

Finance and Corporate Committee Agenda

Date: Thursday, 27 July, 2017
Time: 9:00 am
Location: Council Chamber
Forum North, Rust Avenue
Whangarei
Attendees: Cr Shelley Deeming (Chairperson)
Her Worship the Mayor Sheryl Mai
Cr Stu Bell
Crichton Christie
Cr Vince Cocurullo
Tricia Cutforth
Cr Sue Glen
Cr Jayne Golightly
Cr Phil Halse
Cr Cherry Hermon
Cr Greg Innes
Cr Greg Martin
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, Jayne Golightly, 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

1. Minutes: Finance and Corporate Committee

Thursday 29 June 2017

Minutes of a meeting of the Finance and Corporate Committee held in the Council Chamber Forum North on Thursday 29 June 2017 at 9.00am

Present:

Cr Shelley Deeming (Chairperson)

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

Apology:

Cr Jayne Golightly

Moved: Cr Halse

Seconded: Cr Cocurullo

"That the apology be sustained."

CARRIED

In Attendance:

Chief Executive (Rob Forlong), General Manager Finance and Corporate (Alan Adcock), General Manager Community (Sandra Boardman), General Manager Planning and Development (Alison Geddes), General Manager Strategy and Democracy (Jill McPherson), Financial Controller (Rich Kerr), Property Manager (Mike Hibbert), Financial Accountant (Delyse Henwood), Treasury & CCO Accountant (Nathan Wright), Media Relations Adviser (Ann Midson) and Senior Meeting Coordinator (C Brindle)

1. Confirmation of minutes of a Meeting of the Finance and Corporate Committee held on 25 May 2017

Moved Cr Martin

Seconded Cr Innes

"That the minutes of the Finance and Corporate Committee Meeting held on Thursday 25 May 2017, having been circulated, be taken as read and now confirmed and adopted as a true and correct recording of proceedings of that meeting."

CARRIED

2. Financial Report for the 11 Months Ending 31 May 2017

Moved Cr Innes

Seconded Cr Morgan

"That the Finance and Corporate Committee receives the financial report for the eleven months ending 31 May 2017."

ARRIED

3. Corporate Capital Projects Report for the Month Ending 31 May 2017

Moved Cr Morgan
Seconded Cr Innes

“That the Finance and Corporate Committee;

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

CARRIED

4. Operational Report – Finance and Corporate – June 2017

Moved Cr Christie
Seconded Cr Murphy

“That the Finance and Corporate Committee notes the operational report for June 2017.”

CARRIED

5. Whangarei District Airport Statement of Intent – 2017/2018

Moved Cr Glen
Seconded Cr Hermon

“That the Finance and Corporate Committee:

- a) Adopt the Statement of Intent 2017/2018 for the Whangarei District Airport.”

CARRIED

6. Northland Regional Landfill Limited Partnership Statement of Intent – 2017/2108

Moved Cr Christie
Seconded Cr Cocurullo

“That the Finance and Corporate Committee;

- a) Agrees with the Statement of Intent 2017/2018 for the Northland Regional Landfill Limited Partnership.”

CARRIED

Declarations of interest:

Cr Martin and Alan Adcock - Directors Whangarei Waste Limited (Partner)

Cr Martin withdrew from discussions and voting on Item 6.

Alan Adcock answered questions at the request of the Chair, in regard to the distribution of profit (dividends) and Performance measures.

7. Delegations Review

Moved Cr Morgan
Seconded Her Worship the Mayor

“That the Finance and Corporate Committee notes the update on the review of the Whangarei District Council Delegations.”

CARRIED

The meeting closed at 9.52am

Confirmed this 27th day of July 2017

Shelley Deeming (Chairperson)

Local Government Funding Agency – Statement of Intent 2017-2018

Meeting: Finance and Corporate Committee
Date of meeting: 27 July 2017
Reporting officer: Jason Marris (Manager – Democracy and Assurance)

1 Purpose

To provide the Statement of Intent (SOI) for the Local Government Funding Agency (LGFA).

2 Recommendation/s

That the Finance and Corporate Committee agrees with the 2017-2018 Statement of Intent for the Local Government Funding Agency.

3 Background

Section 64 of the Local Government Act (2002) advises that Council Controlled Organisations (CCOs) must have a statement of intent. The draft SOI for LGFA was presented to the 30 March 2017 Finance and Corporate Committee.

The final SOI for the LGFA, of which Council has a shareholding, is attached. This document meets the obligations of Section 64, Schedule 8, Clause 9 (Contents of the Statement of Intent) in the Local Government Act (2002). The LGFA covering letter to shareholders is also attached.

This SOI was expected to be presented to the June Finance and Corporate Committee, but unfortunately it was not received in time for that meeting.

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 Attachments

1. LGFA Statement of Intent 2017-2018
2. LGFA letter to shareholders dated 27 June 2017



Statement of Intent 2017/18

1. Introduction

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

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

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

2. Nature and scope of activities

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

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

In lending to Participating Local Authorities, LGFA will:

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

3. Objectives

Principal Objectives

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

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

Primary Objectives

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

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

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

- LGFA will review each Participating Local Authority's financial position, its financial headroom under LGFA policies and visit each Participating Local Authority on an annual basis;
- LGFA will analyse finances at the Council group level where appropriate;
- LGFA will work closely with the Department of Internal Affairs (DIA), Office of the Auditor General (OAG) and Local Government New Zealand (LGNZ) on sector and individual council issues; and
- LGFA will take a proactive role to enhance the financial strength and depth of the local government debt market.

