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

Date:	**Wednesday 27 May 2020**
Time:	**4.00 pm**
Meeting Room:	**Council Chambers**
Venue:	**Horowhenua District Council Levin**

Finance, Audit & Risk Committee

OPEN AGENDA

MEMBERSHIP

Chairperson	Mr Philip Jones	
Deputy Chairperson	Mrs Christine Mitchell	
Members	Mr David Allan	
	Mr Wayne Bishop	
	Mr Ross Brannigan	
	Mr Todd Isaacs	
	Mr Bryan Jackson	
	Mr Sam Jennings	
	Mrs Victoria Kaye-Simmons	
	Mr Robert Ketu	
	Mrs Jo Mason	
	Ms Piri-Hira Tukapua	
	HWTM Bernie Wanden	
Reporting Officer	Mr Doug Law	(Chief Financial Officer)
Meeting Secretary	Mrs Karen Corkill	

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

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

ITEM TABLE OF CONTENTS **PAGE**

1 Apologies

2 Public Participation

Covid-19 Level 2 Restrictions

Public attendance at the Finance, Audit & Risk Committee meeting is not permitted due to Covid-19 Level 2 restrictions.

You will be able to watch a live-stream of these meetings via our website https://www.horowhenua.govt.nz/CouncilMeetingsLive

You can be a part of the decision making process by making a written submission that will be referred to during the meeting, by sending to publicparticipation@horowhenua.govt.nz or by contacting our Governance Team on 06 366 0999.

A recording of the meeting will be made available shortly after the meeting has finished. A link to the meeting can be found at https://www.horowhenua.govt.nz/Council/Your-Council/Council-Meetings-Live

3 Late Items

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

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

4 Declarations of Interest

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

5 Confirmation of Minutes

5.1 Meeting minutes Finance, Audit & Risk Committee, 29 April 2020

6 Announcements

Projects Update

File No.: 20/68

1. Purpose

To provide the Finance, Audit and Risk (FAR) Committee with an update on the projects being undertaken by the Infrastructure Group.

2. Recommendation

2.1 That Report 20/68 Projects Update be received.

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

3. Issues for Consideration

As provide in the **attached** reports.

Attachments

No.	Title	Page
A	Project Report - Tokomaru Water Supply	8
B	Project Report - Tokomaru Wastewater Discharge	13
C	Project Report - Foxton Beach Stormwater Consent	18
D	Project Report - North East Levin Stormwater	22

<u>Confirmation of statutory compliance</u>

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

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

Signatories

Author(s)	Brent Maguire **Group Manager - Infrastructure Development**	

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

Tokomaru Water Supply - Overview

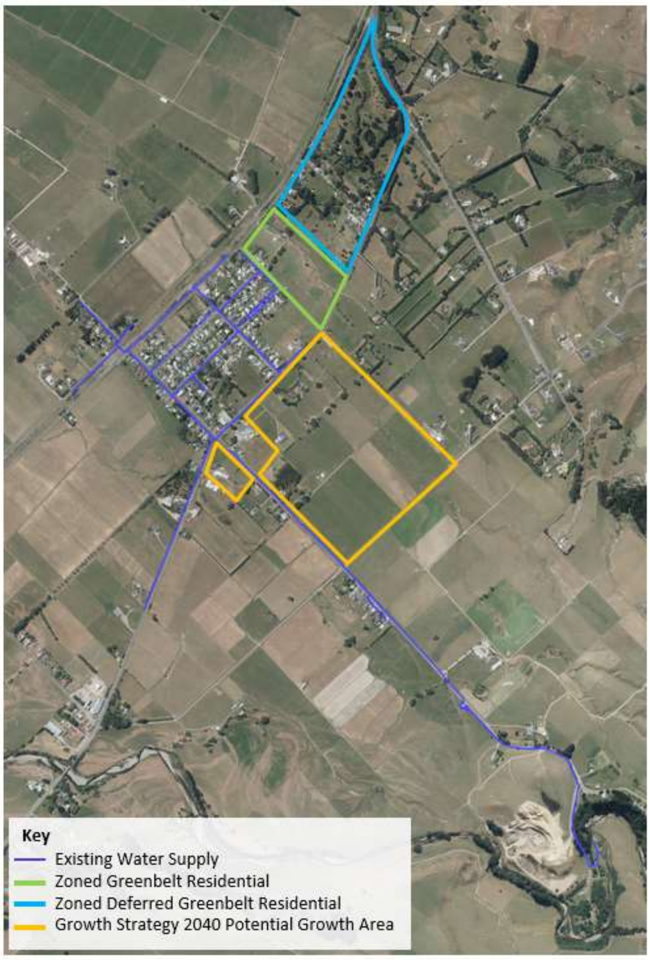
Project Overview Summary

Project objective:

Renew water take consent(s) for Tokomaru Water by 30 March 2020, within budget.

Current Status	What's Needed?	Key Dates
• Application has been lodged and was notified. Submissions closed October 2019. Two submissions received, both in support. • CIA by Ngati Whakatere completed. • Approvals obtained from Department of Conservation, Drinking Water Assessor, TMI Rangitaane and Fish & Game.	• Agree draft conditions with Regional Council and submitters.	• Existing consent will continue to be active until new consent is resolved. • Draft conditions received from Regional Council 21 November 2019. • Regional & District Council are in discussions on draft conditions.

Overview of project:



Abstraction from Tokomaru River

Infiltration gallery below bed of the river, Horseshoe Bend. There are no structures in the flowing water.

Treatment & Storage

Membrane filtration treatment plant located on Tokomaru East Road. Approx. 500 m³ (2 days) of storage.

Community Served

Tokomaru Village & some rural residential properties. Properties outside of the village and any non-residential uses are metered.

- 222 connections of which 34 are metered

Growth is projected. There is residential and greenbelt residential land zoned to the north of the village. Council's Growth Strategy 2040 also identified potential additional growth areas.

Existing Consent

- Abstract up to 864 m³/day, at maximum rate of 36 m³/hr
- No conditions for metering of abstraction
- No conditions requiring water conservation measures

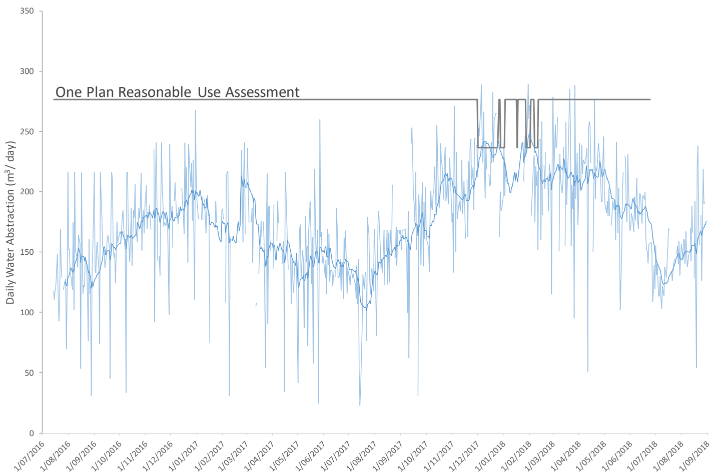
Consent sought

- Reduced consent limits to better match demand, but retain higher abstraction rate when needed to fill up storage
- Abstraction metering & telemetry
- Water conservation measures at times of low flow
- Optimise use of storage to reduce abstraction as much as possible during times of minimum flow

How much water does the community use?

This graph shows the community's use over the last two years.

The graph shows the water abstracted compared to what would be considered "reasonable and justifiable" under the One Plan policies (grey line). Where the grey line drops down, this is when the River flow was below minimum flow and water conservation measures would be expected to be implemented under the One Plan.

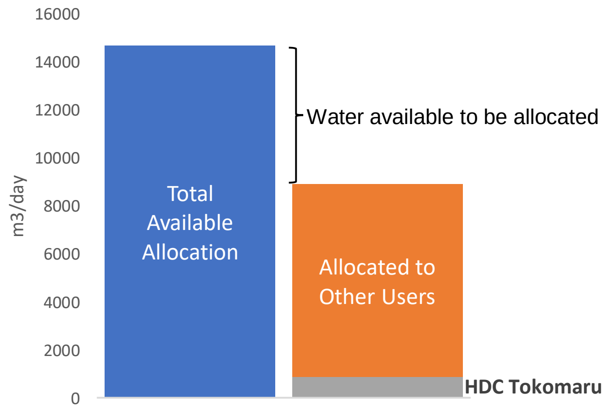


Water Allocation & Ecological Effects

Under the One Plan's allocation regime, 61% of the cumulative core allocation for the zone is allocated.

HDC's current allocation for Tokomaru represents 6% of the cumulative core allocation.

The One Plan provides for community takes to continue (with water conservation measures in place) when the River is below minimum flow (240 L/s). An ecological assessment found that the effects of the abstraction when the River is below minimum flow are less than minor.



Work to date:

Consent application has been lodged and a s92 request for further information has been responded to. Consultation has been undertaken with key stakeholders as noted below.

The application is currently being processed by Regional Council. The application was publicly notified by Regional Council on 6 September 2019. Submissions closed 4 October 2019.

Two submissions were received, both of which support granting of consent.

Draft conditions were received from Regional Council 21 November 2019. These have been discussed internally and HDC has confirmed its position. A response to the draft conditions was provided to Regional Council in March 2020 and their technical team has since considered the requested changes. The draft conditions are generally acceptable with the exception of a low flow restriction on abstraction. The original draft conditions require abstraction to be reduced to 237 m^3/day at times of low flow. In this situation, if there are extended periods of low flow then supply may be affected. The draft conditions also do not provide for the low flow abstraction limit to be increased as the community grows. An amended suite of conditions has been developed and has been provided to the Regional Council for their consideration. There is now general agreement between District and Regional Council with respect to the draft conditions, with the remaining being discussed relating to the provisions during times of extended low flow periods.

Draft conditions indicate an expiry date of 2038.

Financials:

The funding arrangements are reserve funded.
The proposed cost of the project is $106,910 over the expected lifespan of the project.

Risk Management:

Risk Area	Risk Description	Initial (GAR)	Initial Risk Assessment without application of a control	Control applied	Residual Risk Assessment (GAR)	Residual Risk Assessment
Strategic	Potential for Quantity of Water allocated to be insufficient for growth.	4C/3L	Significant	Application proposed consent conditions to be structured to allow for further approval at time of growth in the community. HDC proposed amendments would enable growth. This is yet to be agreed with Regional Council. Ensuring water sensitive design.	3C/3L	Significant
Financial	Notification leading to hearing and appeal costs.	4C/4L	High	Consultation and engagement with key stakeholders during submission period. Proceed quickly to pre-hearing to focus on RMA issues. Submissions closed with two in support.	4C/1L	Low

Service Delivery	Consent decision may include significant constraints on take at minimum flow.	4C/4L	High	Interrupted service delivery and extended water restrictions. Significant cost associated with storage to mitigate. Conditions sought by HDC will mitigate this risk, but this is yet to be agreed with Regional Council.	4C/3L	Significant

Risks Traffic Light Key

	Consequence				
Likelihood	1 - Very minor	2 - Minor	3 - Moderate	4 - Major	5 - Catastrophic
5 - Almost certain	Low	Moderate	Significant	Extreme	Extreme
4 - Very Likely	Low	Moderate	Significant	High	Extreme
3 -Likely	Low	Moderate	Significant	Significant	Extreme
2 - Unlikely	Low	Low	Moderate	Moderate	Moderate

Communication and Key Stakeholders:

Engagement is ongoing with Ngati Whakatere and a Cultural Impact Assessment has been commissioned. This was received end of 2019. Recommenedations from the CIA were:

"1. HDC agree to enable regular stream health and mātauranga Māori monitoring of the Tokomaru Awa, where possible with annual participation from ngā kura (Tokomaru and Shannon schools) to build intergenerational kaitiaki capacity;

2. HDC agree to resource the capacity of Ngāti Whakatere and collaborate directly with the hapū to manage the Tokomaru water supply take and other activities at the Horseshoe Bend Reserve significant area/site;

3. HDC agree to resource Ngāti Whakatere to collaborate with Council to develop communication (possibly signage or an information whare similar to Tū te Manawa) acknowledging the cultural significance of the Horseshoe Bend Reserve area; and

4. Regular meetings between HDC and Ngāti Whakatere representatives are needed to progress and achieve these recommendations."

TMI Rangitaane have been consulted and have provided a letter of support.

Written approval has been obtained from Department of Conservation, Fish and Game Council and a letter of support has been received from the District Health Board.

Two submissions received were in support of grant of consent. No submissions were received in opposition.

Timeline:

	Jan - Mar '20	Apr - June '20	July - Sept '20	Oct - Dec '20
Draft Conditions		Discussion on draft conditions extended into this period		
Expert Caucusing/Hearing if unable to agree Conditions			It is expected that a hearing will not be required at this stage	

Tokomaru Wastewater Discharge - Overview

Project Overview Summary

Project objective:

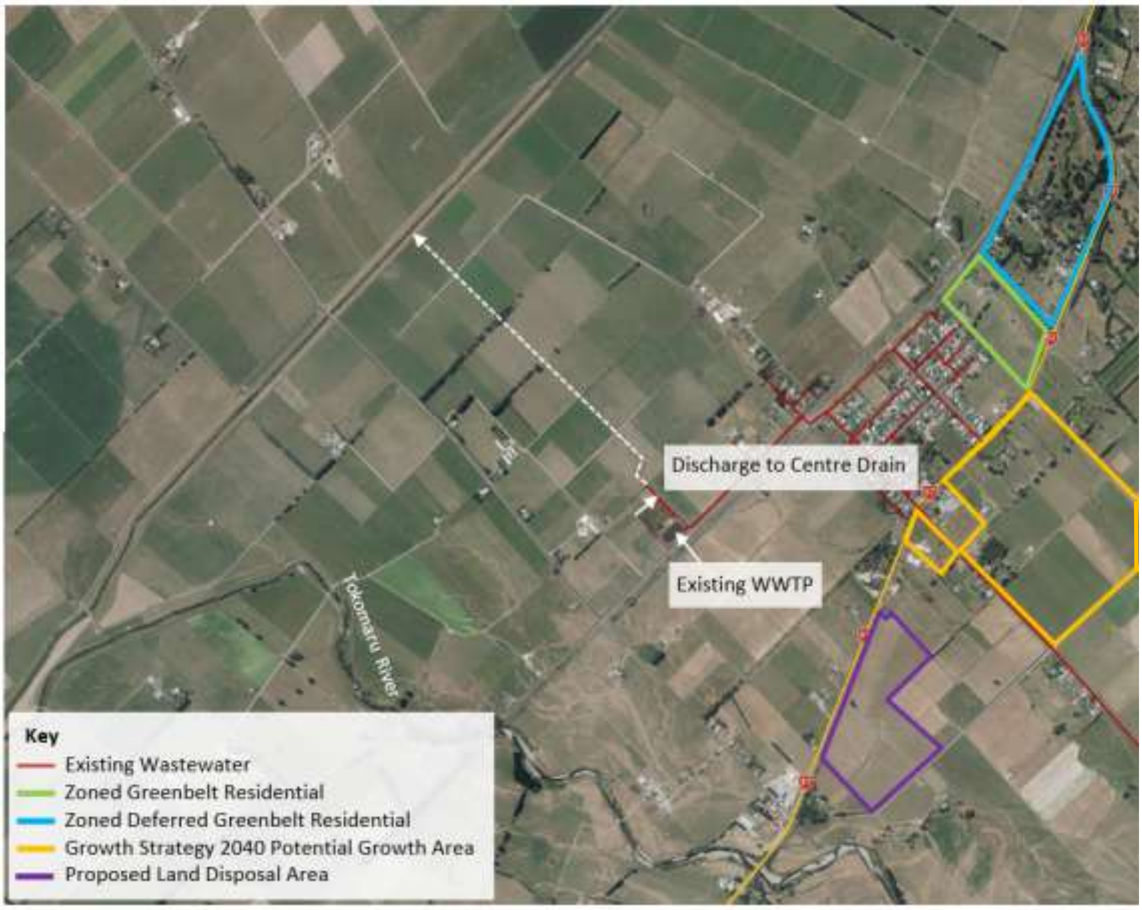
The project's aim is to:

(a) agree on a renewed five (5) year discharge consent to water with Horizons Regional Council and key stakeholders;

(b) with the community and key stakeholders, agree on a long term treatment and discharge option before 2022.

Current Status	What's Needed?	Key Dates
• Council commitment to land based, long term disposal. • Short term consent sought for discharge to water to provide time to investigate, design, and consent land based option. • MfE Funding assisted with purchase of land. • Work on the long term land disposal project has been initiated. • Wastewater Working Group has been established. • Long Term Project commenced.	• Resolve short term consent with Horizons and submitters. • Investigations Phase of Long Term Treatment and Disposal Project. - In progress with timeframe from March-October 2020.	• Council hopes to have short term consent resolved early 2020 - now likely mid 2020 Pre-hearing meeting was held 27 February and revised draft conditions have been circulated to submitters. 12 of 15 have agreed to draft conditions; 1 has not accepted draft conditions; 2 are in discussions (expected responses 20 May) • Collaborative working on long term treatment and disposal option - Long Term consent application to be lodged no later than December 2022.

Overview of project:



Work to date:

Short-Term Consent

- The existing wastewater discharge is a combination of discharges to ground via the base of a wetland and also discharges direct to Centre Drain at times of high flow.
- A short term (5 year) consent has been sought to allow the status quo operation while the long term land disposal option was progressed.
- The short term consent was publicly notified and a pre-hearing meeting held. The application was on hold while draft conditions were agreed between District and Regional Councils. This included engaging ecologists to develop a monitoring programme which is now being implemented.
- Ngati Whakatere has been engaged to undertake a Cultural Impact Assessment which was completed late 2019.

Conditions for the short-term consent have been agreed with Regional Council and are were circulated to submitters throughout 2019. The Wastewater Working Group was convened on 27 February 2020. A pre-hearing meeting was immediately after the Working Group's initial meeting for that purpose. At that meeting, a short term consent expiry date of June 2023 was agreed reflecting the proposed lodgement date for the long term option of December 2022. Some minor revisions to the draft conditions were agreed and Regional Council circulated the revised draft conditions to submitters requiring feedback by 20 March 2020. Current status of submissions is that:

- 12 have agreed to draft conditions
- 1 has advised they do not accept the draft conditions
- 2 have responded with comments, and discussions are ongoing. This includes one that is seeking some minor amendments that are likely to be acceptable; and Ngati Whakatere who have indicated that resolution is likely to be reached but have requested until 20 May to respond.

Regional Council have agreed to additional time to end of May to address the outstanding submitters, however, they are not inclined for the application to remain on hold under s124 and therefore a hearing is likely to be required given that not all submitters have agreed to draft conditions.

Long Term Land Based Treatment Option

Council has made a commitment to working with iwi and the community to investigate and implement a long term land based treatment option. Stakeholder (Working Party) feedback has been that they wish to ensure all options to remove wastewater discharge to water are explored.

Central government funding has been secured and this has assisted Council to purchase land which is considered suitable for the purpose.

Work is underway on this project with the Wastewater Working Group having been established and the Investigation Phase commenced March 2020 and is intended to run through to October 2020. A key part of this work includes inflow & infiltration assessments (as requested by stakeholders) as well as planning as to how growth areas may be serviced and impacts on wastewater flows over the life of the long term solution. Current work is focused on the investigation phase including measures to accelerate the project to reach a preferred solution and lodge applications as soon as practicable.

Financials:

The funding arrangements are loan funded.
The proposed cost of the project is $150,000 over the expected lifespan of the project.

Risk Management:

Risk Area	Risk Description	Initial (GAR)	Initial Risk Assessment without application of a control	Control applied	Residual Risk Assessment (GAR)	Residual Risk Assessment
Strategic	Potential for HRC to determine not to grant consent.	4C/1L	Low	Ensure that community is clear that this is a short-term consent to allow for investigation of land based option. Hearing may be required if submissions not resolved. Regional Council support proposed conditions.	4C/1L	

Risks for long term project are currently being identified.

Risks Traffic Light Key

	Consequence				
Likelihood	1 - Very minor	2 - Minor	3 - Moderate	4 - Major	5 - Catastrophic
5 - Almost certain	Low	Moderate	Significant	Extreme	Extreme
4 - Very Likely	Low	Moderate	Significant	High	Extreme
3 - Likely	Low	Moderate	Significant	Significant	Extreme
2 - Unlikely	Low	Low	Moderate	Moderate	Moderate
1 - Extremely unlikely	Low	Low	Low	Low	Low

Communication and Key Stakeholders:

Council has been engaging with submitters on the short-term discharge consent application as noted above.

A draft consultation plan has been developed for the long term land based disposal project. That plan identifies the likely matters of consultation to include:

- “*Disseminating and communicating information as to how the wastewater services are provided, the quality and amount of discharges, and the Council's understanding of the effects of those discharges on land, water and air quality.*
- *Obtaining an understanding from tangata whenua as to the effects of the discharges to land, air and water receiving environments, and the relationship of tangata whenua and their culture and traditions with their ancestral lands, water, sites, waahi tapu and other taonga, as well as the ability of tangata whenua to exercise kaitiakitanga.*
- *Obtaining an understanding from affected parties as to their concerns with the wastewater discharges and how these may be mitigated.*
- *Working with tangata whenua and with stakeholders to identify and obtain input into the assessment of options for treatment and mitigation.*
- *Working with community to understand the servicing requirements and desired outcomes.*

In undertaking consultation, Council and its appointed consultants and technical experts will:

- *be flexible and adaptable to the needs of all parties.*
- *be open with science, data and technical information, and will provide ready access to technical experts.*
- *facilitate a collaborative process and will be proactive about seeking a common understanding of effects and identifying options for mitigation.”*

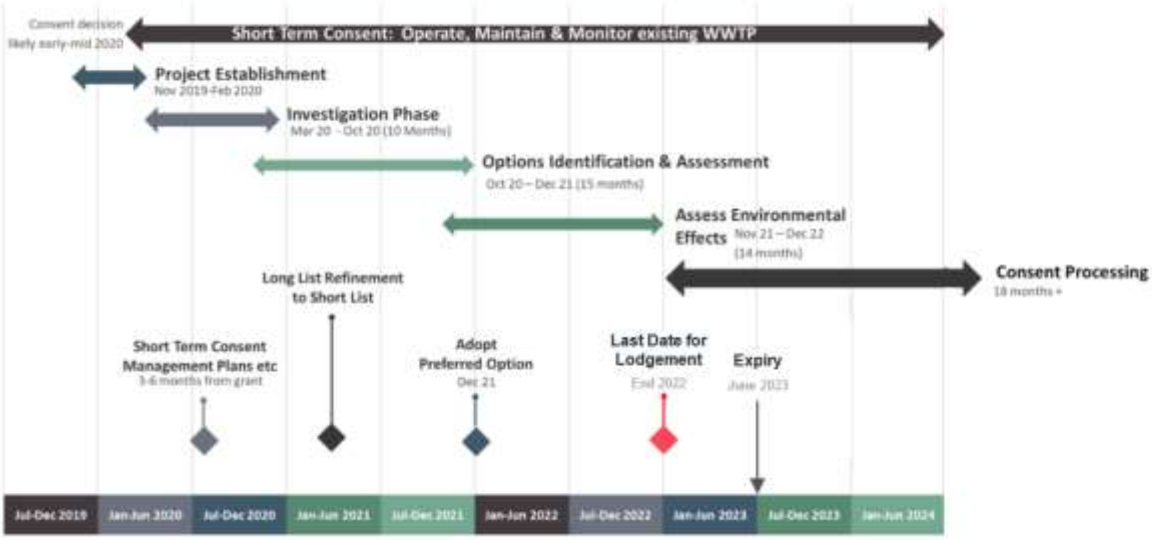
The Consultation Plan is a living document and HDC intends to conduct an adaptive consultation process which can be flexible to fit the needs of the parties being consulted. Early engagement will focus on identifying the preferred means of engagement, the best methods for provision of information and the type of information and discussions sought.

This notwithstanding, the proposed consultation methods at this time are as follows:

- Separate engagement with each of the three tangata whenua groups and their respective hapu / marae (Ngāti Raukawa ki te Tonga, Ngati Whakatere and Rangitāne o Manawatu):
  - Initial meetings to establish relationship, provide overview of the project and establish process and scope for consultation and engagement.
  - Liaison as necessary to confirm engagements (scope, timing, costs) for Cultural Impact Assessments.
  - Separate hui with each group throughout the project. The purpose of each hui to be agreed prior to meeting but is likely to include updates on work programme including monitoring and investigation results and outcomes, discussion and understanding of cultural impacts, and workshop style discussions as to potential mitigations.
- Ngati Whakatere has advised they are considering how they wish to be engaged with during the long term project and will provide advice on this by the end of May; site meetings and initial discussions have been held with Rangitāne (February-March 2020) and initial discussion has been held and information has been provided to Muaupoko Tribal Authority to ascertain if MTA has an interest in the project.
- Directly Affected Parties: Meetings / workshops with each of these groups during the course of the work programme.
- Tokomaru Wastewater Working Party: Meetings twice yearly during the course of the work programme.

- Wider public consultation: To be undertaken through HDC communications and website, with project newsletters / updates and requests for feedback / comment.

Timeline:



Current work is focused on the investigation phase, and the work programme is being reviewed to identify and implement opportunities to accelerate the work programme to move towards a preferred option and lodgement as soon as practicable.

Foxton Beach Stormwater Consent

Project Overview Summary

Project objective:

To agree on stormwater discharge consent with Horizons Regional Council and key stakeholders.

Current Status	What's Needed?	Key Dates
•Consents are required for Council's stormwater discharges to the Manawatu Estuary. •An application for consent is currently being prepared. •Monitoring and engagement with mana whenua is ongoing.	•Ongoing engagement with mana whenua. •Ongoing stormwater monitoring to confirm quality of discharges. •Ecological effects assessment. •Consultation with affected parties.	•A draft application has been prepared. Lodgement dates will depend on consultation timing and effects assessment timelines. •Intend lodging April - May once plans for Holben wetland are confirmed.

Overview of project:

The project is to obtain stormwater discharge consents for the existing stormwater network.

The discharge points are shown in the diagram above. There are five discharges direct to the Estuary, some seepage to ground through the attenuation ponds, and some discharges direct to Whitebait Creek.

Council's policy is that properties are required to provide on-site stormwater management (generally through soak pits). The consent application is for Council's stormwater network only and doesn't include the on-site soakage pits on private property.

Some of the discharges are direct to the Estuary (eg those on Dawick, Robbie, and Hartley Streets). The Holben stormwater discharge is a pumped discharge and includes some attenuation and treatment via the plantings and detention areas in the reserve and recreational areas. There are also attenuation ponds in the subdivision to the north-east of the community.

Work to date:

Modelling of the network has been undertaken to assess network capacity, flooding areas and estimated stormwater quantities.

A monitoring programme of the quality of the stormwater discharges and the effects on the Estuary is underway.

An ecological effects assessment is in progress. The first stage has been to assess likely risks so that the monitoring programme can be refined, and a more detailed effects assessment is now being undertaken in conjunction with the monitoring programme which is being implemented. Consultation is ongoing with iwi groups to develop a framework for cultural health monitoring and undertaking cultural impact assessments.

Monitoring results to date indicate elevated concentrations of zinc, phosphorus and E.Coli have been identified in the discharge from Linklater Ave catchment. Potential sources for these contaminants are currently being investigated. An interim ecological effects assessment has been completed which has identified elevated levels of E Coli in various locations, as well as high levels of zinc in one of the smaller catchments. An investigations programme has been developed and will be implemented now that Alert Level 2 has been reached and site work restrictions are lifted. The investigation programme is targeted to identify sources of the contaminants and develop remedial programme of actions. District Council has engaged with Regional Council on this matter.

Council is also working on a proposal to provide stormwater treatment with the Holben Reserve which will assist to improve stormwater quality prior to discharge to the Estuary. The Council's Parks Team has prepared a concept plan which will treat stormwater from the Holben catchment via a new wetland in Holben reserve. The wetland design objective is to meet receiving water environmental standards prior to discharge. This proposal significantly assists the consenting process as it means that Council can commit to meeting receiving water targets for a significant portion of the urban stormwater which is also the portion that discharges to the most sensitive part of the Estuary. The wetland proposal has been included in the draft AEE documentation.

Financials:

Budget for Foxton Beach Stormwater Consent is part of a wider Stormwater District Wide budget. So far this year $93,873 has been spent on the consent.

Risk Management:

Risk Area	Risk Description	Initial (GAR)	Initial Risk Assessment without application of a control	Control applied	Residual Risk Assessment (GAR)	Residual Risk Assessment
Strategic	Potential for HRC to determine that consent should not be granted.	4C/2L	Significant	Detailed documentation in the consent application to show that the discharge is controlled effectively. Provide for time and cost for hearing process if needed.	3C/2L	Moderate
Financial	Cost of hearing and potential appeal process	3C/4L	Significant	Pre-lodgement consultation. Manage process and pre-hearing discussions to focus on RMA matters as far as possible.	3C/3L	Significant
	Mitigation costs to address potential effects / consent conditions	3C/3L	Significant	Ensure clear messaging re low risk stormwater system. Effects evidence-based assessment of need for mitigation.	2C/3L	Moderate

Risks Traffic Light Key

	Consequence				
Likelihood	1 - Very minor	2 - Minor	3 - Moderate	4 - Major	5 - Catastrophic
5 - Almost certain	Low	Moderate	Significant	Extreme	Extreme
4 - Very Likely	Low	Moderate	Significant	High	Extreme
3 -Likely	Low	Moderate	Significant	Significant	Extreme
2 - Unlikely	Low	Low	Moderate	Moderate	Moderate
1 - Extremely unlikely	Low	Low	Low	Low	Low

Communication and Key Stakeholders:

Consultation is ongoing with iwi groups. Discussions have been held with Te Runanga o Raukawa and Rangitaane and feedback received on the monitoring programme. Discussion is also occuring regarding the montioring results to date and subsequent investigation programme. Further feedback is sought on cultural health montioring and processes to undertake cultural impact assessment(s). Monitoring sessions will be carried out with Raukawa hapu for sharing of information (cultural values, monitoring procedures) and upskilling.

Consultation with the community, Department of Conservation and Fish and Game will also be required.

Timeline:

	Jan - Mar '20	Apr - June '20	July - Sept '20	Oct - Dec '20
Engagement with iwi				
Stormwater monitoring				
Ecological effects assessment				
Complete AEE & Application				
Consent Processing				

North East Levin Stormwater (Discharge to Koputaroa Stream Tributary)

Project Overview Summary

Project objective:

To obtain resource consents for additional stormwater discharge to the Koputaroa Stream tributary by December 2019.

Current Status

- Consent required due to increase and change in stormwater that will occur from land use change (residential development).
- Application lodged.
- Revised AEE submitted 28 June and being processed by Horizons.
- Regional Council notification report assessed effects less than minor except for cultural effects which are not yet resolved.
- Submissions closed 23 October.

What's Needed?

- Work with Regional Council (Rivers) to identify/confirm appropriate mitigation. Agreement on without prejudice basis has been achieved with Regional Council
- With Regional Council Rivers, engage with submitters on proposed mitigation.
- Pre-hearing meeting.
- Commencing to work with NZTA re O2NL implications

Key Dates

- Pre-hearing may be held 2020.
- Hearing to follow if unable to resolve via pre-hearing.

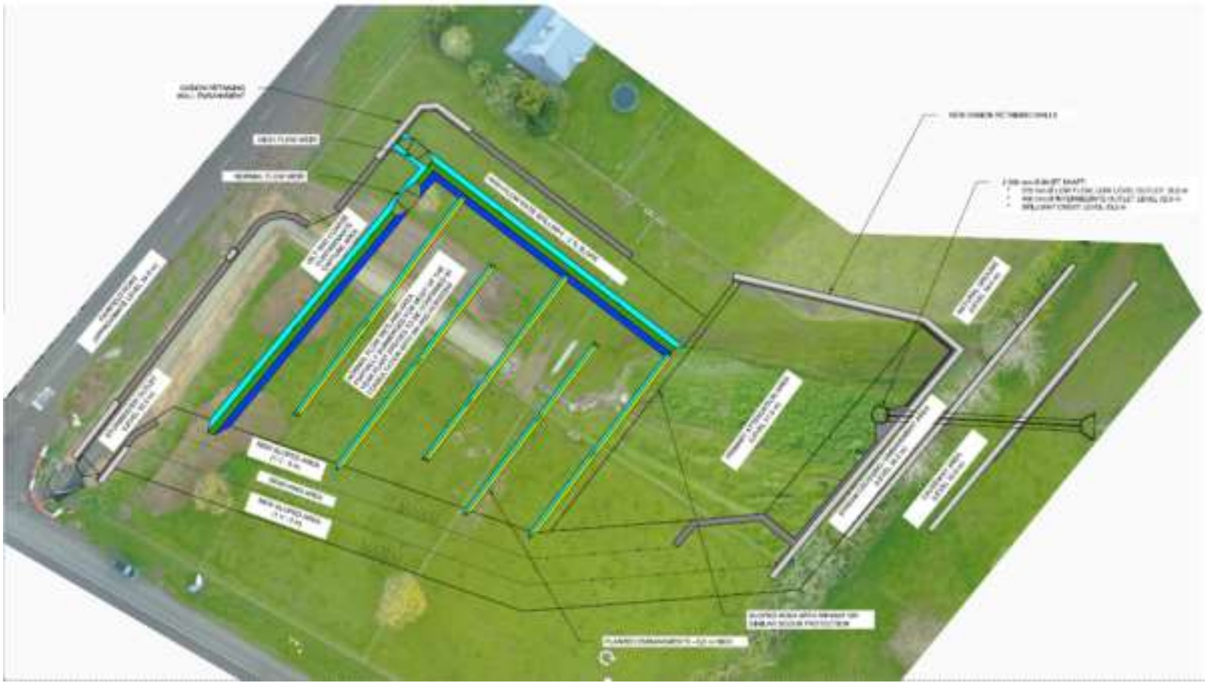
Overview of project:

Reason for Consent
Increase in stormwater flows and change in composition due to rezoning and future residential development in North East Levin; redirection of some stormwater away from Lake Horowhenua.
Consent is also required for construction of mitigation measures (detention areas).

