the Financial Industry, Assets under Management and Shareholder Funds of the market data referenced in this report for both Chair and Director fees.

LGFA is an organisation where the Board operates in an industry most similar to Financial Services, with Assets Under Management of \$7.76 Billion (as of March 31, 2017).

Recommended LGFA Chair and Director Fee Increase:

Accordingly, we suggest the current Chair and Director fees at LGFA are low if we understand the workload to be in the range suggested of 29 hours per month for the Chair and 19 hours per month for a Director.

We would initially recommend the following fee increases:

- Annual Director fees at LGFA be increased from the current of \$51,000 - \$54,000 into a range **between \$55,000 and \$60,000**.
- Annual Chair fees at LGFA be increased from the current \$90,000 to **\$97,000**.

While these increases are less than the represented averages for Industry, Assets Under Management and Shareholder Funds, it is a 8% increase.

This fee increase recognises the increasing financial services sector knowledge requirements for an LGFA director role, and the workload expectations on directors.

Board Role	Current Remuneration	Recommended Remuneration	Corresponding Workload
Independent Chair	\$90K	\$97K	29 hrs per month
Director with Audit and Risk Chair role	\$54K	\$60K	19 hrs per month
Director	\$51K	\$55K	19 hrs per month

These remuneration fee increases may represent, depending on final decisions, the annual governance pool rising from \$348K (approximate) to \$377K if the board membership remains at 6. This is a rise of approximately \$29K per annum.

Finally, this document represents the objective recommendation of Board Dynamics regarding Board fees at LGFA. However, any board fee discussion involves a variety of factors of which the information in this document is just one. We suggest using this information as a starting point in a review that should serve to further develop the relationship between the LGFA Board and the Shareholder Council.

5.1 Financial Report for the 3 Months Ending 30 September 2017

Meeting: Finance and Corporate Committee
Date of meeting: 26 October 2017
Reporting officer: Alan Adcock (General Manager – Corporate/CFO)

1 Purpose

To provide the operating result for the 3 months ending 30 September 2017.

2 Recommendation

That the Finance and Corporate Committee notes the operating result for the 3 months ending 30 September 2017.

3 Background

3.1 Operating Result – Full Year Forecast

The year to date position is a surplus of \$3.4 million, compared to a budgeted deficit of \$0.7 million, resulting in a favourable variance of \$4.1 million.

The forecast net surplus for the financial year ending 30 June 2018 is \$10.0 million compared with a budgeted surplus of \$5.8 million, resulting in a favourable variance of \$4.2 million.

3.2 Capital Project Expenditure – Full Year Forecast

The Capital Projects expenditure as at 30 September 2017 is currently \$4.7 million less than budget. Council is forecasting to spend a total of \$71.9 million against the \$70.5 million budget, with a forecast carry forward of \$3.4 million. This is an optimistic forecast at present depending on weather for the construction season and progress on the One Building project (\$7.3 million).

This forecast also includes the additional \$4.4 million spend for LED Streetlight Upgrade Programme that Council has previously approved to be brought forward to this year. The budget will be revised to include this project in the financial reports from the period ending 31 October 2017.

3.3 External Net Debt and Treasury

Total net external debt at the end of September 2017 was \$103.9 million compared to year to date revised budgeted net debt of \$109.7 million, resulting in net debt being \$5.8 million under budget.

3.4 WDC Treasury Operations

As at 30 September 2017 cash and term deposits held of \$58.0 million was comprised of:

- \$20.0 million of term deposits relating to prefunding undertaken in March 2017.
- \$10.0 million of term deposits relating to short term borrowings not yet required.
- \$24.0 million of term deposits relating to excess cash not currently required.
- \$4.0 million of cash on hand.

Council is currently receiving slightly higher interest rates than the borrowing rate on the majority of these deposits.

Economic

The OCR remained at 1.75% in the September OCR Review as expected. The Reserve Bank has signalled that the OCR would likely remain low for a considerable period. The market is almost fully pricing in an OCR hike by August 2018.

Long term rates increased from 3.14% to 3.25% during September following global interest rates.

The low long term swap rates are partially offset by higher global credit spreads which will increase the cost of any future borrowing. Council has utilised prefunding to reduce its exposure to this.

4 Accounts receivable in arrears

Total arrears as at 30 September 2017 was \$4.2 million, compared to \$4.1 million in the previous period.

5 Significance and engagement

The decisions or matters of this Agenda do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via Agenda publication on the website.

6 Attachments

1. Monthly key indicators
2. Monthly activity summary
3. Monthly income statement
4. Quarterly cashflow statement
5. Quarterly balance sheet
6. Capital projects expenditure – graphs
7. Treasury report

MONTHLY KEY INDICATORS
SEPTEMBER 2017



YTD to 30 September 2017					Full Year Forecast			
	YTD	Revised Budget	Variance	YTD	Full Year Forecast	Revised Budget	Variance	YTD
	(Surplus)/ Deficit	(Surplus)/ Deficit	(Surplus)/ Deficit	Indicator	(Surplus)/ Deficit	(Surplus)/ Deficit	(Surplus)/ Deficit	Indicator
	\$ m	\$ m	\$ m		\$ m	\$ m	\$ m	
OPERATING								
Total Rates	(21.0)	(20.9)	(0.1)	●	(92.5)	(92.4)	(0.1)	●
User Fees	(5.5)	(5.7)	0.2	●	(21.0)	(20.7)	(0.3)	●
Operating Subsidies and Grants	(1.6)	(1.5)	(0.1)	●	(6.7)	(6.6)	(0.1)	●
Total Operating Income	(29.2)	(28.9)	(0.3)	●	(125.0)	(124.3)	(0.7)	●
Personnel Costs	5.9	6.5	(0.6)	●	27.8	28.2	(0.4)	●
Professional Fees / R&M / Asset	5.9	7.2	(1.3)	●	30.0	29.4	0.6	●
Operating Expenditure								
Other Operating Expenditure	5.7	6.5	(0.8)	●	30.4	30.0	0.4	●
Total Operating Expenditure	29.2	32.5	(3.3)	●	137.6	136.9	0.7	●
(Surplus)/Deficit from Operations	0.0	3.6	(3.6)	●	12.7	12.6	0.1	●
CAPITAL								
Capital Subsidies*	(1.6)	(2.1)	0.5	●	(16.6)	(13.3)	(3.3)	●
Development Contributions	(1.8)	(.7)	(1.1)	●	(4.0)	(3.0)	(1.0)	●
Total Capital Income	(3.4)	(2.9)	(0.5)	●	(23.2)	(18.9)	(4.3)	●
External Net Debt	103.9	109.7	(5.8)	●				
Net Interest on debt	1.6	1.9	(0.3)	●	7.5	7.6	(0.1)	●
Total (Surplus) / Deficit	(3.4)	0.7	(4.1)	●	(10.0)	(5.8)	(4.2)	●

KEY	
●	Favourable to budget
●	Unfavourable, but within 5% of budget
●	Unfavourable, over 5% of budget
↑	Favourable to previous month
↓	Unfavourable to previous month

Key Contributors to Unfavourable Variances
Capital Subsidies

The YTD unfavourable variance is due to timing of capital projects and subsidy claims.