Additional objectives

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

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

4. Financial forecasts

LGFA's financial forecasts for the three years to 30 June 2020 are:

FINANCIAL YEAR (\$M)

Comprehensive income	Jun-18	Jun-19	Jun-20
Interest income	239.52	248.25	254.29
Interest expense	221.30	230.98	239.95
Net Interest income	18.22	17.27	14.34
Issuance and on-lending costs	2.33	2.36	2.39
Approved Issuer Levy	1.89	1.64	1.23
Operating expenses	3.12	3.22	3.31
Issuance and operating expenses	7.34	7.22	6.94
P&L	10.88	10.06	7.40

Financial position (\$m)	Jun-18	Jun-19	Jun-20
Capital	25.00	25.00	25.00
Retained earnings	38.11	46.66	52.57
Total equity	63.11	71.66	77.57
Shareholder funds + borrower notes / Total assets	2.29%	2.38%	2.46%
Dividend provision	1.50	1.50	1.50
Total assets (nominal)	8,266.17	8,324.67	8,443.17
Total LG loans - short term (nominal)	260.00	260.00	260.00
Total LG loans (nominal)	7,868.00	7,928.00	8,131.00
Total bills (nominal)	300.00	300.00	325.00
Total bonds (nominal) ex tsy stock	7,740.00	7,790.00	7,875.00
Total borrower notes (nominal)	125.89	126.85	130.10

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

5. Performance targets

LGFA has the following performance targets:

- The average margin above LGFA's cost of funds charged to the highest rated Participating Local Authorities for the period to:
 - 30 June 2018 will be no more than 0.10%.
 - 30 June 2019 will be no more than 0.10%.
 - 30 June 2020 will be no more than 0.10%.

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

- LGFA's annual issuance and operating expenses (excluding AIL) for the period to:
 - 30 June 2018 will be less than \$5.45 million.
 - 30 June 2019 will be less than \$5.58 million.
 - 30 June 2020 will be less than \$5.70 million.
- Total lending to Participating Local Authorities¹ at:
 - 30 June 2018 will be at least \$8,128 million.
 - 30 June 2019 will be at least \$8,188 million.
 - 30 June 2020 will be at least \$8,391 million.
- Savings on borrowing costs for council borrowers:

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

6. Dividend policy

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

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

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

¹ Subject to the forecasting uncertainty noted previously

7. Governance

Board

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

The Board will comprise between four and seven directors with a majority of independent directors.

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

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

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

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

Shareholders' Council

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

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

8. Information to be provided to Shareholders

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

² Best practice as per NZX and Institute of Directors guidelines

Annual Report

The LGFA's balance date is 30 June.

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

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

Half Yearly Report

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

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

Quarterly Report

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

- Commentary on operations for the relevant quarter, including a summary of borrowing margins charged to Participating Local Authorities (in credit rating bands).
- Comparison of LGFA's performance with regard to the objectives and performance targets set out in the SOI, with an explanation of any material variances.
- Analysis of the weighted average maturity of LGFA bonds outstanding.
- In the December Quarterly Report only, commentary on the Net Debt/Total Revenue percentage for each Participating Local Authority that has borrowed from LGFA (as at the end of

the preceding financial year).

- To the extent known by LGFA, details of all events of review in respect of any Participating Local Authority that occurred during the relevant quarter (including steps taken, or proposed to be taken, by LGFA in relation thereto).

Statement of Intent

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

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

Shareholder Meetings

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

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

9. Acquisition/divestment policy

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

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

10. Activities for which compensation is sought from Shareholders

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

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

11. Commercial value of Shareholder's investment

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

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

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

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

12. Accounting policies

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

The following statement is taken from the Financial Statements presented as part of LGFA's Annual Report 2015-2016 (updated where necessary).

a. Reporting Entity

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

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

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

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

The financial statements are as at and for the year ended 30 June 2016.

These financial statements were authorised for issue by the Directors on 20 September 2016.

b. Statement of Compliance

LGFA is an issuer in terms of the Financial Reporting Act 1993. The financial statements comply with the Financial Reporting Act 1993, in accordance with the transitional provisions under Section 55 of the Financial Reporting Act 2013 and Schedule 4 of the Financial Markets Conduct Act 2013.

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

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

c. Basis of Preparation

Measurement base

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

The financial statements are prepared on an accrual basis.

Functional and presentation currency

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

Foreign currency conversions

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

Changes in accounting policies

There have been no changes in accounting policies.

Early adoption standards and interpretations

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

Standards not yet adopted

LGFA does not consider any standards or interpretations in issue but not yet effective to have a significant impact on its financial statements. Those which may be relevant to LGFA are as follows:
 NZ IFRS 9: Financial Instruments (2014) – Effective for periods beginning on or after 1 January 2018. This standard aligns hedge accounting more closely with the risk management activities of the entity and adds requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit.

d. Financial instruments

Financial assets

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

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

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

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

Financial liabilities

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

Derivatives

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

Fair value hedge

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

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

e. Other assets

Property, plant and equipment (PPE)

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

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

Intangible Assets

Intangible assets comprise software and project costs incurred for the implementation of the treasury management system. Capitalised computer software costs are amortised on a straight line basis over the estimated useful life of the software (3 to 7 years). Costs associated with maintaining computer software are recognised as expenses.

f) Other liabilities

Employee entitlements

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

g) Revenue and expenses

Revenue

Interest income

Interest income is accrued using the effective interest rate method.

The effective interest rate exactly discounts estimated future cash receipts through the expected life of

the financial asset to that asset's net carrying amount. The method applies this rate to the principal outstanding to determine interest income each period.

Expenses

Expenses are recognised in the period to which they relate.

Interest expense

Interest expense is accrued using the effective interest rate method.

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

Income tax

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

Goods and services tax

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

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

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

Commitments and contingencies are disclosed exclusive of GST.

h. Lease payments

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

i. Segment reporting

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

j. Judgements and estimations

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

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

estimates.

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

27 June 2017

Dear Shareholder

Statement of Intent 2017/18

Please find attached the Statement of Intent (SOI) for the 2017/18 year.

LGFA is focused on delivering strong results for both our council borrowers and shareholders.

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

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

For our shareholders we are focused on

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

The following points regarding the 2017/18 SOI are worth noting

- The SOI performance targets are similar to the previous year's targets except that we now include short dated lending in the volume and pricing measures.
- There is some uncertainty within the SOI forecasts relating to both Local Government loans and LGFA bonds outstanding as councils will be working through their borrowing assumptions underlying their 2018/28 Draft LTPs in the coming months. We are also unsure what impact the Housing Infrastructure Fund will have on those eligible council's borrowing requirements over the forecast period. Hence we have adopted a conservative approach to forecasting borrowing demand.
- At the request of the Shareholders Council we have added an additional objective that LGFA will take a proactive role to enhance the financial strength and depth of the local government debt market.