Proposed Mitigation
Council has purchased land at discharge point and will create a treatment and detention area (see over page).
Additional detention areas proposed on tributary stream.
Embankments & culverts to be designed for fish passage.
Erosion & Sediment Control Plans for construction of detention areas.

Effects Assessment
Detention areas designed so that there is no increase in flow in the Koputaroa Stream.
Ecological assessment considered effects of discharge to be less than minor. No concerns regarding the construction of the detention areas.
Recommend fish recovery during construction.
Planting & maintenance plan to be developed.

Detention Area Proposal in more detail:



In low flows, stormwater travels through the first stage of the detention area in a zig-zag manner to maximise travel time; this area will be planted with wetland type species to treat stormwater. Planting plan is to be confirmed with iwi and Horizons. The embankment includes a low-level culvert to ensure low flows can continue to flow downstream.

In high flows, detention is provided to capture and treat peak runoff. Peak discharge in 100 year event will be less than existing.

Work to date:

- Cultural Impact Assessment by Muaūpoko Tribal Authority.
- Lodgement of consent application and responses to s92 requests.
- Development of mitigation proposals and design of attenuation area to increased stormwater flows and provide treatment at the discharge point.
- Engagement with mana whenua and landowners on tributary.
- Water quality monitoring & ecological assessment.

A notification decision provided by Regional Council summarised the Regional Council's technical assessment of the information submitted by Regional Council. That assessment identified the effects (after construction of the proposed attenuation areas) were considered less than minor with the exception of cultural effects as cultural impact assessments had not yet been made available from Raukawa or Rangitaane. A CIA has been commissioned from Raukawa. A formal CIA has not been received, however a cultural values statement has been provided by Raukawa. Rangitaane has provided a letter of support.

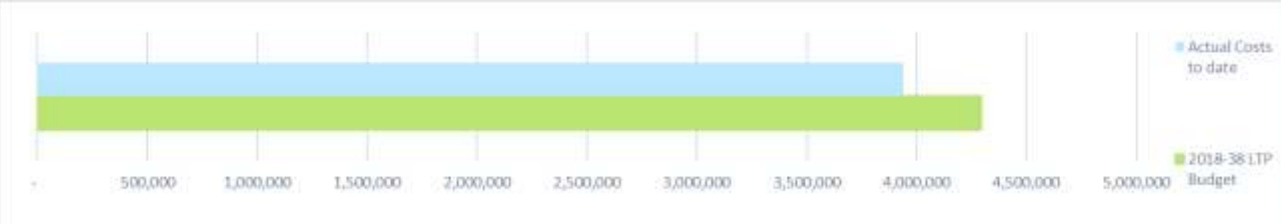
District Council met with representatives of downstream landowners and has agreed to work with Regional Council to identify any mitigation options which could address issues associated with capacity and performance of the Koputaroa Drainage Scheme including from receiving stormwater from the existing urban area. This work has been discussed with Regional Council (Rivers) and an agreement has been reached with Regional Council Rivers Group as to an acceptable mitigation package.

The application was notified and submissions closed 23 October 2019. Sixteen submissions were received of which two are in support and the remainder in opposition. The majority of submitters in opposition are seeking pumping at downstream end of Koputaroa Stream with some also seeking raising of Tavistock Road. These options are being considered at present.

Council is engaging with Horizons Rivers Group and other submitters to seek to identify acceptable mitigation options that will enable consent to be granted. Council has agreed with Regional Council Rivers Group, on a without prejudice basis, to mitigation measures to address any potential effects on the Koputaroa Drainage Scheme. Draft conditions have developed and Regional Council Rivers will assist District Council with communication to submitters as to the mitigation package and the benefits for the scheme.

Financials:

The budget for the consent for additional stormwater discharge to the Koputaroa Stream tributary is part of the wider Improvements to NE Levin project.



Risk Management:

Risk Area	Risk Description	Initial (GAR)	Initial Risk Assessment without application of a control	Control applied	Residual Risk Assessment (GAR)	Residual Risk Assessment
Strategic	Potential for consent not to be granted. Impact on development in NE sector.	3C/2 L	Moderate	Effects assessment. Clear messaging to the community on the benefits. Costs to be incurred for notification and hearing process if necessary.	3C/2 L	Moderate
Financial	Potential for notification & hearing costs / delays.	3C/4 L	Significant	Manage process and pre-hearing discussions to focus on RMA matters as far as possible.	3C/3 L	Significant

Risks Traffic Light Key

	Consequence				
Likelihood	1 - Very minor	2 - Minor	3 - Moderate	4 - Major	5 - Catastrophic
5 - Almost certain	Low	Moderate	Significant	Extreme	Extreme
4 - Very Likely	Low	Moderate	Significant	High	Extreme
3 -Likely	Low	Moderate	Significant	Significant	Extreme
2 - Unlikely	Low	Low	Moderate	Moderate	Moderate
1 - Extremely unlikely	Low	Low	Low	Low	Low

Communication and Key Stakeholders:

A draft Cultural Impact Assessment has been completed by Muaūpoko Tribal Authority; concerns raised were potential damage of significant sites, leakage to streams and springs, accidental discovery of taonga, and stream's capacity for additional flow and velocity. MTA recommended that consent be granted with conditions that address these concerns. HDC has accepted the conditions recommended by MTA and incorporated these into the application.

Engagement and high-level discussion with Raukawa. Kereru marae have been engaged to prepare a CIA (2017). A formal CIA has not been provided, however Raukawa have developed and provided a cultural values statement.

Regional Council advised they require consultation with Rangitaane o Manawatu as the Koputaroa Stream feeds into the Manawatu River which is within Rangitaane's Statutory Acknowledgement Area. Consultation with Rangitaane has been undertaken and Rangitaane have provided a written letter of support.

Landowners where works are proposed have previously been consulted with and are generally supportive of the proposals. Further engagement with these landowners as well as downstream parties is currently being carried out. Landowners on Koputaroa Stream have expressed significant concerns with potential downstream flooding effects and have submitted in opposition. Council has engaged with Regional Council Rivers Group as the managers of the Koputaroa Drainage Scheme and a mitigation package has been agreed which the Rivers Group considers is the most appropriate outcome for the scheme.

NZTA has advised they have no concerns with the proposal and did not submit.

Timeline:

	Jan - Mar '20	Apr - June '20	July - Sept '20	Oct - Dec '20
Engagement with affected parties		**Extended into this period in order to seek resolution**		
Pre-hearing		Will be in this period if required		
Potential Hearing				

Ten Month Report 1 July 2019 - 30 April 2020

File No.: 20/177

1. Purpose

To present to the Finance, Audit & Risk (FAR) Committee the financial report for the ten months ended 30 April 2020.

2. Recommendation

2.1 That Report 20/177 Ten Month Report 1 July 2019 - 30 April 2020 be received.

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

3. Issues for Consideration

As included in the **attached** report.

Attachments

No.	Title	Page
A	Financial Reporting - Ten Month Report - Monthly Report - 30 April 2020	28

Confirmation of statutory compliance

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

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

Signatories

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

Approved by	Nicki Brady **Deputy Chief Executive**	

Ten Month Report

1 July 2019 - 30 April 2020

Executive Summary

Financial Performance – Operational Expenditure

Council shows a $2.516m year-to-date (YTD) deficit against a budgeted YTD deficit of $2.043m. It is 83.3% through the year and Council has spent 83.11% of the full year's budgeted expenditure and received 82.38% of the full year's budged income.

Lower interest rates evident from the effect of the COVID-19 pandemic have decreased interest costs on borrowing but increased the loss on derivatives.

Delays in Roading capital projects have lowered Council's Roading subsidy income. Income to the end of April generally is slightly ahead of year to date budgets (except for Roading Subsidies as noted) however the effect of the COVID-19 pandemic lock down is evident now for the YTD and forecast year end income from Community Facilities.

Council repaid $9m in debt during the month from investments, as Council prefunded and invested the debt repayment. Council was able to invest this extra cash at a higher interest rate than the debt it was repaying reflecting in the above budget finance income.

Other Trends and Activity of Interest

1. Resource Consenting
   - 280 consents have been lodged as at 30 April 2020, compared to 229 at the same time last year.
   - 115 subdivision consents approved as at 30 April 2020, compared to 93 at the same time last year.
   - As at 30 April 2020 a total of 160 new allotments have been created as a result of s223 (approval of title plan) & 145 new allotments have been created as a result of s224 (completion of physical works) certificates being issued for subdivisions.

2. Building Consents
   - Value of consents issued as at 30 April 2020 is $102,086,460 compared to $87,026,442 for the same period last year
   - 571 consents issued as at 30 April 2020, compared to 561 for the same period last year.
   - 184 new dwelling consents were issued as at 30 April 2020 compared to 190 for the same period in the 2018/2019 year.
   - 564 building consents were lodged as at 30 April 2020 compared to 560 for the same period in the 2018/19 year.
   - Consents have been issued for 227 New Residential Dwelling Units as at 30 April 2020. New residential dwelling units count each self-contained unit individually and include individual dwellings, multi-unit dwellings plus yard built and existing dwellings which are relocated onto a site.

YTD the level of Resource Consenting activity is higher than that was experienced over a similar period in 2018/19.

YTD the level of Building Consenting activity is similar than the same period in 2018/19.

Doug Law
Chief Financial Officer

20 April 2020

Total revenue	Total expenditure	Total surplus/(deficit)
$46.07m is 2% less than the total budget of $46.84m	$48.55m is 1% less than the total budget of $48.88m	($2.48m) is 21% less than the total budget of -2.04m

SUSTAINABILITY

Rates to operating revenue **70%**

Rates revenue	$32.41m
Operating revenue	$46.07m

70% of operating revenue is derived from rates revenue. Rates revenue excludes penalties, water supply by meter and is gross of remissions. Operating revenue excludes vested assets, development contributions, asset revaluation gains and gains on derivatives.

Balance budget ratio **98%**

Operating revenue	$46.07m
Operating expenditure	$47.21m

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

Essential services ratio **125%**

Capital expenditure	$15.24m
Depreciation	$12.15m

Capital expenditure should be equal or more than depreciation for essential services, for year to date capex is 125% of depreciation. Essential Services are Water Supply, Wastewater, Stormwater and Roading.

Net Debt to total projected revenue (LGFA Cov.) **164%**

Total net borrowing	$89.56m
Total projected operating revenue	$54.49m

With net borrowing of $89.56m we are still under the set limit of 195% of operting revenue. Total net borrowing is external borrowling less cash at bank.

Interest to rates revenue (LGFA Cov.) **7%**

Net Interest	$2.43m
Rates revenue	$32.41m

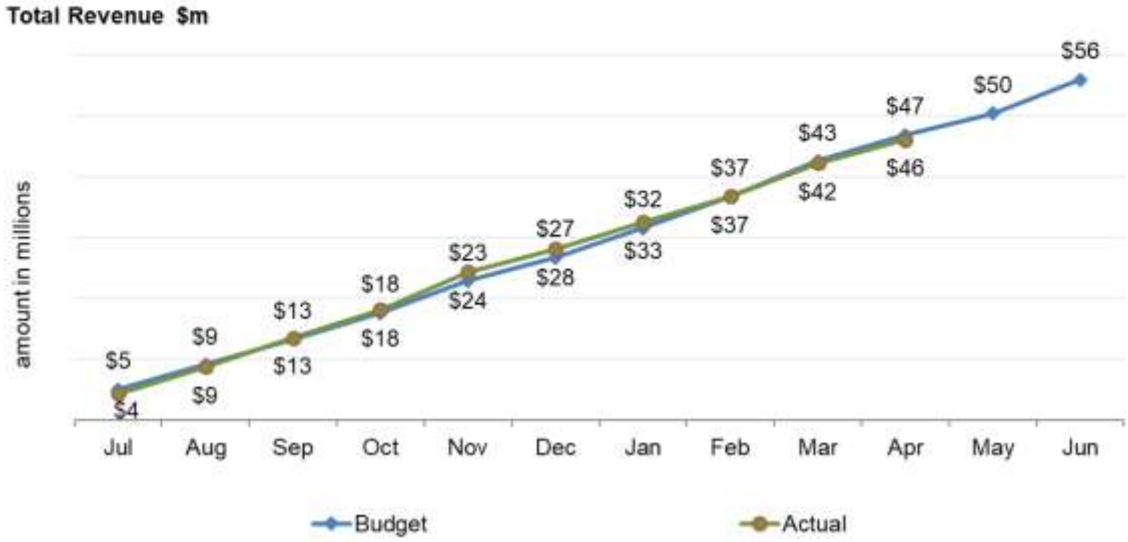
7% of rates revenue is paid in interest. Our set limit is 25% of rates revenue. Net interest is interest paid less interest received. Rates revenue excludes penalties, water supply by meter and gross of remissions.

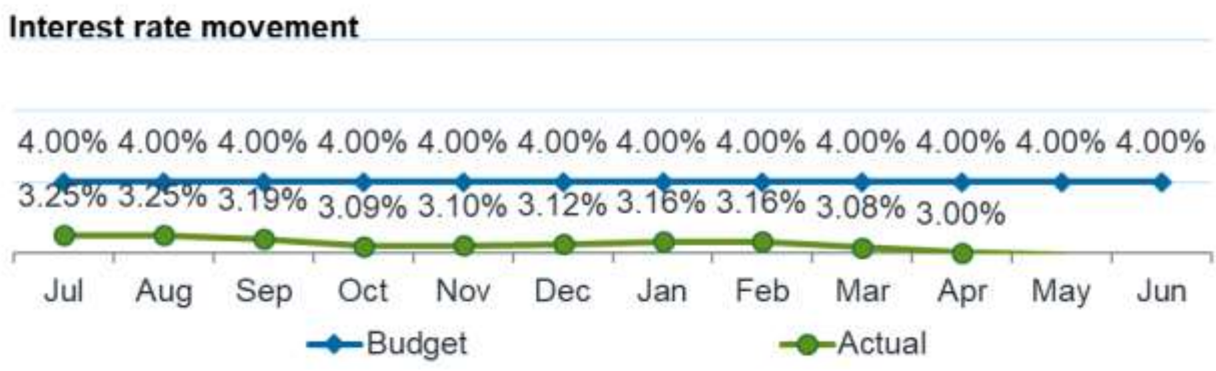
Interest to operating revenue (LGFA Cov.)		**5%**
Net Interest	$2.43m	
Operating revenue	$46.07m	

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

Available financial accommodation to external indebtedness (LGFA Cov.)		**111%**
Net debt	$89.56m	
Undrawn committed facilities	$10.00m	

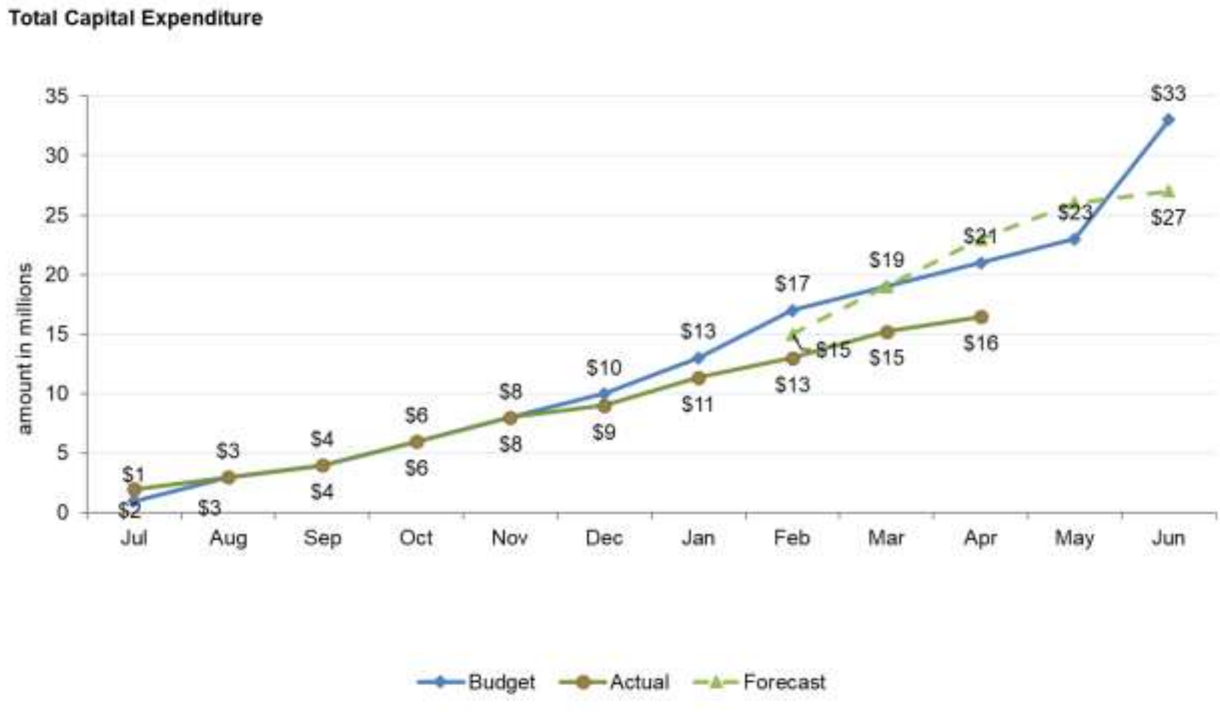
The committed bank facility enables us to borrow up to 111% of our current external debt immediately. The LGFA covenant minimum is 110%.





Capital Expenditure

To meet growth	To improve service	To replace
$0.52m	$6.34m	$9.60m
is 80% less than the YTD budget of $3.93m	is 36% less than the YTD budget of $14.88m	is 19% less than the total budget of $15.70m



Statement of Comprehensive Revenue and Expense

As at 30 April 2020

	Annual Report 2018/2019 $000	Year End Projection 2020 $000	Annual Plan 2020 $000	Variance 2020 $000	Notes	Annual Plan YTD Apr-20 $000	Actual YTD Apr-20 $000	C/A % Actual to Budget		Variance YTD 2020 $000	Var/Bud %	% of Total Bud %	Notes
Revenue													
Rates Revenue	(38,562)	(40,746)	(40,099)	(647)	6	(33,261)	(33,823)	84.3%	☺	(562)	2%	1.2%	
Grants & Subsidies	(5,524)	(4,889)	(6,462)	1,573	11	(5,967)	(3,826)	59.2%	☹	2,141	-36%	-4.6%	1
Finance Income	(423)	(310)	(209)	(101)		(209)	(272)	130.1%	☺	(63)	30%	0.1%	
Fees & Charges,	(5,355)	(4,367)	(5,110)	743	8	(4,125)	(4,127)	80.8%	☺	(2)	0%	0.0%	
Other Revenue	(3,521)	(3,595)	(3,926)	331	7	(3,276)	(3,443)	87.7%	☺	(167)	5%	0.4%	
Development Contributions			-	-						-		0.0%	
Gain on Derivatives							-		☺	-		0.0%	
Gain Disposal of Assets	(56)	(580)		(580)			(580)		☺	(580)		1.2%	3
Investment (Gains)/Losses		(122)	(122)	(0)						-		0.0%	
Vested Assets	(453)		-	-		-				-		0.0%	
Total Revenue	**(53,894)**	**(54,609)**	**(55,928)**	**1,319**		**(46,838)**	**(46,071)**	**82.38%**	☹	**767**	**-2%**	**-2%**	
Expenditure													
Employee Benefit Expenses	14,661	15,075	15,017	58		12,102	11,976	79.7%	☺	(126)	-1%	-0.3%	
Finance Costs	3,607	3,467	3,870	(403)	9	3,095	2,702	69.8%	☺	(393)	-13%	-0.8%	4
Depreciation and Amortisation	14,383	14,448	14,448	(0)		12,040	12,153	84.1%	☹	113	1%	0.2%	
Other Expenses	24,457	24,974	25,082	(108)		21,644	20,375	81.2%	☺	(1,269)	-6%	-2.6%	2
Loss on Disposal of Assets	227	-	-	-						-		0.0%	
Revaluation Losses			-	-			-			-		0.0%	
Increase in Landfill Provision	1,298	-		-		-				-		0.0%	
Loss on Derivatives	975	1,400		1,400	10		1,345		☹	1,345		2.8%	5
Total Expenses	**59,608**	**59,364**	**58,417**	**947**		**48,881**	**48,551**	**83.11%**	☺	**(330)**	**-1%**	**-0.7%**	
Operating (surplus) deficit before taxation	**5,714**	**4,754**	**2,489**	**2,265**		**2,043**	**2,480**	**99.6%**		**437**	**21%**	**21.4%**	
Taxation		36		36			36			36			
Operating (surplus) deficit after taxation	**5,714**	**4,790**	**2,489**	**2,301**		**2,043**	**2,516**	**101.1%**		**473**	**23%**	**23.1%**	

Note 1 Grants and Subsidies unfavourable variance of $2,141k. The significant variance relates to the capital subsidies from NZTA which are lower than expected due to delays or stopped works in roading projects as a result of COVID-19.

Note 3 Favourable variance of $580k, relates to the gain on sale of commercial properties as reported in prior months, this will continue to year end 30 June 2020.

Note 4 Favourable variance of $393k, relates to finance external interest cost. *Note this reflects the unprecedentedly low interest rates in the bond market.*

Note 5 Unfavourable variance of $1,345K, relates to unrealised loss on derivatives (swaps). *Note this reflects the continued fall in interest rates currently being experienced. Rates fallen reacting to the uncertain global economic conditions due to the economic effect of the COVID-19 pandemic. For reference and comparative purpose, last month the reported loss was $1007k*

Note 2 Other Expenses	Annual Report 2018/2019 $000	Year End Projection 2020 $000	Annual Plan 2020 $000	Variance 2020 $000	Annual Plan YTD Apr-20 $000	Actual YTD Apr-20 $000	% Actual to Budget		Variance YTD 2020 $000	% Var/Bud %	% of Total Bud %	Notes
Professional Services	5,240	4,844	5,296	(452)	4,558	3,791	71.6%	☺	(767)	-17%	-1.6%	2A
Materials	88	111	112	(1)	101	91	81.3%	☺	(10)	-10%	0.0%	
Maintenance	14,083	15,204	15,002	202	12,535	12,793	85.3%	☹	258	2%	0.5%	
Grants Paid	590	567	611	(44)	445	438	71.7%	☺	(7)	-2%	0.0%	
Utilities	1,091	1,107	1,180	(73)	986	798	67.6%	☺	(188)	-19%	-0.4%	
Communications	231	264	258	6	215	159	61.6%	☺	(56)	-26%	-0.1%	
Other Expenses	5,167	5,074	5,380	(306)	4,664	4,168	77.5%	☺	(496)	-11%	-1.0%	2B
Vehicle Expenses	133	174	181	(7)	156	100	55.2%	☺	(56)	-36%	-0.1%	
Treasury Expenses	160	189	199	(10)	118	87	43.7%	☺	(31)	-26%	-0.1%	
Labour Recoveries for Capex proje	(2,326)	(2,561)	(3,137)	576	(2,134)	(2,050)	65.3%	☹	84	-4%	0.2%	
Total Other Exepnses	**24,457**	**24,974**	**25,082**	**(108)**	**21,644**	**20,375**	81.2%	☺	**(1,269)**	**-6%**	**-2.6%**	

Note 2A Professional Services – favourable variance $767k significant variances are noted below:

- Emergency Management – favourable $170k
    - Lower professional services cost through emergency management contract $127k vs anticipated forecast of $297k. This is largely a result of invoice timing and will come into alignment at year end 30 June 2020.
- Community Centres and Libraries – favourable $40k
    - Lower professional Services cost within community centres and libraries of $59k vs anticipated forecast of $99k. This is as a result of a number of programmes run in house without external support, and the facilities closure through Alert Level 4 and 3.
- Planning and Regulatory – favourable $51k
    - Lower costs than forecasted in building consents $16k vs anticipated forecast of $67k, as a result of delays with competency assessments due to COVID-19.
- 3 Waters and Asset Management – favourable $90k
    - Lower professional services $53k vs anticipated forecast of $149k.
- Road Transport – favourable $416k
    - Professional services budget relating to the Horowhenua Integrated Transport Strategy/O2NL of $500k not spent, and will likely remain unspent at year end.

Note 2B Other Expenses – favourable variance $496k, significant variances are noted below:

- Community Facilities and Services – favourable $189k
    - Lower expenditure particularly within community centres and libraries. This is a result of efficiencies throughout the year, and reduced expenditure with facility closures as a result of COVID-19.
- Community Support – favourable $64k
    - Lower expenditure within district marketing and community development as a result of refocused efforts with COVID-19.
- Planning and Regulatory – favourable $81k
    - Lower expenditure than forecasted.
- Property – favourable $63k
    - Rates expense for Endowment property less than budgeted, due to property sales in Forbes Road.
- Wastewater – favourable $56k
    - Lower expenditure than forecasted.
- Stormwater – favourable $16k
    - Lower expenditure than forecasted.

Key 2019/2020 Year End Observation Forecasts – Impact of COVID-19

The COVID-19 pandemic is a rapidly evolving situation and has significantly impacted our Country and communities. It is council's responsibility to maintain essential services in order to maintain the health and wellbeing of our communities through this uncertain time.

Rates fund just over 70% of Council's annual income. In turn, this is then invested back into the community to provide services and support. We are continuing to provide essential services to our community such as water, waste water, rubbish collection, our cemeteries and emergency management. Additionally, we are continuing where possible to deliver business continuity in our other activities, for example maintaining our world of online library resources and e-membership offerings.

Within the Statement of Comprehensive Revenue and Expense report as at 30 April 2020, forecasts have been indicated for year end 30 June 2020. This work has been completed on the basis of assumptions as a result of COVID-19, and the indicative effect on our year end position at 30 June 2020. These indications are shown in the Statement of Comprehensive Revenue and Expense highlighted in yellow. Explanations of these points highlighted are as follows:

Note 6: It is anticipated that rates revenue is likely to be over budget at year end due to year to date favourable variance in Levin water metered charges. This trend will likely to continue to 30 June 2020.

Note 7: This reflects the anticipated impact on consents income and other council services as a result of Level 4 lockdown. Further forecasting is underway based on alert level 3 impacts and transition into Level 2.

Note 8: Revenue forecasts have been revised for Community Hubs, Libraries and Aquatics providing a year end projection for 30 June 2020. This reflects the facilities closure during alert level 4 and 3, and limited opening in alert level 2. In addition, Council will continue to waive all overdue fees associated with library book return in alert Level 2 to reduce influx of visits for book returns as staged opening of libraries occurs from 18 May 2020.

Note 9: It is anticipated that the lower interest rates due to the pandemic's effect (as noted in the 30 April 2020 financial results) will continue a favourable variance on external finance interest costs to year end 30 June 2020.

Note 10: It is anticipated that the trend noted on the unrealised loss on derivatives (swaps) as noted in the 30 April 2020 financial results will continue to present a negative effect on Councils year end 30 June 2020 result.

Note 11: Reflects delayed subsidised roading capital projects. and the compounded effect of the COVID 19 lock-down, as a result a number of projects will not be completed by year end 30 June 2020.

In addition, it should be noted that the fourth quarter rates notice was issued on 14 May 2020. Processes are in place to work with ratepayers to consider payment options on their specific case by case basis. This includes working with ratepayers who may be eligible for a rates rebate, and have not yet applied as applications must be submitted by 30 June 2020.

Horowhenua

Statement of Comprehensive Revenue and Expense by Activity

As at 30 April 2020

83.3% REVENUE	A Annual Plan 2019/2020 $000	Projected to 30/06/2020 $000	Variance $000	C Year to date (YTD) This Year $000	D Budget $000	E C/A % Actual to Budget	F	G D-C YTD Variance $000	H G/D % Var/Bud	I % of Total Bud	J Notes to Accounts
Significant Activities											
Regulatory Sevices	(4,657)	(4,444)	(213)	(4,005)	(3,959)	86.0%	☺	46	1.2%	0.1%	
Community Facilities and Ser	(13,557)	(12,864)	(693)	(10,807)	(11,168)	79.7%	☹	(361)	-3.2%	-0.5%	
Road Transport	(10,638)	(8,929)	(1,709)	(7,174)	(9,359)	67.4%	☹	(2,185)	-23.3%	-3.2%	1
Water Supply	(6,971)	(7,506)	535	(6,201)	(5,655)	89.0%	☺	546	9.7%	0.8%	
Wastewater Disposal	(8,548)	(8,548)	(0)	(7,191)	(6,991)	84.1%	☺	200	2.9%	0.3%	
Solid Waste	(2,322)	(2,322)	(0)	(1,908)	(1,921)	82.2%	☹	(13)	-0.7%	0.0%	
Stormwater	(1,324)	(1,324)	(0)	(1,053)	(1,045)	79.5%	☺	8	0.8%	0.0%	
Treasury	(3,411)	(2,909)	(502)	(2,399)	(2,815)	70.3%	☹	(416)	-14.8%	-0.6%	2
Property	(1,495)	(1,975)	480	(1,839)	(1,076)	123.0%	☺	763	70.9%	1.1%	3
Community Support	(3,106)	(3,046)	(60)	(2,566)	(2,506)	82.6%	☺	60	2.4%	0.1%	
Representation & Com. Leade	(3,958)	(3,856)	(102)	(3,262)	(3,321)	82.4%	☹	(59)	-1.8%	-0.1%	
Total Activity Revenue	*(59,987)*	*(57,722)*	*(2,265)*	*(48,405)*	*(49,816)*	*80.7%*	☹	*(1,411)*	*-2.8%*	*-2.0%*	
Business Units	(23,200)	(23,214)	14	(18,137)	(19,317)	78.2%	☹	(1,180)	-6.1%	-1.7%	
Total Operating Revenue	***(83,187)***	***(80,937)***	***(2,250)***	***(66,542)***	***(69,133)***	***80.0%***	☹	***(2,591)***	***-3.7%***	***-3.1%***	

83.3% EXPENDITURE	A Annual Plan 2019/2020 $000	B Projected to 30/06/2019 $000	$000	C Year to date This Year $000	D Budget $000	E C/A % Actual to Budget	F	G D-C YTD Variance $000	H G/D % Var/Bud	I % of Total Bud	J Notes to Accounts
Significant Activities											
Regulatory Sevices	4,657	5,220	(563)	3,927	3,881	84.3%	☹	(46)	-1.2%	-0.1%	
Community Facilities and Ser	13,473	14,332	(859)	10,544	11,139	78.3%	☺	595	5.3%	0.8%	
Road Transport	10,348	9,829	519	7,586	8,636	73.3%	☺	1,050	12.2%	1.5%	4
Water Supply	6,910	6,852	58	5,980	5,771	86.5%	☹	(209)	-3.6%	-0.3%	
Wastewater Disposal	7,422	7,649	(227)	6,690	6,230	90.1%	☹	(460)	-7.4%	-0.6%	
Solid Waste	3,938	3,775	163	2,940	3,313	74.7%	☺	373	11.3%	0.5%	5
Stormwater	1,519	1,406	113	1,280	1,272	84.3%	☹	(8)	-0.6%	0.0%	
Treasury	4,025	3,766	259	4,194	3,226	104.2%	☹	(968)	-30.0%	-1.4%	6
Property	1,548	1,404	144	1,078	1,250	69.6%	☺	172	13.8%	0.2%	
Community Support	3,106	3,001	105	2,457	2,897	79.1%	☺	440	15.2%	0.6%	7
Representation & Com. Leade	5,545	5,150	395	4,242	4,571	76.5%	☺	329	7.2%	0.5%	
Total Activity Expenditure	*62,491*	*62,385*	*106*	*50,918*	*52,186*	*81.5%*	☺	*1,268*	*2.4%*	*1.8%*	
Business Units	23,193	23,342	(149)	18,140	18,990	78.2%	☺	850	4.5%	1.2%	
Total Operating Expenditure	*85,684*	*85,727*	*(43)*	*69,058*	*71,176*	*80.6%*	☺	*2,118*	*3.0%*	*3.0%*	
Operating (Surplus)/Deficit	*2,497*	*4,790*	*(2,293)*	*2,516*	*2,043*		☹	*(473)*	*23.2%*	*-0.66%*	

Note 1 Road Transport – unfavourable variance of $2,185k, the significant variance relates to the capital subsidies from NZTA which are lower than expected due to delays or stopped works in roading projects as a result of COVID-19.