Note: The above information includes excerpts taken from the Monthly Income Statement. The shaded lines above represent key totals from the Monthly Income Statement but are not totals of the lines above.

* The 2017/18 budget has not yet been revised to reflect bringing forward the LED Streetlight Upgrade Programme, which includes an 85% subsidy claim. This change will be reflected in the operating report ending 31 October 2017.

MONTHLY ACTIVITY SUMMARY

SEPTEMBER 2017

YTD to 30 September 2017					Full Year Forecast			
	Actual YTD (Surplus) / Deficit \$m	Budget YTD (Surplus) / Deficit \$m	Variance (Surplus) / Deficit \$m	YTD Indicator	Full Year Forecast (Surplus) / Deficit \$m	Revised Budget (Surplus) / Deficit \$m	Variance (Surplus) / Deficit \$m	Full Year Indicator
Total Council	(3.4)	0.7	(4.1)	●	(10.0)	(5.8)	(4.2)	●
Transportation	4.3	4.3	0.0	●	7.8	11.4	(3.6)	●
Water	(1.5)	(1.0)	(0.5)	●	(4.2)	(3.6)	(0.6)	●
Solid Waste	(1.2)	(1.1)	(0.1)	●	(3.0)	(3.0)	0.0	●
Waste Water	(2.3)	(1.7)	(0.6)	●	(6.1)	(5.9)	(0.2)	●
Storm Water	0.9	1.1	(0.2)	●	3.5	3.5	0.0	●
Flood Protection	0.0	0.0	0.0	●	0.0	0.0	0.0	●
Community Facilities	4.7	5.6	(0.9)	●	23.9	23.8	0.1	●
Economic Growth	0.3	0.4	(0.1)	●	0.7	0.8	(0.1)	●
Planning & Regulatory	(0.5)	(0.4)	(0.1)	●	0.7	0.7	0.0	●
Support Services	(7.9)	(6.5)	(1.4)	●	(33.3)	(33.4)	0.1	●

KEY:

Favourable to budget

Unfavourable, but
within 5% of budget

Unfavourable, over 5% of budget



Favourable to previous month



Unfavourable to previous month

MONTHLY INCOME STATEMENT

30 SEPTEMBER 2017

Council Summary	Actual YTD \$000	Revised Budget YTD \$000	Forecast 2017-18 \$000	Revised Budget 2017-18 \$000	Variance 2017-18 \$000
Operating Income					
General Rates	(11,569)	(11,884)	(53,342)	(53,590)	248
Activity Targeted Rates	(6,072)	(6,007)	(25,557)	(25,486)	(71)
Metered water	(3,328)	(2,975)	(13,628)	(13,275)	(353)
User Fees	(5,455)	(5,666)	(21,014)	(20,744)	(270)
Other Income	(714)	(656)	(4,241)	(4,191)	(51)
Interest Received - Cash Balances	(427)	(190)	(528)	(394)	(134)
Operating Grants & Subsidies	(1,598)	(1,534)	(6,673)	(6,649)	(24)
Total Operating Income	(29,163)	(28,911)	(124,983)	(124,329)	(655)
Operating Expenditure					
Personnel Costs	5,894	6,471	27,833	28,175	(342)
Professional Fees	1,284	1,150	6,164	5,809	354
Repairs and Maintenance	3,499	5,147	18,728	18,710	19
Asset Operating Expenditure	1,074	866	5,076	4,854	223
Other Operating Expenditure	5,724	6,508	30,440	30,024	417
Depreciation	9,660	10,329	41,373	41,322	51
Interest Expense - External Borrowings	2,063	2,043	8,031	8,009	22
Total Operating Expenditure	29,198	32,515	137,646	136,902	744
(Surplus)/Deficit from Operations	35	3,604	12,663	12,573	89
Capital Income					
Capital Subsidies*	(1,566)	(2,128)	(16,569)	(13,312)	(3,257)
Capital Scheme Rates	(9)	(9)	(35)	(35)	()
Lump Sum Contributions	(54)	(13)	(98)	(53)	(45)
Development Contributions	(1,761)	(732)	(3,997)	(3,028)	(969)
Non Cash - Vested Assets	0	0	(2,500)	(2,500)	0
Total Capital Income	(3,390)	(2,882)	(23,199)	(18,928)	(4,271)
Capital Grant Expenditure					
Capital grant expenditure	0	0	540	540	0
Total Capital Grants	0	0	540	540	0
(Surplus)/Deficit from Operating Capital	(3,390)	(2,882)	(22,659)	(18,388)	(4,271)
Total (Surplus)/Deficit	(3,355)	722	(9,997)	(5,815)	(4,182)

* Note: The 2017/18 budget has not yet been revised to reflect bringing forward the LED Streetlight Upgrade Programme, which includes an 85% subsidy claim. This change will be reflected in the operating report ending 31 October 2017.