Please feel free to contact me if you have any questions or require further clarification on anything relating to the SOI or LGFA in general.

Yours sincerely



Mark Butcher
Chief Executive

Financial Report for the 12 Months Ending 30 June 2017

Meeting: Finance and Corporate Meeting
Date of meeting: 27 July 2017
Reporting officer: Alan Adcock (General Manager – Corporate/CFO)

1 Purpose

To provide the financial report for the 12 months ending 30 June 2017.

2 Recommendation/s

That the Finance and Corporate Committee notes the financial report for the 12 months ending 30 June 2017.

3 Background

3.1 Operating Result

The usual monthly financial report for the period ending June 2017 has not been prepared.

Following the end of the financial year on 30 June a number of non-cash and year end adjustments need to be made which are still being worked on. These will be completed as part of the year end process and an updated full year operating financial report will be provided to Council as part of the August 2017 Finance and Corporate Committee agenda.

3.2 Capital Expenditure

Capital expenditure has not been included in this agenda. Year end accruals do not get completed until after 20 July. Accruals are required in order to accurately capture all capital expenditure related to the year ended 30 June 2017.

A final capital expenditure report, including revised carry forwards will be provided as part of the August 2017 Finance and Corporate Committee agenda.

3.3 External Net Debt and Treasury

Total net external debt at the end of June 2017 was \$120.5m compared to revised budgeted net debt of \$156.1m, resulting in net debt being \$35.6m under budget.

This positive variance is the result of several factors including:

- Difference in the 2016/17 opening debt compared to the annual plan
- Year to date operating result
- Unbudgeted property sales
- Capital expenditure below budget.

WDC Treasury Operations

As at 30 June 2017 cash and term deposits held of \$41.5m was comprised of:

- \$20.0m of term deposits relating to prefunding undertaken in March 2017
- \$10.0m of term deposits relating to short term borrowings not yet required
- \$7.0m of term deposits relating to excess cash from the May rates instalment not currently required
- \$4.5m of cash of hand.

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

The year end valuation of SWAPs has been undertaken resulting in a \$6.3m non cash gain in the value of the SWAPs due to increases in global interest rates. This reverses the trend in the last two years, where we recognized losses in SWAP valuations due to lower interest rates.

Economic

The OCR remained at 1.75% in the June OCR Review as expected. Treasury signalled that the next rate movement would likely be an increase but indicated that this may not occur until March 2020. The market is almost fully pricing in an OCR hike by June 2018.

Long term rates increased during June on the back of rising economic confidence in Europe with NZ 10-year swap rates pushing up from 3.19% to 3.29%.

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 June 2017 was \$0.63m, compared to \$0.97m in the previous year.

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

Treasury Report

TREASURY REPORT
30 JUNE 2017



STANDARD AND POORS CREDIT RATING:

AA

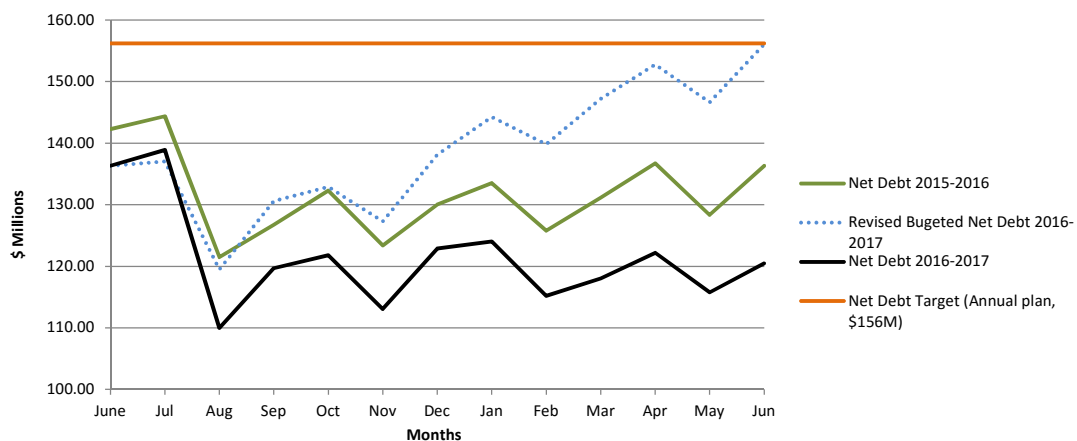
Outlook: Stable

DEBT SUMMARY:

As at 30 June 2017

External Debt		
Opening public debt as at 1 June 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)	4,534,939	
Term deposits (Funds held on deposit until required for project funding)	37,000,000	
Total cash and term deposits		41,534,939
Total Net External Debt		120,465,061
<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		9,935,672
Property Reinvestment Reserve - Available for Reinvestment	4,817,944	
Property Reinvestment Reserve - Accumulated	28,229,182	
		33,047,126
Water Reserve		28,021,372
Total		71,004,170

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.

Operational Report – Finance and Corporate – July 2017

Meeting: Finance and Corporate Committee
Date of meeting: 27 July 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/s

That the Finance and Corporate Committee notes the operational report for July 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 June/July 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 Attachments

Operational Report – Finance and Corporate – July 2017

Operational Report – Finance and Corporate – July 2017

Information Communications Technology (ICT)

Traditionally June is an extremely busy period for the ICT teams and this year has been no exception. The focus has largely been on managing end of fiscal year changes in our systems, deploying significant resources to make changes to our systems to support the organisational restructure and continuous monitoring and management of our ICT cyber defence systems in the wake of wide spread global ransomware virus attacks.

ICT Operations

The IT Infrastructure functions are continuing to operate within normal workload levels. There was one reported global outage across the Microsoft Cloud platform that affected WDC for 4 hours. This affected email only. The key activities include:

- Communication and monitoring of global cyber threats
- Lions Tour ICT support
- Supporting the Valuation Service Provider rollout process with Revenue
- Changes resulting from the restructure process applied to systems as required
- Application and Desktop support business as usual.

ICT Projects

Much preparation work for the next wave of ICT Strategic Plan roadmap projects has been completed, with a number due to commence key activities in July. This includes a process for the review of the ICT Vision and Strategic Plan (which was last reviewed in 2014).