Note 2 Treasury – unfavourable variance of $416k, lower internal interest received ($671) from other activities due to the low interest rates below Annual Plan assumptions offset by above budget dividend received ($128k) and Interest received ($62k) from having more surplus cash invested due to prefunding some loan renewals.

Note 3 Property – favourable variance $763k, the variance relates to gain on sales of assets, increased rentals on commercial property during delay with sales and increased rentals on housing and grazing land.

Note 4 Road transport – favourable variance $1,050k, the significant variance relates to higher proportion of staff labour charged to capital projects and Horowhenua Integrated Transport Strategy project expense unlikely to progress in current financial year.

Note 5 Solid Waste – favourable variance $373k, the significant variance relates to $1,375k expense vs anticipated forecast of $1,519k.

Note 6 Treasury - unfavourable variance $968k, the significant variances relate to the interest rate swap loss ($1,345k), offset by the external interest saving and lower bank fees.

Note 7 Community Support - favourable variance $440k, the significant variances relate to lower expenses in District Marketing as a result of halted programmes due to COVID-19, Emergency Management Contract invoice timing and reduced overhead expenses in Community Development.

Loan parcels	Maturity Date	Interest Rate	Opening balance	Raised	Repaid	Closing balance
Due within a year						
LGFA CP	19 Sep 19	1.6800%	11,000,000		11,000,000	0
LGFA CP	19 Sep 19	1.6100%		5,000,000	5,000,000	0
LGFA CP	19 Dec 19	1.2500%		16,000,000	16,000,000	0
LGFA CP	19 Jun 20	1.3750%		16,000,000		16,000,000
LGFA Bond	15 Apr 20	2.6324%	5,000,000		5,000,000	0
LGFA FRN	15 Apr 20	1.6200%	4,000,000	0	4,000,000	0
Total due within a year			**20,000,000**	**37,000,000**	**41,000,000**	**16,000,000**
Due within 2 - 5 years						
LGFA FRN	17 May 21	2.0325%	4,000,000			4,000,000
LGFA Bond	17 May 21	4.5650%	5,000,000			5,000,000
LGFA Bond	17 May 21	5.9852%	5,000,000			5,000,000
LGFA Bond	17 May 21	5.8516%	5,000,000			5,000,000
LGFA FRN	14 Apr 22	0.9400%	9,000,000			9,000,000
LGFA FRN	18 May 22	1.6050%	3,000,000			3,000,000
LGFA Bond	15 Apr 23	5.1336%	4,000,000			4,000,000
LGFA FRN	15 Apr 23	1.0100%	6,000,000			6,000,000
LGFA Bond	15 Apr 23	1.4800%	0	4,000,000		4,000,000
LGFA Bond	15 Mar 24	3.7200%	4,000,000			4,000,000
LGFA Bond	15 Mar 24	3.7600%	4,000,000			4,000,000
LGFA Bond	15 Apr 24	2.5200%	3,000,000			3,000,000
LGFA Bond	15 Apr 25	4.2046%	3,000,000			3,000,000
LGFA FRN	15 Apr 25	1.2450%		5,000,000		5,000,000
LGFA FRN	19 May 25	1.6700%	7,000,000			7,000,000
Total due within 2 - 5 years			**62,000,000**	**9,000,000**	**0**	**71,000,000**
Due after 5 years						
LGFA Bond	20 Mar 26	3.3800%	9,000,000			9,000,000
LGFA Bond	15 Jul 26	3.3700%	5,000,000			5,000,000
LGFA FRN	15 Apr 27	1.1950%		5,000,000		5,000,000
Total due after 5 years			**14,000,000**	**5,000,000**	**0**	**19,000,000**
Total			**96,000,000**	**51,000,000**	**41,000,000**	**106,000,000**

Activity	External Loans as at 30/04/2020 $000	Internal Loans as at 30/04/2020 $000	Total Loans as at 30/04/2020 $000	LTP Year 2 Budget 2019/20 $000	Interest Allocated YTD $000	Loans as at 30/06/2019 $000
Land Transport	**1,600**	**98**	**1,698**	**3,868**	**47**	**1,684**
Shared Pathways	**700**	**73**	**773**	**937**	**20**	**710**
Stormwater	**7,700**	**48**	**7,748**	**9,657**	**209**	**7,466**
Water supply						
Water Levin	11,200	73	11,273	13,150	315	11,287
Water Shannon	1,200	5	1,205	1,194	35	1,243
Water Foxton	1,200	42	1,242	1,217	36	1,270
Water Foxton Beach	300	29	329	411	9	324
Water Tokomaru	400	28	428	487	11	392
Total for water supply	**14,300**	**177**	**14,477**	**16,459**	**406**	**14,516**
Wastewater Disposal						
Wastewater Levin	10,400	83	10,483	12,436	264	9,438
Wastewater Shannon	7,800	38	7,838	7,968	226	8,086
Wastewater Foxton	5,300	44	5,344	8,459	134	4,801
Wastewater Foxton Beach	200	1	201	301	4	159
Wastewater Tokomaru	700	91	791	846	23	819
Wastewater Waitarere	200	99	299	595	6	213
Total for wastewater disposal	**24,600**	**356**	**24,956**	**30,605**	**657**	**23,516**
Solid Waste						
Landfill	4,500	2	4,502	4,684	129	4,616
Recycling	2,200	63	2,263	2,208	21	768
Total Solid Waste	**6,700**	**65**	**6,765**	**6,892**	**150**	**5,384**
Community Facilities & Services						
Aquatic Centres	4,300	13	4,313	4,714	124	4,438
Reserves	2,000	70	2,070	2,931	56	2,003
Sports grounds	1,300	11	1,311	1,462	38	1,347
Cemeteries	600	89	689	768	16	563
Beautification	0	46	46	55	1	48
Libraries/ Community Centres	10,500	99	10,599	11,216	298	10,666
Halls	200	29	229	228	7	237
Toilets	400	55	455	759	13	471
Total for Community Facilities & Services	**19,300**	**412**	**19,712**	**22,133**	**553**	**19,773**
Properties						
Commercial properties	0	0	0	0	12	1,023
General properties	2,900	90	2,990	821	83	2,982
Council building	5,400	1	5,401	5,713	155	5,541
Total for Properties	**8,300**	**91**	**8,391**	**6,534**	**250**	**9,546**
Other activities						
Information Technology	1,600	73	1,673	1,677	45	1,624
District/strategic planning	3,400	96	3,496	4,057	78	2,790
Animal control	0	25	25	67	1	26
Treasury	17,800	0	17,800	5,000	292	10,500
Total for other	**22,800**	**194**	**22,994**	**10,801**	**416**	**14,940**
Total Gross Debt	**106,000**	**1,514**	**107,514**	**107,886**	**2,708**	**97,535**
Less Cash and Cash equivalents	16,437		16,437	10,571		8,481
Net Debt	**89,563**	**1,514**	**91,077**	**97,315**		**89,054**

APPENDIX

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

LGFA Special General Meeting

File No.: 20/179

1. Purpose

For the Financial, Audit & Risk Committee to provide a recommendation for Council to vote in favour of a resolution at the Local Government Funding Agency's (LGFA) Special General Meeting (SGM).

LGFA are seeking shareholder approval at a SGM on 30 June to increase the Net Debt / Total Revenue covenant for rated Councils from the current 250% to a new limit of 300% for the 2020/21 and 2021/22 financial years and then for it to decrease by 5% for each subsequent year until it reaches the new limit of 280% in the financial year to June 2026. This is to assist Councils in responding to the COVID-19 crisis.

2. Recommendation

2.1 That Report 20/179 LGFA Special General Meeting be received.

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

2.3 That Finance, Audit & Risk Committee recommends that the Horowhenua District Council, as a shareholder of the Local Government Funding Agency, votes in favour of amending the Net Debt / Total Revenue covenant as proposed, at the LGFA Special General Meeting to be held on 30 June 2020.

3. Background/Previous Council Decisions

3.1 Council became a shareholder and (therefore guarantor) in the Local Government Funding Agency in 2011.

3.2 In 2015 Council also obtained, and has subsequently maintained, an A+ Credit Rating with Standard and Poors.

3.3 Both these actions reduced Council's cost of funds (weighted average interest rate on borrowings) by approximately 20 to 25bp (0.20% to 0.25%). This represents a reduction of about $200k to $250k per annum on Council's current loan portfolio.

3.4 Council had initially been subject to the "Lending Policy Covenants" until it obtained a credit rating. The Net Debt / Total Revenue covenant was 175% which was Council's own covenant for the 2015/25 LTP. Once Council obtained a credit rating it was able to use the "Foundation policy covenants" maximum of 250%; consequently, Council raised its own covenant to 195% for the 2018/38 LTP.

4. Issues for Consideration

4.1 Some high growth Councils across New Zealand are at or near the 250% maximum which is seriously constraining those Councils' ability to borrow to enable further infrastructural improvements to enable further growth to occur.

4.2 Horowhenua District Council is now close to its own covenant of 195% and could (in later years if growth demands more infrastructural investment) come close to the 250% maximum.

4.3 Council may also need to borrow to cover operational costs if it wishes to decrease the rates income from what was forecast in the Draft Annual Plan or LTP. The increase in the covenant will give Council the capacity to do this in the short-term.

4.4 The extra capacity may be needed in the short-term if only to give Council some head room to cover a future emergency.

4.5 Council is also investigating bringing forward some of the projects from the LTP as a means to stimulate the local economy in its recovery from the COVID 19 pandemic and may need the increased capacity to borrow in the short to medium term.

4.6 The next LTP 2021/41 will be based on a new reality of the local economic recovery as well as growth that was exceeding the last LTP assumption for growth.

4.7 Attachment B (which is a presentation to NZX (NZ Stock Exchange) sets out LGFA's reasoning for wanting to increase the maximum above 250% so these reasons will not be repeated here.

4.8 As the growth Councils are all shareholders with LGFA it is likely they will all vote in favour of the amendment.

4.9 Of note also that LGFA is increasing the Borrowers note percentage from 1.6% to 2.5%.

4.10 Borrowers Notes are extra equity in LGFA that Councils "purchase" at the set percentage every time a Council borrows from LGFA. This is achieved by LGFA deducting the percentage (currently 1.6% of the borrowings) from the proceeds of the borrowing. This mechanism maintains LGFA equity to debt ratios and so ensures its financial sustainability as it borrows externally to on-lend to Councils. Increasing this percentage is in response to the increased risk of allowing Councils to increase borrowing above 250% of income.

4.11 Note of interest also the criteria (p23 of Attachment B) used to assess risk of every Council by LGFA. These criteria include such things as Budget performance (balanced budget), affordability of rates, etc. This internal assessment determines the credit margin above the LGFA cost of funds. The higher the risk, the higher the margin.

4.12 Note also on page 14 under the heading "Credit Risks" that Councils must "comply with their own internal borrowing policies" which include not exceeding our self - imposed net debt no more than 195% of income.

4.13 Attachment B also gives Councillors a good synopsis of LGFA financials and Councils' borrowing across New Zealand

Attachments

No.	Title	Page
A	LGFA announcement re proposed change to the Foundation Policy Covenant	44
B	LGFA presentation re proposed changes to the Foundation Policy covenants	46
C	LGFA - Proposed amended Foundation Policy	87

Confirmation of statutory compliance

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

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

Signatories

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

Approved by	Nicki Brady **Deputy Chief Executive**	

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

NZX Announcement

04 May 2020

PROPOSED CHANGE TO LGFA FOUNDATION POLICY COVENANT

The board of New Zealand Local Government Funding Agency Limited (LGFA) has reviewed the foundation policy financial covenants set out in its foundation policies and will recommend to shareholders at a Special General Meeting to be held in June 2020 to amend the net debt / total revenue foundation policy financial covenant that applies to local authority borrowers with a long-term credit rating of 'A' equivalent or higher. The proposed changes have been discussed with S&P Global Ratings Australia Pty Limited, Fitch Australia Pty Limited and LGFA's Shareholders' Council. The proposed changes to LGFA's foundation policies (as set out below) requires approval by a majority of shareholders.

Currently, local authority borrowers with a long-term credit rating of 'A' equivalent or higher are required to maintain net debt / total revenue below 250%, unless a higher ratio is approved by shareholders. In respect of this financial covenant, the proposed changes are:

- for the current financial year ending 30 June 2020, 250% to continue to apply;
- for the financial years ending 30 June 2021 and 2022, 300% will apply; and
- for each of the next four years financial years, a decrease of 5% until 280% will apply for and from the financial year ending 30 June 2026.

Note there are no other changes proposed to LGFA's foundation policies. In particular, no changes are proposed to any of the other foundation policy financial covenants that currently apply to the thirty local authority borrowers with a long-term credit rating of 'A' equivalent or higher, and there are also no changes proposed to any lending policy financial covenants that currently apply to thirty-seven local authority borrowers who do not have a credit rating.

An investor conference call to provide an update on the impact on local government sector finances from COVID-19 as well as outlining these proposed changes to LGFA's foundation policies is scheduled for Tuesday 5 May 2020 at 3.30pm NZT. Conference call details are set out below and a copy of the presentation is attached.

LGFA Investor Conference Call – Express Virtual Meetings

Tuesday 5th May 2020

New Zealand	**0800 480 263**	**3.30pm**
Australia	**1300 254 410**	**1.30pm (AEDT)**
Singapore	**800 616 3060**	**11.30am**
Hong Kong	**800 968 788**	**11.30am**
Japan	**00531 25 0049**	**12.30am**

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LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY
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4 May 2020

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TE PŪTEA KĀWANATANGA Ā-ROHE

- ❑ Important Notice and Disclaimer
- ❑ **COVID-19 Update**
- ❑ LGFA Risks
- ❑ Proposed Changes to Foundation Policy
- ❑ Appendices

COVID 19 – IMPACT ON COUNCIL 2020/21 REVENUE

- Council funding revenue is forecast to fall between 2.3 and 11 percent in the 2020/21 financial year relative to a 20% forecast decline in the DIA's Local Government Sector COVID-19 Financial Report 1 (14 April 2020)
- In dollar terms this equates to a loss of revenue to the sector of between $355 million and $1.5 billion
- Core scenario is based upon remaining in Level 2 until March 2021 and then back to Level Zero in June 2021
- Reduced level of funding will come from:
  - Rates Income (primarily from zero or lower than forecast rate increases for the 2020/21 financial year
  - Fee Income (less parking revenue, revenue from community facilities, regulatory services income)
  - Investment income (lower dividends and / or lower returns from investment funds)
  - Development contributions
- Lost fee income from public transport is currently being reimbursed by the NZ Transport Agency (NZTA)
- Subsidies and grants likely to be as forecast although the funding level from NZTA is still yet to be confirmed

Source: DIA Local Government Sector COVID-19 Financial Implications Report 2

4

COVID 19 – IMPACT ON COUNCIL 2020/21 RATES INCOME

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- The sector's rates income for 2020/21 is expected to be between 2 and 4 percent lower than originally forecast.
- The sector's non-collection assumption for rates is forecast to be between 2 and 6 percent for 2020/21.
- It is forecast that this will need to be debt financed until such time as the rates are collected.
- Some councils may offer rates postponement schemes.
- As an example Christchurch City Council will offer businesses with an actual 30 percent decline in revenue an up to six month extension on rates payments.
- In addition, penalty fees for late payment of rates are likely to be waived.
- Councils are also likely to offer rent or lease holidays for some tenants of council facilities. Many of these will be community groups.

Source: DIA Local Government Sector COVID-19 Financial Implications Report 2 and Christchurch City Council's website ccc.govt.nz/services/rates-and-valuations/ratesextension/

5

COVID 19 – Council Balance Sheet Response

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

- Councils are currently re-evaluating their 2020/21 capital expenditure programmes.
- Some councils are forecasting that their capital expenditure programmes will be unchanged. Others are reprioritising non-essential capital expenditure.
- Councils expect to make some reductions in operational expenditure.
- Cuts in operational expenditure will be easiest for councils that outsource contracts for some of their services (for example on April 7 Auckland Council announced that it was immediately cutting 1100 jobs for staff it has been employing as temps, or on contracts).
- Limited savings will be made on community facilities that are not open (less maintenance, less power, less cleaning).
- While councils currently intend to maintain service levels, staffing levels will adjust over time depending on demand.

Source: DIA Local Government SectorCOVID-19 Financial Implications Reports 1 and 2

6

COVID 19 – Impact on the 2019/20 Financial Year

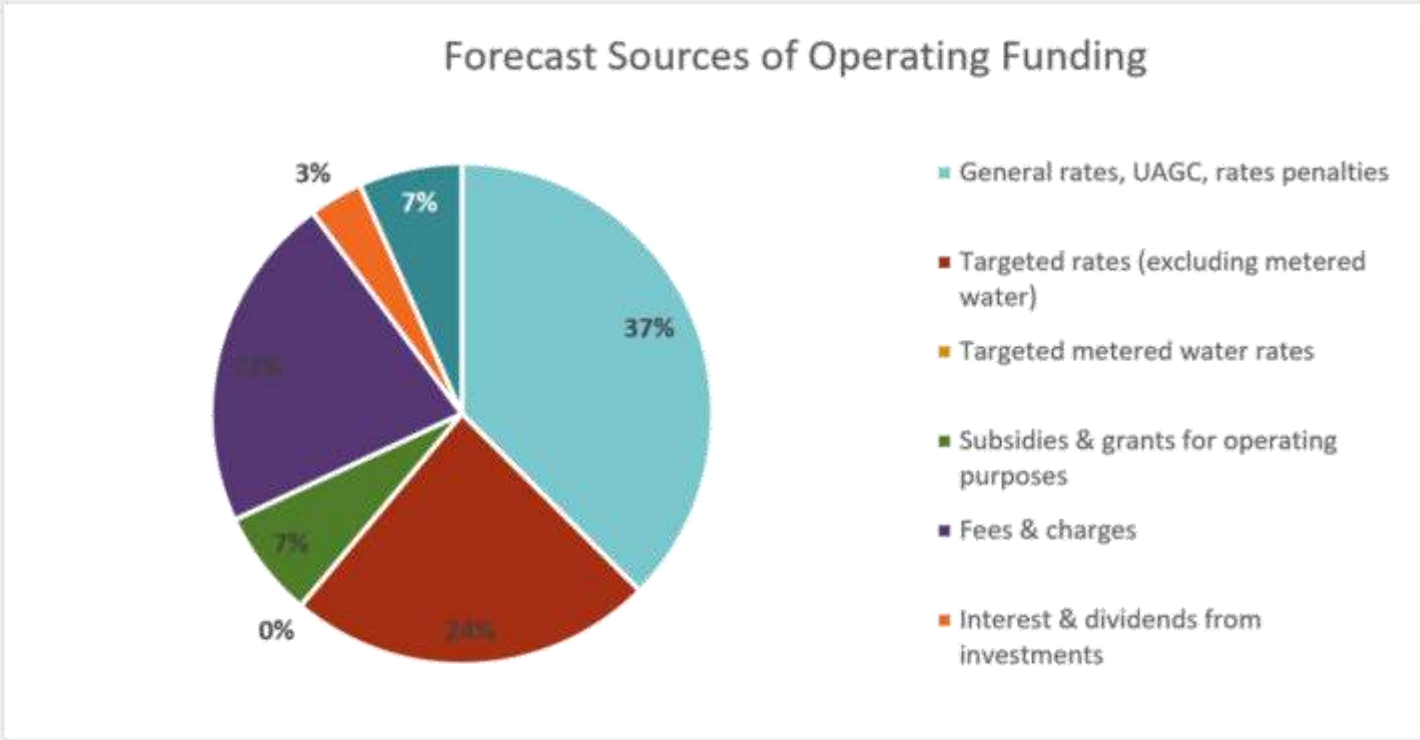
- Level 4 restrictions were imposed on 26 March.
- Councils are forecasting that there will be some loss in 4th quarter revenue.
- The average forecast loss in revenue from fees and charges is 12 percent.
- Construction work stopped during level 4 restrictions on all but essential projects.
- Councils now expect to spend 73 percent of planned 2019/20 capital expenditure budgets. This compares to an actual spend of 81 percent for the year ended June 2019 compared to budget.
- While some councils were expecting to borrow for the reduction in revenue, on average it was expected to be largely offset by a reduction in borrowing required for capital expenditure.
- On LGFA modelling, it is expected that all member councils will be compliant with the LGFA financial covenants as at 30 June 2020.

Source: DIA Local Government Sector COVID-19 Financial Implications Report 2

7

SECTOR REVENUE

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



Source: DIA analysis of council LTPs for the 2019/20 financial year from the DIA Local Government Sector COVID-19 Financial Implications Report 2

8

COVID 19 – GOVERNMENT INFRASTRUCTRE PLANS

- The Government has asked councils to identify "shovel ready projects" that are ready to start as soon as the construction industry returns to normal.
- The Infrastructure Industry Reference Group will put forward to Ministers projects from the public and private sector that will be ready to start within the next six months.
- These projects will be in addition to the Government's $12 billion New Zealand Upgrade Programme and existing Provincial Growth Fund Infrastructure investments.
- "Infrastructure projects designated crucial to the country's economic recovery will be fast-tracked through the planning process to ensure they start as soon as possible" (Environment Minister - David Parker, 3rd May 2020 National Business Review).
- Nearly all councils have submitted "shovel ready projects" for consideration. For example on April 14 Auckland Council announced they had submitted 73 key projects.
- Provincial Growth Fund projects are continuing. On 30 April, the Minister announced a further $48 million of funding for nine new initiatives.

9

Horowhenua

COVID-19 IMPACT ON LGFA BONDS IN SECONDARY MARKET

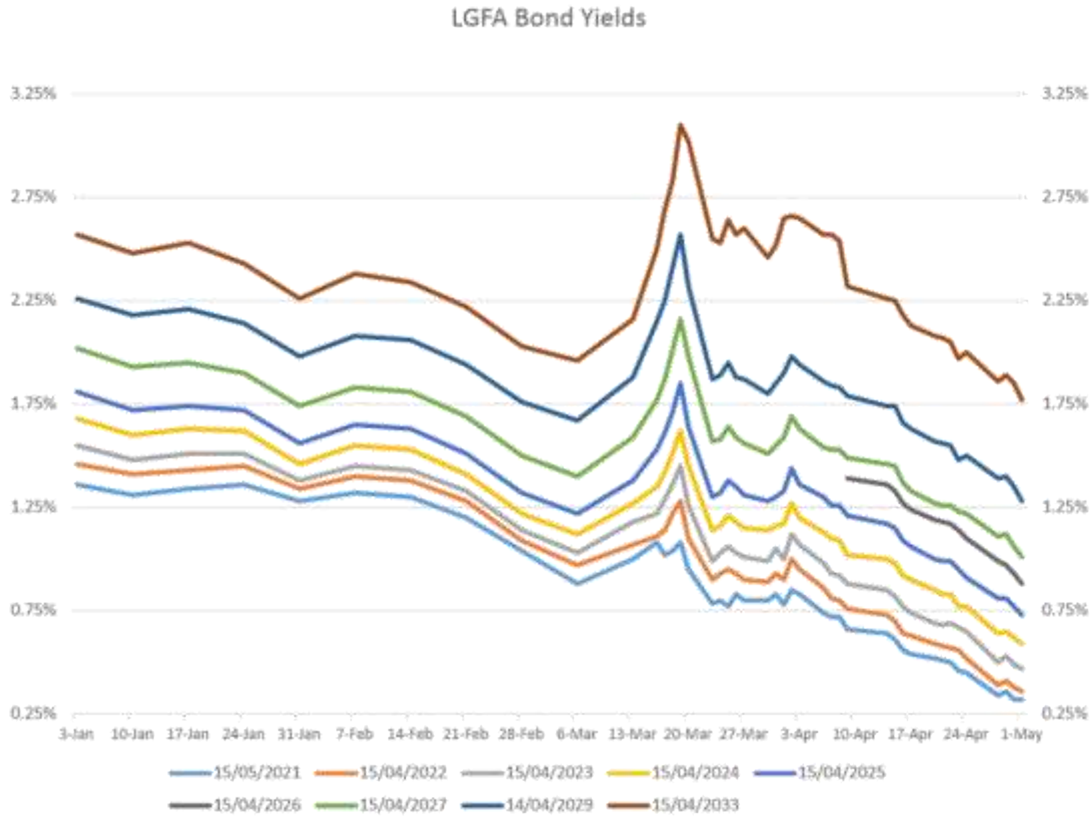
LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY TE PŪTEA KĀWANATANGA Ā-ROHE

Initially

- Higher outright yields, steeper yield curve and wider spreads to NZGB and Swap
- Wider bid ask spreads in secondary market
- Secondary market turnover in line with 12 month average

Following RBNZ Large Scale Asset Purchase Programme

- Downward decline in yields continued
- Spreads to Swap and NZGB tighter
- Tighter bid ask spreads
- Record secondary market volume in April
- Positive flow on impact to other high grade issuers

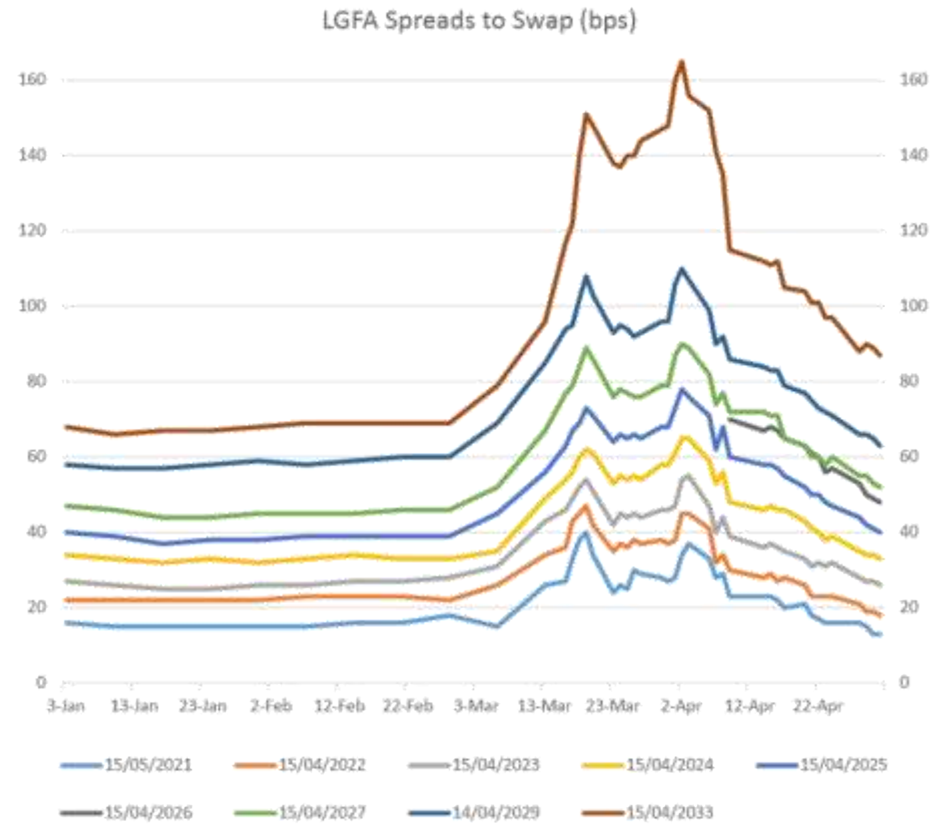


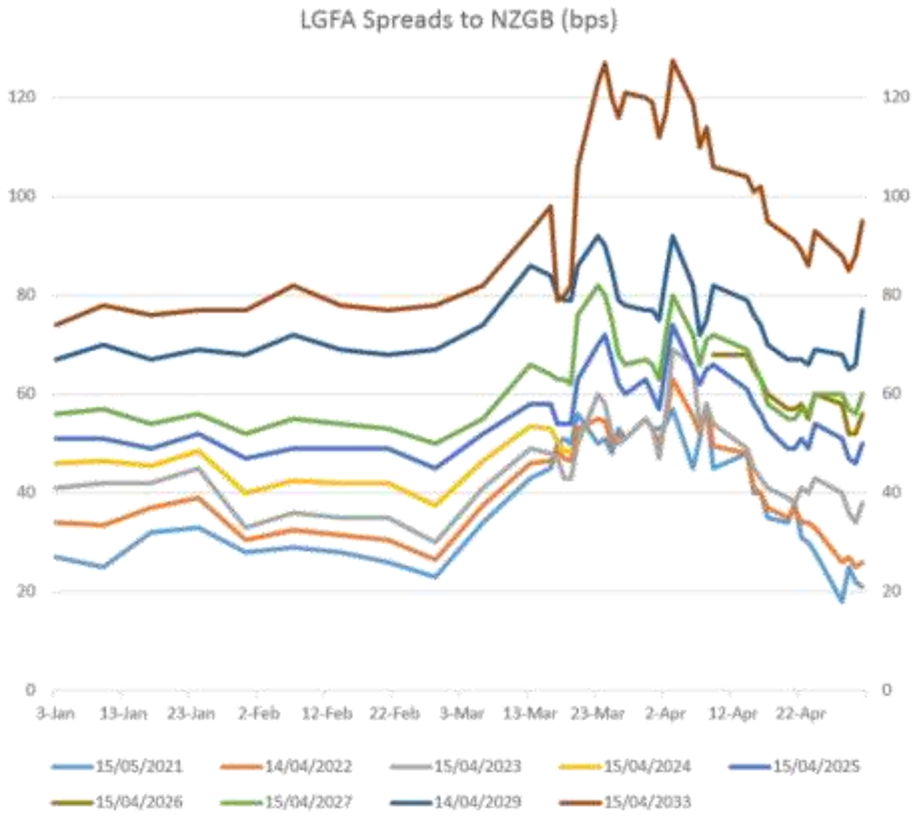
Source: LGFA secondary market end of day yields sourced from BNZ and Bloomberg

10

COVID-19 IMPACT ON LGFA BONDS IN SECONDARY MARKET

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





Source: LGFA calculated secondary market end of day spreads sourced from BNZ and Bloomberg

11

LGFA COVID-19 RESPONSE

- Seamless transition to remote working environment
- Placed rollout of standby facility to Councils on hold pending increase in Liquid Assets Portfolio
- Increased soft cap on LGFA bond maturities from NZ$1.5 billion to NZ$1.75 billion
- Issued 2.5 year Floating Rate Note by private placement
- Increased on-lending margin to councils by 10 bps
- Increase Treasury Stock holding per LGFA bond maturity by NZ$50 million (to NZ$100 million per series) at next issuance opportunity
- Seeking Councils' approval to increase Borrower Notes percentage from 1.6% to 2.5%
- Councils providing best estimate of future borrowing requirement on monthly basis for next six months
- Worked with Department of Internal Affairs, Treasury and Office of Auditor General on implications for councils including stress testing the financial impact
- Proposed changes to Foundation Policy regarding Net Debt / Total Revenue covenant for councils with a long-term credit rating of 'A' equivalent or higher.

Source: LGFA

12

LGFA NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY
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- ❑ Important Notice and Disclaimer
- ❑ COVID-19 Update
- ❑ LGFA Risks
- ❑ Proposed Changes to Foundation Policy
- ❑ Appendices

PRUDENT APPROACH TO RISK MANAGEMENT

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

LGFA's policy to minimise financial risks and carefully identify, manage and control all risk.

Market Risk

PDH limit of NZ$100,000 – current exposure (as at 1 May 2020) is -$1,400
VAR limit of NZ$1,000,000 – current exposure (as at 1 May 2020) is $299,000

Credit Risk

All Councils that borrow from LGFA are obliged to:

Provide security in relation to their borrowing from LGFA and related obligations.
Issue securities (bonds/FRNs/CP) to LGFA.
Comply with their own internal borrowing policies.
Comply with the LGFA financial covenants within either the Lending Policy or Foundation Policy

Auckland Council is limited to a maximum of 40% of LGFA's total Local Authority assets.
No more than the greater of NZ$100 million or 33% of a Council's borrowings from LGFA will mature in any 12 month period.

Liquidity and Funding Risk

Cash and Investments

LGFA manages liquidity risk by holding cash and a portfolio of liquid assets to meet obligations when they fall due.
Only invest in NZD senior debt securities, money market deposits and registered certificates of deposits within strict counterparty limits.