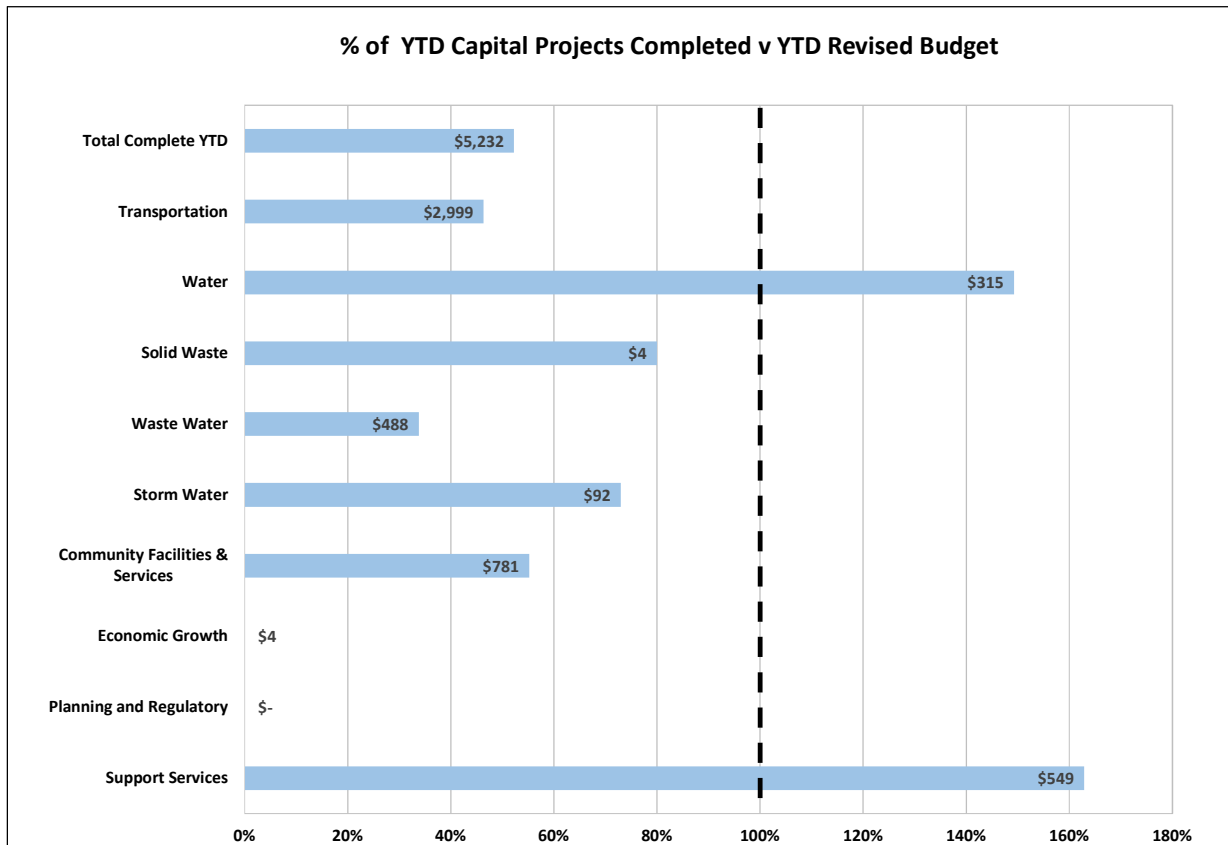
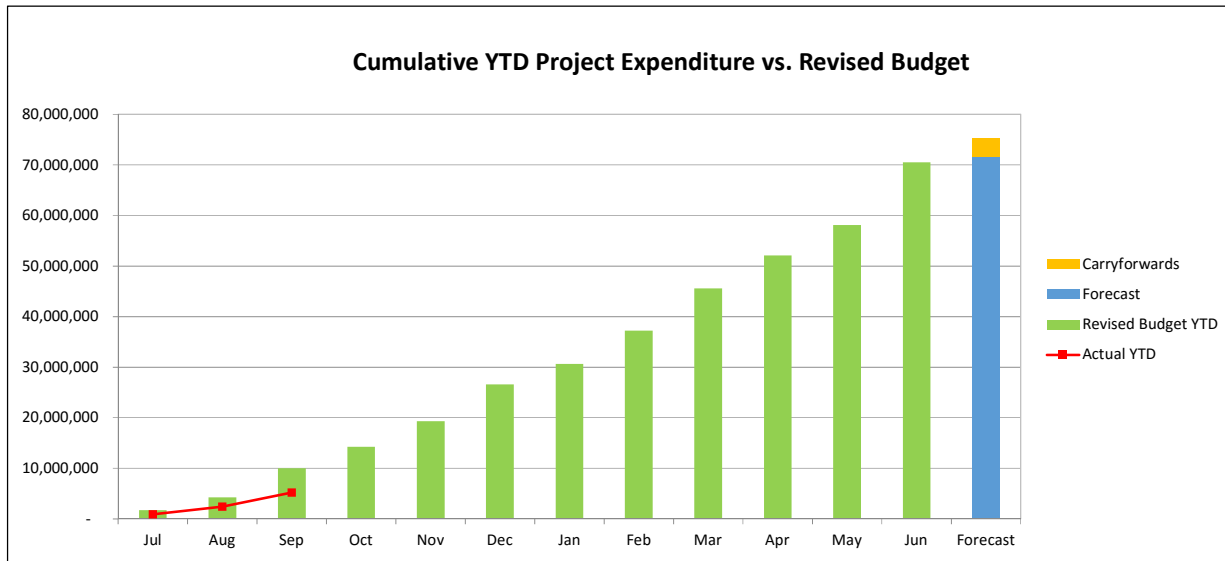
QUARTERLY CASH FLOW STATEMENT YTD TO SEPTEMBER 2017

	Actual 2017-18	Actual 2016-17	Annual Plan 2017-18
Council Summary	YTD	YTD	Full Year
	\$000	\$000	\$000
Cash flows from operating activities			
Rates (including rates received on behalf of Northland Regional Council)	39,337	37,436	102,603
Grants & Subsidies received	1,099	4,255	19,792
Other income	991	885	3,103
Receipts from customers and services	7,744	6,609	19,023
Interest & dividends received from investments	703	417	934
Rental of property	1,298	977	4,949
Payments to suppliers and employees	(20,887)	(19,991)	(88,181)
Rates - Northland Regional Council	(5,122)	(4,956)	(10,934)
Interest paid	(2,016)	(1,933)	(8,009)
Net cash (to) / from operating activities	23,146	23,699	43,280
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment	76	2,986	-
Maturity of investments and loans	-	-	-
Purchase and development of fixed assets	(6,780)	(9,769)	(61,994)
Purchase of investments and loans provided	-	(10,000)	-
Net cash flows (to) / from investing activities	(6,704)	(16,783)	(61,994)
Cash flows from financing activities			
Loans raised	10,000	10,000	18,314
Loan repayments received	59	69	-
Repayment of public debt	(10,000)	(10,000)	-
Loans granted	-	-	-
Net cash flows (to) / from financing activities	59	69	18,314
Net Cash Movement increase / (decrease)	16,501	6,985	(400)
Cash Reconciliation			
Cash, cash equivalents and bank overdrafts at the beginning of the year	21,535	15,680	681
Cash, cash equivalents and bank overdrafts at the end of the period	38,036	22,665	281
Net increase / (decrease) in cash, cash equivalents and bank overdrafts	16,501	6,985	(400)

QUARTERLY BALANCE SHEET AS AT 30 SEPTEMBER 2017

Council Summary	Actual 2017-18 YTD \$000	Annual Plan 2017-18 Full Year \$000	Variance \$000
Assets			
Current assets			
Cash and Cash Equivalents	38,036	281	37,755
Debtors and Other Receivables	12,996	18,093	(5,097)
Prepayments	967	533	434
Inventories	196	183	13
Other Financial Assets	287	266	21
Derivative Financial Assets	1	-	1
Total current assets	52,483	19,356	33,127
Non-current assets			
Investment Properties	51,496	53,225	(1,729)
Forestry Assets	787	800	(13)
Property Plant and Equipment	1,531,758	1,613,362	(81,604)
Intangible Assets	5,313	6,632	(1,319)
Other Financial Assets	32,559	13,573	18,986
Derivative Financial Assets	64	-	64
Total non-current assets	1,621,977	1,687,592	(65,615)
Total assets	1,674,460	1,706,948	(32,488)
Liabilities			
Current liabilities			
Creditors and other Payables	23,942	20,744	3,198
Derivative Liability Current	395	382	13
Provisions	2,507	2,620	(113)
Current borrowings	30,000	29,000	1,000
Total current liabilities	56,843	52,746	4,097
Non-current liabilities			
Creditors and other Payables	156	589	(433)
Non current borrowings	132,000	121,477	10,523
Provisions	1,820	1,468	352
Derivative Financial Liabilities	11,073	12,009	(936)
Total non-current liabilities	145,049	135,543	9,506
Total liabilities	201,892	188,289	13,603
Net assets	1,472,568	1,518,659	(46,091)
Equity			
Retained Earnings	859,840	855,622	4,218
Reserves and special funds	75,135	67,412	7,723
Asset revaluation reserve	537,592	595,625	(58,033)
Total equity attributable to Council	1,472,568	1,518,659	(46,091)