Following the success of the first phase of the Trilogy program, WDC is seen as a sector leader in developing and implementing a progressive IT strategy. The team has been sought out (with this trend continuing) by other councils wishing to leverage our approach and seek advice so they can emulate our success themselves. We have worked with 12 councils to date in this capacity.

Other activities include:

- Concept approach for the next upgrade of Technology One to enable the e-platform
- Development and ratification of the governance structure for all further ICT projects.
- Planning for a 'technology immersion day' where we will showcase future technology developments that have potential benefit for WDC, such as augmented reality and Internet of Things (IoT).

Finance

Financial Management

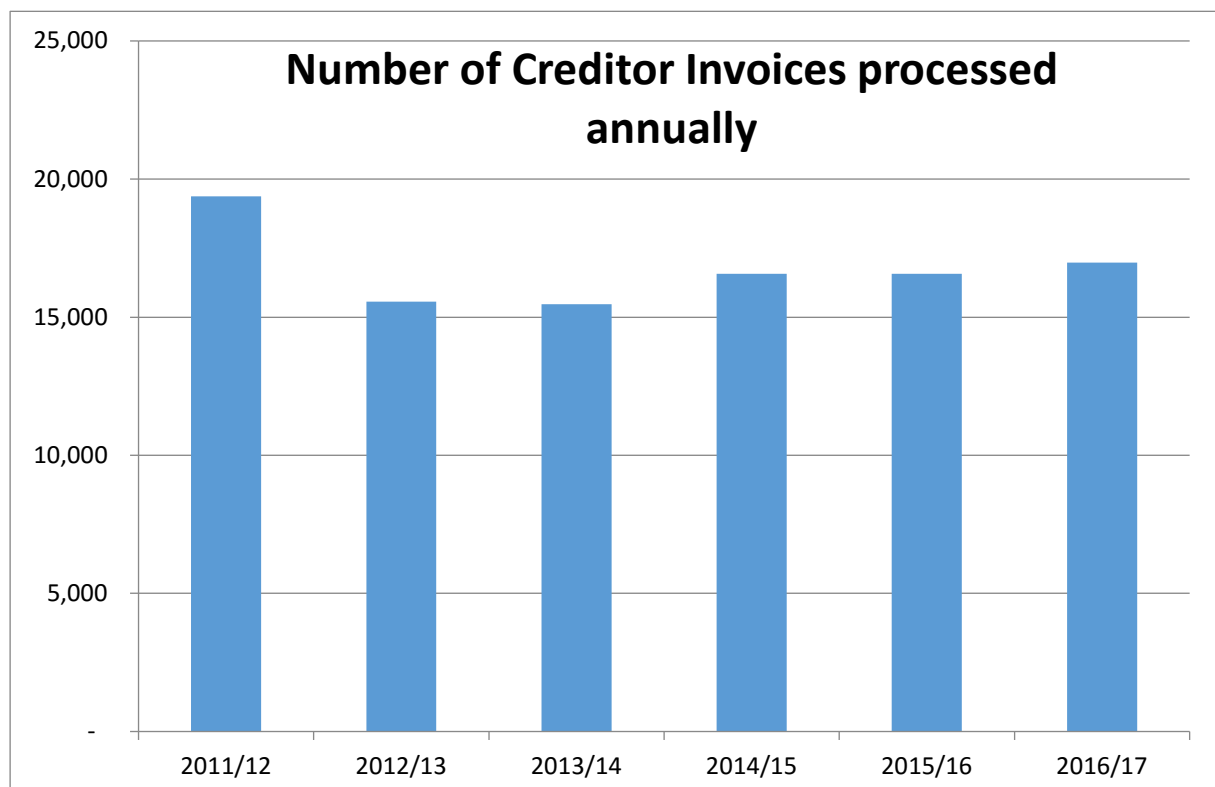
Finance completed final adjustments to the budget pack for the 2017/18 Annual Plan prior to adoption. Finance also worked through its other deliverables for finalising the Annual Plan.

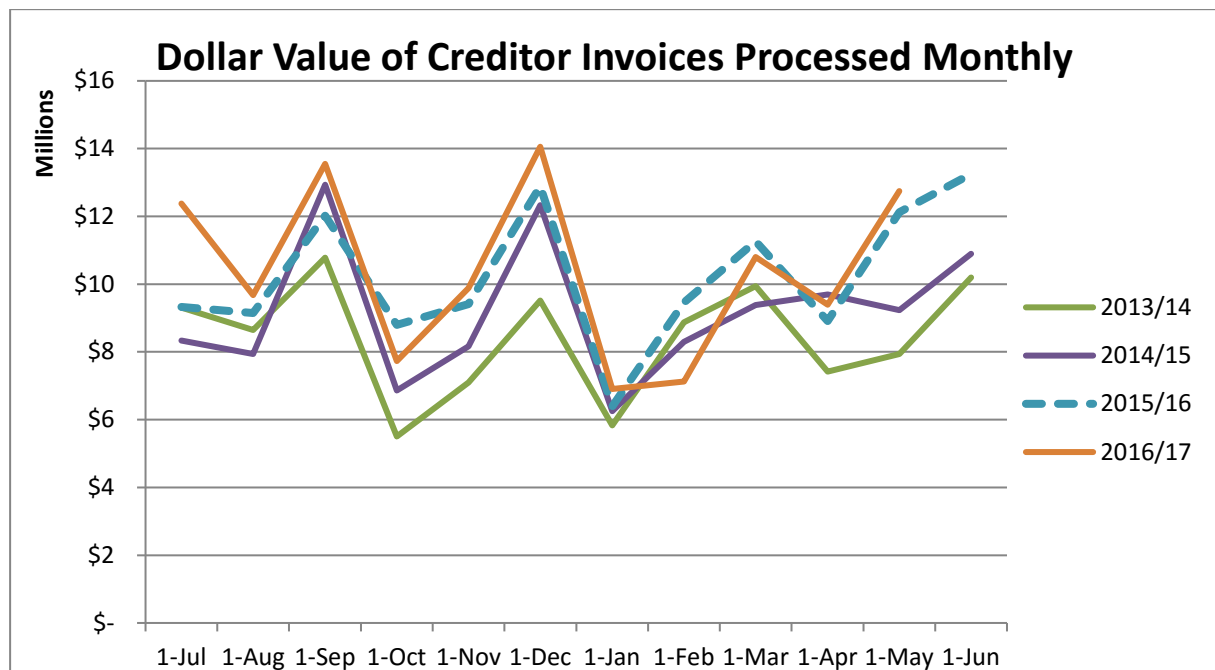
Planning continues to progress for the financial aspects of the LTP. Some of this involves adjustments to TechOne to reflect the impacts of the restructure.