NZ Government liquidity facility

The New Zealand Government provides a committed liquidity facility up to NZ$1 billion in size that LGFA can draw upon to meet any exceptional and temporary liquidity shortfall.
Facility size is set by LGFA at NZ$700 million (as at 1 May 2020)

Financial covenant	Lending policy covenants	Foundation policy covenants
Net Debt / Total Revenue	<175%	<250%
Net Interest / Total Revenue	<20%	<20%
Net Interest / Annual Rates Income	<25%	<30%
Liquidity	>110%	>110%

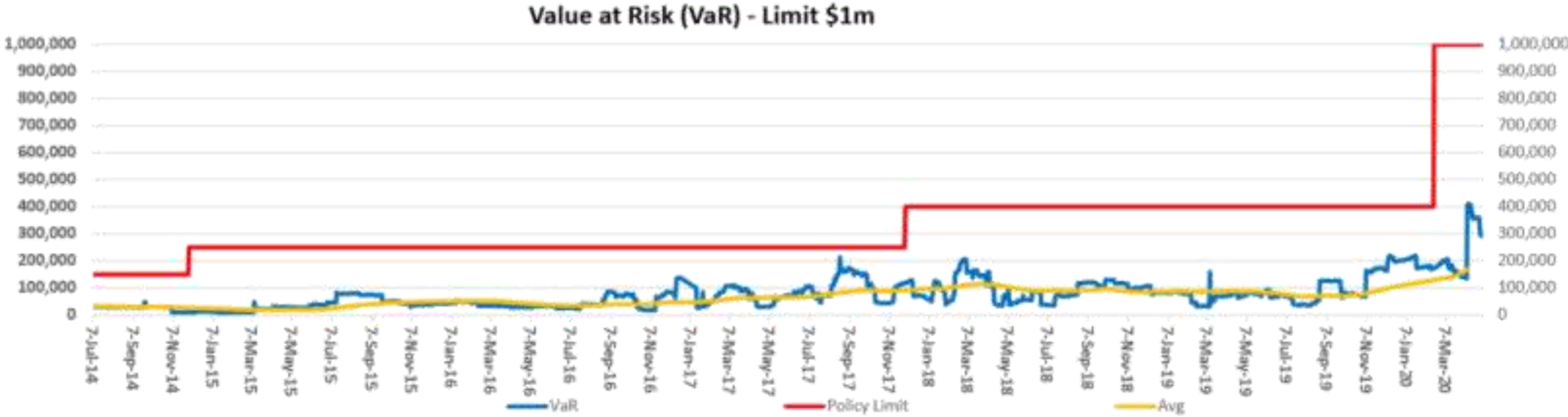
Liquidity position as at 1 May 2020	NZ$ million
Cash and cash equivalents	$88.1
Deposits and Marketable Securities	$772.7
NZ Government Liquidity Facility (amount available)	$700.0
Total	**$1,560.8**

Source: LGFA

14

MINIMAL VaR AND PDH EXPOSURES

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



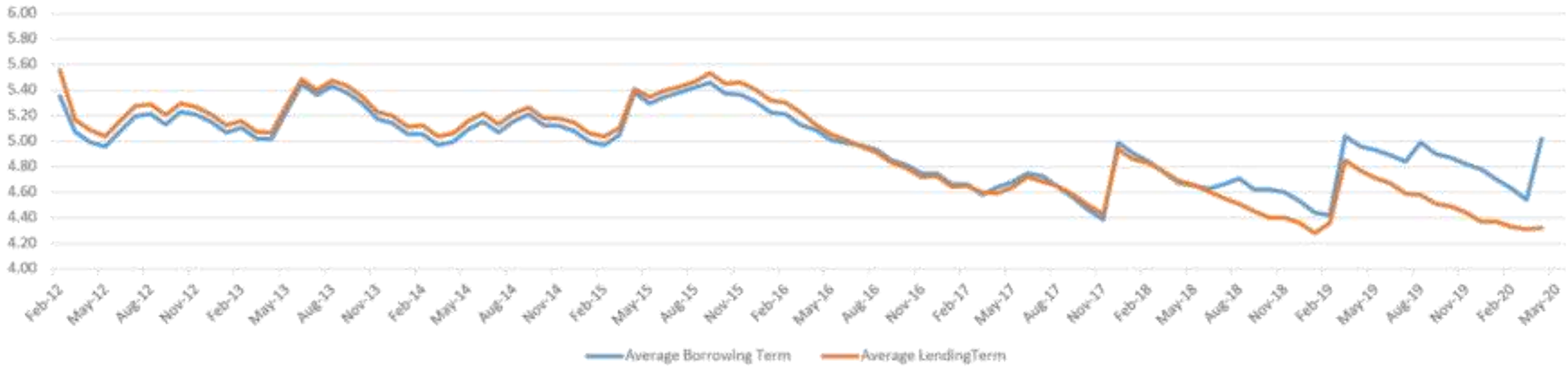
Source: LGFA

15

MISMATCH BETWEEN LGFA BONDS AND LOANS

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

Average term of LGFA bonds outstanding and on-lending (years)



Mismatch between average term of borrowing and on-lending (years)

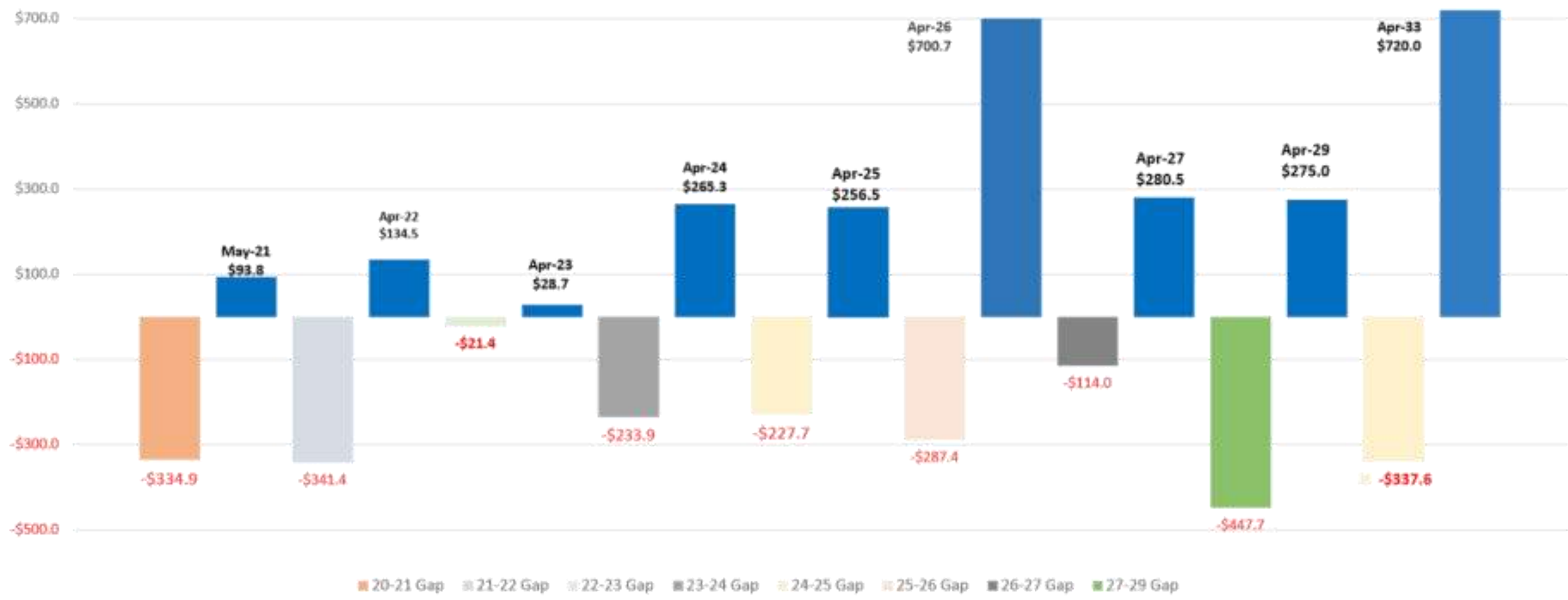
Negative = longer term of bond issuance than on-lending

Source: LGFA

16

ASSET LIABILITY MISMATCHES

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



The asset liability mismatch is the difference between LGFA bonds issued and loans to Councils for each date or period. The positive outcomes show more LGFA bonds have been issued than loans made to Councils for that date or period. The negative outcomes show loans made to Councils with maturity dates between LGFA bond maturities.

As at 1 May 2020

Source: LGFA

17

LGFA LENDING AND GUARANTEE BREAKDOWN

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

Council Borrower	Amount Borrowed (NZ$ million)	% of Total Borrowing
Auckland Council	$2,757	25.5%
Christchurch City Council	$1,920	17.7%
Wellington City Council	$635	5.9%
Tauranga City Council	$515	4.8%
Hamilton City Council	$480	4.4%
Wellington Regional Council	$400	3.7%
Rotorua District Council	$217	2.0%
Hutt City Council	$216	2.0%
Kapiti Coast District Council	$200	1.8%
Bay of Plenty Regional Council	$191	1.8%
57 other member councils	$3,290	30.4%

Council Borrowing	Volume (NZ$ million)
Short Term (loan terms less than 12 months)	$420
Long Term	$10,399
Total	**$10,820**

Borrower Type	Number of councils	Amount Borrowed (NZ$ million)	% of Total Borrowing
Guarantors	54	$10,687	98.8%
Non guarantors	13	$132	1.2%
Total	**67**	**$10,820**	**100%**

Note:
Auckland Council borrowing is capped at 40% of total LGFA lending
Three member councils have yet to borrow from LGFA

Guarantee contains provisions apportioning share to each council based upon their relative share of total rates revenue of all guarantors. A council's obligation under the guarantee is secured against rates revenue.

Council Guarantor	% share of Guarantee
Auckland	31.6%
Christchurch City	8.7%
Wellington City	5.4%
Hamilton City	3.2%
Tauranga City	2.9%
Wellington Regional	2.9%
Hutt City	1.9%
Canterbury Regional	1.8%
Whangarei District	1.7%
Palmerston North City	1.7%
44 other council guarantors	38.1%

As at 1 May 2020
Source: LGFA

18

CREDIT QUALITY OF THE LENDING BOOK

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

- 90.1% of LGFA loans to councils with credit ratings
- 89.1% of LGFA loans to AA- rated councils or better
- Average credit quality is above AA-
- Improving trend in underlying credit quality of local government sector over the past seven years
  - 9 councils on positive outlook (NZ$1.77 billion or 17.5% loan book)
  - no councils on negative outlook
- Not all councils have credit ratings due to cost of obtaining a rating vs benefits
  - Average total lending to unrated councils is NZ$29 million per council
  - NZ$45 million of debt is approximate breakeven for a borrower to obtain a credit rating
- LGFA undertakes detailed credit analysis of all member councils separate to the external credit rating process performed by S&P, Fitch and Moody's
- Unrated councils are assessed by LGFA as having in general, better credit quality than those councils with credit rating

External Credit Rating (S&P, Fitch)	Lending (NZ$ millions)	Lending (%)	Number of Councils
AA+	$170	1.6%	3
AA	$5,929	54.8%	18
AA-	$3,494	32.3%	8
A+	$106	1.0%	1
Unrated	$1,121	10.4%	37
Total	**$10,820**	**100%**	**67**

As at 1 May 2020 **Source: LGFA**

Note: Three member councils have yet to borrow from LGFA (includes long and short term lending)

19

LGFA MEMBERS (As at 1 May 2020)

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

Shareholders	Total Shares (NZ$)	Shareholding (%)	Amount borrowed (NZ$ million)	Borrowing (%)	Share Guarantee (%)
New Zealand Government	5,000,000	11.1%			
Auckland Council	3,731,960	8.3%	2,757.0	25.5	31.6
Christchurch City Council	3,731,960	8.3%	1,919.5	17.7	8.7
Wellington City Council	3,731,958	8.3%	634.5	5.9	5.4
Tauranga City Council	3,731,958	8.3%	515.0	4.8	2.9
Hamilton City Council	3,731,960	8.3%	480.0	4.4	3.2
Wellington Regional Council	3,731,958	8.3%	400.0	3.7	2.9
Kapiti Coast District Council	200,000	0.4%	200.0	1.8	1.1
Hutt City Council	200,000	0.4%	216.0	2.0	1.9
Bay of Plenty Regional Council	3,731,958	8.3%	191.4	1.8	0.9
Tasman District Council	3,731,958	8.3%	182.8	1.7	1.3
Waimakariri District Council	200,000	0.4%	160.1	1.5	1.0
Hastings District Council	746,392	1.7%	150.0	1.4	1.4
Whangarei District Council	1,492,784	3.3%	152.0	1.4	1.7
Palmerston North City Council	200,000	0.4%	142.0	1.3	1.7
New Plymouth District Council	200,000	0.4%	139.5	1.3	1.5
Horowhenua District Council	200,000	0.4%	106.1	1.0	0.7
Taupo District Council	200,000	0.4%	115.0	1.1	1.2
South Taranaki District Council	200,000	0.4%	101.0	0.9	0.7
Marlborough District Council	400,000	0.9%	100.3	0.9	1.2
Whanganui District Council	200,000	0.4%	101.5	0.9	1.1
Western Bay of Plenty District Council	3,731,958	8.3%	90.0	0.8	1.2
Manawatu District Council	200,000	0.4%	77.0	0.7	0.6
Whakatane District Council	200,000	0.4%	67.0	0.6	0.8
Waipa District Council	200,000	0.4%	57.6	0.5	1.0
Gisborne District Council	200,000	0.4%	58.6	0.5	1.1
Thames-Coromandel District Council	200,000	0.4%	61.0	0.6	1.1
Masterton District Council	200,000	0.4%	50.0	0.5	0.5
Hauraki District Council	200,000	0.4%	44.0	0.4	0.5
Selwyn District Council	373,196	0.8%	35.0	0.3	1.0
Otorohanga District Council	200,000	0.4%	3.0	0.0	0.2
Total	45,000,000		9,307.0	86.0	80.2

As at 1 May 2020

Source: LGFA

20

LGFA MEMBERS continued (As at 1 May 2020)

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

Borrowers and Guarantors	Amount borrowed (NZ$ million)	Borrowing (%)	Share of Guarantee (%)
Ashburton District Council	42.0	0.4	0.6
Canterbury Regional Council	54.0	0.5	1.8
Far North District Council	76.7	0.7	1.6
Gore District Council	22.5	0.2	0.3
Hawke's Bay Regional Council	2.5	0.0	0.4
Hurunui District Council	35.0	0.3	0.3
Manawatu-Whanganui Regional Council	44.0	0.4	0.8
Invercargill City Council	92.7	0.9	0.9
Kaipara District Council	44.0	0.4	0.6
Matamata-Piako District Council	26.5	0.2	0.6
Nelson City Council	65.0	0.6	1.3
Porirua City Council	131.5	1.2	1.1
Queenstown-Lakes District Council	115.1	1.1	1.3
Rotorua District Council	216.6	2.0	1.6
Ruapehu District Council	25.0	0.2	0.4
Tararua District Council	35.0	0.3	0.4
Taranaki Regional Council	4.0	0.0	0.2
Timaru District Council	89.6	0.8	0.9
South Wairarapa District Council	21.9	0.2	0.2
Stratford District Council	15.5	0.1	0.2
Upper Hutt City Council	51.0	0.5	0.7
Waikato District Council	100.0	0.9	1.5
Waikato Regional Council	32.0	0.3	1.6
Waitomo District Council	38.1	0.4	0.4
Total	1380.3	12.8	19.8

As at 1 May 2020

Source: LGFA

21

LGFA MEMBERS continued (As at 1 May 2020)

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

Borrowers Only	Amount borrowed (NZ$ million)	Borrowing (%)	Share of Guarantee (%)
Buller District Council	20.0	0.2	Nil
Central Hawkes Bay District Council	20.0	0.2	Nil
Carterton District Council	0.0	0.0	Nil
Clutha District Council	9.0	0.1	Nil
Grey District Council	19.0	0.2	Nil
Kaikoura District Council	7.0	0.1	Nil
Northland Regional Council	9.6	0.1	Nil
Mackenzie District Council	0.0	0.0	Nil
Opotiki District Council	8.5	0.1	Nil
Rangitikei District Council	3.0	0.0	Nil
Wairoa District Council	9.0	0.1	Nil
Westland District Council	19.6	0.2	Nil
West Coast Regional Council	7.6	0.1	Nil
Total	132.3	1.2	Nil
Total Borrowing from LGFA	10,819.6	100.0	100.0

As at 1 May 2020

Source: LGFA

22

LGFA INTERNAL CREDIT RATINGS

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

LGFA undertakes its own internal credit assessment and rating process for all member councils using most recent annual reports (June 2019)

Primary Criteria

- Debt levels relative to population – affordability
- Debt levels relative to asset base
- Ability to repay debt
- Ability to service debt – interest cover
- Population trend

LGFA member councils by internal rating category

LGFA Internal Ratings	2012	2013	2014	2015	2016	2017	2018	2019
AA+	1	2	2	4	4	6	7	8
AA	12	12	12	10	12	13	19	17
AA-	13	13	16	15	19	17	19	23
A+	8	6	3	11	10	12	13	10
A	6	10	11	6	6	3	4	4
A-	5	2	1	1	0	2	2	2

Secondary Criteria

- 30 Year Infrastructure Strategy
  - Quality of Assets
  - Capital Expenditure Plan
- Risk Management
  - Insurance
- Governance
- Financial flexibility
- Cashflow
- Budget performance (balanced budget)
- Affordability of rates / Deprivation Index
- Natural hazards
- Group activities (CCO's)

Source: LGFA internal models

As at 30 June each year

23

LGFA FINANCIAL COVENANTS – MEMBER COUNCIL OUTCOMES FOR JUNE 2019 YEAR

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

LGFA Financial Covenants – Councils as at 30 June 2019 with an external credit rating (29)

Foundation Policy Covenant	Net Debt / Total Revenue <250%	Net Interest / Total Revenue <20%	Net Interest / Rates <30%
Range of Councils' compliance	-149.8% to 180.3%	-5.9% to 9.4%	-9.6% to 19.4%

LGFA Financial Covenants – Councils as at 30 June 2019 without an external credit rating (35)

Lending Policy Covenant	Net Debt / Total Revenue <175%	Net Interest / Total Revenue <20%	Net Interest / Rates <25%
Range of Councils' compliance	-92.6% to 121.0%	-1.0% to 5.0%	-1.9% to 8.3%

Source: LGFA using data from individual council annual reports

- **Note some negative outcomes due to some councils having negative Net Debt i.e. financial assets and investments > borrowings**

- LGFA Councils operating within financial covenants
- Ranges highlight the differences between Councils
- Sufficient financial headroom for most Councils
- Improvement from 2013 for most Councils
  - Revenue increased
  - Interest rates lower
  - Capex and debt constrained

Source: LGFA

24

PERFORMANCE UNDER LGFA COVENANTS

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

LGFA Councils with an external credit rating (29 in 2019, 26 in 2018, 23 in 2017, 22 in 2016, 20 in 2015 and 17 in both 2014 and 2013)

Financial Covenant	2019	2018	2017	2016	2015	2014	2013
Net Debt to Total Revenue	68.8%	76.0%	86.0%	87.9%	96.4%	104.7%	111.8%
Net Interest to Total Revenue	3.5%	4.0%	5.3%	6.1%	6.8%	6.6%	7.3%
Net Interest to Annual Rates Income	5.5%	6.1%	8.1%	9.1%	10.0%	9.6%	11.1%

LGFA unrated Councils (35 in 2019, 29 in 2018, 29 in 2017, 28 in 2016, 25 in 2015, 26 in 2014 and 21 in 2013)

Financial Covenant	2019	2018	2017	2016	2015	2014	2013
Net Debt to Total Revenue	30.0%	32.3%	29.9%	32.4%	38.2%	42.6%	52.5%
Net Interest to Total Revenue	1.7%	1.9%	1.8%	2.2%	2.4%	2.9%	3.2%
Net Interest to Annual Rates Income	2.8%	2.9%	2.6%	2.9%	3.1%	4.0%	4.1%

Calculated by simple average of Councils in each group

Source: LGFA using data from individual Council annual reports

LGFA CREDIT RATINGS

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

Fitch Ratings - November 2019 / January 2020

Local Currency AA+ / Stable/ F1+ Foreign currency rating AA / Positive / F1+

Fitch notes:

- strong links to the sovereign – classified as a credit linked Public Sector Entity;
- deemed to be of strategic importance;
- sound underlying asset quality of its shareholders, local councils;
- long-term rating is capped by the ratings of the sovereign;
- support of a joint and several liability guarantee.

Long-term foreign-currency Issuer Default Rating placed on positive outlook on 27th January 2020

S&P Global Rating's – February 2020

Local Currency AA+ / Positive / A-1+ Foreign Currency AA / Positive / A-1+

Both long-term ratings placed on "positive outlook" on 4th February 2019

Strengths:

- dominant market position as source of funding for New Zealand local government;
- high credit quality of underlying lending;
- extremely strong likelihood of support from the New Zealand Government in a stress scenario;
- robust and experienced management and governance.

Weaknesses:

- highly concentrated loan portfolio;
- modest risk adjusted capital ratio;
- reliance upon domestic market funding.

Rating Agency	Domestic Currency	Foreign Currency	Date of Report
STANDARD & POOR'S	AA+ (positive outlook)	AA (positive outlook)	27 February 2020
FitchRatings	AA+ (stable outlook)	AA (positive outlook)	27 January 2020

Source: S&P, Fitch, LGFA

26

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

- ❑ Important Notice and Disclaimer
- ❑ COVID-19 Update
- ❑ LGFA Risks
- ❑ **Proposed Changes to Foundation Policy**
- ❑ Appendices

FOUNDATION POLICY

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

Clause 5.1 of the LGFA Shareholders' Agreement and comprises various policies

Any changes to Foundation Policies requires shareholder approval

Lending policy

Local authorities when borrowing from LGFA must

- provide security when borrowing
- comply with own internal borrowing policies
- comply with LGFA financial covenants
- be a party to the Deed of Guarantee and Equity Commitment Deed if borrowings or entered into facility agreement with LGFA with commitments exceeding NZ$20 million

Auckland Council exposure limited to no more than 40% of LGFA total local authority assets

Limit on a local authority or CCO borrowing no more than the greater of NZ$ 100 million or 33% of its borrowing from LGFA maturing in any 12 month period

Outlines requirements for a CCO to borrow from LGFA. Process for allowing CCOs to borrow from LGFA underway but not yet completed.

Other policies within the Foundation Policies

Cash and liquid investment
Derivatives
Market risk (PDH and VaR limits)
Foreign exchange risk
Operational risk
Dividend

A copy of the current Foundation Policies is available here
lgfa.co.nz/about-lgfa/governance

Source: LGFA

28

FOUNDATION POLICY – FINANCIAL COVENANTS

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

Current Financial Covenants

Financial covenant	Lending policy covenants	Foundation policy covenants
Net Debt / Total Revenue	<175%	<250%
Net Interest / Total Revenue	<20%	<20%
Net Interest / Annual Rates Income	<25%	<30%
Liquidity	>110%	>110%

Proposed Financial Covenants

Financial covenant	Lending policy covenants	Foundation policy covenants
Net Debt / Total Revenue	<175%	<280%
Net Interest / Total Revenue	<20%	<20%
Net Interest / Annual Rates Income	<25%	<30%
Liquidity	>110%	>110%

Alternative Net Debt / Total Revenue Covenant	
Financial Year ending	Net Debt / Total Revenue
30 June 2020	<250%
30 June 2021	<300%
30 June 2022	<300%
30 June 2023	<295%
30 June 2024	<290%
30 June 2025	<285%

Proposed change to Foundation Policy covenant

These apply to councils with a long-term credit rating of 'A' equivalent or higher

- Increase Net Debt / Total Revenue to 300% for financial year to June 2021 and June 2022
- Taper back to 280% by financial year ending June 2026

Note there are no proposed changes to

- Lending policy covenants (for councils without a credit rating or with a long-term credit rating lower than 'A' equivalent)
- Net Interest / Total Revenue covenants
- Net Interest / Annual Rates Income covenants
- Liquidity covenants

Source: LGFA

29

RATIONALE FOR PROPOSED CHANGES

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

- Only applies to current 30 council borrowers who have a long-term credit rating of 'A' equivalent or higher
- All council borrowers have headroom under current Foundation policy covenants so starting position is strong
- Increase covenant limit then a taper to a level higher than the current level is a conservative approach to allowing greater borrowing capacity to sector
  - Recognises short term COVID-19 impact
  - Recognises structural changes to local government sector since 2011 with regard to
    - Council requirements to meet additional growth infrastructure due to increased population growth
    - Council response to climate change
    - Council response to water quality issues
- Provide flexibility for councils to co-invest alongside Central Government in infrastructure going forward
- Provide short term comfort to councils with short term revenue declines
- LGFA has undertaken analysis on impact on additional council borrowing headroom under a revenue shortfall scenario
- Higher Net Debt / Total Revenue limit of 280% does not add significant additional risk to council borrowers, guarantors or LGFA

  Sufficient mitigants to ensure probability of default is low
  Council lending backed by security of rates
  Even if a default occurred the probability of recovery is high so becomes a timing issue for LGFA
  Central Government and Local Government have become closer to COVID-19 situation
  LGFA obligations backed by security of guarantee from guarantors
- S&P Global Ratings and Fitch Ratings have been consulted on these proposed changes

Source: LGFA

30

ADDITONAL BORROWING CAPACITY IF COVENANT INCREASED

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

Externally Rated Councils Subject to Foundation Policy Covenant (ranked highest to lowest indebted)	No Change to Revenue (all amounts NZ$000)							Impact of 10% revenue decline (all amounts NZ$000)			
	Credit Rating as at 1 May 2020	Net Debt / Revenue at June 2019 <250% limit	Adjusted Revenue at June 2019	Actual Net Borrowing at June 2019	Maximum Borrowing at 250%	Existing Headroom at June 2019	Additional Headroom between 250% and 280%	-10% Revenue Shock	Max Borrowing at 250%	Headroom at June 2019	Additional Headroom between 250% and 280%
Kapiti Coast District Council	AA	180.3%	$81,851	$147,554	$204,628	$57,074	$24,555	$73,666	$184,165	$36,611	$22,100
Auckland Council	AA	173.0%	$3,701,696	$6,405,489	$9,254,240	$2,848,751	$1,110,509	$3,331,526	$8,328,816	$1,923,327	$999,458
Tauranga City Council	AA-	166.7%	$260,082	$433,685	$650,205	$216,520	$78,025	$234,074	$585,185	$151,500	$70,222
Horowhenua District Council	A+	164.1%	$53,385	$87,619	$133,463	$45,844	$16,016	$48,047	$120,116	$32,497	$14,414
Rotorua District Council	AA-	144.4%	$136,394	$196,924	$340,985	$144,061	$40,918	$122,755	$306,887	$109,963	$36,826
Waimakariri District Council	AA	140.6%	$87,485	$122,984	$218,713	$95,729	$26,246	$78,737	$196,841	$73,857	$23,621
Hamilton City Council	AA-	124.3%	$272,428	$338,575	$681,070	$342,495	$81,728	$245,185	$612,963	$274,388	$73,556
Christchurch City Council	AA-	105.9%	$935,009	$990,016	$2,337,523	$1,347,507	$280,503	$841,508	$2,103,770	$1,113,754	$252,452
Wellington City Council	AA-	102.1%	$525,135	$536,214	$1,312,838	$776,624	$157,541	$472,622	$1,181,554	$645,340	$141,786
Hutt City Council	AA	101.3%	$169,677	$171,918	$424,193	$252,275	$50,903	$152,709	$381,773	$209,855	$45,813
Tasman District Council	AA	100.1%	$135,446	$135,544	$338,615	$203,071	$40,634	$121,901	$304,754	$169,210	$36,570
Whanganui District Council	AA	99.9%	$89,081	$88,992	$222,703	$133,711	$26,724	$80,173	$200,432	$111,440	$24,052
Wellington Regional Council	AA	92.9%	$388,641	$360,983	$971,603	$610,620	$116,592	$349,777	$874,442	$513,459	$104,933
Porirua City Council	AA	92.5%	$98,663	$91,291	$246,658	$155,367	$29,599	$88,797	$221,992	$130,701	$26,639
Palmerston North City Council	AA	84.1%	$138,774	$116,737	$346,935	$230,198	$41,632	$124,897	$312,242	$195,505	$37,469
Western Bay of Plenty District Council	AA	81.8%	$96,538	$78,938	$241,345	$162,407	$28,961	$86,884	$217,211	$138,273	$26,065
Hastings District Council	AA	80.9%	$125,574	$101,614	$313,935	$212,321	$37,672	$113,017	$282,542	$180,928	$33,905
Nelson City Council	AA	74.8%	$113,046	$84,569	$282,615	$198,046	$33,914	$101,741	$254,354	$169,785	$30,522
Whangarei District Council	AA	67.3%	$149,801	$100,818	$374,503	$273,685	$44,940	$134,821	$337,052	$236,234	$40,446
Queenstown-Lakes District Council	AA-	58.4%	$143,841	$84,050	$359,603	$275,553	$43,152	$129,457	$323,642	$239,592	$38,837
Ashburton District Council	AA+	38.4%	$62,818	$24,129	$157,045	$132,916	$18,845	$56,536	$141,341	$117,212	$16,961
Timaru District Council	AA-	31.9%	$117,203	$37,428	$293,008	$255,580	$35,161	$105,483	$263,707	$226,279	$31,645
Invercargill City Council	AA+	17.1%	$101,847	$17,375	$254,618	$237,243	$30,554	$91,662	$229,156	$211,781	$27,499
Taupo District Council	AA	16.7%	$92,075	$15,406	$230,188	$214,782	$27,623	$82,868	$207,169	$191,763	$24,860
Waipa District Council	AA-	16.2%	$84,161	$13,618	$210,403	$196,785	$25,248	$75,745	$189,362	$175,744	$22,723
Marlborough District Council	AA	8.0%	$136,024	$10,908	$340,060	$329,152	$40,807	$122,422	$306,054	$295,146	$36,726
South Taranaki District Council	AA-	-47.5%	$68,318	-$32,429	$170,795	$203,224	$20,495	$61,486	$153,716	$186,145	$18,446
Bay of Plenty Regional Council	AA	-57.5%	$131,995	-$75,864	$329,988	$405,852	$39,599	$118,796	$296,989	$372,853	$35,639
Selwyn District Council	AA+	-61.7%	$101,772	-$62,811	$254,430	$317,241	$30,532	$91,595	$228,987	$291,798	$27,478
New Plymouth District Council	AA	-176.2%	$113,615	-$200,187	$284,038	$484,225	$34,085	$102,254	$255,634	$455,821	$30,676
Total			**$8,712,375**	**$10,422,087**	**$21,780,938**	**$11,358,851**	**$2,613,713**	**$7,841,138**	**$19,602,844**	**$9,180,757**	**$2,352,341**
Ten Highest Indebted Councils			**$6,223,142**	**$9,430,978**	**$15,557,855**	**$6,126,877**	**$1,866,943**	**$5,600,828**	**$14,002,070**	**$4,571,092**	**$1,680,248**

Source: LGFA

31

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

- ❑ Important Notice and Disclaimer
- ❑ COVID-19 Update
- ❑ LGFA Risks
- ❑ Proposed Changes to Foundation Policy
- ❑ Appendices

LGFA OVERVIEW

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

SHAREHOLDERS

- Central Government largest shareholder at 20%
- 30 councils hold 80% shareholding
- Can only sell shares to Central Government or local authorities

GOVERNANCE

- Board of six directors with 5 Independent and 1 Non Independent
- Bonds listed on NZX so under listing rules
- Independent Trustee
- Issue of securities under the Financial Markets Conduct Act
- Audited by Audit NZ

GUARANTORS

- 54 guarantors of LGFA
- Guarantors comprise:
  - All shareholders except the NZ Government
  - Any non shareholder who may borrow more than NZ$20 million
- Security granted by each of the guarantors is over their rates income (property taxes)
- Guarantors cannot exit guarantee until
  - Repaid all their borrowings
  - Wait for longest outstanding LGFA bond to mature (currently 2033)
- Changes will be made requiring other councils to join guarantee when LGFA implements lending to CCOs

LIQUIDITY

- NZ$1 billion liquidity facility from NZ Government
- NZ$857 million liquid assets portfolio
- NZ$277 million of Treasury Stock currently available for repo

BORROWERS

- 67 member councils
- Approx. 90% market share
- Under Local Government Act 2002 councils must manage finances prudently – implies must run balanced operating surplus and only borrow for capital expenditure
- Councils borrow secured against rates
- Must meet LGFA financial covenants

CAPITAL STRUCTURE

- NZ$25 million paid in capital
- NZ$20 million uncalled capital
- NZ$55 million retained earnings
- NZ$166 million Borrower Notes that can be converted to equity
- Current capital ratio of 2.20% with policy of 2% minimum and target of 3%

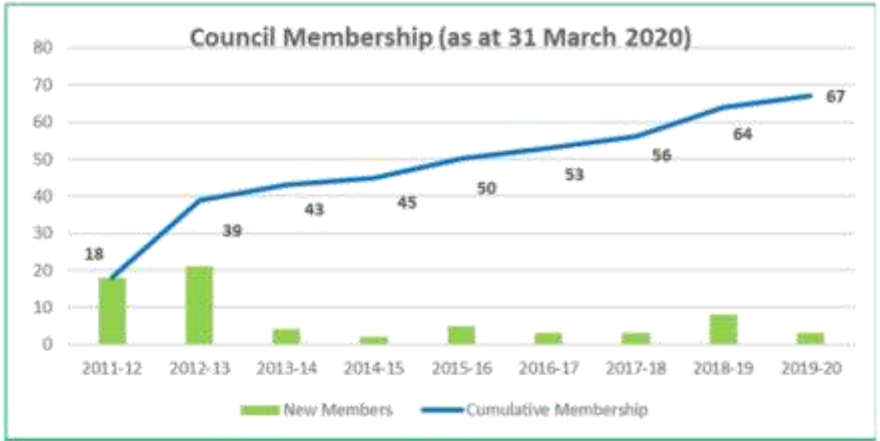
As at 1 May 2020

Source: LGFA

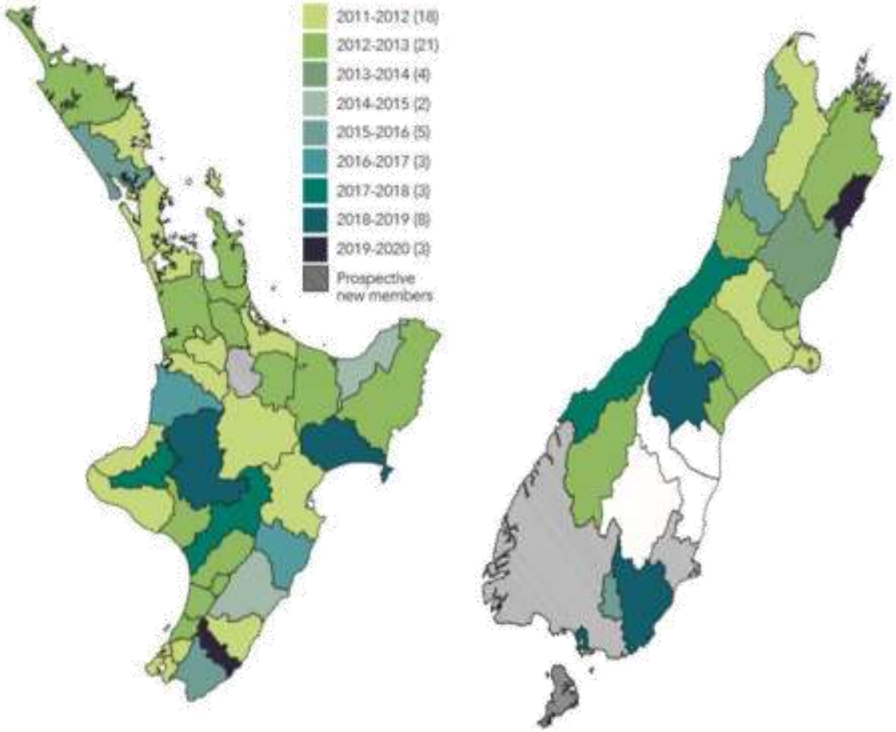
33

COUNCIL MEMBERSHIP AND BORROWING

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



LGFA member councils highlighted with year of joining

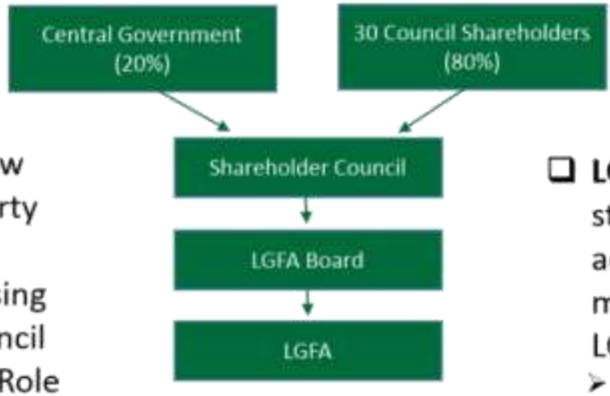


Note there are 11 councils not currently members of LGFA.
Some of these (notably Regional Councils) may overlap on this map.