CAPITAL PROJECT EXPENDITURE AS AT 30 SEPTEMBER 2017



TREASURY REPORT
30 SEPTEMBER 2017



STANDARD AND POORS CREDIT RATING:

AA

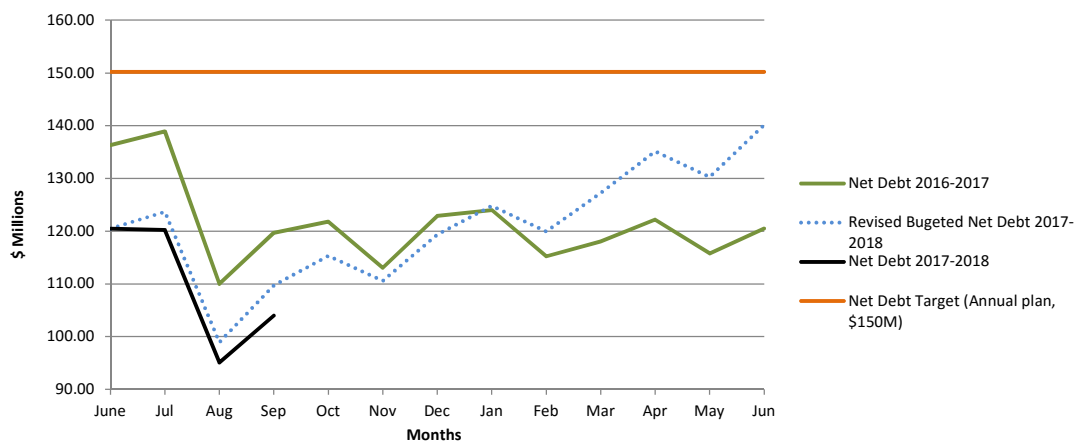
Outlook: Stable

DEBT SUMMARY:

As at 30 September 2017

External Debt		
Opening public debt as at 1 September 2017		
		162,000,000
Plus loans raised during month	5,000,000	
Less loan repayments made during month (Note: Facility movement has been netted)	(5,000,000)	
Net movement in external debt		-
Total External Debt		162,000,000
Less: Cash balances (excluding funds held on behalf)	4,036,200	
Term deposits (Funds held on deposit until required for project funding)	54,000,000	
Total cash and term deposits		58,036,200
Total Net External Debt		103,963,800
<i>Note: Council also holds \$2.3m of LGFA borrower notes. These are not included in net external debt as per Council's Treasury Risk Management Policy.</i>		
External debt is represented by:		
Less than 1 Year		30,000,000
1-3 Years		39,000,000
3-5 Years		33,000,000
Greater than 5 Years		60,000,000
Total		162,000,000

NET EXTERNAL DEBT COMPARED TO BUDGET:



Internal Funding		
Community Development Funds		
		10,048,372
Property Reinvestment Reserve - Available for Reinvestment	4,934,553	
Property Reinvestment Reserve - Accumulated	28,370,328	
		33,304,881
Water Reserve		29,849,092
Total		73,202,345

Note: Reserves Funding is disclosed to ensure transparency of Council's use of cashflow management to fund capital works. Where funds are raised through property sales or targeted rates for Water, but they are not required for immediate investment in that asset category, Council's Revenue and Financing policy allows them to be used for other purposes, rather than being held on deposit. To ensure total transparency of this we create Reserve Accounts so that the appropriate funding can be made available and transferred back when it is required. The timing of projects requiring these funds is set out in our Long Term Plan (LTP) and/or Annual Plan (AP). These Reserves are not a liability to an external party, and are not part of Council's debt obligations.

The Property Reinvestment Reserve is split to record funds that were used specifically for capital works in previous years; and a smaller amount representing recent unbudgeted sales where the funds received have offset external debt.

The only situation where our Net Debt would increase as a result of these Reserves is if major expenditure on Water Assets or property purchases is brought forward from the dates set out in the LTP/AP.

5.2 Corporate Capital Projects Report for the month ending 30 September 2017

Meeting: Finance and Corporate Committee
Date of meeting: 26 October 2017
Reporting officer: Alan Adcock (General Manager - Corporate)

1 Purpose

To provide the Corporate Capital Projects Report for the month ending 30 September 2017.

2 Recommendation

That the Finance and Corporate Committee:

- a) Note the Corporate Capital Projects Report for the month ending 30 September 2017.

3 Background

This report provides an update on Corporate Capital Projects expenditure to date compared to budget, as well as the forecast spend for the year and carry forwards against budget.

4 Discussion

The Capital Projects expenditure for Corporate as at 30 September 2017 is currently \$228k more than budget. Corporate is forecasting to spend a total of \$14.9m against the \$14.5m budget.

There are currently no forecast carry forwards to the next financial year, although this will be largely dependent upon future decisions related to the Council Premises project.

5 Significance and engagement

The decisions or matters of this Agenda do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via agenda publication on the website.

6 Attachment

Corporate Capital Projects Report

CORPORATE CAPITAL PROJECTS REPORT

AS AT September 2017

(Figures include both Operating and Capital Expenditure)