Work required in the lead up for year end and this year's Annual Report has been taking place.

Recent focus on payables processing has ensured that approved payments to suppliers are all being completed on time.

The graph below shows the number of invoices staff process each year. A review of suppliers and procurement processes saw a significant reduction in 2011/12 (with corresponding efficiency gains). However, increases in business activity is seeing invoice numbers rising again. We are currently introducing new technology, such as OCR scanning and automated invoice/PO matching, to drive further efficiencies and reduce staff time in this function.





Revenue

Rates

Work towards preparation for the rates setting and first instalment in early July, including the Funding Impact Statement, was completed.

The rates review continues to progress, although has taken a back seat with year end and the Valuation Service Provider (VSP) implementation project, which sees Opteon take over from Quotable Value.

A focus of the VSP implementation project for handover on 1 August 2017 has been to work through and document business processes to identify the major interfaces required. Good progress has been made with this. Progress has also been made with the contracts; the VSP contract has been signed and the District Valuation Roll (DVR) contract is being finalised and the new database is near completion.

We continue to see high volumes of property activity in the District, which flows onto settlement statements and database administration.

Business Support

Information and Records

Digitisation of our building consent application files continues to be the main project focus for the Business Records Team. There has been positive feedback from the main users of these files across the organisation in the way it has improved access to information and therefore faster customer service outcomes.

Other key activities include:

- Reviewing our records management environment and development of policies and procedures to align with new mandatory standards.
- Continuing work on Kete taxonomy finalisation.

Procurement

We continue to support numerous other procurement processes across Council. A notable delivery is the roll out of new photocopiers/printers across the organisation, with annual operating savings of more than \$100k p.a. likely to be achieved.

Staff have also begun preparatory work for a planned review of the Procurement Policy.

Communications

We have continued to promote the early engagement on the 2018-2028 Long Term Plan, including participating at the Matariki Whanau Festival and public meetings. Radio advertising is now live on More FM, The Edge, Mai FM, The Sound, Newstalk, The Coast and Ngati Hine FM.


The information and ideas generated through the meetings have been shared via Council News in the Whangarei Leader, on our website and in social media (see response rates below).

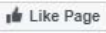
The Annual Plan has been completed with the new printers have enabled us to once again print these in house. Work has also been completed on consultation material for camping in public places bylaw, as well as updates to collateral for the Tsunami information board signs and the Youth awards.

Early LTP Engagement – results to 6 July

- Heretowhere website – 1,050 Visits and 2,236 total page views
- Total facebook Reach = 27,666
- Number of people clicking from Facebook to go to heretowhere site = 437
- Survey Monkey submissions = 121


Facebook posts - example below from Ruakaka Community



Whangarei District Council
 Published by Yolandi Theron [?] · June 23 at 7:22pm ·



Here are some of the ideas generated by the Ruakaka community from the Public Meeting last week.
 The community's vision for the next 10 years included:

- * The need for new infrastructure and improved facilities to support the significant growth in the area.
- * A large recreation facility featuring a tepid pool to support a range of aquatic activities for both young and old.
- * The need to protect and enhance our coastal environment and attract tourists to the area.... [See More](#)





For more information or to join the conversation visit heretowhere.co.nz

3,913 People Reached

53 Likes, Comments & Shares		
26 Likes	12 On Post	14 On Shares
16 Comments	16 On Post	0 On Shares
11 Shares	11 On Post	0 On Shares


486 Post Clicks


96 Photo Views	13 Link Clicks	377 Other Clicks
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NEGATIVE FEEDBACK


2 Hide Post	0 Hide All Posts
0 Report as Spam	0 Unlike Page


Video of Whanau Festival setup


Whangarei District Council
 Published by Yolandi Theron [?] · June 17 at 9:33am ·



We are at the Matariki Whanau Festival from 10 am to 3pm today!!





Get More Likes, Comments and Shares
 Boost this post for \$42 to reach up to 7,300 people.

1,497 People Reached

479 Video Views		
22 Likes, Comments & Shares		
17 Likes	13 On Post	4 On Shares
4 Comments	2 On Post	2 On Shares
1 Shares	1 On Post	0 On Shares

76 Post Clicks

18 Clicks to Play	0 Link Clicks	58 Other Clicks
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NEGATIVE FEEDBACK

1 Hide Post	0 Hide All Posts
0 Report as Spam	0 Unlike Page

Video of residents at Whanau Festival engagement


Whangarei District Council
 Published by Yolandi Theron · June 29 at 8:11pm

Like Page

Here's some feedback from our 'Here to Where Whangarei' initiative from the Whanau Festival earlier this month!



Get More Likes, Comments and Shares
Boost this post for \$42 to reach up to 7,300 people.

2,046 People Reached

594 Video Views

8 Likes, Comments & Shares

6 Likes	4 On Post	2 On Shares
0 Comments	0 On Post	0 On Shares
2 Shares	2 On Post	0 On Shares

72 Post Clicks

15 Clicks to Play	3 Link Clicks	54 Other Clicks
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NEGATIVE FEEDBACK

2 Hide Post	0 Hide All Posts
0 Report as Spam	0 Unlike Page

Media Relations

Council was approached for comment on the following topics in June:

- Long Term Plan early engagement
- Changes to the Act, passing responsibility for fluoridation decision to the District Health board
- Rates structure review
- Follow-up resource consent for The Bach Brothel
- Tourism Minister's funding for public toilets at Parihaka and Abbey Caves
- Annual Plan - explanation of rates rise percentage and response to criticism regarding decision not to consult
- Parking congestion at Kensington on Saturdays
- Hundertwasser – response to funding from Lotteries and Minister's announcement, process going forward
- Extending Hikurangi/town bus service
- Submission on window washing bill
- Crash data re Otaika Road
- RSA – Purchase.