Source: LGFA, PwC Quarterly Local Government Debt Report 34

GOVERNANCE STRUCTURE

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



- **31 Shareholders**, comprising the New Zealand Government (20%)[1] and thirty councils (80%).
- **LGFA Shareholders Council**, comprising five to ten appointees from the Council Shareholders and the Government. Role of the Shareholders' Council is to:
  - Review and report performance of LGFA and the Board;
  - Recommendations to Shareholders as to the appointment, removal, replacement and remuneration of directors;
  - Recommendations to Shareholders as to any changes to policies, or the Statement of Intent, requiring their approval;
  - Update Shareholders on LGFA matters and to coordinate Shareholders on governance decisions.

[1] **NZ Government shareholding reduces to 11.1% if a call is made on uncalled capital of the 30 council shareholders**

- **LGFA Board,** is responsible for the strategic direction and control of LGFA's activities. The Board guides and monitors the business and affairs of LGFA, in accordance with:
  - Local Government Act 2002;
  - Local Government Borrowing Act 2011;
  - Companies Act 1993;
  - Financial Markets Conduct Act 2013;
  - LGFA's Constitution;
  - LGFA Shareholder Agreement;
  - LGFA annual Statement of Intent.

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

Source: LGFA

35

COUNCIL FINANCIAL DISTRESS – MITIGANTS

- Local Government Framework reduces risk of financial distress – no historical default by a council
- Council have own Treasury Management and borrowing policies – most have independent advice
- Council financial oversight by Office of Auditor General (OAG), Audit NZ and Department of Internal Affairs
- Councils under Local Government (Financial Reporting and Prudence) Regulations 2014 required to report annually on performance against benchmarks including

Rates Affordability	Debt Affordability	Essential Services	Debt Servicing	Debt Control	Operations Control

Six step intervention process possible by Central Government

Request Information → Appoint Crown Review Team → Appoint Crown Observer → Appoint Crown Manager → Appoint a Commission → Call an Election

- Council required to comply with LGFA lending covenants

Annual attestation by council	LGFA credit analysis and monitoring performed through the year
LGFA credit watch-list in place	LGFA not obligated to lend to council members

- Covenant breach is an Event of Review – after 30 days LGFA can seek repayment of loans

Source: LGFA

36

COUNCIL FINANCIAL DISTRESS – LGFA IMPACT

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

- 30 LGFA member councils have credit ratings (A+ to AA+ range)
- LGFA undertakes detailed credit analysis of each Council if they apply to join LGFA (and ongoing) - not every Council has been accepted as a member
- A Council default becomes a timing issue for LGFA
  - LGFA lending secured against rates revenue under Debenture Trust Deed
  - Unlikely to be other material claimants on rates revenue given LGFA is the dominant lender to Councils
  - Council's Debenture Trustee appoints receiver and a special rate (property tax) levied on all properties in the council region to meet secured obligations when due
  - Property taxes unavoidable and first ranking security over property
- Sources of LGFA liquidity and additional capital

$1 billion liquidity facility from NZ Government	Liquid Assets Portfolio
Issuance of additional LGFA Bills and Bonds	Conversion of Borrower Notes into equity
Uncalled capital of $20 million	

- Beneficiaries of the Council guarantee (including LGFA bondholders) can also call upon the guarantee from councils
- **Central Government does not guarantee obligations of either LGFA or council members**

Source: LGFA

37

LGFA HISTORIC FINANCIAL PERFORMANCE

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

Financials (NZ$ million)	2012	2013	2014	2015	2016	2017	2018	2019
Interest Income	$10.9	$73.7	$149.1	$222.8	$278.2	$320.7	$342.8	$361.1
Interest Expense	$9.9	$68.1	$138.9	$208.9	$262.6	$303.2	$323.9	$342.3
Net Interest Income	$1.0	$5.7	$10.2	$13.9	$15.5	$17.5	$18.9	$18.8
Total Income	**$1.0**	**$5.7**	**$10.2**	**$13.9**	**$15.5**	**$17.5**	**$18.9**	**$18.8**
Operating Expenses	($5.2)	($3.0)	($3.2)	($4.7)	($6.0)	($6.5)	($7.1)	($7.6)
Net Profit	**($4.2)**	**$2.6**	**$7.0**	**$9.2**	**$9.5**	**$11.0**	**$11.8**	**$11.2**
Liquid Assets Portfolio	$52.8	$66.3	$101.7	$107.9	$266.3	$327.5	$482.8	$448.1
Loans to Local Government	$832.7	$2,514.9	$3,742.5	$5,031.9	$6,451.3	$7,783.9	$7,975.7	$9,310.6
Other Assets	$57.5	$107.0	$74.0	$271.9	$539.7	$380.0	$321.1	$610.1
Total Assets	**$943.0**	**$2,688.2**	**$3,918.2**	**$5,411.8**	**$7,257.3**	**$8,491.4**	**$8,779.6**	**$10,382.3**
Bonds on Issue	$908.9	$2,623.6	$3,825.3	$5,247.3	$6,819.7	$7,865.4	$8,101.0	$9,612.4
Bills on Issue	$ nil	$ nil	$ nil	$ nil	$223.9	$348.2	$473.4	$503.2
Borrower Notes	$13.2	$40.7	$61.9	$85.1	$108.4	$131.6	$135.1	$154.2
Other Liabilities	$0.2	$0.6	$2.1	$16.1	$61.0	$92.3	$5.8	$38.5
Total Liabilities	**$922.3**	**$2,664.8**	**$3,889.3**	**$5,375.6**	**$7,213.0**	**$8,437.5**	**$8,715.3**	**$10,382.3**
Shareholder Equity	**$20.8**	**$23.4**	**$28.8**	**$36.3**	**$44.2**	**$53.9**	**$64.3**	**$74.1**

Note: As at 30 June each year or for the twelve month period ending 30 June each year. Source: LGFA Annual Reports

38

LGFA HISTORIC FINANCIAL RATIOS

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

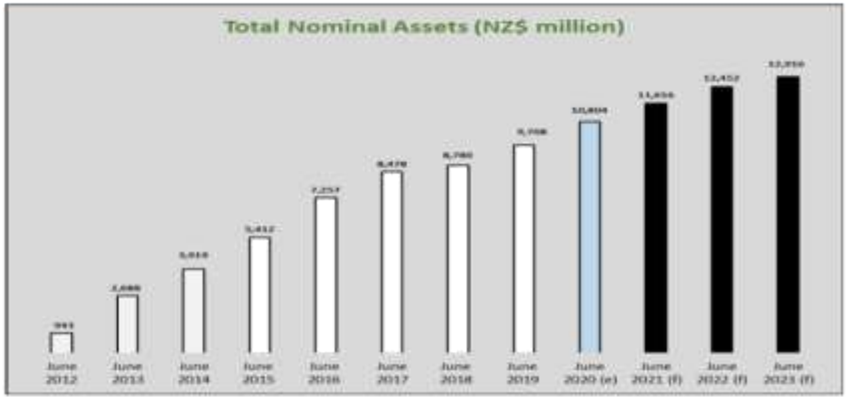
Ratios as at 30 June each year	2012	2013	2014	2015	2016	2017	2018	2019
Liquid Assets / Funding Liabilities	5.7%	2.5%	2.6%	2.0%	3.8%	4.1%	5.6%	4.4%
Liquid Assets / Total Assets	5.6%	2.5%	2.6%	2.0%	3.7%	3.9%	5.5%	4.3%
Net Interest Margin	0.12%	0.23%	0.27%	0.28%	0.24%	0.23%	0.22%	0.18%
Cost to Income Ratio	531.2%	53.6%	31.8%	33.8%	38.7%	37.1%	37.6%	40.4%
Return on Average Assets	-0.45%	0.10%	0.18%	0.17%	0.13%	0.13%	0.13%	0.11%
Shareholder Equity / Total Assets	2.2%	0.9%	0.7%	0.7%	0.6%	0.6%	0.7%	0.7%
Shareholder Equity + Borrower Notes / Total Assets	3.6%	2.4%	2.3%	2.2%	2.1%	2.2%	2.3%	2.2%
Asset Growth	n/a	185.1%	45.8%	38.1%	34.1%	17.0%	13.4%	18.3%
Loan Growth	n/a	202%	48.8%	34.5%	28.2%	20.7%	2.4%	16.7%
Return on Equity	n/a	12.7%	29.8%	31.9%	26.3%	25.0%	21.9%	15.1%
Capital Ratio	18.0%	11.9%	11.6%	11.2%	10.5%	10.9%	10.9%	10.9%

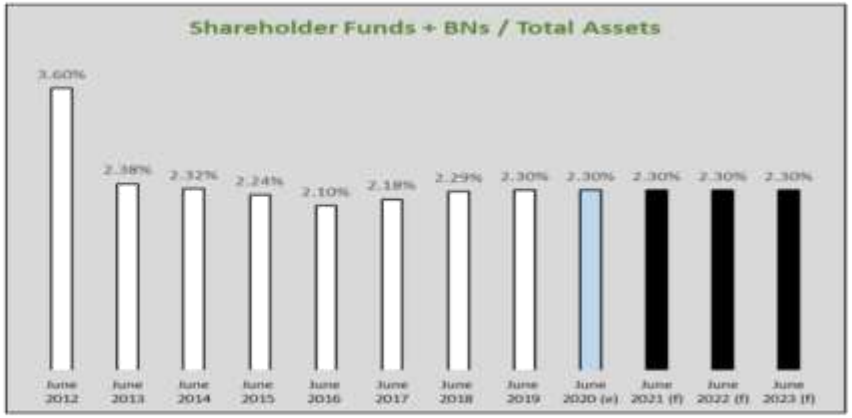
Note: As at 30 June each year or for the twelve month period ending 30 June each year. Source: LGFA Annual Reports

39

HISTORIC & FORECAST FINANCIAL PERFORMANCE

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





Forecast performance based upon assumptions outlined in LGFA Draft SOI 2020-21 available at www.lgfa.co.nz/for-investors/annual-reports-and-statement-of-intent

Note: Based upon nominal values and Draft SOI published 27 February 2020

Source: LGFA Annual Reports and Draft SOI

40

CONTACTS

LGFA

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41

Foundation Policies
(Clause 5.1 of the Shareholders' Agreement)

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

Credit Risk

Lending Policy

All Local Authorities that borrow from the Company will:

- Provide debenture security in relation to their borrowing from the Company and related obligations, and (if relevant), equity commitment liabilities to the Company and (if relevant) guarantee liabilities to a security trustee approved for the Company's creditors.
- Issue securities (bonds / FRNs / CP) to the Company and/or enter into facility arrangements with the Company.
- Comply with their own internal borrowing policies.
- Comply with the financial covenants outlined in the following table, provided that:
  - Unrated Local Authorities or Local Authorities with a long-term credit rating lower than 'A' equivalent can have bespoke financial covenants that exceed the:
    - Lending policy covenants outlined in the following table with the approval of the Board;
    - Foundation policy covenants outlined in the following table with the approval of an Ordinary Resolution.
  - Local Authorities with a long-term credit rating of 'A' equivalent or higher.:
    - will not be required to comply with the lending policy covenants in the following table,; and
    - can have bespoke financial covenants that exceed the foundation policy covenants outlined in the following table with the approval of an Ordinary Resolution., and in any event, will not be required to comply with the Net Debt / Total Revenue foundation policy covenant outlined in the following table until the financial year ending 30 June 2026. Until that date, such Local Authority must comply with the Net Debt / Total Revenue covenant set out in the table entitled "Alternative Net Debt / Total Revenue Covenant" below.
  - Any Board or Ordinary Resolution approval of bespoke financial covenants will only be provided after a robust credit analysis and any approval must also include bespoke reporting and monitoring arrangements.
- If the principal amount of a Local Authority's borrowings, or the Company's commitment under a facility agreement with a Local Authority, is at any time greater than NZD 20 million, be a party to a deed of guarantee and an equity commitment deed (in each case in a form set by the Company).

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Financial covenant	Lending policy covenants	Foundation policy covenants
Net Debt / Total Revenue	<175%	<~~250~~280%
Net Interest / Total Revenue	<20%	<20%
Net Interest / Annual Rates Income	<25%	<30%
Liquidity	>110%	>110%

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Alternative Net Debt / Total Revenue Covenant	
Financial Year ending	Net Debt / Total Revenue
30 June 2020	<250%
30 June 2021	<300%
30 June 2022	<300%
30 June 2023	<295%
30 June 2024	<290%
30 June 2025	<285%

Total Revenue is defined as cash earnings from rates, grants and subsidies, user charges, interest, dividends, financial and other revenue and excludes non government capital contributions (e.g. developer contributions and vested assets).
Net debt is defined as total debt less liquid financial assets and investments.
Liquidity is defined as external debt plus committed loan facilities plus liquid investments divided by external debt.
Net Interest is defined as the amount equal to all interest and financing costs less interest income for the relevant period.
Annual Rates Income is defined as the amount equal to the total revenue from any funding mechanism authorised by the Local Government (Rating) Act 2002 together with any revenue received from other local authorities for services provided (and for which the other local authorities rate).

Financial covenants are measured on Council only basis and not consolidated group basis, unless requested by a Local Authority and approved by the Board.

During the initial three years of operation the Auckland Council will be limited to a maximum of 60% of the Company's total Local Authority (including CCOs (as defined below)) assets. After three years Auckland Council will be limited to a maximum of 40% of the Company's total Local Authority (including CCO) assets.

No more than the greater of NZD 100 million or 33% of a Local Authority's or CCO's (as defined below) borrowings from the Company will mature in any 12 month period.

Subject to implementation of any amendments or other actions considered necessary, advisable or expedient by the Board and the approval of the Board in relation to the relevant CCO (as defined below) (which may be a Council-Controlled Trading Organisation), an approved CCO may borrow from the Company provided that:

- The CCO is a "council-controlled organisation" as defined in section 6 of the Local Government Act 2002, where the CCO is a company in which equity securities carrying at least 51% or more of the voting rights at a meeting of the shareholders of the CCO are held or controlled, directly or indirectly, by one or more Local Authorities (respectively, a "CCO" and each such Local Authority being a "CCO Shareholder");
- Each CCO Shareholder provides a guarantee in respect of the CCO in favour of the Company and/or there is sufficient uncalled capital in respect of the CCO to meet the financial obligations of the CCO;
- Each CCO Shareholder provides equity commitment liabilities to the Company, guarantees liabilities to a security trustee approved for the Company's creditors, and provides debenture

security for its equity commitments to the Company and guarantee liabilities to the security trustee;

- Each CCO Shareholder complies with Lending policy financial covenants, Foundation policy financial covenants or other financial covenants required by the Board (if any)~~;~~) and, in the case of a CCO Shareholder with a long-term credit rating of 'A' equivalent or higher, until the financial year ending 30 June 2026, the Net Debt / Total Revenue covenant in the table entitled "Alternative Net Debt / Total Revenue Covenant" above.
- The CCO complies with any covenants required by the Board; and
- If required by the Board, the CCO will grant security in favour of the Company (which may be subject to any intercreditor arrangements acceptable to the Board).

Where the Company agrees to provide funding to the CCO, it must within 90 days of receiving annual financial covenant reporting from a CCO Shareholder (in its capacity as a borrower) report to the Shareholders' Council, holders of ordinary shares in the Company and any Local Authority guarantors of the Company's liabilities as to whether that CCO Shareholder has complied with its financial covenants on an individual and consolidated group basis.

Notwithstanding the definition of "CCO" set out above, the Board may not approve a CCO to borrow from the Company unless 100% of the equity securities carrying voting rights at a meeting of shareholders of the CCO are held or controlled, directly or indirectly, by one or more Local Authorities and the Crown (if applicable).

Cash and Liquid Investment Policy

The Company will only invest in NZD senior debt securities, money market deposits and registered certificates of deposits within the counterparty limits outlined in the following table.

New Zealand Local Authority and CCO securities are excluded from the Company's cash and liquidity portfolio.

Counterparty[1]	S & P Credit Rating or equivalent (Short-term / long-term)[2]	Maximum % Limit (Total Cash + Liquid Assets)	Minimum % Limit (Total Cash + Liquid Assets)	Maximum New Zealand Dollar counterparty Limit (millions)[3]	Maximum term (years)[4]
Category 1: NZ Government or RBNZ[5]	N/A	100%	20%	Unlimited	No longer than the longest dated LGFA maturity on issue
Category 2	A1+ / AAA	80%	N/A	300	3
Category 3	A1+: A1 / AA+	80%	N/A	200	3
	A1+: A1 / AA	80%	N/A	200	3
	A1+: A1 / AA-	80%	N/A	200	3

[1] Category 2, 3, 4 and 5 counterparties do not include the RBNZ or the NZ Government.
[2] Short term rating applies for all securities with a maturity date of 365 days or less.
[3] If the counterparty credit rating is downgraded below the allowed limit, LGFA has 30 days to sell the security.
[4] Maximum term applies from the date of settlement.
[5] At least 20% of the portfolio must be held at the RBNZ or invested in NZ Government securities.

Category 4	A1: /A+, NZ Registered Bank	60%	N/A	200	3
Category 5	A1: /A+ Other Issuers	10%	N/A	50	1

The maximum individual counterparty limit (excluding the NZ Government) cannot be greater than 100% of Accessible Capital. Accessible Capital is defined as issued and paid capital plus retained earnings plus issued and unpaid capital plus outstanding borrower notes.

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Derivative Policy

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

Market Risk

The Company's total 12 month forecast portfolio PDH (Partial Differential Hedge) Limit is $100,000[6].

The Company's total portfolio Value at Risk (VaR) daily limit is $1,000,000[7].

Foreign exchange risk policy

The Company will take no foreign exchange risk.

Operational Risk

Unless explicitly approved otherwise by the Board, the Company will outsource the following functions to New Zealand Debt Management as follows:

- Hedging – New Zealand Debt Management is the LGFA interest rate swap counterparty.

Dividend policy

The policy is to pay a dividend that provides an annual rate of return to Shareholders equal to the Company's cost of funds plus 2.00% over the medium term, recognising that, to assist in the start-up period, the initial expectation is for no dividend for the part period to 30 June 2012, and for a dividend equal to 50% of the target dividend in the two periods to 30 June 2014 to be paid. Thereafter, the intention is to pay at least the full target dividend until the target dividend return is achieved as measured from commencement, including consideration of the time value of money at the target annual rate of return.

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

[6] PDH risk measures the sensitivity of a portfolio to a one basis point change in underlying interest rates. For example a PDH of $100,000 means that the portfolio value will fall by $100,000 for a one basis point fall in interest rates.
[7] VaR measures expected loss for a given period with a given confidence. For example, 95% confidence, daily VaR of $1,000,000 means that it is expected that the portfolio will lose $1,000,000 on 5% of days. i.e. 1 day in 20 the portfolio value will decrease by $1,000,000.

File No.: 20/183

Audit New Zealand - Final Management Report for the year ended 30 June 2019

1. Purpose

To present to the Finance, Audit & Risk Committee the Audit New Zealand Management Report for the year ended 30 June 2019.

2. Recommendation

2.1 That Report 20/183 Audit New Zealand - Final Management Report for the year ended 30 June 2019 be received.

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

3. Background / Previous Council Decisions

3.1 The Finance, Audit & Risk Committee reviews the Audit Management Report annually as part of the monitoring of Council's Annual Report and financial performance. The report has now been received and is submitted for the FAR Committee to consider.

3.2 Debra Perera, the Audit Director from Audit New Zealand, will be in attendance.

4. Issues for Consideration

4.1 The report highlights any areas of concern raised by the Auditors, their assessment of the financial controls, items from previous audits that remain unresolved, and also items that the Auditor General has asked to be looked into across all local authorities.

4.2 Council Officers have been given the opportunity to respond to any audit concerns and these responses are also contained within the report. In summary;

- The Audit Management Report is designed to report the findings of the Audit to the Mayor and Council.
- The FAR Committee is able to talk to the auditors without Council Officers being present.
- The report contains the Officer responses to issues raised in the report to which the Committee is able to seek further clarification from Audit and/or officers.

Confirmation of statutory compliance

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

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

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

5. Appendices

No.	Title	Page
A	Horowhenua District Council - Audit Management Report - FINAL	93

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

Approved by	Nicki Brady **Deputy Chief Executive**	

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Report to the Council on the audit of

Horowhenua District Council

For the year ended 30 June 2019

Contents

Key messages

We have completed the audit for the year ended 30 June 2019. This report sets out our findings from the audit and draws attention to areas where the District Council is doing well and where we have made recommendations for improvement.

Audit opinion

We have issued an unmodified audit opinion dated 31 October 2019. This means that we are satisfied that the financial statements and statement of service performance fairly reflect the District Council's activity for the year and its financial position at the end of the year.

Significant matters considered during the audit

- **Revaluation of Property, plant and equipment**

  The District Council revalued its infrastructure assets as at 1 July 2018. We assessed the work performed by the experts in relation to the objectives for our audit. We were satisfied that the valuations were appropriate and were correctly accounted for in the Financial Statements.

  We have noted areas for improvement in the process in section 6 of this report.

- **Performance measures**

  We reconfirmed that the performance framework, from the 2015-2025 Long Term Plan, remains an appropriate base to enable the District Council to tell a concise performance story.

  Overall we are satisfied that the District Council's performance information, reflected through these measures, fairly reflects the actual performance of the District Council for the year. We have noted some areas of continuing improvement in section 7.2 of this report.

- **Improvements to the Annual Reporting Process**

  There were issues with the annual reporting process which resulted in delays in completion of the audit and caused the deferral of the signing of the Annual Report to 31 October 2019.

  We will continue to work with the District Council's management to improve the process going forward. We note that we have raised the same areas for improvement in previous year's audit (see Appendix 1).

Thank you

We would like to thank the District Council, management and staff for the assistance we received during the audit.

Debbie Perera
Appointed Auditor
14 May 2020

1 Recommendations

Our recommendations for improvement and their priority are based on our assessment of how far short current practice is from a standard that is appropriate for the size, nature, and complexity of your business. We use the following priority ratings for our recommended improvements.

Priority	Explanation
Urgent	**Needs to be addressed *urgently*** These recommendations relate to a significant deficiency that exposes the Local Government to significant risk or for any other reason need to be addressed without delay.
Necessary	**Address at the earliest reasonable opportunity, *generally within six months*** These recommendations relate to deficiencies that need to be addressed to meet expected standards of best practice. These include any control weakness that could undermine the system of internal control.
Beneficial	**Address, *generally within six to 12 months*** These recommendations relate to areas where the Local Government is falling short of best practice. In our view it is beneficial for management to address these, provided the benefits outweigh the costs.

1.1 New recommendations

The following table summarises our recommendations and their priority.

Recommendation	Reference	Priority
Procurement and Contract Management review Monitor the Alliance contract as required in the terms of the contract and ensure performance reporting is provided to Council with any breaches being handled in line with the processes contained in the contract.	Section 4	Necessary
Landfill provision Calculate the year-end landfill provision using the most recent publicly available discount rate.	Section 4	Necessary

Recommendation	Reference	Priority
Bribery and corruption Include the fraud policy in the induction pack. Expand the fraud policy to be explicit about reporting requirements in relation to attempted bribery and corruption. Report regularly to Council on the adequacy of controls, including consideration by senior management of any changes required.	Section 4	Necessary
Senior Management remuneration reviews Implement a review process for future employment contracts to ensure that remuneration benefits are in line with agreed contract conditions. Ensure formal signed documentation is retained by Human Resources in relation to any changes to employee remuneration, and terms and conditions of employment.	5.1	Necessary
Elected members declaration of interests Implement a process to ensure elected members declare all interests. Implement a process for management to perform a review for undeclared interests as part of year end reporting processes.	5.2	Necessary
Review of Payroll Masterfile Reinstate the independent review of the Payroll Maintenance Audit Change Report to ensure that all changes made to the payroll Masterfile have been appropriately made and this review be evidenced and a dated signature included.	5.3.1	Necessary
Evidencing payroll reviews Ensure the review of payroll reports, by an independent person, is evidenced and a dated signature included in a timely manner. Resume completion of the payroll checklist and have this independently reviewed, evidenced, and a dated signature included.	5.3.2	Necessary
Review of timesheet data sent to Civica Australia Implement an independent review on the payroll data before it is provided to Civica Australia for processing.	5.3.3	Necessary
Service performance: Evidencing monthly review of Customer Relationship Management (CRM) requests Evidence the review of the CRM requests at month-end with a dated signature.	5.4	Necessary

Recommendation	Reference	Priority
Cash receipting Require all cashiers to use their own login to process transactions and require them to log out after use. Require reconciliation of the amounts in the 'receipt listing after closing reports' to be initialled by the preparer and independently recounted.	5.5	Necessary
One-up approval of sensitive expenditure Implement a process so approval of the Mayor's expenses is made by the Chair of the Audit and Risk Committee. Remind senior staff of the need to ensure that the one-up approval of sensitive expenditure is to be adhered to.	5.6.1	Necessary
Sensitive expenditure policies Update sensitive expenditure policies to reflect OAG's good practice guidance.	5.6.2	Necessary
Revaluation - Valuation using first principles Implement a valuation process which ensures valuations are based on first principles at a minimum on a three yearly rotational basis, with relevant inflationary indexes used in the intervening years; and Use relevant industry specific indices for inflation rates.	6.1	Necessary
Improvement in quality assurance processes over revaluations Implement a quality assurance (QA) process to review the reasonableness of the revaluation workpapers/process before they are presented for review (peer review, Council review, and audit review).	6.2	Necessary
Timing of delivery of revaluation to audit Provide the revaluation workpapers and valuation reports for audit review after the valuation reports and supporting information have been reviewed by the independent peer reviewer, management and the District Council's Audit and Risk Committee.	6.3	Necessary
Timing of revaluation cycles Implement rotational valuations of the Infrastructure asset classes and Land and Buildings/Parks and Reserves so that the valuations of the major asset classes fall in different years to even the workload. Perform a cost/benefit analysis to assess whether it would be better to contract out the infrastructure valuations to an external valuer.	6.4	Necessary

7

Recommendation	Reference	Priority
Classification of assets under the 3 waters Revalue land and buildings integral to the 3 waters asset as part of the 3 waters class. Develop a methodology to revalue these assets outside of the land and building valuation cycle; and Reclassify non-integral land and buildings in 3 waters to the land and building asset class.	6.5	Necessary
Stand-alone fixed asset register for treatment plants Develop a stand-alone fixed asset register for Wastewater Treatment Plants and ensure that they are revalued at component level.	6.6	Necessary
Impairment assessment of property, plant and equipment (PPE) Formalise and document Council's impairment assessment of PPE at balance date.	7.1	Necessary
Completeness of the Customer Relationship Management (CRM) report provided to audit Review the parameters used to run the CRM report to ensure that all relevant CRMs requests are included in the report used for service reporting. Investigate "missing" CRM request numbers to determine if they are genuine or not.	7.2.1	Necessary
Recording of multiple complaints Ensure the staff member, who prepares the performance report, is well-versed with the DIA guidance on mandatory measures. This is especially important where the staff member completing the report has changed.	7.2.2	Necessary
Consistency between the Rating FIS and rates resolution Implement a process to ensure that there is a check of the rates resolution before it is adopted by Council to ensure that the rates resolution is consistent with the agreed funding impact statement.	7.3	Necessary
Expenditure to be approved within financial delegations Remind staff of their financial delegations and the rules within the financial delegations policy. Implement procedures to ensure all expenses are approved within the approver's financial delegation.	7.4	Necessary

Recommendation	Reference	Priority
Lack of GST invoice Ensure all expenditure is supported with the relevant GST invoice.	7.5	Necessary
Purchase Order Clearing Account Ensure that an appropriate report can be generated and reviewed for the *"Purchase Order Clearing Account"* and remove/adjust any outstanding balances where invoices have been received or outstanding amounts paid.	7.6	Necessary
No records of retentions by contract Maintain a separate listing for all contract retentions held by Council and review them for reasonableness on a regular basis.	7.7	Necessary
Annual report disclosure improvements Improve identified disclosures for future reporting.	7.8	Necessary

1.2 Status of previous recommendations

Set out below is a summary of the action taken against previous recommendations. Appendix 1 sets out the status of previous recommendations in detail.

Priority	Priority			
	Urgent	Necessary	Beneficial	Total
Open/in progress	1	25		**26**
Implemented or closed		2		**2**
Total	**1**	**27**		**28**

Twenty six prior year recommendations remained open/not implemented this year. We strongly urge the District Council to continue to put a plan in place to address these recommendations.

9

2 Our audit report

2.1 We issued an unmodified audit report

We issued an unmodified audit report on 31 October 2019. This means we were satisfied that the financial statements and statement of service performance present fairly the District Council's activity for the year and its financial position at the end of the year.

In forming our audit opinion, we considered the following matters.

2.2 Uncorrected misstatements

The financial statements are free from material misstatements, including omissions. During the audit, we have discussed with management any misstatements that we found, other than those which were clearly trivial. The misstatements that have not been corrected are listed in Appendix 2 along with management's reasons for not adjusting these misstatements. The net effect of these are listed below. We are satisfied that these misstatements are individually and collectively immaterial.

Current year uncorrected misstatements	Reference	Assets	Liabilities	Equity	Financial performance
		Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Total parent/group		$1,714,494	$539,033	($2,481,648)	$228,121

2.3 Uncorrected disclosure deficiencies

There were no uncorrected performance reporting misstatements.