	Actual YTD \$000	Revised Budget YTD \$000	Variance YTD \$000	Full Year Forecast \$000	Full Year Revised Budget \$000	Forecast (Underspent)/ Overspent \$000	Forecast Carry Forwards \$000	Total (Underspent)/ Overspent \$000
Support Services								
<i>Business Support</i>								
Central City Carpark Upgrades & Improvements	0	0	0	204	204	0	0	0
Commercial Property Renewals & Improvements	66	0	66	37	0	37	0	37
Council Premises	0	10	(10)	7,274	7,274	0	0	0
Council Vehicle Replacements	(28)	0	(28)	210	210	(0)	0	(0)
Information Centre Upgrade	0	0	0	148	148	0	0	0
Old Harbour Board Building Development	0	0	0	1,469	1,469	0	0	0
Parihaka Transmission Mast Upgrade	0	0	0	1,003	1,003	0	0	0
Port Road Site Remediation	0	10	(10)	1,500	1,500	0	0	0
Property Purchases	340	0	340	340	0	340	0	340
Water Services Building Renewals	0	0	0	20	20	0	0	0
Business Support Total	378	20	358	12,205	11,828	377	0	377
<i>ICT</i>								
Accounts Payable Automation	11	42	(31)	60	60	0	0	0
Asset Management Software Upgrade	0	0	0	94	94	0	0	0
Computer Tech for Building, Animal Control & Parking	0	0	0	124	124	0	0	0
Decision Support System Development	0	0	0	80	80	0	0	0
Digitisation of Records	71	213	(142)	850	850	0	0	0
Electronic Agenda Management System	14	0	14	14	0	14	0	14
IB Project	27	35	(8)	53	53	0	0	0
IT Network Upgrades	0	0	0	60	60	0	0	0
OC Project	36	0	36	650	650	0	0	0
Performance Management System Development	0	0	0	174	174	0	0	0
Web & Intranet Development	0	0	0	337	337	0	0	0
Workflow Systems Development	0	0	0	158	158	0	0	0
ICT Total	160	290	(130)	2,653	2,639	14	0	14
<i>People & Capability</i>								
Office Furniture	2	2	(1)	9	10	(1)	0	(1)
People & Capability Total	2	2	(1)	9	10	(1)	0	(1)

Support Services Total	540	312	228	14,868	14,478	390	0	390
Total	540	312	228	14,868	14,478	390	0	390

5.3 Operational report – Finance and Corporate – October 2017

Meeting: Finance and Corporate Committee
Date of meeting: 26 October 2017
Reporting officer: Alan Adcock (General Manager – Corporate/CFO)

1 Purpose

To provide a brief overview of work across services that the Finance and Corporate Committee is responsible for.

2 Recommendation

That the Finance and Corporate Committee notes the operational report for October 2017.

3 Background

The purpose of the Finance and Corporate Committee is to oversee Council and CCOs financial management and performance, including operation of the administrative and internal support functions of Council.

This report provides a brief overview of some of the operational highlights for September/October 2017 and provides some further comment on future planned activities.

4 Significance and engagement

The decisions or matters of this agenda do not trigger the significance criteria outlined in Council's Significance and Engagement Policy, and the public will be informed via agenda publication on the website.

5 Attachment

Operational Report – Finance and Corporate – October 2017

Operational Report – Finance and Corporate – October 2017

Information Communications Technology (ICT)

In general, the ICT Teams are continuing to manage existing business as usual as well as initiating and planning approved LTP projects. In parallel the governance structures for oversight of ICT activities, processes and projects are also being initiated. This includes the ICT Think Tank team which will, over the next few months, review and update the existing ICT vision for the organisation. This is important as it sets the direction for the ICT Strategic Plan and programme of work for the future. This will be developed in conjunction with a wider organisational development program.

ICT Operations

September continues to see the workload ease from peak levels over the July/August period. This is a predictable trend, with the workload expected to ramp up again in November/December in the lead up to the Christmas break. The team are managing to maintain service level goals 90% of the time, which is within SLA resolution targets.

Operational activities include:

- Planning for network management activities, including system upgrades.
- Infrastructure monitoring and support activities.
- Various project implementations – support.
- Application and Desktop support business as usual.

ICT Projects

The team's focus has been on initiating and planning the below projects which are now underway for this fiscal year. Planning phases include the identification of internal resources required, setting the scope for the projects and initiating the governance models. The planning phase of the below projects is expected to continue into December.

- Upgrade Technology One to Ci Anywhere – next software upgrade.
 - Planning Phase - Technology One have been engaged, with a Statement of Work underway and a draft project plan.
- Corporate Performance Management - Implementation of software to track, trace, monitor and manage key performance indicators across WDC.
 - Project draft documentation in progress, key stakeholders and sponsor engagement processes are in the initiation stages.
- Website Platform Redevelopment (Digital Platform) – Review and re-development of our existing WDC websites.
 - Procurement planning underway, Project Management and Business Analysis resources to be identified and confirmed.

Finance

Annual Report

The Annual Report project for the year ended 30 June 2017 went well, with adoption taking place before the end of September for the second year in a row. The process will be reviewed to identify any areas that can be improved upon.

Financial Reporting / September Month End

The combined pressures of the organisational restructure, the 2016-17 Annual Report, the 2018-28 Long Term Plan and the PWC Performance Excellence Program, have stretched the team's resources. This prevented the team producing year to date financials in earlier agendas but September year to date financial reports have been completed for the October Finance and Corporate Committee meeting.

Revised Annual Plan Budget

Finance has completed the revised 2017/18 Annual Plan budget to reflect the change in Council's structure because of the organisational restructure, and this has been used for reporting the September year to date result.

LTP

Budgeting for the financial aspects of the LTP is progressing.

The Revenue and Financing Policy which is being co-ordinated with the Rates Review was brought to a Council Briefing on 19 September. Work on the Financial Strategy is underway.

Co-ordination with Infrastructure for capital projects and the Infrastructure Strategy is progressing.

Australasian LG Performance Excellence Program

The team completed the financial aspects of the Australasian LG Performance Excellence Program within the required timeframe.

This report, which also includes information provided by other departments across Council related to operations, asset management, workforce, risk management, corporate leadership and governance, will be available in December.

Payables

Payables processing has continued to ensure that approved payments to suppliers are being completed within contractual terms.

Revenue

Land Rates

Penalties on prior years' arrears of \$104,000 on 1,006 properties were applied on 4 September.

The Rates Review continues to progress and modelling is being done to prepare for the next Council Briefing in October.

Other rating activity includes:

- 42 Subdivisions in September (247 August)
- 229 Sales in September (365 August).

Water Rates

Details of water rates transactions and arrears for September are as follows:

Water Rates Summary - September							
	Consumption	Supply Charge	Backflow	Special Reading Fee	Penalties	Excess Water Remission	Arrears
Amount(\$)	1,287,000	73,000	9,000	6,000	12,000	- 13,000	271,000
Transactions (Number)	5,269	5,219	288	144	666	23	1,460
Average (\$)	244.26				18.02	- 565.22	

Collection and Recovery

Land rate arrears are \$2,462,000 of which \$1,843,000 relate to prior years' arrears. Details are as follows:

Land Rates Arrears 30 September 2017						
	\$			Number of Properties		
	Current	Prior Years	Total	Current	Prior Years	Total
By Recovery Group						
No Mortgage	61,000	131,000	193,000	50	49	50
Mortgage	132,000	170,000	303,000	95	95	96
Arrangement	181,000	379,000	560,000	184	181	186
Arrangement MFL	33,000	254,000	287,000	44	42	45
Maori Freehold Land	168,000	897,000	1,064,000	116	115	116
Other	43,000	12,000	55,000	53	51	53
Total	619,000	1,843,000	2,462,000	542	533	546
By Amount Outstanding						
>\$5000	54,000	693,000	1,688,000	7	117	144
\$2000-\$4999	94,000	922,000	479,000	28	77	153
\$200-\$1999	470,000	222,000	295,000	487	249	238
<\$200	1,000	7,000	1,000	20	90	11
Total	619,000	1,843,000	2,462,000	542	533	546