People and Capability

Organisation Review

We are continuing to work through the processes required for the Organisation Review.

As from 1 July the new organisation structure came into effect.

As a result of the changes we had four staff who were made redundant with no alternative role offered and four staff who were offered an alternative role but chose to leave at the end of June.

All vacancies will have been advertised by the end of July. We are delighted with the quality of applicants we are attracting, many of whom are moving to the area. They all speak very highly of our District, the lifestyle and the opportunity to work at Council.

Democracy and Assurance

Service Delivery Reviews

Progress with the programme was reported to the June Audit and Risk Committee. All reviews are on track to be completed prior to the August statutory timeframe.

Official Information Requests

This month requests have been made for information about property sales, elected member email addresses, the Brynderwyn view stop, trees, dogs, and water supply. Staff have also been assisting with research projects on street naming, the use of the transfer of power provisions in the Resource Management Act and the history of a mural that was in the alley way between James and John Street in the 1980s.

Democracy

Our digital agenda management system called Escribe is now live for the organisation, with training courses underway for all report writers and approvers. Elected members also had an Escribe session on Tuesday 11 July 2017. The first meeting to use Escribe is the July Planning and Development Committee.

Delegations

The Chief Executive approved financial and delegations to staff to reflect the new organisational structure, which came into effect on 1 July 2017. The delegations policy allows the Chief Executive to approve delegations due to the changes to the organisation structure. This approval allows the business of council to continue.

Insurance

Council's insurance policies were renewed from 1 July 2017. Renewal on our policies were long dated to November 2018 to align with the other Councils in Northland. This is to continue to take advantage of bulk purchasing by our broker. Our infrastructure insurance programme was placed with our brokers Aon to provide a commercial platform, instead of with the traditional LAPP programme. Our Public Liability and Professional Indemnity Insurance was no longer being offered by Riskpool, so Council contracted Jardine Lloyd Thompson to provide this insurance via the commercial market.

Strategy

Long Term Plan (LTP)

The LTP early engagement schedule included 13 public resident and ratepayer meetings held throughout the District, attendance at the Matariki Whanau Festival, a hui at Pakotai Recreation Centre and two Have Your Say Events.

Feedback is currently being processed and themed for Elected Members and the events have generally been well received by the public.

Annual Report

Preparation of the Annual Report for the year ended 30 June 2017 is now underway, with adoption scheduled for 28 September 2017.

Maori Liaison and Development

Te Huinga Priorities

On 13 April Councillors completed the prioritisation of a list of 25 tangible priorities that would be negotiated with Te Huinga.

The Te Huinga Hapu Forum are yet to complete their list that they wish to negotiate with Council.

The agreed priority list will be considered at the formal LTP process and will provide both strategic partners with a roadmap moving forward in the 2017 – 2018 period.

Te Paparahi o Te Raki – Te Tiriti o Waitangi Claims

The Whangarei Taiwhenua closing submissions have now been concluded. Lawyers presented summaries of claims presented at the initial 23 weeks of hearings before the Waitangi Tribunal.

A number of the issues that emerged during the closing submission hearings could directly have an impact on the Whangarei District Council.

The following is a short list of some of the issues raised:

- The imposition of Council rules, bylaws and other forms of “illegal” taxes such as the rating of Maori lands. The imposition of such laws is especially onerous given that Maori have never ceded their sovereignty to the Crown or the subsequent Settler Governments that have enacted such legislation.
- The replacement of the original Te Tiriti o Waitangi document with an English version namely The Treaty of Waitangi has changed the dynamics and language of the Treaty relationship.
- The redrafting of traditional Maori/hapu boundaries by local government has and will continue to affect or alienate Maori lands.
- The Council has created a range of causative factors which has affected Maori health. The degradation of the Whangarei Harbour ‘food basket’ is one such factor.
- The Fraser Collection currently managed by the Whangarei District Council continues to place a strain on relationships between Hapu throughout the district and on the Maori – Council relationship.
- Lake Ora water quality is being negatively affected by the extensive housing developments in the Three Mile Bush area.
- The ownership of the Ketenikau urupa and the management of this customary owned Maori land has taken over by the Council.
- Customary Maori title to land surrounding the Whangarei Harbour has never been extinguished by various legal manoeuvres initiated by previous County Councils and district Councils.

- The ongoing negotiations between the Whangarei District Council and the owners of Pukahakaha East block remains a festering sore that needs to be resolved before the road is closed off to the public..
- The Panoho lands in Portland/Maungakaramaea is an ongoing challenge that Council must resolve before more hearings are initiated.
- The “illegal” taking of Maori lands under the Public Works Act the subsequent alienation/sale of such lands by the Council.

With the closing submissions now being finalised throughout the six Ngapuhi taiwhenua or regions, the Tribunal will then sit ‘in committee’ to draft their final documentation outlining all the Crown breaches and their recommendations to the numerous parties that have been involved.

Recognition Claims under the Marine and Coastal Area (Takutai Moana) Act 2011: A Tangata Whenua perspective

Application Claims are now being received by the Crown on Recognition Claims pursuant to the Marine and Coastal Area (Takutai Moana) Act 2011 which will ultimately affect the Whangarei District Council and other local territorial authorities throughout the north.

Such claims are based on the applicants’ firm belief that they continue to hold and exercise tino rangatiratanga and customary rights over the MCA (Marine Coastal Areas) in their rohe as defined in the Act. They claim that they have held and exercised tino rangatiratanga and continued to practice activities without substantial interruption from the high water mark out to a distance of 12 nautical miles.

The Crown have been overwhelmed by the number of claims lodged by Hapu/Iwi and this will determine the speed at which the claims will be heard.

It should be noted that the Maori National Council have also lodged a national claim to all coastal areas throughout New Zealand.

Ture Whenua Bill 126 progression through the House

Currently the Ture Whenua Bill still sits in the Committee of the Whole House. The government is determined to ensure that the Bill is ‘fit for purpose’ and will not rush the Bill through the House until all the major stakeholders are happy with the final draft.