2.4 Uncorrected non-financial performance reporting misstatements

There were no uncorrected non-financial performance reporting misstatements.

2.5 Corrected misstatements

We also identified misstatements that were corrected by management. These are listed in Appendix 3. These corrected misstatements had the net effect of increasing expenditure by $981,000, increasing assets by $9,220,437, increasing liabilities by $1,664,000 and increasing equity by $8,537,437 compared to the draft financial statements.

Current year corrected misstatements	Reference	Assets	Liabilities	Equity	Financial performance
		Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Total parent/group		**$9,220,437**	**($1,664,000)**	**($8,537,437)**	**$981,000**

2.6 Corrected disclosure deficiencies and performance reporting misstatements

The list of corrected disclosure deficiencies and performance reporting misstatements are listed in Appendix 3.

3 Quality and timeliness of information provided for audit

Management needs to provide information for audit relating to the annual report of the District Council. This includes the draft annual report with supporting working papers.

We provided a listing of information we required to management prior to the commencement of the audit. This included the dates we required the information to be provided to us.

Although we received most of the information requested in our listing we found that:

- the annual report was incomplete with several notes to the financial statements outstanding, variance explanations for both the main financials and funding impact statements needed to be updated, and the statement of service performance information had measures missing and some results were still to be updated; and
- there was a lack of support for the note balances reported.

The main area of concern was the revaluation of infrastructure assets, which were not fully completed by agreed timelines, with numerous errors found in the valuations, and deficiencies with the process.

During the 2018 audit we also noted areas of improvement for the revaluation of assets and our recommendations remain relevant (see Appendix 1). We have identified, in section 6 of this report, further improvement areas in relation to property, plant and equipment revaluations, which will also improve the year end process.

These delivery and revaluation issues meant we were unable to complete our audit work and checks of disclosures during the scheduled audit timeframe and resulted in delays to the scheduled signing date.

Refer also to Appendix 3 for the corrected financial, SSP, and disclosure changes that were required to be made to the annual report.

4 Matters raised in the Audit Plan

In our Audit Plan of 24 July 2019, we identified the following matters as the main audit risks and issues:

Audit risk/issue	Outcome
Revaluation/Fair value /Impairment of Plant Property and Equipment	
Infrastructural assets and other revalued assets need to be revalued with sufficient regularity to ensure that the carrying amount does not differ materially from fair value. The relevant accounting standard is PBE IPSAS 17, *Property, Plant and Equipment.* The last valuations were: • Land and buildings – 30 June 2017 • Infrastructure assets – 1 July 2017 The District Council's roading and 3 water assets were revalued as at 1 July 2018. We expected that the District Council will have performed: • a comprehensive analysis to determine whether there is a significant variance between the fair value of land and buildings/infrastructure assets as at 30 June 2019. A significant variance between the fair value and the carrying value since the last revaluation could trigger the need for the District Council to revalue or impair the land and building and infrastructure assets; and also • an impairment assessment over all the plant, property and equipment assets.	For those assets that were not revalued at year-end, we: • reviewed the robustness of management's assessments as to why there is no material difference between the fair value and the carrying value of those assets; and • reviewed the District Council's impairment assessments of all its plant property and equipment. We confirmed that the fair value of infrastructure assets were not materially different to the carrying value and, as such, there was no need for a further revaluation as at 30 June 2019. We were satisfied that these assets are fairly stated in the financial statements. Refer to section 7.1 for our recommendation on impairment assessment. For those assets that were revalued at the beginning of the year, we: • tested the robustness of the revaluations undertaken; and • reviewed that the District Council has correctly accounted for the revaluation of those asset classes. We: • assessed the valuation process, including the competence and experience of the person completing the valuations; • reviewed how the District Council ensured completeness over the asset data;

13

Audit risk/issue	Outcome
	• tested the integrity of the underlying data used for the valuations; • tested the validity of the significant judgments and assumptions applied and whether they have been applied consistently; • evaluated how management has considered alternative assumptions or outcomes; • reviewed the valuation reports to assess whether the requirements of PBE IPAS 17 *Property, Plant and Equipment* (including the appropriateness of the valuation basis) have been met; • ensured changes to values and depreciation charges have been appropriately accounted for; • assessed the presentation and disclosure of information related to the valuations in the financial statements; and • obtained confirmation from the independent peer review valuer. Overall, we found the revised revaluations were carried out in accordance with PBE IPSAS 17, *Property, Plant and Equipment*. Refer to section 6 for our detailed review of the revaluation and areas identified for improvement.
Procurement and Contract Management review	
As part of this year's audit we intended to do a follow up review over procurement and contract management. The focus was on the current procedures and processes in place over significant procurement and contracts and improvements in the areas highlighted in our last formal review in 2016. In particular we had previously noted the need for improvements in: • conflict of interest documentation • business case evaluation	This review is on-going and our specialist team will review this in 2020. However, we did note that our prior years' recommendations remain outstanding. Refer to Appendix 1 (pages 52 and 53) of this report. We make further comments in section 10 of this report. In addition, we reviewed the performance reporting that is required under section 7 of the Alliance agreement. This had not been completed at the time of our review. The Alliance was nearing the end of its second

Audit risk/issue	Outcome
• risk management With the significant contract such as the Alliance contract, it is important that the District Council has processes/procedures in place to monitor contract performance and changes to contract requirements.	year of operations. This is a major issue for the District Council as the performance reported at the end of the first year was planned to act as a benchmark going forward to determine the scaling of the Painshare/Gainshare in year 2 onwards. This is currently not being done. **Recommendations** Monitor the Alliance contract as required in the terms of the contract; and Ensure performance reporting is provided to Council with any breaches being handled in line with the processes contained in the contract. **Management comment** *The Alliance team have done a lot of work on their performance reporting (KPIs) over the last few months. Council are also currently implementing changes to the processes and procedures for 3 Waters, including staffing and the budget structure for 3 Waters, to enable better tracking.*
Local government elections	
With the Election in October 2019, the District Council needed to be careful that the content of the annual report and summary annual report (as well as any other publications issued by Council) cannot be seen as electioneering. We encouraged the District Council to consider how it will manage the need to maintain ordinary business and continue to carry out its statutory responsibilities, while ensuring that its resources are not used, or perceived as being used, to give electoral advantage.	The risk of electioneering in the full and summary annual report was removed due to the adoption of the annual report after the election.
Vested assets	
Significant growth was being signalled in the district. We expected a significant increase from last year's vested assets.	We reviewed and concluded that the accounting for vested assets revenue in the Annual Report was appropriate. We assessed that appropriate processes are in place to ensure completeness of recognition.

Audit risk/issue	Outcome
Valuation of investment properties and forestry assets	
Investment properties and forestry assets are subject to annual valuations under PBE IPSAS 16, Investment Properties, and PBE IPSAS 27, Agriculture, respectively.	The investment properties were revalued by an independent valuer and we obtained confirmation from the valuer and ensured that the valuation has been correctly included in the financial statements. We also reviewed whether: • the valuation complies with relevant valuation and accounting standards, and • the assumptions applied are reasonable and the valuation movement has been accounted correctly in the financial statements; From the work completed over the valuation we concluded that the figures included in the financial statements reflected fair value, that they are compliant with generally accepted accounting practice, and that the valuations are reliable.
Landfill provision	
The District Council's provision for landfill aftercare costs involve inherent uncertainties in estimating the costs that will be incurred and is reliant on certain assumptions. In prior year we noted several issues with the estimation of this provision. As such, this remained an area of audit focus.	We tested the robustness of management's estimation of the provision for landfill aftercare costs. We discussed with Council's external valuer the process/calculations carried out and the assumptions used in the calculation which led to the revision of initial costs. We reviewed the discount rates used and the appropriateness of calculations. We found that the discount and inflation rates used in the calculation of landfill provisions were consistent with the Discount Rates and CPI assumptions as at 31 January 2019. As the valuation was as at 30 June 2019 we expected the rates to have been based on most recent rates, e.g. the May rates were published in 7 June 2019. While we are satisfied that the provision is not materially misstated as a result of the different discount rates used, care should

Audit risk/issue	Outcome
	be taken to ensure that the most relevant rates are used. **Recommendation** Calculate the year-end landfill provision using the most recent publicly available discount rate. **Management comment** *The landfill provision next year will use the most recent publicly available discount rate.*
Severance Payments	
Schedule 10, clause 33 of the Local government Act 2002 (LGA 2002) requires that specific disclosures are included in the Annual report where severances have been made. This includes disclosing the number of employees the District Council has made such payments to during the financial year and the individual amount of each severance payment. Severance payment means any consideration that a local authority has agreed to provide to an employee in respect of that employee's agreement to the termination of his or her employment, being consideration, whether of a monetary nature or otherwise, additional to any entitlement of that employee to: • any final payment of salary; or • any holiday pay; or • any superannuation contributions.	We reviewed the severance payments made during the financial year and concluded that the updated disclosures were appropriate and complied with the LGA 2002.
Bribery and corruption	
Parliament's Finance and Expenditure Committee has expressed an interest in understanding whether the public sector has effective corruption prevention and detection processes in place. Bribery and corruption is criminal in both the public and private sectors in New Zealand. Offences apply to transactions that happen domestically and those that occur overseas. A New Zealander or NZ organisation may also be prosecuted under overseas legislation.	We assessed the controls to reduce the risk of wrongdoing in the public sector – particularly bribery and corruption. We also enquired into the current policies and procedures you have in place to manage bribery and corruption. Overall, we found that there are controls and procedures in place to reduce and manage bribery and corruption. However, we found areas where improvements could be made.

Audit risk/issue	Outcome
Organisations must take reasonable steps to prevent corruption and bribery. This includes: • robust anti-corruption compliance procedures for preventing, detecting and responding to corruption; and • leadership must be committed to preventing corruption and actively promote a zero tolerance culture. Senior leadership (Chief Executive or the District Council) should own the policy and procedures. Organisations should assess their own risk of corruption and bribery. Their focus should then be on the areas of higher risk.	**Recommendation** • Include the fraud policy in the induction pack; • Expand the fraud policy to be explicit about reporting requirements in relation to attempted bribery and corruption; and • Report regularly to Council on the adequacy of controls, including consideration by senior management of any changes required. **Management comment** *The current fraud policy will be included as part of induction.* *An updated version of the fraud policy including reporting requirements will be completed by the end of 2020.* *Comments are noted and will be discussed with the Independent Chair of FAR.*
The risk of management override of internal controls	
There is an inherent risk in every organisation of fraud resulting from management override of internal controls. Management are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Auditing standards require us to treat this as a risk on every audit.	We: • tested the appropriateness of selected journal entries; • reviewed accounting estimates for indications of bias; • evaluated any unusual or one-off transactions, including those with related parties; and • reviewed any changes in the company's accounting policies. Based on the work performed and controls in place, we assessed that the risk of material misstatement due to management override is sufficiently mitigated.

18

5 Assessment of internal control

The District Council, with support from management, is responsible for the effective design, implementation, and maintenance of internal controls. Our audit considers the internal control relevant to preparing the financial statements and the service performance information. We review internal controls relevant to the audit to design audit procedures that are appropriate in the circumstances. Our findings related to our normal audit work, and may not include all weaknesses for internal controls relevant to the audit.

We have performed a high-level assessment of the control environment. This assessment was performed for the purpose of planning the most effective and efficient audit approach, to enable us to express an audit opinion on the District Council's financial statements and the non-financial information. We considered the overall attitude, awareness, and actions of the District Council and management in establishing and maintaining effective management procedures and internal controls.

In performing this assessment we consider both the "design effectiveness"[1] and "operational effectiveness"[2] of internal control. The explanation of these terms is outlined below. However, it is not the purpose of our assessment to provide you with assurance on internal control in its own right. As such we provide no assurance that our assessment will necessarily identify and detect all matters in relation to internal control.

In performing this assessment we have identified areas where we believe the control environment can be improved. These matters are discussed further below in this section.

Internal controls

We reviewed the internal controls in place for your key financial and non-financial information systems. Internal controls are the policies and processes that are designed to provide reasonable assurance as to reliability and accuracy of financial and non-financial reporting, as well as compliance with significant legislative requirements. These internal controls are designed, implemented and maintained by the District Council and management. Both "design effective" and "operationally effective" internal controls are important to minimise the risk of either fraud or misstatement occurring. The responsibility for the effective design, implementation and maintenance of internal control rests with the Councillors.

We identified the following areas for improvement in internal control:

[1] Control is effective to either prevent or detect a material error in either the financial statements and/or non-financial information. The control is "fit for purpose".
[2] Control has operated effectively throughout the period tested.

5.1 Senior Management remuneration reviews

Recommendation

Implement a review process, for future employment contracts, to ensure that remuneration benefits are in line with agreed contract conditions.

Ensure formal signed documentation is retained by Human Resources (HR) in relation to any changes to employee remuneration and terms and conditions of employment.

Findings

We review senior management remuneration and contracts annually. This review includes checking that the remuneration and benefits received are in line with the signed contract or formal changes in contract terms and conditions.

During our review this year, we found two payments that weren't included in the official signed contracts:

- The Chief Executive (CE) was being paid a fortnightly medical and life insurance allowance that was no longer provided for under his new contract. This seems to have arisen during the renewal of the CE contract in 2018 where it was agreed that the employment provision whereby Council would provide an allowance for medical and life insurance for the CE was removed. However, the medical and life insurance allowance continued to be paid. We understand that this benefit is no longer being paid; and
- A Group Manager had private use of Council vehicle. However, this is not included in the signed employment contract, but rather was confirmed via an email from the CE.

Going forward, when contracts are renewed, we expect HR to perform a check to ensure that any remuneration benefits agree to the approved remuneration package.

We would also expect that all remuneration benefits would be supported by formally signed documentation.

Management comment

Noted. The Senior Managers' Contracts and documentation is currently being assessed for accuracy and completeness.

5.2 Elected members declaration of interests

Recommendation

Implement a process to encourage elected members to declare all interests.

Implement a process for management to perform a review for undeclared interests as part of the year-end reporting processes.

Findings

Interests declared by Elected Members are maintained in an interest register. We reviewed the completeness of the interest register by completing a search of the Companies Register. We found several instances where an interest, e.g. directorship or shareholding with a company, was not recorded in the interest register.

While the onus is on the Elected Members to ensure compliance with the Local Authority Members' Interest Act 1968, complete disclosure would assist management to ensure that conflicts of interests are identified early and mitigations are put in place to ensure compliance. In turn, management should ensure completeness of the interest register by performing a search of the companies register, as part of the year-end process.

Management comment

Noted. This process will be added to our year end processes.

5.3 Payroll controls

5.3.1 Independent review of payroll Masterfile

Recommendation

Reinstate the independent review of the Payroll Maintenance Audit Change Report to ensure that all changes, made to the payroll Masterfile, have been appropriately made and this review be evidenced with a dated signature.

Findings

From April 2019 the payroll Masterfile change report is no longer being produced and independently reviewed as part of the payroll process. The independent review of this report is important to ensure that all changes to employees details (for example bank account details and pay rates), as well as new employees and terminated employees, are agreed to supporting documentation, appropriately authorised and accurately captured in the payroll Masterfile.

Management comment

This is a valid point, as at the time the service was delivered externally. With payroll back in-house this process will be reinstated.

5.3.2 Evidencing payroll reviews

Recommendation

Ensure the review of payroll reports, by an independent person, is evidenced with a dated signature in a timely manner.

Resume completion of the payroll checklist and have this independently reviewed, and evidenced with a dated signature.

Findings

During our review of the payroll system, we noted that the Pay Edit Listing, is reviewed during the pay run. However, the review is not evidenced with a date and signature. While we could see evidence that the review is occurring, we could not conclude whether the review was carried out by an appropriate person or that it was performed in a timely manner.

We also noted that the Payroll Checklist is no longer being completed and reviewed. This checklist acts as a control to ensure that all procedures are completed during the payroll process.

Management comment

The payroll function has been brought back in-house. The pay edit list was reviewed by the payroll officer and Finance Manager, and we re-instated signed and dating of this report.

The checklist was also being used and is now. We will instigate signing and dating of the checklist.

5.3.3 Review of timesheet data sent to Australia

Recommendation

Implement an independent review over payroll data information before it is provided to Civica Australia for processing.

Findings

The District Council had no specialised payroll staff in the 2018/19 year. This function was carried out by Civica in Australia.

We note, from discussions with staff, that timesheets from the Library and Aquatics activities are kept in a spreadsheet, which is then passed on to Civica for payroll processing. During the year there was no evidence of review of the data entered against the manual timesheets. There is a risk that the hours entered and provided to Civica, vary from the actual timesheets approved which impacts on the pay received by staff.

Any undetected errors could result in under/overpayment of staff pay. Performing a review of information entered would reduce the risk of an undetected error or fraud.

Management comment

Timesheets were already reviewed by Library and Aquatics managers and then reviewed by the payroll officer before being sent to Civica. There are further checks undertaken when the pay edit is prepared.

5.4 Service performance: Evidencing monthly review of Customer Relationship Management (CRM) requests

Recommendation

Evidence the review of the CRM requests at month-end with a dated signature.

Findings

During our review of the CRM system for service performance purposes, we noted that the Activity Managers review the CRM requests at month-end for reasonableness. However, this review is not evidenced and accountability for the review cannot be established.

There may occasionally be errors identified, which are rectified. However, if the review is not evidenced, there is no record of the approval for the change or that it was made correctly. Evidencing the review would ensure that approval of changes is documented and changes appropriately approved.

Management comment

The SSP reports are now collated with references to supporting information. Signed CRM reports can also be referenced for those measures.

5.5 Cash receipting

Recommendation

Require all cashiers to use their individual logins to process transactions and require them to log out after use.

Require reconciliation, of the amounts in the 'receipt listing after closing reports', to be initialled by the preparer and independently recounted.

Findings

During our review of the cash receipting system, we noted that:

- Multiple people can use the same login to process transactions if the original user does not log out.

  If there is a fraud, misappropriation of assets or errors, this creates an issue with identifying who processed the payment and when the issue occurred. Reinforcing the importance of use of their own individual logins, to the till users, will not only reduce the risk of this arising but act as a protection to the cashiers.

- The daily 'receipt listing after closing reports' reconciliations are not consistently initialled. With no initial/signature, there is no evidence that original reviewer is independent from the person who is recounting the cash the following day, or that the control was actually performed.

Best practice is that reconciliations are signed and dated by the preparer to ensure there is accountability for any errors/issues identified. We would expect that the staff member recounting the cash receipts to be independent of the reconciliation preparer.

Management comment

This is relevant to Levin only. The only time a cashier will use another cashier's log in is when the logged in Cashier is on a break (15min breaks and up to 1hour lunch), and covering for meetings. All Cashiers must close and reconcile their own till prior to signing off at the end of their shift to ensure they are balancing the amounts they have taken. As each cashier reconciles their own till, any discrepancies can be identified using the receipts and must be advised to the manager or person in charge at the time. This approach ensures that customers do not experience delays waiting for a change over process between cashiers. It also allows some agility for staff to support each other and provide an efficient service to customers.

In moving to have each cashier, regardless of how long they receipt for, log in for any transactions, the process for covering breaks and meetings would be: Original Cashier logs out of their till, balances the cash and Eftpos, then the covering cashier logs in, then when the original cashier returns, the covering cashier logs out of the till, balances the cash and Eftpos, then the original cashier logs back in to continue. This process would then require additional reports for the end of day processes if additional cashiers log in.

The following controls are in place to mitigate any risk of theft and fraud for the process we currently operate under: Peer monitoring as KPIs state there should always be two staff at Front of House at all times, security cameras monitoring customer transactions with staff, reconciliations of daily receipting at the end of each day, banking totals counted and processed by a staff member not rostered to the Front of House for the period the banking is for, and prepared banking stored in a secure cash room with limited access.

Agree that end of day reports should be signed and dated. Where this has not happened in the past, it has been a genuine oversight.

5.6 Sensitive expenditure

There is ongoing media coverage of behaviour and practices in incurring sensitive expenditure. Sensitive expenditure is an area that is subject to significant public scrutiny, and can lead to reputational and financial risk.

During the audit we tested a sample of transactions from a range of areas of sensitive expenditure, including entertainment and hospitality, travel and accommodation and credit card expenditure. This included a review of expenditure incurred by the Mayor, Councillors, Chief Executive and Executive Leadership team (ELT).

We reviewed the transactions for compliance with the District Council's policies, and good practice expected in the public sector.

We identified the following areas where improvements can be made:

5.6.1 One up approval of sensitive expenditure

Recommendation

Implement a process so approval so the Mayor's expenses is made by the Chair of the Audit and Risk Committee.

Senior staff be reminded of the need to ensure that the one-up approval of sensitive expenditure be adhered to.

Background

While the Mayor did not incur any direct expenditure during the audit, we note that the draft sensitive expenditure policy requires that the Chief Executive is to approve the Mayor's sensitive expenditure.

Best practice is for approvals to be on a one-up basis. In the case of the Mayor, where there is no higher level, it is appropriate for the Chair of the Audit and Risk Committee to approve his expenditure.

We also noted two instances, in our testing of Chief Executive and General Manager's expenditure, where approval on a one-up basis did not occur.

Management comment

This is the current process for approving the Mayor's and Chief Executive's expenditure in line with one up approval requirements in place from 1 July 2019.

Expenditure for the Mayor is physically signed by Deputy Mayor and Chief Executive. In order to meet one up approval requirements this is then sent to a Group Manager and then one up to the Chief Executive.

Expenditure for the Chief Executive is physically signed by the Mayor and Chief Executive. In order to meet one up approval requirements this is then sent to a Manager and then one up to their Manager.

5.6.2 Sensitive expenditures policies

Recommendation

Update sensitive expenditure policies to reflect OAG's good practice guidance.

Findings

We reviewed the District Council's sensitive expenditure policy, travel policy, gifts and rewards policy, and koha and donations policy against the OAG's good practice guidance.

Apart from the sensitive expenditure policy, which was being updated, the rest were dated 2016 and are due for review/update to ensure that the policy remains relevant. Our review of the policies noted several guidelines within the policies that could be improved. We recommend the following:

- Define what is meant by "actual and reasonable" when these terms are used within the policies, specifying dollar limits and defined boundaries, where practicable, of what is "reasonable".
- Specify within the policies the process to amend the policies and procedures.
- Travel policy and procedures to include details over:
  - taking annual leave prior to or after travel for work;
  - staying away over weekends;
  - stopovers;
  - travelling with partners;
  - membership of airline clubs, with any membership of such clubs supported by a clear business purpose;
  - rental cars – with the most economical type and size of rental car suitable for the planned travel (number of passengers, distance to be travelled etc.) is to be used;
  - private use of a rental car should be limited to matters incidental to the business purpose (for example, traveling to dinner venue when away on business);
  - use of Council vehicles (provided outside remuneration arrangements);
  - entertainment related expenditure including clear guidance about what is an acceptable level of expenditure, if any, on seasonal occasions such as a Christmas event.

We expect these policies to be referred to by staff when making decisions. Therefore, it is imperative that these policies are clear about the District Council's expectations and provide as much guidance as it could to help ensure appropriate behaviours are carried out.

Management comment

The policies and procedure documentation in People & Culture are currently being assessed for accuracy and currency and these points will be picked up in this process.

The sensitive expenditure policy, as noted by audit, is currently being updated. The remaining financial policies are due for review and this process has commenced during the Covid-19 lockdown.

6 Revaluation issues

6.1 Valuation using first principles

Recommendation

Implement a valuation process which ensures valuations are based on first principles on a minimum of a three yearly rotational basis, with relevant inflationary indices used in the intervening years.

Use relevant industry specific indices for inflation rates.

Findings

Since 2015/16, the roading and the 3 water infrastructure assets have been revalued annually using the depreciated replacement cost (DRC) approach by inflating the unit rates used for each asset component. The inflation factor used is either the capital goods price index (CGPI) from Statistics New Zealand or the Local Government Cost Index (LGCI) from BERL.

We have tested the reasonableness of the inflated unit rates against an average unit rate from multiple current contracts that the District Council had across FY 2017/18 and FY 2018/19. We found several instances where the actual unit rate used by the District Council is higher or lower than those based on current contracts. The most significant impact was to roading formation (plain); where the value would have increased by $15 million had current contract rates been used. We have accepted that this was not adjusted as the amount is not material to infrastructure assets, particularly as it is offset by differences going the other way, and as roading formation is not depreciated there is no impact on the net surplus or deficit.

We noted that management had benchmarked the revaluation unit rates against the latest infrastructure contract prices. Despite the effort that went into this benchmarking exercise, the average unit rates from current contracts were not utilised in the 2018/19 valuation. We also noted that the NZTA cost indices were not used in the roading revaluation. As these rates specifically relate to road asset components, these rates would be more reflective of actual road inflation and is the inflationary index used by most local authorities. With significant roading projects underway, we are aware that contracting costs are increasing in this area.

The District Council should at least on a three yearly basis go back to first principles which means using unit rates from Council's current contract schedules, construction estimates, labour rates and materials to benchmark unit rates used in the valuation. Liaising with other Councils with similar infrastructure assets may also provide useful benchmark data where the District Council does not have recent contract information.

While we obtained sufficient assurance that the estimated over/understatements did not materially misstate the financial statements, it is likely that simply inflating the unit rates year-on-year will eventually result to a material misstatement with audit opinion implications.

Management comment

It is planned to value Roading assets, using the RAMM module, with NZTA cost indices and benchmarked against average contract rates. The average contract rate will be used where materially different from the inflated rate.

Next year, 3 water infrastructure will be revalued on a first principles basis.

6.2 Improvement in quality assurance processes over revaluations

Recommendation

Implement a quality assurance (QA) process to review the reasonableness of the revaluation work papers/process before they are presented for review (peer review, Council review, and audit review).

Findings

We found issues during our review of the revaluations. We would expect that these would have been identified had a QA process been performed over them prior to our review.

These issues include:

- Use of incomplete source data

  Roading: Valuation worksheets used were rolled from the 1 July 2017 valuation. As a result the asset additions for FY 17/18 had been excluded and the remaining useful lives in the valuation worksheet had not been updated (i.e. these should have been depreciated by an extra year). This resulted to a significant understatement to the roading valuation, which had to be subsequently corrected.

  3 Waters: Our testing identified that not all the additions in FY 2017/18 were included in the reticulation valuation. However, we have established this did not have a material impact to the overall balance.

- Incomplete valuation reports

  3 waters: We noted with earlier versions of the 3 waters valuation report provided to audit:

  - Values were not consistent with those of the valuation worksheets; and
  - Treatment plants were not included in the valuation report.

  We found these issues despite versions of the valuation reports and information already being provided to, and reviewed by the peer reviewer.

- At the start of the audit we sent through, to the District Council management, a series of questions to provide a good guide of the areas that management should review before submitting the revaluation information to Audit.

  While the questionnaire was responded to, responses were minimal. Ensuring the responses are considered and reviewed appropriately may have reduced the level of revaluation issues found during the audit.

Management comment

A thorough review of the revaluations will be undertaken before being submitted to audit.

6.3 Timing of delivery of revaluation to audit

Recommendation

Provide the revaluation workpapers and valuation reports for audit review after the valuation reports and supporting information have been reviewed by the independent peer reviewer, Management and the District Council's Audit and Risk Committee.

Findings

We started our review of the revaluation during our pre-final visit in May 2019. At this point, only the valuation worksheets were available for review. The revaluation reports were not completed and the valuation had not been peer reviewed nor presented to Council's Audit and Risk Committee. As the valuation was as at 1 July 2018, it is a concern that these were not available before May 2019.

The peer review occurred during our final audit visit in August 2019 and the draft valuation reports were not been provided until then. We also understand that the valuations were not presented to the District Council's Audit and Risk for comment. The roading valuation movements were not included in the draft financial statements; these were added after Audit's initial review of the draft financial statements.

Clearing the issues before the peer review/Council presentation took significant of time for both Audit and Council staff. Many identified may have been identified and resolved before the revaluation information been provided to Audit for review, if the reports and supporting documentation had already been well reviewed by Council Management, the peer review completed, and Council's Audit and Risk Committee been given opportunity to comment.

A formal valuation schedule, with agreed timings, should be developed so that valuations are completed and reviewed prior to being made available for audit. Our expectation is that a 1 July valuation would be available for review by November/December to ensure there is sufficient time to complete the audit before the preparation and audit of the rest of the financial statements.

Management comment

The revaluations of the Roading assets are set to be completed for the pre audit in June using the RAMM module.

6.4 Timing of revaluation cycles

Recommendation

Implement rotational valuations of the Infrastructure asset classes and Land and Buildings/Parks and Reserves so that the valuations of the major asset classes fall in different years to even the workload.

Perform a cost/benefit analysis to assess whether it would be better to contract out the infrastructure valuations to an external valuer.

Findings

Noting the issues identified above, we question the District Council's ability to complete revaluations of all asset classes every year. From discussions it appears that many of the issues in relation to the revaluation timing and QA processes stemmed from a lack of resourcing and capacity to complete the valuation work in-house. It would also appear that there is a lot of infrastructure staff time to perform valuation work that may be better utilised elsewhere.

The District Council should consider whether, based on a cost/benefit analysis, it would be beneficial for the infrastructure valuations to be carried out by an external valuer rather than in-house. The District Council should also consider whether there is benefit for revaluations to be prepared on a rotational basis. For example Land and Buildings/Parks and Reserves in year 1; Roading in year 2; and Three Waters in year 3, with fair value assessments performed early in the intervening years.

Robust fair value assessments would also give a good indication of the potential increases in depreciation when the asset class is next revalued so could be built in budgeting.

Management comment

This year Roading assets are being revalued. The following year 3 Water assets will be revalued. The cycle will continue for infrastructure assets. Land and buildings/Parks and Reserves will continue on a 3-year cycle.

6.5 Classification of 3 waters assets

Recommendation

We recommend that the District Council:

- Revalue land and buildings integral to the 3 Waters Infrastructure asset as part of the 3 waters valuation; and

- Reclassify non-integral land and buildings in the 3 Waters Infrastructure asset class to the Land and Building asset class.

Findings

IPSAS 17.51 requires that *when an item of property, plant and equipment is revalued, the entire class of PPE to which that asset belongs shall be revalued.*

We found that included in the 3 waters asset class were:

- land and buildings that are revalued on a three yearly cycle (NBV at 1 July 2018 is $11.8m) and
- trees that were not intended to be harvested therefore not revalued (NBV at 1 July 2018 is $0.5m).

While we are satisfied that the financial statements materially complies with the requirements of the accounting standards, these balances can only increase in time.

For assets not revalued in line with reticulation and treatment plants, if they are integral to the 3 water treatment plants they should be revalued in line with the 3 waters valuation. A methodology should be agreed so the fair value movements on these assets can be estimated if it is not practical to have these revalued outside of the land and building valuation. If they are not an integral part of the 3 waters infrastructure then they could be re-classified as land and buildings.

Management comment

The non-integral land and buildings that were previously included in the 3 Waters assets will be reclassified this year and revalued with the other land and buildings.

6.6 Stand-alone fixed asset register for treatment plants

Recommendation

Develop a stand-alone fixed asset register for Wastewater Treatment Plants and ensure that they are revalued at component level.

Findings

Similar to roading and reticulation assets, treatment plants and other assets were also revalued in a spreadsheet. As noted in prior years, some of the assets in the spreadsheet refer to treatments plants that are accounted as a whole, instead of being componentised.

Technically, this approach does not comply with the requirements of IPSAS 17, *Property, plant and equipment*. The standard requires *each property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately*; so the components should also be valued separately.

We understand that the treatment plants were componentised in FY 2015/16, but subsequent to that, the valuation has not been based on the treatment plant components, it has been based on the whole treatment plant. The risk is that significant components of these plants will have different useful lives and condition assessments so the depreciated value and depreciation may not be reflective of the actual lives and cost to Council of replacing these plant components.

Management comment

This is currently being done but will not be complete until next year.

7 Other matters identified during the audit

In this section we outline the significant issues we have identified through the audit work we have performed.

7.1 Impairment assessment of property, plant and equipment (PPE)

Recommendation

Formalise and document the District Council's impairment assessment of PPE at balance date.

Findings

Accounting standards, IPSAS 21 *Impairment of Non-Cash-Generating Assets* and 26 *Impairment of Cash-Generating Assets,* require property, plant and equipment to be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount might not be recoverable.

We note that, at year-end, a formal assessment of impairment that complies with the requirements of the standards has not been carried. No evidential documentation was provided to support that there were no impairment indicators.

While we have obtained sufficient assurance that property, plant and equipment are not materially impaired at year-end, this issue may have audit opinion implications in the future if a formal impairment assessment is not performed.

Management comment

This was done last year but did not include the level of formal evidence collection required to meet audit expectations. This will be corrected this year.

7.2 Service performance issues

7.2.1 Completeness of Customer Relationship Management (CRM) report provided to audit

Recommendation

- Review the parameters used to run the CRM report to ensure that all relevant CRM service requests are included in the report used for service reporting; and
- Investigate "missing" CRM request numbers to determine if they are genuine or not.