The recovery groups are defined:

“No Mortgage” – rates can be recovered by filing proceedings with the District Court;

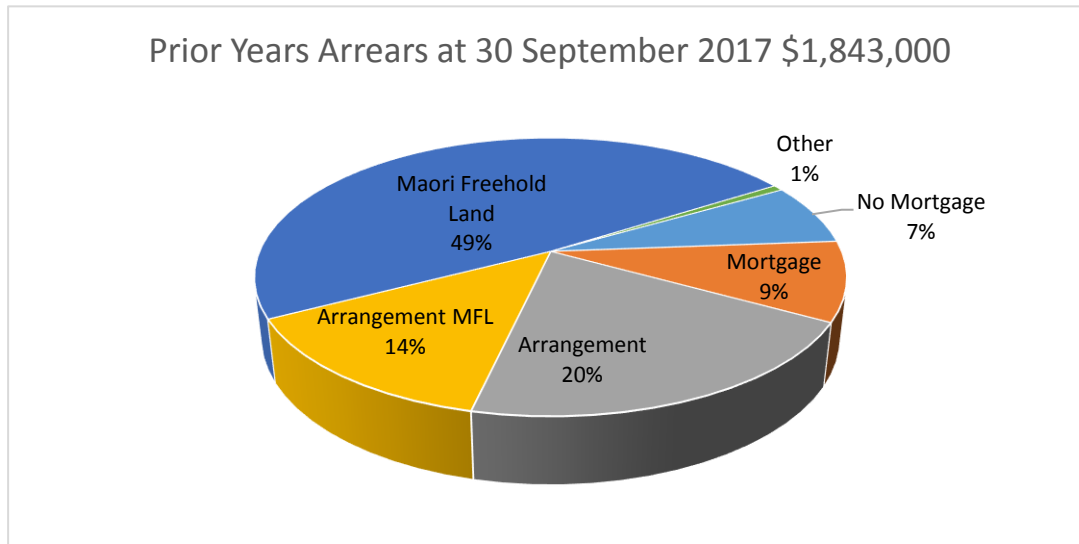
“Mortgage” – rates can be recovered from the mortgagee (e.g. a trading bank);

“Arrangement” – the ratepayer has entered into a payment arrangement with Council;

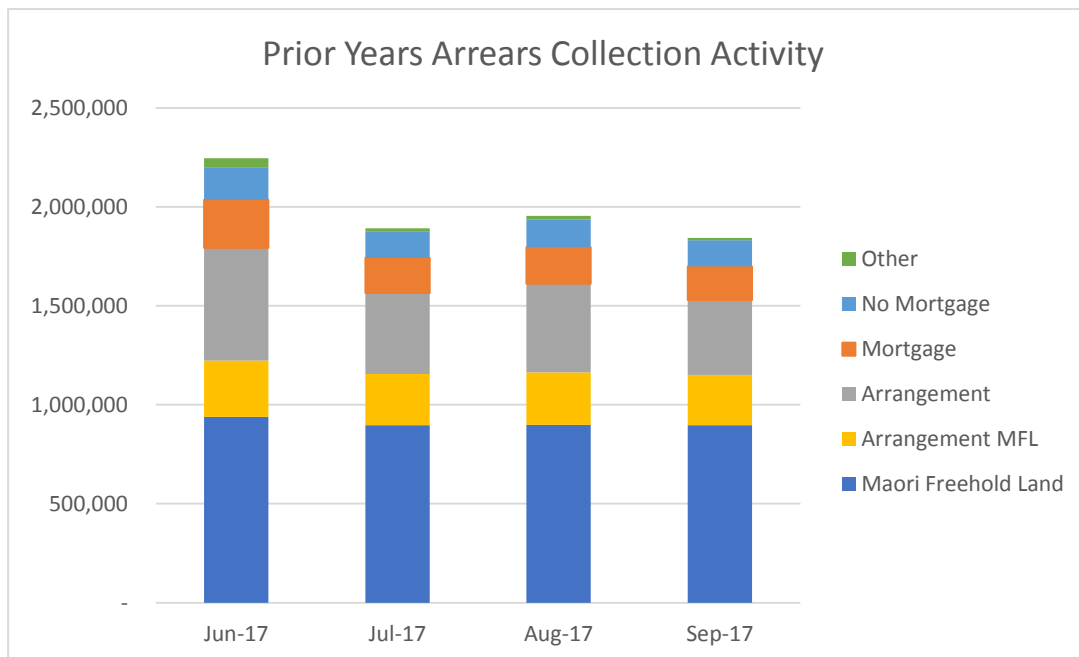
“Maori Freehold Land” – rates may be recovered from a person actually using the land;

“Other” – mainly small amounts.

An analysis of prior years’ arrears by recovery group is:



Collection activity for the year to date is represented below:



Sundry debtors arrears are \$831,000, with \$160,000 being 90 days or more of which four debtors total \$127,000.

Payments received analysed by payment method is as follows:

Number of Payments Received - September			
Method	2017	2016	% Change
Direct Debits	22,028	20,437	8%
Direct Credits	10,492	11,011	-5%
Cheque	7	14	-50%
Credit card	979	860	14%
Counter	2,221	2,081	7%
Total	37,744	36,419	4%

Business Improvement

The Business Improvement Department is a newly formed department with staff drawn from other departments in the previous structure. The Business Improvement Manager and Team Leader started at the beginning of September and have focussed on understanding the department's current and planned workload.

The Department Manager has met with all Group and Department Managers to document and prioritise their potential future improvements. These will be prioritised against the current workload in order to ascertain the resource requirements and activities the department needs to focus on in the short to medium term.

The key large ICT projects we will be involved with over the next six months will be the Corporate Performance Management Project as well as the upgrade of TechOne Ci Anywhere.