The new (Act) and a dedicated Maori Land Service associated with it will enable Maori landowners to plan for their futures by removing barriers and addressing issues that for years have unfairly alienated owners from their land and restricted the development of those parcels of Maori land.

The primary changes to the law emphasise the three pou or principles of:

- Taonga tuku iho
- Mana motuhake
- Whakawhanake

Taonga tuku iho will enhance protections to ensure that the remaining Maori land stays in Maori hands while manamotuhake will provide Maori land owners with greater autonomy to make decisions about their land and whakawhanake will provide better support to land owners to develop their land.

Hapu Mandating Hui for Te Huinga Representation

Currently there are calls for Council support in determining the Hapu representation on the Te Huinga Hapu Forum.

Such mandating hui will determine who will represent the Hapu at both Te Huinga and ultimately at the Te Karearea Strategic Forum. New faces are already appearing at the table in both organisations.

Each Hapu will vote for their primary representative and alternates for each.

It is hoped that this process will be completed by the end of July 2017.

Whangarei Quarry Gardens Trust – OAG Assessment of Whangarei District Council Control

Meeting: Finance and Corporate Committee

Date of meeting: 27 July 2017

Reporting officer: Rich Kerr (Manager – Finance)

1 Purpose

To update the Committee on the Office of the Auditor General's (OAG) assessment of Whangarei Quarry Gardens Trust (WQGT).

2 Recommendation/s

That the Finance and Corporate Committee notes the assessment report from the Office of the Auditor General relating to Whangarei Quarry Gardens Trust.

3 Background

Under the Public Audit Act and FRS37 Whangarei District Council (WDC) was assessed as controlling WQGT by the OAG (November 2003) and Audit NZ (March 2004).

Consequently, WQGT has since then been treated as a Council Organisation (CO) meaning that WQGT is consolidated as part of the WDC Group and that WQGT requires auditing by Audit NZ. This has meant far higher audit fees compared to those if it was audited by an independent accounting firm (i.e. as a 'normal' trust, rather than a CO).

For the last 18 months Council has been in discussions with Audit NZ and the Office of the Auditor General in relation to the Council's relationship with the Whangarei Quarry Gardens Trust from an accounting perspective. Council's view has been that it does not control WQGT and that WQGT therefore should not be assessed as a CO. Various communications culminated in Council's lawyer writing to the OAG on the subject.

Attached is the OAG's letter which assesses WQGT as being controlled by WDC under PBE IPSAS 6. It is both Council staff and Council's lawyers view that this assessment is final and it is not possible to have it changed, even if the Deed of Trust is amended. Council has forwarded the letter to the Chair of WQGT.

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

Letter from Office of the Auditor General dated 15 June 2017



15 June 2017

G J Mathias
Partner
Thomson Wilson Law
Mansfield Terrace
PO Box 20142
Whangarei 0140

By e-mail: legal@thomsonwilson.co.nz

Dear Sir

WHANGAREI QUARRY GARDENS TRUST - WHANGAREI DISTRICT COUNCIL

1. We refer to your letter of 15 March 2017 addressed to Athol Graham at Audit New Zealand. Your letter has been referred to the Legal Team at the Office of the Auditor-General. Please accept our apologies for the delay in replying to you.
2. We have been asked to review your letter and to consider whether there are any grounds for changing our view that the Whangarei Quarry Gardens Trust ('the Trust') is controlled for financial reporting purposes by the Whangarei District Council ('the Council').

Background

3. We have previously determined that the Trust is 'controlled' by the Council under section 5(2)(b) of the Public Audit Act 2001. Section 5(2)(b) provides that an entity (A) is controlled by another entity (B) if B controls A '*within the meaning of any relevant financial reporting standard*'.
4. The reporting standard used to assess whether there is control under section 5(2)(b) is '*Public Benefit Entity International Public Sector Accounting Standard 6 Consolidated and Separate Financial Statements (Public Sector)*' ('PBE IPSAS 6').
5. In your letter you have questioned the way we have interpreted certain provisions in the Trust's Trust Deed when applying PBE IPSAS 6. Before addressing your particular concerns, we thought it might be helpful if we first explain in broad terms how PBE IPSAS 6 defines 'control' and the approach we take when applying PBE IPSAS 6 to a trust.

PBE IPSAS 6

Fundamental principles

6. PBE IPSAS 6 establishes requirements for the preparation and presentation of consolidated financial statements, and for accounting for controlled entities, jointly controlled entities, and

associates in the separate financial statements of the controlling entity, the 'venturer', and the 'investor'¹.

7. The premise underlying IPSAS 6 is that entities that operate as part of the same 'economic entity' should report as a single economic entity. An economic entity may include entities with either commercial or social objectives, or both. An economic entity may include entities that are separate legal entities².
8. PBE IPSAS 6 applies to all types of reporting entities, including trusts. However, it is not uncommon for trustees to object to a finding that the trust is controlled, for the understandable reason that trustees are required by law to act independently of the person who appointed them or who established the trust. It is important therefore to emphasise that PBE IPSAS 6 looks to establish whether a trust is controlled for financial reporting purposes only. An entity that is deemed to be controlled under PBE IPSAS 6 is not necessarily controlled legally, or operationally, by the party deemed to control them.

The meaning of 'control'

9. Control is defined in PBE IPSAS 6 as *'the power to govern the financial and operating policies of another entity so as to benefit from its activities.'*³
10. PBE IPSAS 6 sets out two basic scenarios that indicate control for financial reporting purposes:
 - (a) A is controlled by B if B has power over A, which can be used to extract benefits from A;
 - (b) A is controlled by B if B has established A in such a way that, even though B does not have power over A, B will inevitably receive benefits from A, irrespective of any 'day-to-day' decisions made by those governing A. This scenario is referred to as an 'autopilot'.
11. The benefits A provides to B may be financial (eg distributions) or non-financial (eg benefits B derives as a result of A enabling B to achieve a particular objective). Non-financial benefits are referred to in PBE IPSAS 6 as 'complementary benefits'.
12. Complementary benefits are benefits derived in the following circumstances:
 - (i) Where the supply of goods or services by A is directly consistent with, and likely to enhance the operating objectives of B;
 - (ii) Where determination of the nature of the goods or services to be supplied is a direct consequence of the exercise of B's decision-making ability over the activities of A; and
 - (iii) Where B is relieved, as a result of the activity of A, of an actual or constructive obligation to provide such supply; or B has a right to receive a future service delivery from A which is not subject to additional funding to be provided by B.