Findings

We performed testing over a report of all the CRM requests from the system. We noted that some of the sequential numbers were missing. We investigated this and found that while some were genuine "missing CRM requests" i.e. a record did not exist under that number or the record related to a different financial year. Some related to CRM requests from the financial year under review which should have been included in the report. We obtained sufficient assurance that the number of potential missing CRM requests is not sufficiently material to affect our audit report this year. However, there is a risk that, in future financial years. It will be a material issue with audit opinion implications.

Management comment

The current CRM Summary Report through Council's Reporting Services has two options to obtain CRM data for Financial Years when required, 'Open date' or 'Closed date'. When testing the 'Open Date' report, CRMs raised in a previous Financial Year did not show even though closed in the current financial year. When testing the 'Closed date' report these CRMs were visible however with the open CRMs then were not shown.

The one CRM that was not extracted was investigated and found that the report relied on valid Name and Address records. The report had been adjusted to extract any CRM that produces an unknown result in the report.

Based on Audit's recommendations, a new reporting selection will be added to the existing report tool to include CRMs under review during the financial year the report is run for. This will be an additional option to select when extracting data, called 'Open and Closed date', this will then provide all CRMs worked on during the period chosen within the report.

The exception to this report are CRMs raised at the beginning of the financial year, yet backdated to the end of the previous financial year. These will be those that are Afterhours requests that were managed at the time, therefore only worked on and completed in the previous year, and added to our CRM system as soon as possible to allow accurate recording of these requests.

7.2.2 Recording of multiple complaints

Recommendation

Ensure staff members, who prepare the performance report, are well-versed with the DIA guidance on mandatory measures. This is especially important where the staff member completing the report has changed.

Findings

While reviewing the number of complaints for the Water Supply activity, we noted that approximately 10 of the complaints, received in the DIA categories, had been manually removed from the reported results for being 'duplicate complaints'.

We reviewed these complaints and they appeared to be instances where multiple people have rung up about the same problem. Per the DIA guidance each call on an issue is to be counted as a complaint for reporting purposes. This was corrected for reporting purposes.

Management comment

Activity Managers have been apprised of the necessity to ensure that their staff, compiling the information for the DIA measures, are aware of DIA guidance on mandatory measures.

7.3 Consistency between the Rating FIS and the rates resolution

Recommendation

Implement a process to ensure that there is a check of the rates resolution before it is adopted by Council to ensure that the rates resolution is consistent with the agreed funding impact statement.

Findings

We reviewed the rates resolutions against the Rating FIS for consistency. As in the prior year, we found that, for the following rate, there is inconsistency between the two documents:

- Per Rating FIS: Charge per m3 in excess of 91m3 per day for any rating unit connected to the Shannon untreated bore water supply
- Per rates resolution: Charge per m3 in excess of 91m3 per quarter for any rating unit connected to the Shannon untreated bore water supply

Overall, the rate is not material, however, we do remind the District Council of the importance of ensuring consistency between the rates resolution and Rating FIS.

Management comment

This rate applies to one ratepayer. The rate income was $1,500 for the 2019 year out of a total rate income of $38.8m. The FIS is incorrect and will be corrected for the 2020/21 Annual Plan.

7.4 Expenditure not approved within financial delegations

Recommendation

Remind staff of their financial delegations and the rules within the financial delegations policy.

Implement procedures in place to ensure all expenses are approved within the approver's financial delegation.

Findings

During our sample testing of expenditure, we found two instances where a payment was approved outside the approver's delegation:

- A payment to Opus Consultants for $20,077 was approved by a staff member with financial delegation of $5,000.
- A payment to Spark Limited for $6,720 was approved by a staff member with financial delegation of $2,500.

It is important that financial delegations that are in place are adhered to. We continue to also recommend that the financial delegations be enforced in the FMIS system.

Management comment

Noted. The implementation of one up approval from 1 July 2019 means that financial delegations are now enforced within the financial management system.

7.5 Lack of GST invoice

Recommendation

Ensure all expenditure is supported with a relevant GST invoice.

Findings

We tested a sample of asset maintenance contract expenditure and noted several instances where the support for the expenditure was not a GST invoice. We also note that some of the Alliance expenditure did not always have sufficient supporting documentation. While we were satisfied that the expenditure is valid and accounted for appropriately, the lack of GST invoice can have tax implications, and increases the risk of fraud.

Management comment

We will ensure that the appropriate GST invoice is received from the Alliance.

7.6 Purchase Order Clearing Account

Recommendation

Ensure that an appropriate report can be generated and reviewed for the "*Purchase Order Clearing Account*".

Remove/adjust any outstanding balances where invoices have been received or outstanding amounts paid.

Findings

We obtained a printout of the GL code "*Purchase Order Clearing Account*" which forms part of the trade payables reported in the financial statements. As part of our testing of this account, we noted several issues:

- Payables were recognised by the District Council but the liability was overstated as the subsequent amount paid portion was not adjusted for;
- Payables being included in this report that were later confirmed to have been cleared in prior years.

During investigation of these issues, we were then advised that the report initially provided to us was not accurate. As a result we had to perform additional testing to obtain assurance there were no material misstatements.

While we were satisfied that there was e no material misstatement, concerns are raised over lack of appropriate review of this GL account and the reliability of the underlying report. We also note that a regular review of balances in this account should be undertaken to remove paid balances/or adjust amounts where invoices have been receipted.

We understand that management is contacting Civica to resolve this issue.

Management comment

The reconciliation of the purchase order clearing account is one of the projects in the Finance Business plan. Officers have approached Civica for assistance with this and are awaiting a consultant to be assigned. We are hopeful that this will completed before 30 June 2020.

7.7 No records of retentions by contract

Recommendation

Maintain a separate listing for all contract retentions held by the District Council and review them for reasonableness on a regular basis.

Findings

We intended to review the ageing of retentions held by the District Council at year-end to ensure that retentions are released when the defects liability period has passed. However, we were advised that there is no separate listing or separate GL account for retentions held at year-end. They are currently recognised as a normal liability (together with other invoices payable) under each creditor in the accounts payable module.

There is a risk that a retention is being held by the District Council for longer than intended. With no separate listing for retentions, there is no practical way of reviewing every credit balance to check for retentions due to be released.

The District Council is obligated, under Construction Contracts Amendment Act 2015, to *keep proper accounting records of all retention money held* and that these are *readily available and properly auditable*.

Management comment

The number of retentions has been declining as the majority of expenditure is processed through maintenance contracts that do not have retentions. Retentions are recorded in each creditor in the accounts payable module. All outstanding balances in the creditors ledger are reconciled monthly after the 20th of the month payment and any old balances reconciled and followed up.

Officers query the need to have this information separately recorded when it is already recorded in the FMIS.

7.8 Annual report disclosure improvements

Recommendation

Improve identified disclosures for future reporting.

Findings

We noted several disclosures where improvements could be made to better align with the accounting standards. These include:

PBE IPSAS 17 Property, plant and equipment

- assumption on obsolescence and how the replacement costs of the assets were derived;
- judgements management has made in the process of applying the District Council's accounting policies that have the most significant effect on the amounts recognised;
- the methods and significant assumptions applied in estimating the assets' fair values;
- the extent to which the assets' fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms, or the extent to which they were estimated using other valuation techniques;

PBE IPSAS 1 Presentation of Financial Statements

- The sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity;

- The expected resolution of an uncertainty and the range of reasonably possible outcomes, within the next financial year, in respect of the carrying amounts of the assets and liabilities affected;
- When it is impracticable to disclose the extent of the possible effects of a key assumption or another key source of estimation uncertainty at the reporting date, the entity discloses that it is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the asset or liability affected.

PBE IPSAS 19 Provisions, Contingent Liabilities and Contingent Assets

Contingencies: where any of this information is not disclosed because it is not practicable to do so, disclose that fact.

PBE IPSAS 29 Financial Instruments: Recognition and Measurement

Borrower notes are correctly valued at 'fair value at amortised cost'. However, they were incorrectly included in Note 28(c) of the financial instruments note as being valued on observable inputs.

Management comment

These will be considered in the preparation of the 30 June 2020 annual report.

8 Public sector audit

The Local Government is accountable to their local community and to the public for its use of public resources. Everyone who pays taxes or rates has a right to know that the money is being spent wisely and in the way the District Council said it would be spent.

As such, public sector audits have a broader scope than private sector audits. As part of our audit, we have considered if the District Council has fairly reflected the results of its activities in its financial statements and non-financial information.

We also consider if there is any indication of issues relevant to the audit with:

- compliance with its statutory obligations that are relevant to the annual report;
- the District Council carrying out its activities effectively and efficiently;
- the District Council incurring waste as a result of any act or failure to act by a public entity;
- any sign or appearance of a lack of probity as a result of any act or omission, either by the District Council or by one or more of its members, office holders, or employees; and
- any sign or appearance of a lack of financial prudence as a result of any act or omission by a public entity or by one or more of its members, office holders, or employees.

As part of the 2019 audit of the District Council, we have reviewed significant expenditure and revenue, capital expenditure and performed reviews over sensitive expenditure transactions. Other than the items raised earlier this report, there were no other issues identified.

9 Key changes to the Government Rules of Sourcing

The District Council is among the agencies encouraged to apply the Government Procurement Rules.

As from 1 October 2019, the new Government Procurement Rules (the Rules) come into force. The Rules are a revision of the previous third edition of the Government Rules of Sourcing and were approved by Cabinet in May. Much of the content is consistent with the third edition with some re-numbering of Rules. The new Rules and a table of rule changes can be found in this link Table of Rule Changes. Entities should watch out for a few important changes noted below:

Government Procurement Charter

The new rules include a Charter for the first time. The Charter sets out the Government's expectations of how agencies should conduct their procurement activity to achieve public value. The Charter applies even when the Rules do not. The District Council should consider how they will demonstrate how they are meeting these expectations in their procurement activity.

Broader outcomes

The new Rule 16 outlines a number of secondary benefits that it is seeking from the way in which procurement is conducted in the public sector. These secondary benefits relating to the costs and benefits to society, the environment and the economy are required to be considered (where appropriate) along with the whole of life costs of the procurement.

To maximise the effects of these priorities, the Government will be designating some contracts or sectors where the outcomes must be prioritised. These will be published at www.procurement.govt.nz.

Procurement planning

A new Rule 15 includes guidance and expectations related to procurement planning. Rule 22 has been amended so that significant procurement plans must be submitted to the Ministry of Business, Innovation, and Employment for review on request

Threshold changes

The thresholds for when the Rules apply (contained in Rules 6 and 7) have been taken out of the Rules document and will now be found at www.procurement.govt.nz. We understand this is to facilitate changes in the thresholds as necessary, without a full change to the GPS. The immediate change is to the threshold for new construction works, which reduces from $10 million in the current edition to $9 million.

We encourage procurement staff to understand the changes, and prepare for their implementation by considering the changes that may be required to the District Council's procurement policies, procedures and practices.

10 Procurement and contract management

Helping you to understand your risks: procurement and contract management

Why it matters

Procurement and contract management carry high risk in terms of costs, public and political profiles, reputation, and performance. Delivering services well depends on doing procurement and contract management well.

Understanding your risks

We have used our sector expertise, and recognised best practice, to develop a standardised risk assessment tool to analyse your local authority's procurement and contract management risks. We have included the sector context by displaying your position compared to other entities in the sector[3].

What do we mean by procurement and contract management?

Procurement is the overarching term used to describe all the business processes associated with purchasing goods and services. Procurement is much more than "buying something" – it includes all the processes involved in acquiring goods and services from a third party. Effective contract management helps ensure goods and services are delivered well, to specification, and in full. Both go together to ensure public value is realised.

Figure 2
The eight-stage life cycle of procurement

Source: (Recoloured from) the Ministry of Business, Innovation and Employment.

The Auditor-General's work programme – *Procurement*

The Office of the Auditor-General is part way through its work programme on Procurement. Earlier this year performance auditors visited 22 local authorities in the Waikato, Bay of Plenty, Canterbury, and Wellington Regions to talk about how local authorities in those regions carry out procurement. This audit identified some challenges that local authorities need to respond to so that procurement can continue to support the delivery of infrastructure and services to local areas. This will be particularly important with the significant growth that is forecast in many areas.

[3] This analysis is limited to entities audited by Audit New Zealand only.

43

The Office of the Auditor-General plans to publish its findings by the end of 2019. It will be important for each local authority to consider the Auditor-General's findings in order to determine priorities for further improving or developing the approach to procurement.

How do we assess risk?

Our assessment tool considers risk from two angles:

- The risk in the environment. This is the inherent risk. It is influenced by complexity, instability, change, delivery of critical services, interdependencies, and reliance on third parties. Size, strategic direction, and the nature of services are also important.
- The effectiveness of management systems and processes. This is control risk and covers the main aspects of good practice that we would expect to be applied. Effective management systems and processes mitigate aspects of inherent risk and reduce the risk of something going wrong.

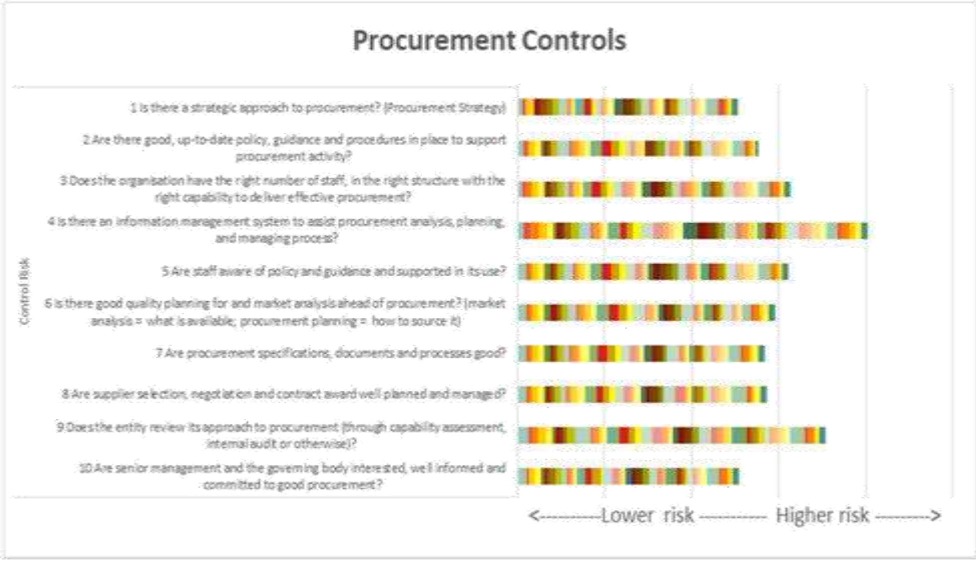
The risk assessment process we have undertaken is based on the design of the controls only. We have not performed testing to ensure the controls are operating effectively.

What are the assessments telling us?

Procurement is particularly important for local authorities, in which investment in developing, renewing and maintaining infrastructure is typically outsourced to private sector providers. In additional, many local authorities have entered into alliances, partnerships or other collaborative arrangements to support service delivery. With continued pressure on rates and other sources of funding, the need to achieve good value for money remains an important consideration. However, many local authorities have told us that they aim to use their spend to deliver other benefits, such as supporting the local economy.

Common areas of risk across local government

In the graph below we have summed the risk rating we assessed for each of ten procurement controls across all the local authorities we audit.



Two areas stand out across local government as priorities for improvement:

- Ensuring there is an appropriate information management system so that staff can analyse procurement spend, plan and manage procurement processes, and keep good records;
- Being open to continuous improvement through reviewing procurement practices and capability.

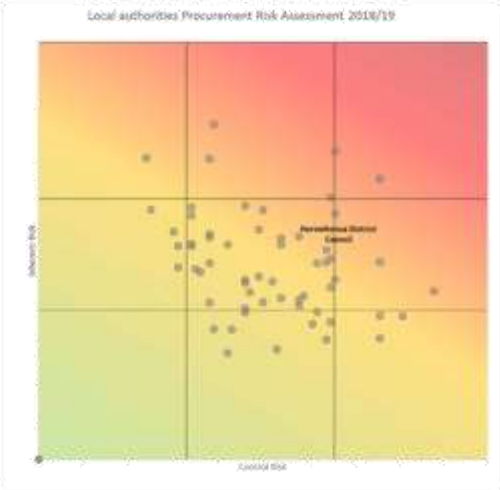
The graph below shows a similar analysis for contract management controls. Overall this indicates that contract management controls are weaker than those covering the purchasing stage of the procurement cycle. We encourage all local authorities to consider whether their approach to contract management is as clearly defined, well-resourced and implemented as it needs to be.

Three aspects of contract management might provide a focus for this consideration:

- Assessing whether there is a strategic approach to supplier relationship management;
- Making sure there are good, up to date policies, guidance and procedures in place to help staff manage contracts effectively; and
- Ensuring there is an appropriate contract management system in place.

Each grey dot in the graphs below represents a local authority mapped according to our assessment of its inherent and control risk.

Procurement Risk levels



Contract Management Risk levels

Local authorities use a range of procurement approaches and have a significant number of contracts for a diverse range of goods and services. Levels of inherent risk vary widely depending on the size of local authorities, as well as the extent of and approach to outsourcing.

The District Council has medium levels of inherent risk for both procurement and contract management.

There is little the District Council can do to reduce its level of inherent risk. However, it can strengthen its systems and processes to bring down the overall level of risk. In our view the controls for procurement and contract management are around the threshold between medium and high risk. In our view the District Council could strengthen its contract management systems and processes, to bring the overall level of risk down from what we have assessed to be at a high level overall.

47

Our view on priorities for strengthening the District Council's control over procurement and contract management

We expect up to date policy, procedures and guidance to form a sound basis for controlling contract management. Policy needs to be regularly updated to make sure it continues to comply with the good practice promoted by the Government Procurement Rules.

In our view, the area we believe would make the most difference to strengthening the District Council's controls would be:

1 Considering whether there is a sufficiently strategic approach to supplier relationship management, which might include:

- Having a supplier categorisation model in place differentiating between the relative importance of suppliers (e.g. strategic partners, routine suppliers, commodities etc. - the Kraljik matrix is one example, there are various other models that the District Council could adopt).
- Identifying risks to contractor delivery and being proactive about how they are managed.

2 Ensuring there good, up-to-date policy, guidance and procedures in place to support contract management. This might include:

- Putting in place an organisation-wide policy, supported by good quality detailed guidance, procedures and templates, including standard/pro-forma contracts.
- Reviewing existing policy(s) to make sure it aligns to good practice, up to date and working well.
- Applying the planned approach across all contracts (commercial, grants etc.).
- Being clear on when to use contract management plans, and how to assess delivery risks, perhaps with templates provided.
- Comprehensive guidance on what to do when contract performance obligations and expectations are not being met.
- Policy on negotiating and approving contract variations with cross reference to delegations.

3 Making sure the organisation has the right number of staff, the right structure & the right capability to manage contracts effectively, which might include:

- Contract Management led by a Centre of Excellence / dedicated team which provides advice and guidance.
- Good oversight and coordination of staff with devolved contract management responsibility.

- Appropriate use made of legal support.

4 Ensuring there is a fit-for-purpose contract management or supplier relationship management system, which might involve:

- Putting in place a functional contract management system in place to capture key information on all contracts.
- Making links to the FMIS / payment system to help staff manage contracts.
- Storing documentation electronically in easily accessible ways (original agreement, record of contract progress claims and payments, monitoring and inspection or meeting records, relevant correspondence, records of any variations or claims, producer statements and/or guarantees, completion certificates).
- Maintaining appropriate physical security and disaster recovery arrangements in place for contracts and associated information.
- Allowing contract information to inform or be integrated with budget setting and monitoring.
- Making links between performance information, payments and contract renewal decisions.

5 Making sure that staff are aware of policy and guidance on contract management, and are supported in its use. This may involve:

- Ensuring that policy and guidance is available on the intranet (or similar) for staff to access as required.
- Having key staff groups identified to receive initial procurement training along with any refresh as required.
- Making sure all relevant staff are updated with changes in contracts and legal requirements.

6 Ensuring there is a robust approach to contract financial control operating, including:

- Delegated responsibility being clear for: Commitment; Signing of contract; Variations; Approving payment; Sensitive Expenditure.
- Use of contingencies, variations, approach to penalty clauses and damages aligned to good practice.
- Clear budget management.
- Well considered bases for reimbursement contained in standard contracts.
- Require financial reporting by contractors aligned to good practice.
- Clear invoicing and payment processes.

7 Ensuring there is a robust approach to contract monitoring and performance management. This might include:

- Having contract managers identified for all contracts.
- Implanting a sound approach to specifying and setting out requirements in contracts, with a good approach to defining quality.
- Requiring regular reporting, monitoring and evaluation of delivery by contractors.
- Having effective working relationships with supplier and key stakeholders.
- Providing good feedback to contractors on performance.

8 Making sure that there a structured and suitably formal approach to contract completion and transition. This might involve:

- Having formal close out process in place.
- Putting together an end of contract strategy, either in total, or for key contracts.
- Using transition plans where service delivery needs to continue.
- Having clear and well defined handover / commissioning processes for outsourced projects.

9 Regularly reviewing the approach to contract management (whether through internal audit or otherwise). This might involve:

- Putting a comprehensive programme of review in place.
- Focussing internal audit reviews on contracting and outsourced delivery, informed by risk assessment.
- Making sure that reviews are recent and relevant, with the conclusions / outcome good.
- Good evidence of action in response to review findings/recommendations with progress being made.
- Reporting to and interest from senior management/governance on progress.
- Reviewing fraud risk with confirmation that there are no known contract related frauds.

10 Making sure that senior management and the governing body have the time and information they need to take an interest in contracting through being well informed and committed to good contract management. A successful approach might involve:

- Regular reporting to senior management on spend.

- Evidence of commitment to good contracting practice.
- Involvement in contract management, particularly high value or high risk contracts with demonstrable interest across the portfolio.
- An appropriate range of reporting being produced for escalation depending on size, contract types, profile and risk.

Continuing focus on risk for 2019/20

As part of our 2019/20 audit we will consider procurement-related risks during our audit planning, based on our knowledge of your local authority, your pattern of spend and the range of contracts you have in place.

Management comment

Noted. The Procurement and contract management policy and procedures are currently undergoing a review and the points will be picked up in this review.

11 Useful publications

Based on our knowledge of the Local Government, we have included some publications that the District Council and management may find useful.

Description	Where to find it
Client updates	
In March and April 2019, we hosted a series of client updates. The theme was "Improving trust and confidence in the public sector". These included speakers from both Audit New Zealand and external organisations.	On our website under publications and resources. Link: Client updates
Model financial statements	
In July 2019, we issued updated model financial statements for Crown entities. The update primarily focuses on the early adoption of PBE IFRS 9 Financial Instruments for a tier 1 or tier 2 entity. While these are designed specifically for Crown entities, you may find these useful as it covers changes to accounting standards that are relevant to the District Council's financial statements. Our model financial statements reflect best practice we have seen. They are a resource to assist in improving financial reporting. This includes: • significant accounting policies are alongside the notes to which they relate; • simplifying accounting policy language; • enhancing estimates and judgement disclosures; and • including colour, contents pages and subheadings to assist the reader in navigating the financial statements.	On our website under publications and resources. Link: Model Financial Statements

Description	Where to find it
Tax matters	
As the leading provider of audit services to the public sector, we have an extensive knowledge of sector tax issues. These documents provide guidance and information on selected tax matters.	On our website under publications and resources. Link: Tax Matters
Client substantiation file	
When you are fully prepared for an audit, it helps to minimise the disruption for your staff and make sure that we can complete the audit efficiently and effectively. We have put together a tool box called the Client Substantiation File to help you prepare the information you will need to provide to us so we can complete the audit work that needs to be done. This is essentially a tool box to help you collate documentation that the auditor will ask for.	On our website under publications and resources. Link: Client Substantiation File
Severance payments	
Because severance payments are discretionary and sometimes large, they are likely to come under scrutiny. The Auditor-General has released updated good practice guidance on severance payments. The guide is intended to help public sector employers when considering making a severance payments to a departing employee. It encourages public organisations to take a principled and practical approach to these situations. The update to the 2012 good practice guidance reflects recent case law and changes in accounting standards.	On the OAG's website under 2019 publications. Link: Severance payments

Description	Where to find it
Matters arising from the 2017/18 audits	
The OAG has published a report on the results of the 2017/18 audits for the sector.	On the OAG's website under publications. Links: Local Government
Good practice	
The OAG's website has been updated to make it easier to find good practice guidance. This includes resources on: • audit committees; • conflicts of interest; • discouraging fraud; • good governance; • service performance reporting; • procurement; • sensitive expenditure; and • severance payments.	On the OAG's website under good practice. Link: Good practice
Post-implementation reviews	
The OAG have recently completed a review of Auckland Council's post-implementation review process. While many aspects of the report are specific to Auckland Council, it documents the process that Auckland Council uses, and includes a post-implementation review checklist.	On the OAG's website under publications. Link: Post-implementation review process
Reporting fraud	
The OAG have released data from 2012-2018 on fraud in public entities. This includes how the fraud was detected, the type of fraud and the methods and reasons for the fraud. The graphs show the high-level sector, and this can be broken down further into sub-sectors by opening the spreadsheets available.	On the OAG's website under data. Link: Reporting Fraud

Appendix 1: Status of previous recommendations

Open recommendations

Area	Recommendation	First raised	Status
	Urgent		
General	Annual Reporting Process Implement audit recommendations to improve the audit process including improving the quality assurance review over the annual report. The particular areas we would expect to see improving are: • implementing a quality assurance review over the annual report before providing to audit, performed by a staff member not directly involved in collating the information. This should include a check that notes agree to the face of the accounts, disclosures, variance explanations and statement of service performance information are complete; • ensuring that a complete annual report is provided at the start of the final audit. When draft annual reports are not complete this has a flow on impact to timeliness of reviews which could result in late changes, and results in additional audit time to check and review the changes; • improving the revaluation process and timetable so information is available by the agreed time to enable audit work to be completed earlier in the audit schedule; • providing fair value assessments, for revalued assets in a non-revaluation year, before the final audit commences; and • ensuring that there is supporting information for annual report balances	2018	**Open** The draft provided for audit review was not fully complete. Issues that we found indicate QA could be improved. Refer to section 3 of this report. We found issues with the revaluation process and timetable. Refer to section 6 of this report. The fair value assessment was performed, however, it was towards the end of the final audit visit.

Area	Recommendation	First raised	Status
	and statement of service information that agrees to the information reported in the annual report.		We found issues with the quality of some supporting information provided. Refer to 7.2 of this report.
	Necessary		
Probity, waste, and performance	**Approval of the Chief Executive's Expenditure** Require expenditure, incurred by the Chief Executive (CE), to be approved on a one up basis, either by the Mayor (or his delegate) or the Chair of the Audit and Risk Committee.	2018	**Open** We found that the CE can and has approved expenditure incurred by himself. Refer to 5.6.1
	"Virtual" Credit card controls Implement processes and procedures to strengthen controls and access to the virtual credit card, including: • Ensuring the use of the virtual credit card is in line with the District Council's policy on the use of credit cards; • Allowing only the card administrator to use the card with all approved transactions being processed by that staff member; • Formal one-up approval for the expenditure to be incurred being provided to the card administrator prior to processing the transaction. This should be filed with supporting transaction documentation; and • Implementing a monthly independent review and reconciliation of the expenditure on the credit card against the approvals and supporting documentation.	2018	**Open** We will re-review this in next year's audit. **Management Comment** *There is no longer a virtual credit card.* *The process for credit card expenditure has been updated to reflect one up approval and monthly reconciliation of the credit card statements.*
	Mobile/PDA policy The Mobile/PDA policy be reviewed in line with OAG guidelines.	2016	**Open** We will review the updated Mobile/PDA policy in next year's audit.

Area	Recommendation	First raised	Status
	Funding agreements with third parties Formalise agreements, between external parties, prior to entering into any future financial transactions where third parties will be sharing costs with the District Council. Formalise agreements with the partners in Te Awahou Niuwe Stroom project on the partner's share of the fit-out costs for the Project.	2018	**Open – in progress** The District Council has signed an agreement with the Dutch Connection Trust but the agreement with the Te Taitoa Māori o te Awahou remains outstanding. **Management Comment** *The Chief Executive notes Council now has a signed Deed of Debt with Ngati Raukawa/Te Taitoa o Maori Te Awahou.*
Risk management	**Conflicts of interest policy** Review and update the Conflicts of Interest policy to reflect best practice in the sector including: Policy to be reviewed and endorsed by the Executive Management Team; and The policy include a clearer mechanism on how breaches are handled or on what the consequences are for non-compliance.	2016	**Open** No progress has been made.
	Legislative compliance The District Council to look at mechanisms to actively monitor compliance with legislative requirements.	2016	**In Progress** The in-house legal advisor has since left and no other changes/improvements were made since 18J. The entity uses an informal system for monitor compliance with legislation. Reporting to governance is performed on an exception basis rather than regular reporting. There is less chance of the District Council breaching legislation if there is effective monitoring.
	Contract management Retain all contract information and ensure it is appropriately filed and archived to enable monitoring of key KPIs and contract conditions. All contracts should be appropriately approved and payments approved in line with delegated authority.	2016	**Open** Contract management issues were noted with the Alliance contract so we have retained this as "open". See Section 4 of this report. Our specialist team will review the contract management

57

Area	Recommendation	First raised	Status
			process and procedures against good practice in next year's audit.
	Project management improvements Formalise the methodology for managing projects and ensure there is a planned approach to post implementation review in place.	2016	**Open** Our specialist team will review the compliance with both good procurement practice and the District Council's procurement procedures.
	Procurement Strategy and Policy Align the current Procurement Strategy and Policy with best practice, with a view to having an integrated policy that can be used by the entire organisation.	2016	**Open** We also refer to our finding in Section 10 of this report. Our specialist team will review the compliance with both good procurement practice and the District Council's procurement procedures.
	Procurement review Implement the improvements identified from the procurement reviews in 2016 and include any policy improvements in the 2017 procurement policy update.	2016	**Open** We understand that Procurement Policy 2.0 has been reviewed. We will review the updated policy at our next audit visit.
Revenue, including rates	**Collectability of rates debtors** Implement a robust process to identify and monitor rates which are no longer legally collectable under the Local Government (Rating) Act 2002, and write them off.	2016	**Open** No progress has been made. **Management Comment** *Rates not legally collectable have since been written off.*
	Evidence on NZTA claim review The reviewer signs and dates the documentation as evidence of their review.	2017	**Open** During our review, we noted that the review of the NZTA claim is still not evidenced. **Management Comment** *The NZTA claim is reviewed, signed and dated monthly.* We will follow this up at our next audit visit.
Expenditure	**Segregation of duties in expenditure process** Review and enhance the purchase order controls in the expenditure system to require	2016 & 2018	**Open** A report can be run to indicate which PO's have been raised

58

Area	Recommendation	First raised	Status
	purchases orders to be approved on a one up basis. Develop a user friendly report that highlights self-approved purchase orders/invoices to allow for a specific review of these transactions prior to payment. Require the managers, in charge of the relevant business unit, to review the report developed that highlights self-approved purchase orders/invoices, prior to the payment of these transactions.		and approved by the same person and this could be investigated on a sample basis. However, our testing found that the control is not performed as part of the standard operating procedures for the creditors' payment review process. **Management Comment** *One up approval of purchase orders was implemented from 1 July 2019.*
	Creditor master file Review current processes to ensure there is adequate supporting information to verify that new creditors, and changes are bona fide. Implement a regular review process to remove redundant creditors.	2017	**Open** The person responsible for reviewing the creditor masterfile is still not independent as they have ability to edit the creditor's details in the system. This issue is still outstanding from the prior year. **Management Comment** *The current reviewer is the best person to review the creditor Masterfile.* *A review of redundant creditors has been undertaken.* We will follow this up at our next audit visit.
Property, plant and equipment	**Maintenance of fixed assets WIP schedule/depreciation** Monitor WIP balances on a regular basis to ensure that any WIP that should be capitalised, is done so in a timely manner. All significant capital additions be depreciated when the asset becomes available for use. As depreciation is only calculated at year end, the District Council should review larger additions to check if depreciation should be recognised earlier.	2016	**Open** Capitalisation still occurs at year-end.

Area	Recommendation	First raised	Status
	Maintenance of fixed asset register (FAR) Perform a full review of the FAR to ensure valid data is contained in the module. Review accounting policies to ensure depreciation rates are appropriate and detailed enough for assets which are commonly added to the schedule. Implement regular reconciliations between the Asset Management Systems (AMSs), maintained by the asset managers, and the FAR, maintained by the finance team. The reconciliations should be reviewed by an independent person evidenced with a dated signature. Capitalise operational assets on monthly basis.	2016 & 2018	**Open** Reconciliation between the FAR and the AMS, and capitalisation still occurs at year-end.
	Review of Land and Buildings Fixed Asset Register Review the listing of land and buildings to be valued before submitting the information to the valuers to ensure that all assets owned by the District Council are revalued and that only District Council owned assets are valued.	2017	**Open** Land and buildings were not revalued during the year. We will follow this up as part of the land and buildings revaluation in 2020.
	Updating of the Roading Asset Maintenance Management system (RAMM) Update RAMM on a regular basis with any changes to the asset data, including updated unit rates. Perform revaluations in RAMM for future revaluations.	2018	**Open** As far as we are aware, the RAMM had been updated with changes to the asset date, e.g. renewals and capitalisations from prior years. We will follow up as part of the 2020 valuation whether valuations ca now be performed in RAMM.