Business Support

Information Management

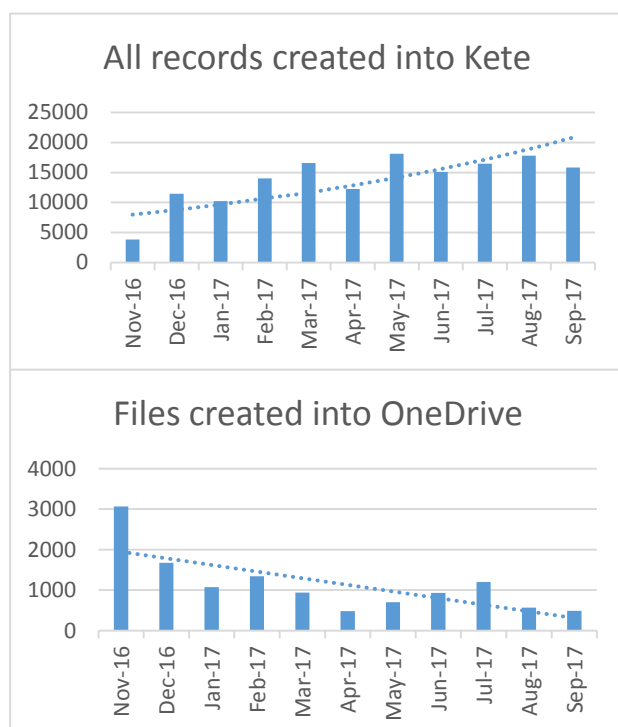
Business Records Team continue to have the following focus:

- Process improvement for information capture, storage, preservation and delivery
- Building capacity and engagement in the information management environment
- Working in collaboration with other departments in the interests of balanced outcomes between compliance and requirements
- Reporting on our information management environment
- Digitisation project work

Improvements to the submission management process has seen positive outcomes for the end to end delivery of information in a manner that reduces risks along the way and minimising administrative overheads. Many of these improvements can be applied to other processes cross the organisation

Regular operational reporting on our information management environment (with Kete the core tool for this), is in the final stages of development. This will lead to better decisions about training as part of capacity building; as well as identifying areas of the organisation we need to work more closely with.

The following provides a snapshot of two of these reports.



In this report, we see the increase in use of Kete since we went live in November 2016. There is a positive trend in documents being saved in the appropriate way overall.

On the flip side of reporting items saved into Kete we are also interested in items not being saved into Kete. This presents organisational risk if documents are not discoverable or are potentially 'lost' when employees leave the organisation

This report shows us a steep decrease in the use of personal OneDrive locations since go-live, which is a very positive outcome.

Procurement

This month the major focus has been the procurement of overflow contractors for the Building Control Department, along with the Airport Maintenance Contract, and Mail and Courier services.

Late in the month we handed back financial functions that we have been completing to support the Finance team through the restructure, and that transition has enabled us to take on some tasks that we were unable to perform as the two functions are required to be kept separate due to audit requirements.

Specific work continues on projects including:

- Building Control Department overflow contractors
- Airport Management Contract
- Pensioner Housing maintenance
- Towing Services Contract review
- Trees Maintenance Contract Review
- Mail and Courier Services
- Secure Document Storage
- Electoral Services
- Finalising the transition/handover of the copier contract
- Responding to staff enquiries around procurement policy and procedure.

Staff are also providing advice and oversight to Whangarei Art Museum (WAM) as they initiate procurement processes for the Hundertwasser project. This has included WAM's procurement of a Project Manager and the lead Construction Contractor. Our role is focussed on identifying and mitigating any risk to Council by ensuring WAM adopt appropriate procurement practices i.e. there is no direct involvement in procuring goods or services.

Communications

Advertising review

This is now in final analysis stage. The project group will meet at the end of this month to cement best value advertising spend for 2018.

Digital Council

Invites were sent to six members this week, for the first meeting to be held towards the end of October. The Digital Council will focus on:

- Digital marketing and branding alignment for affected processes and systems
- Social media functions
- Digital services oversight and decision making.

Destination marketing

Northland Journeys Domestic Campaign

This May to July we ran a digital campaign in partnership with Northland Inc, that targeted potential visitors in Auckland and Waikato using combined Facebook, Messenger and website channels.

It promoted the first three of Northland's new Twin Coast Discovery byways – with *Where Giants Gather* and *Into The Wide Blue Yonder* being inside the Whangarei district.

The key aim was to educate and inspire exploration of Northland by giving a route-based itinerary containing points of interest plus the competition and map downloads as calls-to-action. The secondary aim was to grow brand awareness of Whangarei as a desirable place to visit.

The campaign resulted in 1,490,540 Impressions (the number of times an advert has been displayed up on a screen) and the competition had 17,861 entries that were predominantly from Auckland. The competition was drawn via Facebook Live (live streaming video on Facebook) and HWM Sheryl Mai announced the two Whangarei byway voucher winners.



Graphics BAU

Weekly production of internal agendas and Council News continues, with further minor design changes actioned on the latter.



We also created posters (external) and video (internal) content to promote the tsunami drill, which is being held in October.

Brand

We have started to review our brand (together with associated collateral) and will be engaging with various stakeholders, including Elected Members, as the project progresses.

Annual Report

The Annual Report (AR) and AR Summary were major projects for the team during September. The introduction of new software called *Wordsflow* streamlined the production process by enabling multiple people to simultaneously edit within the same 'graphics' document. Previously documents were created and edited in Microsoft Word before being uploaded, which led to logistical and version control challenges in the final stages of production.

Internal communications

The team developed internal communications for the staff tsunami drill being held on Friday 13 October. This included the creation of a short video shown at the monthly All Staff meeting.

We also continued coordinating content for the All Staff meeting.

Media and public relations

We received numerous requests for comment on damage to the fuel pipeline. We confirmed to media that Council does not control the extraction of swamp kauri. The Northern Advocate also requested information on how the pipeline shows on planning maps, PIMs, LIMs and a property owner's Certificate of Title.

We received a request from Bream Bay News regarding a variation to resource consent for a subdivision at Tamure Place, Ruakaka. This application is currently on hold awaiting further information.

The Northern Advocate inquired into the legality of a tourist tightrope walking across the Whangarei Falls. We supplied a response from our Parks plus Health & Safety teams.

The Northern Advocate inquired into contractors working on the Kamo Shared Path hitting Northpower's fibre optic cable. A statement was issued in consultation with Northpower. Roding also supplied us with an update on the Kamo Shared Path for this newspaper.

An OIA request was received from the Northern Advocate for councillor's attendance at Council and committee meetings, briefings, workshops and appointments they make. The legal team is currently working on this request.

There was an inquiry from the Whangarei Leader regarding cars racing at the Mill Rd intersection, which Roding Manager Jeff Devine responded to. They also requested information on the by-election.

The Northern Advocate requested information on a hoax letter using a Council logo that was hand-delivered to several residents in the Tamaterau area, asking for \$15 payment to Council for water leak repairs.

Earlier in the month, reporters contacted us for information on new parking at the Town Basin; follow-up on Council's Freedom Camping decision; plus roadworks on Riverside Drive and Hatea Drive.

Other stories we interacted with media on over this period included:

- Honours for rural fire fighters
- Positive feedback from residents, the Taxpayers Union and LGNZ
- Consultation on new engineering standards
- Tsunami testing
- Municipal building's makeover
- An update from the food health team
- Waipu Cycling and Walkway Trust
- Council selection as a finalist in the NZTA's Bike to The Future Awards
- Graduation of Council cadets
- Upgrade to Hikurangi's waste water system
- Wastewater storage and treatment tank at Tarewa Park
- Bylaws (animals and traffic)
- By-election for the Denby ward
- Endless Summer Festival
- Kamo Cycleway update
- Rubbish Trip roadshow
- LED lighting to replace existing street lights.