¹ PBE IPSAS 6 – paragraph 6.

² PBE IPSAS 6 – paragraphs 12-14.

³ PBE IPSAS 6 – paragraph 7.

Our assessment

13. We determined that the Trust is controlled by the Council under the scenario outlined in paragraph 10(b) - ie on the grounds that it is an 'autopilot'.
14. In PBE IPSAS 6 an autopilot is said to exist where:
- (a) *The financial and operating policies that guide the activities of A have been irreversibly predetermined by B or its agent; and*
 - (b) *B has an entitlement to a significant level of current or future ownership benefits which arise from the activities of A.*⁴
15. We determined that the Trust was an autopilot on the grounds that:
- (i) The financial and operating policies that guide the Trust's activities were determined by the Council when it established the Trust;
 - (ii) Those policies cannot be changed without the Council's consent and are therefore irreversible; and
 - (iii) The Council has an entitlement to a significant level of benefits from the Trust in the form of complementary benefits because:
 - a. The activities carried out by the Trust are directly consistent with, and likely to enhance the operating objectives of the Council;
 - b. The nature of those activities was determined by the Council as a direct consequence of the Council's decision-making ability over the Trust (ie when the Trust was first established); and
 - c. The activities carried out by the Trust, relieve the Council of an obligation (actual or constructive) to carry out those same services – in other words, the Trust meets a purpose that would otherwise be a function of the Council.

Concerns expressed by the Council and the Trust

16. We understand from your letter that the main points in our assessment that the Council and/or the Trust take issue with are:
- whether the 'financial and operating policies' of the Trust have been 'irreversibly pre-determined' by the Council; and
 - whether the Trust meets a purpose that would otherwise be a function of the Council.

Whether the Trust's 'financial and operating policies' have been irreversibly predetermined by the Council

17. The term 'financial and operating policies' is not defined in PBE IPSAS 6. We interpret it to mean that policies that determine what the entity does and who benefits from it.

⁴

PBE IPSAS 6 – paragraph AG2.

18. Therefore, in relation to a trust:

- We generally consider the financial and operating policies to be the objects or purposes of the trust, rather than specific provisions in the trust deed that determine how the trustees are required to operate the trust or invest its funds.
- In assessing whether the trust's financial and operating policies have been irreversibly predetermined, we look at the degree of power the trustees have to significantly change the trust's objects or purposes.

19. In the case of the Whangarei Quarry Gardens Trust, we determined that the Council had irreversibly predetermined the Trust's financial and operating policies because:

- (i) The Council established, or was instrumental in establishing, the Trust, and therefore in deciding what the Trust's objects and purposes would be;
- (ii) The terms of the Trust Deed can only be amended by unanimous resolution⁵ (which means the Council's two representatives on the Trust Board would need to approve any changes); and
- (iii) Any changes made to the Trust Deed cannot be inconsistent with the charitable purposes of the Trust⁶ (which are defined in clause 2.1 and set out in clause 4).

20. In our view, the effect of clause 20 of the Trust Deed is that any changes that are made to the Trust Deed need Council approval (via its appointed Trustees), but that, in any event, no changes can be made to the original purposes of the Trust, which are to establish and maintain the Quarry Gardens.

21. Therefore, in our view, the financing and operating policies of the Trust (ie what it does and who benefits from it), are irreversible.

Whether the Trust meets a purpose that would otherwise be a function of the Council

22. The second issue the Council and/or the Trust takes issue with is whether the Trust 'meets a purpose that would otherwise be a function of the Council'.

23. The phrase 'meets a purpose that would otherwise be a function of the Council' is not actually used in PBE IPSAS 6. It is 'shorthand' for the three part complementary benefits test set out in paragraph 12 above.

24. In our view, the Council derives complementary benefits from the Trust because:

- (i) The services supplied by the Trust are directly consistent with, and likely to enhance the operating objectives of the Council. This is because:
 - a. according to the Trust's website, the Quarry land was donated to the Council to become part of Whangarei's parks and reserves network;
 - b. the Gardens have been established on the Quarry land, at the instigation of and/or with the support of the Council;

⁵ Trust Deed – clause 20.

⁶ Trust Deed – clause 20.

- c. the provision of parks and reserves is a function of the Council.
 - (ii) Determination of the nature of the services supplied by the Trust was a direct consequence of the Council's decision-making ability over the Trust – because the Council established, or was instrumental in establishing, the Trust; and
 - (iii) The activities carried out by the Trust, relieve the Council of an obligation (actual or constructive) to carry out those same services. This is because:
 - a. If the Trust had not established the Gardens, there would have been a reasonable expectation that the Council would establish them, and/or a legal obligation on the Council to otherwise maintain the land as a park or reserve;
 - b. If the Trust does not continue to maintain the Gardens, the Council will have a legal obligation to do so. This is because, if the Trust is wound up, the assets of the Trust are required to be passed to the Council to be held by the Council on trust for the same purposes and principles as set out in the Trust Deed, ie to establish and maintain the Quarry Gardens.
25. Therefore, in our view, the Trust meets a purpose that would otherwise be a function of the Council.

Closing comments

26. We hope this letter has helped to address your concerns, and to explain why we have concluded that the Trust is controlled.
27. We acknowledge that the application of PBE IPSAS 6 is not straightforward and requires judgement, in particular, when it is applied to a trust. We are therefore always happy to revisit an assessment, in particular if the factual scenario changes, or if the information on which our original assessment was based is incorrect or incomplete.
28. At this point, however, neither the Council, nor the Trust has provided any information to suggest that our original assessment was incorrect or needs to be amended to take account of changed circumstances. We therefore remain of the view that the Trust is controlled under section 5(2)(b) of the Public Audit Act 2001 by the Whangarei District Council.
29. Please do not hesitate to get in touch if you would like to discuss this matter further.

Yours faithfully

Liz Colley
Senior Solicitor

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cc: Athol Graham, Appointed Auditor, Whangarei District Council

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.