60

Area	Recommendation	First raised	Status
	Revaluation of property, plant and equipment Ensure there is a clear reconciliation between the revalued assets back to the valuation information. Develop a clear process to document adjustments to the valuation information and reassess the useful lives of infrastructure assets on a regular basis to ensure lives are in line with asset condition.	2017	**Open** We have noted similar issues with the 1 July 2018 infrastructure valuation. Refer to findings in section 6 of this report.
	Revaluation of Infrastructure assets Improve the revaluation asset data by: • Updating asset condition information and review the reasonableness of asset useful lives; • Benchmarking revaluation unit rates against the latest infrastructure contract prices in assessing the assets revalued unit rates; • Perform valuations based on first principles where actual contracts, materials and labour costs are used as a basis for the valuation on a 2-3 valuation cycle; • Reviewing the assumptions used in the revaluation of the treatment plants; and reviewing and simplifying revaluation templates; • Performing a fair value assessment for the wastewater and water land and buildings in the years between the full land and building valuation to determine whether an adjustment is required; and • Developing a formal timeline and schedule for the annual infrastructure valuation process.	2018	**Open** Asset condition information is still not included in the valuation worksheets. Asset useful lives had not been reviewed for reasonableness, e.g. updated to include effect of renewals, except for the 'roads sealed wearing course (surface)'. Benchmarking had been carried out. However, the resulting averaged unit rates were not used in the revaluation. Valuations remain to be based on inflation adjustment of prior year's carrying value. There have been no changes made to the assumptions or revaluation templates used. Only a broad fair value assessment was performed at year-end.

61

Area	Recommendation	First raised	Status
	• Consider whether there is value in performing revaluations on a yearly basis, or whether a longer interval between valuations would be appropriate.		We have not seen this during the audit. Also refer to section 6 for further recommendations.
Service performance reporting	**Performance measure rules** Continue to review the effectiveness of the collection and reporting of data.	2016	**Open** We identified issues during our review. Refer to section 7.2 of this report.
	Performance measures process • Review the effectiveness of the current reporting and systems to accurately capture the underlying data and to ensure the data is complete. Systems and processes should be formally documented and regular training provided to all staff involved; • Perform a regular, weekly or even daily, quality review of data entered into the Customer Request Management system (CRM) for complaints, service requests and response times to ensure it is complete, accurate and supportable. Reviews should also focus on following up unclosed jobs, ensuring all data fields are updated, and review of unusual response times. We would expect that these reviews are formally evidenced by way of a date and signature; • Ensure data fields include information to clearly show why data has been amended or re-categorised with a clear audit trail of any changes made and who authorised them; • Document any calls that are excluded as Department of Internal Affairs (DIA) service requests or complaints. This may require additional fields to be added to the existing CRM if this information is not already captured;	2016	**Open** We identified issues during our review. Refer to section 7.2 of this report.

Area	Recommendation	First raised	Status
	• Continue to review DIA guidance to ensure that the data being captured and reported, meets the mandatory reporting requirements. We expect that there will be further clarification around these measures as they become embedded into the annual reporting; • Establish a system to check contractor times recorded, are accurate instead of relying solely on the time that the contractor/staff noted. This is important to ensure accurate monitoring of contractor performance against the District Council's key performance targets; and • Use the data from the CRM to monitor the District Council's performance, on a regular basis, to ensure corrective action can be taken as needed.		
	Review of reported performance measurement information Implement review procedures, over the non-financial performance measures, to ensure the information reported is accurate and complete.	2018	**Open** We identified issues during our review. Refer to section 7.2 of this report.
Information Systems	**Disaster Recovery** We recommend that the district council continue to support and execute the overall BCP work programme underway to achieve BCP and DR plans that meet council requirements, including confirming the risk tolerance and response to achieve mitigation required for the district council's target risk level.	2016	**Open** The older BCP plan is still in place but each business unit must identify continuity requirements for their area. This is in process. IT specific procedures are in place for continuity. This includes reliance on the capabilities of the Trentham Revera data centre and remote working. IT have identified a potential 24 gap in data recoverability gap if a disaster occurred (due to timing of the back-ups and replication).

Area	Recommendation	First raised	Status
General	**Policy on deposits and bonds** Adopt a policy on deposits and bonds and review deposits and bonds held to determine whether those no longer required should be refunded or recognised as revenue.	2016	**Open** Still to be completed.

Implemented or closed recommendations

Recommendation	First raised	Status
Supporting documentation for a grant payment Retain supporting documentation for all grant payments to provide evidence that grant conditions have been met.	2018	No issues noted during our testing. We have assessed this matter as closed.
Quotable Value to Rating Information Database reconciliation Implement an independent review of the annual reconciliation between Quotable Value (QV) and the Rating Information Database (RID) and retain evidence of the review.	2018	There is now a coversheet to evidence who prepared and reviewed the reconciliation. We have assessed this matter as closed.

Appendix 2: Uncorrected misstatements

Uncorrected financial reporting misstatements

Current year uncorrected misstatements	Reference	Assets	Liabilities	Equity	Financial performance
		Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Other operating expenses	1				513,763
Water Revaluation Reserve				(10,065)	
Wastewater Revaluation Reserve				(503,698)	
Accounts Payable	2		271,199		
Accounts receivables		(271,199)			
GST receivable	3	87,725			
Accrued receivable		(87,725)			
Operating expenditure	4				321,789
Property, plant and equipment		(321,789)			
Property, plant and equipment	5	339,597			
Expenditure					(339,597)
Accounts payable	6		267,834		
Operating expenditure					(267,834)
Stormwater	7	1,967,885			
Stormwater revaluation reserve				(1,967,885)	
Total parent/group		**1,714,494**	**539,033**	**(2,481,648)**	**228,121**

65

Explanation of uncorrected misstatements

1 Write down of management plans incorrectly charged against revaluation reserve

The costs of preparing infrastructure management plans were incorrectly capitalised as an asset during the year. The write back of the asset was, however, incorrectly debited against the revaluation reserves instead of against expenditure.

Not adjusted as not material.

2 Recognition of internal revenue receivable related to Alliance contract for the District Council staff time

The District Council invoices Alliance for District Council staff time. Subsequently, Alliance invoices the District Council for work done, which also includes District Council staff time. The District Council staff time portion in both invoices is an internal expense/revenue and as such should not have been recorded in the general ledger. The effect is an overstatement of receivables and payables.

Not adjusted as not material.

3 GST was incorrectly recognised on accrued receivables; this should be GST exclusive in the financial statements.

Not adjusted as not material.

4 Operating expense incorrectly capitalised as asset (the amount in the table is the extrapolated amount, e.g. our estimation of the maximum operating expenses incorrectly capitalised).

Not adjusted as an extrapolated error.

5 Capital expenditure incorrectly treated as operating expense (the amount in the table is the extrapolated amount, e.g. our estimation of the maximum capital expense incorrectly treated as an expense).

Not adjusted as an extrapolated error.

6 Liability recognised when there is no obligation (this is an extrapolated error based on our estimate of purchase orders which the District Council is not liable to pay at year end – see our comments in 7.6).

Not adjusted as an extrapolated error.

7 Understatement of stormwater assets

The revaluation movement in stormwater assets is not in line with the District Council's assumption of 1.77% CPI increase.

Not adjusted as not material in terms of revaluation materiality.

Appendix 3: Corrected misstatements, disclosure deficiencies and performance reporting misstatements

Corrected financial reporting misstatements

Current year corrected misstatements	Reference	Assets	Liabilities	Equity	Financial performance
		Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
I-site revenue	1				115,180
I-site expenditure					(115,180)
Accounts Receivable	2	375,000			
Buildings		(368,000)			
GST		(7,000)			
Expenditure	3				1,199,000
Current landfill provision			1,083,000		
Non-current landfill provision			(2,282,000)		
Roading	4	8,459,057			
Footpath		78,380			
Roading revaluation reserve				(8,537,437)	
Roading asset	5	2,824,000			
Roading revaluation reserve					(2,824,000)
Roading revaluation reserve	6	(2,406,000)			
Roading asset					2,406,000

67

Current year corrected misstatements	Reference	Assets	Liabilities	Equity	Financial performance
		Dr (Cr)	Dr (Cr)	Dr (Cr)	Dr (Cr)
Depreciation	7				200,000
Roading asset		(200,000)			
Accounts Receivable	8	465,000			
Accounts Payable			(465,000)		
Total parent/group		**9,220,437**	**(1,664,000)**	**(8,537,437)**	**981,000**

Explanation of corrected misstatements

1 Overstated expenditure/revenue from I-SITE bookings. As the District Council is an agent only the commission should be recognised by the District Council.

2 The formal agreement has been signed with the Dutch Connection Trust in relation to fit-out costs. This adjustment recognised the receivable owing by the Dutch Connection Trust for their fit-out costs and removes the portion of the fit-out Te Awahou Niewe Stroom which is owned by the Dutch Connection Trust from the District Council asset above.

3 To increase the landfill provision in line with valuation report.

4 To increase the roading and footpath carrying values in line with the revaluation worksheet.

This include correction of using the wrong base for the valuation (did not include additions in FY 2017/18 and not depreciated for 1 year), and applying a minimum remaining useful life of 1 year to assets that would have been fully depreciated without reference to renewals previously carried out.

5 To account for the understatement of the roading revaluation.

6 To reverse the original entry in the revaluation reserve.

7 Impact on depreciation of additions that were originally excluded from the valuation.

8 A receivable was previously reducing 'accounts payable'. The correction transferred the receivable to be shown under 'accounts receivable' in the financial statements.

68

Corrected financial disclosure deficiencies

Detail of disclosure deficiency
Commercial properties note Disclosures were not updated from last year.
Accounting policy section *Standards issued and not yet effective and not early adopted* Disclosures were not updated from last year. Revision was required to take into account changes in accounting standards. *Impairment of property, plant, and equipment* Narrative updated as it did not cover revalued assets.
Statement of cashflow Other Revenue - incorrectly included the movements in provision for doubtful debt and current derivatives. Interest received - used the full LGFA interest income as opposed to just the accrual at year-end. Interest paid - incorrectly included the movement in non-current derivatives here. Payment to suppliers - Combined effect of errors in other revenue, interest received and paid. Purchases of PPE - not taken into account in the capital payables at year-end. Reconciliation note: payables movement - flow on effect from the errors noted in the main statement
Property, plant and equipment Roading revaluation disclosures were not updated from last year. For example, revision was required for the effective date of revaluations.
Remuneration disclosures *Remuneration bands* Update was required to ensure combined bands have no less than 5 District Council employees, except for top band. *Elected representatives remuneration* Inclusion of other allowances received, e.g. vehicle and phone. *Chief Executive remuneration* Increased to include the Kiwisaver contribution and corrected understatement of value of vehicle component.
Revaluation Reserve An endowment property was disposed of, but the reserve associated with that asset was not transferred to retained earnings.
Severance payment Disclosed amount needed to be increased to include waived notice period and paid legal costs.

Detail of disclosure deficiency
Financial instruments Maturity analysis - Analysis was mostly incorrect and incomplete. Fair value through profit and loss policy was inconsistent with derivative policy - should be at initial recognition for both and should also include in policy as to how fair value is measured. Cashflow states risk is managed by having borrowings at fixed rate but has a significant amount on floating. Needed to be updated.
Derivative financial instruments: Interest rate swaps The disclosure did not include the BNZ swaps i.e. Correct principal amounts and fixed interest rates.
Non-current assets held for sale Incorrect prior period figures. Needed to include a) description of the non-current asset (or disposal group) and b) a description of the facts and circumstances leading to the expected disposal and the expected manner and timing of that disposal.
Related parties Amounts disclosed for MWLASS transactions did not agree to the amounts per MWLASS financials. Suggested removal of detail as need to be able to support the breakdown and not required.
Borrowings Net debt to total operating revenue was corrected.
Balance budget benchmark Incorrectly excluded the movement in the landfill provision.
Draft financial statements Internal inconsistencies noted and several disclosures needed to be updated from prior year and/or completed.

Corrected non-financial performance reporting misstatements

Detail of misstatement
Number of complaints about water The total number of complaints per the District Council reporting excludes those which are multiple calls about the same issue. Per DIA guidance each call about an issue should be recorded as a separate complaint.
Number of complaints about wastewater The 'number of connections' used was incorrect, resulting in an incorrect reported complaints per 1,000 connections.

Detail of misstatement
Percentage of the network where fire-fighting flows in urban residential areas meet the NZ Fire Service firefighting water supplies Code of Practice SZ 4509:2008. Additional narrative was required.
Percentage of real water loss from the network as measured by the standard World Bank Institute Band for Leakage Narratives needed to be updated.
Percentage of customers satisfied with the service, based on the Annual Customer Satisfaction Survey. Reported results were incorrectly showing as "achieved", should be 'not achieved' as below target.
Quantity of waste going to the landfill per person per year Wording change required for clarification.
Number of odour complaints and minimal reports of solid waste in or around: Waste Transfer Stations; and Recycling Stations per month Change required so heading is as at 30 June or for the year. Also reported results needed to be changed to reflect 'x per month' in line with target.
Number of months in which all building consent applications are processed within 20 working days or less Need to update result to match target - result needs to be the number of months this was achieved in, as target is 12 months.
Council will maintain its accredited status as a Building Consent Authority Additional narrative required as more information became available during time of audit.
Food premises operating under the Food Hygiene Regulations 1974 are inspected As at 30 November 2018 all food businesses operate under the new Food Regulations 2015 and therefore there are no longer businesses requiring inspection under the Food Hygiene Regulations. Need to add narrative on whether all met the Regulations until 30 November 2018.
Food businesses are provided with written material about the Food Act 2014 and have opportunities to attend training sessions/seminars Narratives needed to mention training sessions or seminars which are also part of the measure.
The LTP is completed within the statutory timeframe, including a Financial and Infrastructure Strategy which meets the new requirements of the Local Government Act Change to "not applicable" for this year as reported result of "did not measure" sounded more like a choice.
The Annual Plan will be adopted before 30 June annually Result says annual report but should say plan.

Detail of misstatement
The change from the previous financial years in the number of fatalities and serious injury crashes on the local road network Correction of reported results was required. Was initially reporting there was an increase of 3 which was not correct. There were 12 serious injury crashes this year and the reported result for last year was a total of 18 fatal and serious injury crashes which is a decrease of 6 so the measure was achieved.
DWS compliance with part 5 per the DWA report is compliant Results were not updated in the first draft.

Appendix 4: Disclosures

Area	Key messages
Our responsibilities in conducting the audit	We carried out this audit on behalf of the Controller and Auditor-General. We are responsible for expressing an independent opinion on the financial statements and performance information and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001. The audit of the financial statements does not relieve management or the District Council of their responsibilities. Our Audit Engagement Letter contains a detailed explanation of the respective responsibilities of the auditor and the District Council.
Auditing standards	We carried out our audit in accordance with the Auditor-General's Auditing Standards. The audit cannot and should not be relied upon to detect all instances of misstatement, fraud, irregularity or inefficiency that are immaterial to your financial statements. The District Council and management are responsible for implementing and maintaining your systems of controls for detecting these matters.
Auditor independence	We are independent of the Local Government in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): *Code of Ethics for Assurance Practitioners,* issued by New Zealand Auditing and Assurance Standards Board. Other than the audit, we have no relationship with, or interests in, the District Council or its subsidiaries.
Fees	The audit fee for the year is $152,425, as detailed in our Audit Proposal Letter. Other fees charged in the period are $4,500, for the assurance engagement for the debenture trust deed.
Other relationships	We are not aware of any situations where a spouse or close relative of a staff member involved in the audit occupies a position with the Local Government or its subsidiaries that is significant to the audit. We are not aware of any situations where a staff member of Audit New Zealand has accepted a position of employment with the District Council or its subsidiaries during or since the end of the financial year.

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Draft Rates Postponement Policy

File No.: 20/185

1. Purpose

To present to the Finance, Audit & Risk Committee a draft Rates Postponement Policy for consideration prior to it going out for public consultation as required by the Local Government Act 2002 (LGA), subsequent to its adoption by the Horowhenua District Council.

2. Recommendation

2.1 That Report 20/185 Draft Rates Postponement Policy be received.

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

2.3 That the Finance, Audit and Risk Committee recommends that the Horowhenua District Council adopts the Draft Rates Postponement Policy for public consultation.

3. Background/Previous Council Decisions

3.1 Council does not currently have a Rates Postponement Policy.

3.2 Council has formally received the initial draft, but did not adopt this draft at its meeting of 6 May.

3.3 Council must first decide if a Rates Postponement Policy is needed. As has been discussed, the existing Rates Remissions Policy is able to set up relief through the ability to set up payment plans and remit penalties if these payment plans are adhered too.

3.4 To reiterate the statute authorising Rates Postponement Policies are as follows;

3.4.1 Such a policy is authorised under section 102(3)(b) of the Local Government Act 2002 (LGA).

3.4.2 The policy must conform with s 110 LGA, which provides:

"110 Rates postponement policy

(1) A policy adopted under section 102(3)(b) must state—

(a) the objectives sought to be achieved by a postponement of the requirement to pay rates; and

(b) the conditions and criteria to be met in order for the requirement to pay rates to be postponed.

(2) In determining a policy under section 102(3)(b), the local authority may consider the matters set out in Schedule 11.

(2A) If a policy is adopted under section 102(3)(b), the policy—

(a) must be reviewed at least once every 6 years using a consultation process that gives effect to the requirements of section 82; and

(b) may be revoked following the review under paragraph (a)".

3.4.3 Once such a policy is adopted the Local Government Rating Act 2002 (LG(R)A) section 87 forces Councils to apply the policy:

"87 Postponement of requirement to pay rates

(1) A local authority must postpone the requirement to pay all or part of the rates on a rating unit (including penalties for unpaid rates) if—

(a) *the local authority has adopted a rates postponement policy under [section 110](#) of the Local Government Act 2002; and*

(b) *the ratepayer has applied in writing for a postponement; and*

(c) *the local authority is satisfied that the conditions and criteria in the policy are met.*

(2) *he local authority must give notice to the ratepayer—*

(a) *identifying the postponed rates; and*

(b) *stating when, or in which circumstances, the rates will become payable."*

4. Issues for Consideration

4.1 Council is looking to provide targeted relief to ratepayers and small businesses affected by the Alert Levels 3 and 4 in place for the COVID-19 pandemic. Not all businesses and ratepayers will be affected by the economic downturn from the pandemic response. Main Street shops, cafes, restaurants, tourist attractions, accommodation providers and ratepayers who have been made redundant will need some relief, while other businesses and ratepayers may be affected to a lesser extent.

4.2 A rate postponement policy enables Councils to postpone rates rather than writing them off as a remissions policy would do. Rates fund just over 70% of Council's annual income. In turn, this is then invested back into the community to provide services and support. Council can ill afford to reduce income long-term as it strives to maintain service levels while endeavouring to balance the budget and avoid loan funding operational costs. As rates that are postponed are still recorded as income, this will not impact on the LGFA covenant calculation.

4.3 Postponement Polices do come with increased administrative work and complexities, however, and they will also create short-term cash flow deficits.

4.4 The debate at the FAR Committee meeting of 29 April was around the restrictions for eligibility, but covered as well was whether the policy should be extended to include ratepayers over 65 years of age who are suffering financial hardship, which was also a request from GreyPower in its Annual Plan submissions.

4.5 Officers suggest that this extension to the policy distracts from the initial intent, that being to give relief for those suffering financial hardship as a direct consequence of an event; in this case the pandemic lockdown and trading restrictions, layoffs etc.

4.6 If a policy for seniors is required, Officers suggest that this be delayed to later in the year and can be added to any existing policy.

4.7 In terms of the restrictions, Officers suggest that instead of having these embedded in the policy, that they be stated in the resolution of Council that gives effect to the policy for an event.

4.8 The maximum value restriction could be set low for the pandemic event, to ensure only SME's qualify, but may be set higher for another event such as a drought or natural catastrophe that may affect farmers.

4.9 The maximum ownership period restriction is to ensure only those property owners who owned the property before and during the pandemic alert levels will be eligible for relief under the policy.

4.10 Attached to this report is a suggested wording for a Postponement Policy that could be used for any emergency and so be available long-term. The Policy has been substantially reworded to incorporate best practice. At the foot of the policy is a suggested wording for the Council resolution that would need to be passed after the adoption of the policy

4.11 A Rates Postponement Policy must be consulted on under S102(4) LGA

4.12 Consultation on the policy will take 30 Days. This means that for the policy to be effective for the 2020/21 financial year, the consultation, submission hearings and adoption must be done by the Council's July meeting at the latest, for Council to adopt the policy at that meeting. This will to allow our rating systems to be set up to account for the new policy before the first installment.

4.13 It is hard to quantify how many businesses or individual ratepayers will apply for postponement. However, there are;

181 retail rating units currently paying $$722k in rates
12 tourist attraction rating units paying $31k in rates
13 accommodation rating units paying $47k in rates
358 Industrial rating units paying $957k in rates.

Attachments

No.	Title	Page
A	Draft Rates Postponement Policy May 2020	170

Confirmation of statutory compliance

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

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

Signatories

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

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

Horowhenua District Council Draft Rates Postponement Policy ~~April~~ May 2020

Purpose

To enable Council to postpone the requirement to pay all or part of the rates on a rating unit under Section 87 of the Local Government (Rating) Act 2002 where a rates postponement policy has been adopted and the conditions and criteria in the policy are met.

Postponement for Extraordinary or Emergency Events

Objective

To give residential, rural and small business ratepayers with the option, and the flexibility, to postpone their rates to alleviate their financial hardship arising from a declared significant community natural or economic event.
~~To provide a rates postponement to ratepayers experiencing financial hardship directly resulting from an event that affects their ability to pay rates~~.

It offers ratepayers a choice between paying rates now or later subject to the full cost of rates postponement being met by the ratepayer and Council being satisfied that the risk of loss in any case is minimal.

For the purpose of this policy the following definitions will apply:

Event:
Means an event declared by Council resolution where the Council will define the type and/or the location of the properties affected. An event could be a natural or an economic event.

The relevant Council resolution must include:

- Identification of the event triggering the policy; and
- How the event is expected to impact the community; and
- The types or location of properties affected by the event.

Council may:

- Set a timeframe for the event;
- Review the criteria and/or timeline of an event through subsequent resolutions~~as defined by Council resolution. An event may be natural or economic in nature, and will identify the type and location of properties affected~~.

Financial hardship: as a result of an event, affected ratepayer income reduces to a level where paying Council rates would result in financial hardship.
Whilst each applicant will be considered on a case by case basis, the following criteria will be used to assess hardship:

- For business (non-residential) ratepayers, evidence of:
    - a 30% reduction or more in monthly revenue compared to the same time the previous year (or if the business is less than 12 months old, the average monthly revenue calculated over any continuous 3-month period of operation);

- a 50% reduction in predicted revenue;
- qualification for a Government emergency financial support package (for example the wage subsidy scheme);
- qualification for a mortgage "holiday" from the relevant lender;

- For residential ratepayers, evidence of:
  - loss of regular employment;
  - a significant reduction in income;
  - qualification for a mortgage "holiday" from the relevant lender.

- **Rating unit**: a property affected by the identified event.

Small business: a business operated by a small business person, small partnership or closely-held company as defined in section YA 1 of the Income Tax Act 2007. Usually an enterprise or firm with fewer than 20 employees.
Small business also includes a residential, rural or commercial property owner whose primary income source is rental income.

Once an event has been declared by Council, the criteria and application process (including an application form, if applicable), will be made available. Council may set a timeframe for the event. Council may review the criteria and/or timeframe of an event through subsequent resolutions.

Council resolution will include:

a. the event triggering the policy; and

b. how the event is expected to impact the community; and

c. the types or location of properties effected by the event.

No application for postponement can be made under this policy unless declared by Council.

Eligibility

Where an event is declared, only rating units defined as residential, rural or used by a small business will be eligible for consideration of rates postponement under the following conditions and criteria:

- The financial hardship is the direct result of an event which affects the ratepayer's ability to pay rates; and
- The rateable value of the property will be set by the resolution declaring the event; and
- The ratepayer must be the current owner of the property, and has owned the property for 90 days continuously at the time the event is declared by Council, and
- The ratepayer demonstrates to Council's satisfaction that paying the rates would result in financial hardship; and
- The person entered as the ratepayer (in the case of a closed company every director must sign the application form), or their authorised agent, makes the application; and

- The applicant must demonstrate to Council's satisfaction that the ratepayer has taken all steps necessary to claim any central government benefits or allowances the ratepayer is properly entitled to receive to assist with the payment of rates; and
- In the case of a small business or rural ratepayer, the applicant declares that they are not receiving business interruption payments or other such insurance benefits.

- ~~*Conditions and Criteria*~~

~~This policy will only apply to rating units used for residential purposes or by small businesses (as defined above).~~

~~The rateable value of the property cannot be greater than $1.5m.~~

~~The ratepayer must demonstrate, to the Council's satisfaction, where paying the rates would result in financial hardship.~~

~~The applicant must demonstrate to Council's satisfaction that the ratepayer has taken all steps necessary to claim any central government benefits or allowances the ratepayer is properly entitled to receive to assist with the payment of rates. Evidence such as official correspondence will assist in this process.~~

~~Only the person/s entered as the ratepayer (in the case of a closely held company every director must sign the application form), or their authorised agent, may make an application for rates postponement for an event that resulted in financial hardship.~~

~~The ratepayer must be the current owner of the property, and has owned the property for 182 days continuously at the time the event is declared by Council.~~

- Criteria Applying to all Applicants

The following criteria apply to all applicants:

If the property in respect of which postponement is sought is subject to a mortgage, then the applicant ratepayer(s) will be required to obtain the mortgagee's consent before Council will agree to postpone rates.

When a property is owned by a family Trust, Council must be satisfied that all trustees have agreed to be part of the postponement scheme. Council will require a consent form from the trustees confirming that the family Trust has agreed to apply for postponement of rates.

Council must be satisfied, based on reasonable assumptions, that the risk of any shortfall when postponed rates, (including accumulated administration and finance costs), are ultimately paid is negligible.

To best safeguard Council, the total amount of rates postponed (including accumulated administration and finance costs), when added to other amounts secured by a mortgage, may not exceed 70% of the applicant ratepayer(s) equity in the property. Equity in the property is calculated as the difference between Council's rateable value of the property (the capital value at the most recent Triennial valuation) and all other amounts secured by a property mortgage or other encumbrances.

For·prudential·reasons,·Council·will·need·to·register·a·statutory·land·charge·against·the·property·to· protect·its·right·to·recover·postponed·rates.·At·present,·the·law·does·not·allow·Councils·to·register· such·a·statutory·land·charge·against·Māori·freehold·land.·Accordingly,·Māori·freehold·land·is·not· eligible·for·rates·postponement·under·this·policy·(unless·and·until·the·law·is·changed·so·that·the· Council·can·register·a·statutory·land·charge).¶
¶

The·entity·entered·on·Council's·rating·information·database·as·the·'ratepayer'·must·not·own·any· other·rating·units,·other·than·a·residential·property,·in·the·case·of·business·or·in·the·case·of·a· business,·their·residential·property.¶

Where·the·Council·decides·to·postpone·rates·the·ratepayer·must·make·acceptable·arrangements· for·payment·of·future·rates,·for·example·by·setting·up·a·system·for·regular·payments.¶

~~Council·will·charge·an·annual·fee·on·postponed·rates·for·the·period·between·the·due·date·and·the· date·they·are·paid.·This·fee·is·designed·to·cover·Council's·administrative·and·financial·costs.·Fees· will·be·set·as·part·of·the·Council·resolution·identifying·an·event.~~¶

Insurance¶

The·property·must·be·insured·for·its·full·replacement·value·and·evidence·of·this·must·be·provided·to· Council·annually.·¶
¶
If·insurance·cannot·be·arranged·because·the·property·is·uninsurable,·only·the·land·value·can·be·used· when·calculating·maximum·postponement·allowable·under·this·policy.·¶
¶

Rates·that·can·be·Postponed¶

All·Horowhenua·District·Council·rates·are·eligible·for·postponement·except·for:·¶
Lump·sum·options·which·are·rates·paid·in·advance.·¶
Central·government·rates·rebates·received·by·the·applicant·ratepayer(s).¶
¶

Conditions¶

~~Postponed·rates·will·remain·postponed·until:~~¶
Postponed·rates·(under·this·policy)·will·be·postponed·until·any·of·the·following·events·occurs:¶

- the·rating·unit·is·sold·or·transferred·(other·than·just·a·change·of·trustees);·or¶
- the·maximum·date·specified·by·Council,·as·agreed·in·writing·and·in·advance·between· Council·and·the·applicant·ratepayer(s)·is·reached;·or¶
- the·expiry·of·one·year·after·the·Council·resolves·the·effects·of·the·event·are·no·longer·felt·in· the·community.·At·that·date,·the·ratepayer·must·make·arrangements·to·repay·outstanding· rates.¶

Whilst·is·not·a·condition,·Council·strongly·recommends·that·applicant·ratepayer(s)·should·first· obtain·independent·legal·and/or·financial·advice·from·a·suitably·qualified·person(s),·prior·to· applying·for·a·rates·postponement.¶

a. ~~The·ratepayer/s·cease·to·be·the·owner·or·occupier·of·the·rating·unit;·or~~¶

~~b. 365 days (or 366 days if the period corresponds with a leap year) after the Council resolves the effects are no longer felt in the community. At that date, the ratepayer must make arrangements to repay outstanding rates; or~~

~~c. A date specified by Council.~~

Fees and Charges

All postponements will be subject to the following fees and charges:

- A once-off establishment fee of $250 plus GST
- An annual management fee of $100 plus GST for each twelve-month period (or part thereof) between the rates payment due date and the date they are actually paid.
- An interest charge calculated in accordance with the methodology set out below.

These fees are designed to cover Council's administrative costs to establish the rates postponement account, register the statutory land charge (one-off) and confirm adequate annual insurance cover is in place and provide rates postponement account statements to eligible ratepayer(s) every twelve (12) months.
The interest cost applicable will be the interest that Council will incur, being Council's average cost of borrowings as at 30 June of the preceding financial year, calculated daily, plus a margin of 1% to cover staff costs related to calculating and applying such interest charges to respective postponed rates accounts. A further 0.25% interest will be applied to a risk reserve.

Interest will be applied to rates postponement accounts every six (6) months and will be included in the total rates postponement balance, as shown on ratepayers' statement of account every instalment one (1) and four (4) respectively.

The postponed rates, (including accumulated administration and finance costs), or any part thereof, may be paid to Council at any time.

Review or Suspension of Policy

The policy is in place indefinitely and can be reviewed subject to the requirements of the Local Government Act 2002 at any time.

Any resulting modifications will not change the entitlement of people already in the postponement scheme, to continued postponement of all future rates.

Council reserves the right not to postpone any further rates once the postponed rates (including accumulated administration and finance costs), combined with secured borrowings against the residential property, exceed 70% of Council's rateable value of the property as recorded in Council's rating information database. This will require the ratepayer(s) for that property to pay all future rates.

All postponed rates before such time will only fall due for payment when any condition(s), as outlined in the relevant conditions are satisfied.

The policy consciously acknowledges that future changes in policy could include withdrawal of this rates postponement scheme.

Suggested resolution of Council:

That Council as interim measures under the Council Rates postponement policy, pending further Council amendment:

a) Approve the following actions be taken on a case by case basis in relation to rates, water by meter ~~and rental payments?~~ affected by the COVID-19 level 4 shutdown:

  a. Remit penalties on rates and water accounts if the customer meets current policy criteria under the Rates Remission Policy;

  b. Provide delayed payment options for up to six months (or two rates instalments) for customers using the following criteria set out in the policy:

~~b.~~ c. In the case of commercial (non-residential) ratepayers the Capital Value of the must not exceed $1.5m.

  ~~i. Commercial (Non-residential) customers~~

    ~~1. A 30% reduction in revenue; or~~

    ~~2. Qualification for a Government support package; or~~

    ~~3. Qualification for a mortgage "holiday" from the bank.~~

  ~~ii. Residential (owner/occupied) customers, where the property is the residence~~

    ~~1. Evidence of loss of employment; or~~

    ~~2. Payment from an employer under the government support package; or~~

    ~~3. Qualification for a mortgage "holiday" from the bank; **and**~~

  ~~iii. For lease/rent payments under an ADLS lease with clause 27.5 a "fair proportion" of rent not payable be determined case by case~~

  ~~iv. That the same proportion apply to other lease payments where the customer can show a COVID-19 shutdown related drop in income.~~

~~c.~~ d. Payment plans must be entered into with the finance Management ~~and~~ and/ or Rating officers and be maintained throughout the ~~shutdown~~ period following the postponed 2 instalments and beyond;

e. Any actions approved would only be available to customers who are not in arrears with Council as at 1 July ~~2019~~ 2020 (arrears are determined as more than 1 instalment owing).