Mayoral communications BAU

We researched and wrote speeches for the Mayor and the fortnightly Whangarei Report column. We also managed communications for the Mayor's office including letters, forewords, requests for mayoral media statements and articles for local publications.

People and Capability

New Staff, Transfers and Leavers – September 2017

Recruitment of new staff following the reorganisation has been a focus again this month. Below is an overview of new staff, transfers and leavers, and vacancies.

New Staff – joined us in September

- Des Scott-Sawyer - Team Leader - Business Systems
- Hsi-En Soo - Democracy Adviser
- Reana Te Hei - Information Consultant
- Luisa Pelissier - Information Consultant
- Alison Puchaux - Manager - Revenue
- Sue Hodge - Manager - Parks & Recreation
- Ben Smith - Manager - Business Improvement
- Rebecca Rowsell - Legal Adviser
- Andrew Grant - Operations Engineer - Waste & Drainage
- David Lindsay - Solid Waste Engineer
- Todd Moreton - Building Control Officer
- Sue O'Shea - EA to NTA Manager

Transfers

- David Vollenhoven - Corporate Accountant
- Heather Osborne - Infrastructure Planner

New Staff – joined us early in October

- Merryn Statham - Consultation Adviser
- Bernadette Aperahama - Senior Strategic Planner

Vacancies filled, people waiting to start

- Jessica Jones - Laboratory Assistant
- Adam Worley - Manager - District Development
- Ross Ford - Building Control Officer
- Jane Cutang - Support Assistant - District Plan
- Shelley Wharton - Manager - Infrastructure Planning & Capital Works
- Claire Walls - Team Leader - Rates
- Gina Utting - Property Assessment Officer

Leavers

- Awatea Atutolu – Support Assistant – Building Inspections
- Elly Girbin – Venues & Events Coordinator
- Lilian Thomas – EA to General Manager – Strategy & Democracy
- Grant Couchman – Manager – Health & Bylaws
- Clive Priest – Building Approvals & Compliance Officer
- Valerie West-Hill – Customer Relations Coordinator
- Leigh Knight – People & Capability Adviser

Vacancies advertised

- Senior Planner
- People & Capability Adviser
- Venues & Events Co-ordinator (2)
- Librarian - Central & Outreach Services (.6)
- Planners
- Support Assistant - Building Inspections
- Community Events Co-ordinator
- Bylaw Enforcement Co-ordinator
- Resource Consents Planner
- Team Leader - ICT Operations
- Strategic Planning Coordinator
- Manager - Business Support
- Assistant Accountant
- Water Treatment Co-ordinator
- Water Treatment Technician
- Customer Relations Co-ordinator
- Community Property Co-ordinator
- Project Engineer (Fixed Term - 12 Months)
- Building Control Officers
- Team Leader - Development Engineering
- Waste & Drainage Asset Engineer
- Manager - Maori Relationships

We are finding that there is still a lot of interest in our roles from people outside the region, looking to move for lifestyle reasons. It's also great to see the number of internal transfers, that we are able offer interesting opportunities to existing staff, retaining valuable expertise.

Democracy and Assurance

All vacancies have now been filled with the new Consultation Advisor starting with us on 9 October 2017.

Official Information Requests

The official information requests that have been received this month are for information on:

- Municipal water supply bores as part of a preliminary survey being conducted by the NZ Drillers Federation.
- The development of Mineral Extraction Areas under the District Plan.
- A complaint about unconsented containers.
- Managing deceased pets that are found in public places.
- The costs associated with maintenance work on Waitoki Rd undertaken in the last 5 years.
- Images of the Council Chamber published on council's external web.
- Councillor attendance at meetings, briefings and workshops this term.
- Additional questions on the health and safety investigation into the gas leak on Rust Avenue.
- Additional questions on the use of funds received from the registration of dogs.
- The method of euthanising impounded dogs.
- NZTA's Whangarei to Te Hana roading project.

Democracy

The administrative tasks associated with the District Licensing Committee's public hearings have been fully integrated within the democracy team. Ann Court commenced as Chair of the District Licensing Committee on 2 October 2017 and we are working closely with the Chair to adjust our processes as necessary and to ensure that there is a smooth transition for her.

Planning for the handover of workflows and processes for resource consent hearings will commence in October.

Audit and Risk

November insurance renewals are on track, with early indications suggesting a slight increase in premiums but these are in line with forecasted expectations.

Internal Audit of the Payroll function is scheduled for the end of October and will be reported to the December Audit and Risk Committee.

We have now received the final Audit NZ report on the Annual Report. This will also be reported to the December Audit and Risk Committee.

Strategy

Long Term Plan (LTP)

The LTP work continues with a further five Council briefings held during September, bringing the total number of briefings to 19. Briefings discussed Council priorities, the rating review and the Revenue and Financing Policy. Council also approved the revised Significance and Engagement Policy at the December meeting. We remain on track to deliver the associated material to meet Audit NZ timeframes in late December and January next year.

Maori Liaison and Development

Te Paparahi o Te Raki – Te Tiriti o Waitangi Claims

Final week of hearings (week 26) will be held in Waitangi at the Waitaha Events Centre on 16-20 October 2017. Following the hearings, the Waitangi Tribunal will deliberate on all the evidence that has been heard and a ruling will be provided in due course which will be eagerly awaited.

Maori Liaison Department

The Maori Relationships Manager position has been advertised and a steady flow of interest has been received.

Staff Capability and Capacity

A large volume of new staff has filled positions within the new structure, consequently this month's Cultural Awareness training for WDC staff has exceeded capacity due to the popularity. This training is scheduled for 19 October 2017 to be held at Terenga Paraoa marae.

RESOLUTION TO EXCLUDE THE PUBLIC

That the public be excluded from the following parts of proceedings of this meeting.

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

1.	The making available of information would be likely to unreasonably prejudice the commercial position of persons who are the subject of the
2.	To enable the council (the committee) to carry on without prejudice or disadvantage commercial negotiations. {(Section 7(2)(i))}.
3.	To protect the privacy of natural persons. {Section 7(2)(a)}.
4.	Publicity prior to successful prosecution of the individuals named would be contrary to the laws of natural justice and may constitute contempt of court.
5.	To protect information which is the subject to an obligation of confidence, the publication of such information would be likely to prejudice the supply of information from the same source and it is in the public interest that such information should continue to be supplied.
6.	In order to maintain legal professional privilege. {Section 2(g)}.
7.	To enable the council to carry on without prejudice or disadvantage, negotiations {Section 7(2)(i)}.

Resolution to allow members of the public to remain

If the council/committee wishes members of the public to remain during discussion of confidential items the following additional recommendation will need to be passed:

Move/Second

permitted to remain at this meeting, after the public has been excluded, because of his/her/their knowledge of _____

This knowledge, which will be of assistance in relation to the matter to be discussed, is relevant to that matter because _____

Note:

Every resolution to exclude the public shall be put at a time when the meeting is open to the public.